03 Jun 2026 23:16:05 ET | 15 pages

Broadcom Inc (AVGO.O)

Buyers of Pullback; Improved AI Visibility into 2028

CITI'S TAKE

AVGO reported in-line Apr-Q with July-Q AI sales/margins modestly below Street which we believe was due to near-term mix shift to chips from racks (see results). Bookings grew to $30B+ vs $11B shipped AI sales on “insatiable” AI demand. Management maintained >$100B in AI sales outlook for FY27 on measured industry supply/data center power availability for now but provided improved visibility/GW outlook for FY28. We view the share price pullback as an enhanced buying opportunity and maintain our above-consensus F26/F27/F28 EPS of $11.45/$18.17/$25.25 as lower gross margins due to higher AI sales mix are offset by stable operating margins. We maintain Buy with a TP of $500, or 20X multiple applied to F28 EPS of $25.

Guides F3Q26 gross margins lower - Jul-Q gross margin is guided down 300 basis points Q/Q to 74.0%, below consensus of 76.8% as mix of AI ASIC business increases from ~30% of sales to ~38% of sales. Jul-Q operating margin guide of 67.0% was below our estimate of 68.6% and consensus of 67.5%.

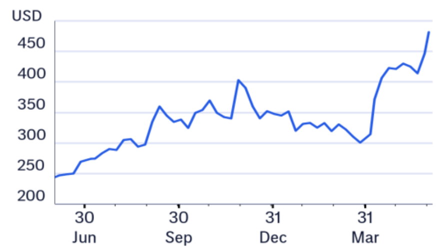
AI sales are accelerating from 49% to 55% of sales in the Jul-Q — Apr-Q AI sales of $10.8B (up 29% Q/Q) was above consensus $10.7B (up 27% Q/Q) and Jul-Q AI sales were guided to 16.0B (up 48% Q/Q), below our estimate of $17.5B (up 61% Q/Q) and consensus of $16.3B (up 53% Q/Q).

Expects more than $100B of AI sales in F27 – AVGO reiterated AI semiconductor sales exceeding $100B in F27, with growth continuing in F28. **There is no change to the 10GW shipments in 2027**, but it will likely be back-half loaded, with strong trajectory into 2028. AVGO expects AI semiconductor sales to double in 2H26 vs 1H26, with F26 AI sales around $56B.

Content per GW increases over time – Content per GW was guided to roughly $10-20B, though content differs by customers and products. AVGO noted that content per GW will generally increase over time due to higher compute content, and other components like SRAMs, CPUs, more HBM.

Buy	
Price (03 Jun 26 20:00)	US$413.21
Target price	US$500.00
Expected share price return	21.0%
Expected dividend yield	0.6%
Expected total return	21.6%
Market Cap	US$1,956,412M

Price Performance
(RIC: AVGO.O, BB: AVGO US)



Atif Malik [AC]

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EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2025A	1.60A	1.58A	1.69A	1.95A	6.82A	6.82A	6.82A
2026E	**2.05A**	**2.44A**	**3.24E**	**3.72E**	**11.45E**	**11.26E**	**11.64E**
Previous	2.05A	2.40E	3.23E	3.75E	11.43E	na	na
2027E	**4.03E**	**4.32E**	**4.74E**	**5.08E**	**18.17E**	**18.24E**	**19.80E**
Previous	4.05E	4.35E	4.74E	5.07E	18.20E	na	na
2028E	**5.51E**	**6.11E**	**6.48E**	**7.15E**	**25.25E**	**22.89E**	**24.30E**
Previous	5.52E	6.07E	6.46E	7.18E	25.23E	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus. VA Cons: Visible Alpha Consensus.

