

Semiconductors

Broadcom 2Q24 earnings surged on AI power and VMware integration

Broadcom (AVGO US, NR) delivered a robust financial performance in 2Q24. Quarterly revenue and non-GAAP net profit were US\$12.5bn and US\$5.4bn respectively, beating Bloomberg consensus by 4% and 2%. **AI remained the spotlight with revenue topping US\$3.1bn in 2Q24, up 280% YoY and 35% QoQ. AI sales exposure expanded to 25% of total sales**, equivalent to 43% of total semiconductor solutions segment sales. On the other hand, non-AI revenue is expected to see modest recovery in 2H24. Mgmt. raised its FY24 revenue guidance by US\$1bn to US\$51bn, mainly driven by higher AI outlook, and lifted EBITDA margin forecast by 1% to 61%. **The Company gave a very conservative guidance for full-year AI revenue.** The market is expecting another beat-and-raise quarter in 3Q. Mgmt. also announced a 10-for-1 stock split after market close on 12 July 2024. Overall, **Broadcom's 2Q results confirmed AI growth momentum, especially in networking, which boosts our confidence in AI networking supply chain.** We believe networking suppliers, including Innolight (300308 CH, BUY), should continue to benefit from the robust AI growth.

■ **AI revenue soars as the new growth engine for Semiconductor Solutions.** Semiconductor segment revenue was up by 6% YoY but down 3% QoQ. AI revenue saw an increase of US\$800mn in 2Q, while non-AI sales slid further. However, mgmt. expects modest recovery in 2H24. 53% of the segment sales in 2Q24 was from networking, which improved by 44% YoY. AI-revenue also hit an all-time high of US\$3.1bn in 2Q, which offset weakness in traditional data center and enterprise networking. Despite the mgmt.'s upward revision of the AI sales guidance to US\$11bn, investors may find the figure conservative. Driven by AI, the mgmt. raised their growth guidance on networking segment from prev. 35% YoY to 40% YoY in FY24. Rest of the semi businesses still encounter cyclical headwinds, with Wireless / Server Storage / Broadband / Industrial sales guided to be flat / down 20% / down high-30% / down double-digit on a full-year basis.

Besides, **Broadcom's AI revenue mix has been shifting with growing emphasis on networking as AI data center infrastructure investments expanded worldwide.** AI accelerators used to dominate the revenue stream with 80% contribution. In 2Q24, 2/3 of AI revenue came from accelerators with 1/3 from networking, while this ratio is expected to shift towards 60-40 split by the end of 2024, further highlighting the growing importance of networking solutions in supporting AI workloads and the integration of AI accelerators.

■ **Software segment grew in addition to contribution from VMware.** Infrastructure software segment grew by 175% YoY and 16% QoQ to US\$5.3bn, including VMware's contribution of US\$2.7bn. Excluding this contribution, Broadcom's software segment showed organic growth of ~34% YoY and ~5% QoQ. Broadcom's acquisition has proven to be successful as VMware products are transitioning to subscription licensing model. VMware is accelerating towards a US\$4bn quarterly run-rate according to the management.

■ **We remain positive on AI supply chain, especially for those Ethernet solutions providers.** According to the company, seven of the largest eight AI clusters use Ethernet solutions powered by Broadcom. The mgmt. also expects all megascale GPU deployments to be on Ethernet in 2025. Maintain BUY on Innolight, and other beneficiaries in AI networking category include Marvell (MRVL US, NR), Arista (ANET US, NR), SMCI (SMCI US, NR), and TSMC (TSM US, NR), etc.

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Semiconductors Sector

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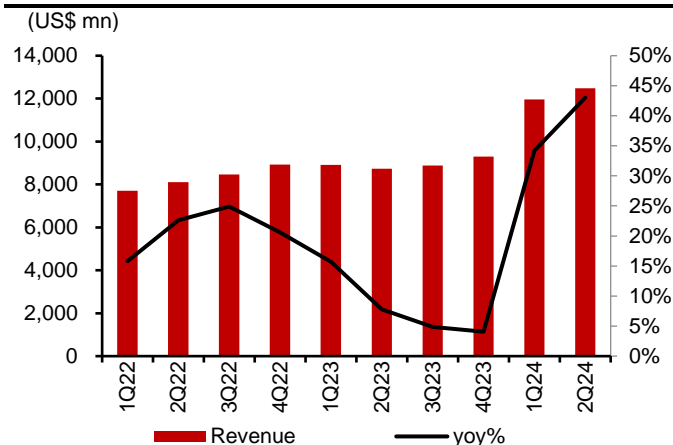
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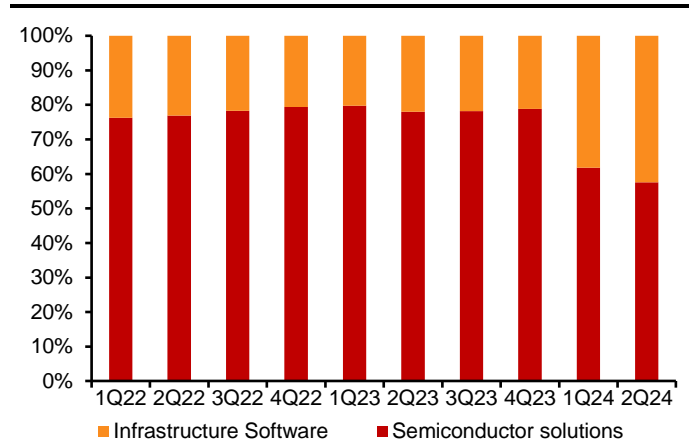
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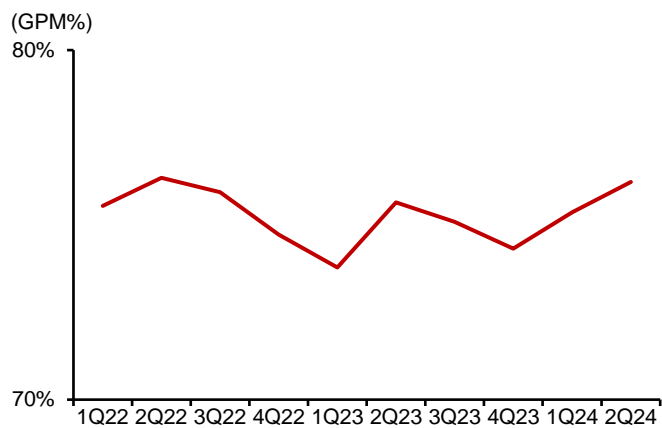
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Figure 1: Broadcom's quarterly revenue and growth

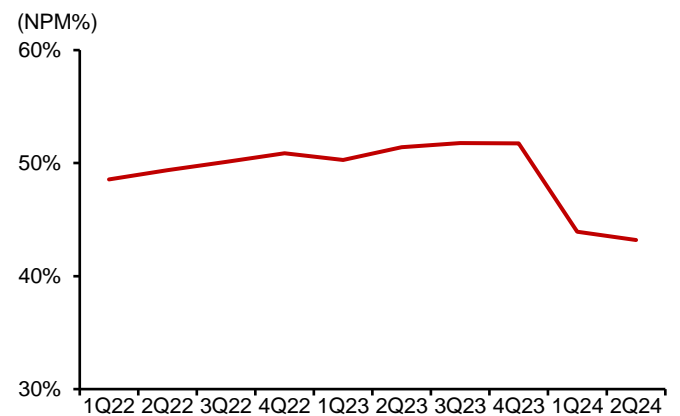
Source: Company data, CMBIGM estimates

Figure 2: Broadcom's quarterly revenue breakdown

Source: Company data, CMBIGM estimates

Figure 3: Broadcom's quarterly non-GAAP GPM

Source: Company data, CMBIGM estimates

Figure 4: Broadcom's quarterly non-GAAP NPM

Source: Company data, CMBIGM estimates

Figure 5: Broadcom's quarterly results

Quarter results (non-GAAP)										
US\$ mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Revenue	7,706	8,103	8,464	8,930	8,915	8,733	8,876	9,295	11,961	12,487
... YoY	15.8%	22.6%	24.9%	20.6%	15.7%	7.8%	4.9%	4.1%	34.2%	43.0%
... QoQ	4.0%	5.2%	4.5%	5.5%	-0.2%	-2.0%	1.6%	4.7%	28.7%	4.4%
Gross Profit	5,821	6,186	6,427	6,673	6,578	6,606	6,665	6,908	9,014	9,518
... GPM	75.5%	76.3%	75.9%	74.7%	73.8%	75.6%	75.1%	74.3%	75.4%	76.2%
Net profit	3,741	4,000	4,241	4,544	4,483	4,489	4,596	4,810	5,254	5,394
... YoY	25.8%	34.2%	35.8%	29.8%	19.8%	12.2%	8.4%	5.9%	17.2%	20.2%
... QoQ	6.9%	6.9%	6.0%	7.1%	-1.3%	0.1%	2.4%	4.7%	9.2%	2.7%
... NPM	48.5%	49.4%	50.1%	50.9%	50.3%	51.4%	51.8%	51.7%	43.9%	43.2%
EPS (USD)	8.39	9.07	9.73	10.45	10.33	10.34	10.54	11.06	10.99	10.96
... YoY	27.0%	37.0%	39.8%	33.7%	23.1%	14.0%	8.4%	5.9%	6.4%	6.0%
... QoQ	7.3%	8.1%	7.2%	7.4%	-1.1%	0.1%	1.9%	4.9%	-0.6%	-0.3%

Source: Company data, CMBIGM

Figure 6: Broadcom's quarterly revenue breakdown

Quarterly revenue breakdown										
US\$ mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Networking	1,900	2,200	2,300	2,500	2,300	2,600	2,800	3,100	3,300	3,800
... YoY	33.5%	42.6%	27.8%	31.6%	21.1%	18.2%	21.7%	24.0%	43.5%	46.2%
Wireless Communication	2,000	1,700	1,600	2,100	2,100	1,600	1,600	2,000	2,000	1,600
... YoY	1.9%	3.7%	14.3%	16.7%	5.0%	-5.9%	0.0%	-4.8%	-4.8%	0.0%
Broadband	911	1,100	1,100	1,000	1,200	1,200	1,100	950	940	730
... YoY	23.7%	26.8%	20.9%	14.7%	31.7%	9.1%	0.0%	-5.0%	-21.7%	-39.2%
Enterprise Storage	801	939	1,100	1,200	1,300	1,100	1,100	1,000	887	824
... YoY	36.0%	62.3%	63.4%	47.2%	62.3%	17.1%	0.0%	-16.7%	-31.8%	-25.1%
Industrial & Other	260	289	523	291	206	308	341	276	263	234
... YoY	32.6%	50.0%	119.9%	18.0%	-20.7%	6.4%	-34.9%	-5.3%	27.3%	-24.0%
Semiconductor solutions	5,873	6,229	6,624	7,092	7,107	6,808	6,941	7,326	7,390	7,188
YoY%	19.7%	29.2%	31.9%	25.9%	21.0%	9.3%	4.8%	3.3%	4.0%	5.6%
QoQ%	4.2%	6.1%	6.3%	7.1%	0.2%	-4.2%	2.0%	5.5%	0.9%	-2.7%
%	76%	77%	78%	79%	80%	78%	78%	79%	62%	58%
Infrastructure Software	1,833	1,874	1,840	1,838	1,808	1,925	1,935	1,969	4,571	5,300
YoY%	4.9%	4.7%	4.7%	3.7%	-1.4%	2.7%	5.2%	7.1%	152.8%	175.3%
QoQ%	3.4%	2.2%	-1.8%	-0.1%	-1.6%	6.5%	0.5%	1.8%	132.1%	15.9%
%	23.8%	23.1%	21.7%	20.6%	20.3%	22.0%	21.8%	21.2%	38.2%	42.4%
Revenue	7,706	8,103	8,464	8,930	8,915	8,733	8,876	9,295	11,961	12,487
YoY%	15.8%	22.6%	24.9%	20.6%	15.7%	7.8%	4.9%	4.1%	34.2%	43.0%
QoQ%	4.0%	5.2%	4.5%	5.5%	-0.2%	-2.0%	1.6%	4.7%	28.7%	4.4%

Source: Company data, CMBIGM

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