Click here for Visible Alpha consensus data

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

AVGO.O: Fiscal year end 31-Oct

Price: US$413.21; TP: US$500.00; Market Cap: US$1,956,412m; Recomm: Buy

Profit & Loss (US$m)	2024	2025	2026E	2027E	2028E
Sales revenue	51,574	63,887	104,898	164,500	229,000
Cost of sales	-12,779	-14,486	-27,663	-49,012	-72,735
Gross profit	38,795	49,401	77,235	115,488	156,265
Gross Margin (%)	75.2	77.3	73.6	70.2	68.2
EBITDA (Adj)	**35,076**	**43,204**	**68,695**	**104,636**	**143,169**
EBITDA Margin (Adj) (%)	68.0	67.6	65.5	63.6	62.5
Depreciation	-10,010	-8,775	-7,371	-5,503	-5,135
Amortisation	0	0	0	0	0
EBIT (Adj)	**25,066**	**34,429**	**61,324**	**99,133**	**138,033**
EBIT Margin (Adj) (%)	48.6	53.9	58.5	60.3	60.3
Net interest	0	0	0	0	0
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	-3,378	-2,778	-2,300	-1,498	-510
Pre-tax profit	**21,688**	**31,651**	**59,024**	**97,635**	**137,523**
Tax	-3,625	-5,491	-11,022	-17,657	-24,433
Extraord./Min.Int./Pref.div.	-12,168	-3,034	-2,922	-3,180	-3,180
Reported net profit	**5,895**	**23,126**	**45,080**	**76,797**	**109,910**
Net Margin (%)	11.4	36.2	43.0	46.7	48.0
Core NPAT	23,804	33,728	56,580	89,356	123,646
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS ($)	1.21	4.68	9.12	15.62	22.44
Core EPS ($)	4.88	6.82	11.45	18.17	25.25
DPS ($)	2.10	2.36	2.60	2.86	3.14
CFPS ($)	4.09	5.57	10.47	17.15	24.72
FCFPS ($)	3.98	5.44	10.20	16.84	23.85
BVPS ($)	14.28	16.75	22.79	36.57	64.58
Wtd avg ord shares (m)	4,740	4,853	4,875	4,854	4,834
Wtd avg diluted shares (m)	4,880	4,943	4,941	4,918	4,898
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	44.0	23.9	64.2	56.8	39.2
EBIT (Adj) (%)	25.6	37.4	78.1	61.7	39.2
Core NPAT (%)	29.5	41.7	67.8	57.9	38.4
Core EPS (%)	15.5	39.9	67.8	58.7	38.9
Balance Sheet (US$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	9,348	16,178	38,941	97,650	221,566
Accounts receivables	4,416	7,145	14,895	20,152	25,847
Inventory	1,760	2,270	6,216	8,920	12,096
Net fixed & other tangibles	7,594	9,445	11,288	12,540	15,339
Goodwill & intangibles	138,456	130,074	123,424	118,799	115,117
Financial & other assets	4,071	5,980	7,427	7,427	7,427
Total assets	**165,645**	**171,092**	**202,191**	**265,488**	**397,393**
Accounts payable	1,662	1,560	4,432	6,360	8,625
Short-term debt	1,271	3,152	2,252	2,252	2,252
Long-term debt	66,295	61,984	60,155	55,155	50,155
Provisions & other liab	28,739	23,104	24,223	24,223	24,223
Total liabilities	**97,967**	**89,800**	**91,062**	**87,990**	**85,255**
Shareholders' equity	67,678	81,292	111,129	177,498	312,138
Minority interests	0	0	0	0	0
Total equity	**67,678**	**81,292**	**111,129**	**177,498**	**312,138**
Net debt (Adj)	**58,218**	**48,958**	**23,466**	**-40,243**	**-169,159**
Net debt to equity (Adj) (%)	86.0	60.2	21.1	-22.7	-54.2

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	84.7	60.6	36.1	22.7	16.4
PB (x)	28.9	24.7	18.1	11.3	6.4
EV/EBITDA (x)	57.0	46.5	29.0	18.6	12.9
FCF yield (%)	1.0	1.3	2.5	4.1	5.8
Dividend yield (%)	0.5	0.6	0.6	0.7	0.8
Payout ratio (%)	43	35	23	16	12
ROE (%)	12.9	31.0	46.9	53.2	44.9
Cashflow (US$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	35,076	43,204	68,695	104,636	143,169
Working capital	-4,637	-8,500	-7,505	-4,617	-2,547
Other	-10,477	-7,167	-9,484	-15,699	-19,575
Operating cashflow	**19,962**	**27,537**	**51,706**	**84,319**	**121,047**
Capex	-548	-623	-1,302	-1,524	-4,253
Net acq/disposals	-19,008	600	0	0	0
Other	-10	92	12	7	0
Investing cashflow	**-19,566**	**69**	**-1,290**	**-1,517**	**-4,253**
Dividends paid	-9,814	-11,142	-12,497	-13,860	-25,253
Financing cashflow	**-41,031**	**-35,793**	**-32,273**	**-25,349**	**-38,253**
Net change in cash	**-40,635**	**-8,187**	**18,143**	**57,454**	**78,542**
Free cashflow to s/holders	**19,414**	**26,914**	**50,404**	**82,795**	**116,794**

For definitions of the items in this table, please click here.

F2Q26 Earnings Review

I- Results and Outlook

- **In-Line F2Q26 results** — AVGO reported Apr-Q sales/non-GAAP EPS (ex-SBC) of $22.2B/$2.44 vs our estimates of $22.2B/$2.40 and Factset consensus of $22.1B/$2.40. Apr-Q gross margin (ex-SBC) came in at 77.1%, above Citi's estimate of 77.0% and consensus of 76.9%.

Figure 1. F2Q26 Results

F2Q26 (Apr-Q)	Actual	Citi	Street	Actual vs Street
Sales	$22,187	$22,200	$22,130	0%
QoQ Change	15%	15%	15%	
Gross Margins excl. SBC	77.1%	77.0%	76.9%	23 bps
EPS (exc. SBC)	$2.44	$2.40	$2.40	2%

Source: Citi Research, Company Results

- **Guides F3Q26 slightly above consensus** — AVGO guided Jul-Q sales to $29.4B (up 33% Q/Q), above our estimate of $29.3B (up 32% Q/Q) and consensus of $28.3B (up 28% Q/Q). AVGO guided Jul-Q AI sales of $16.0B (up 48% Q/Q), below our estimate of $17.5B (up 61% Q/Q) and consensus of $16.3B (up 53% Q/Q).

- **Guides F3Q26 gross margins lower** - Jul-Q gross margin is guided down 300 basis points Q/Q to 74.0%, below consensus of 76.8% as mix of AI ASIC business increases from ~30% of sales to ~38% of sales. Jul-Q operating margin guide of 67.0% was below our estimate of 68.6% and consensus of 67.5%.

Figure 2. F3Q26 Guidance vs Consensus

F3Q26E (Jul-Q)	Guidance	Citi	Street	Actual vs Street
Sales	$29,400	$29,300	$28,250	4%
QoQ Change	33%	32%	28%	
Gross Margins excl. SBC	74.0%	75.3%	76.8%	-282 bps
EPS (inc. SBC)		$2.77	$3.04	
EPS (exc. SBC)		$3.23	$3.16	

Source: Citi Research, Company Reports

II- AI sales and commentary

- **OpenAI**: AVGO has a contractual commitment to deploy 1.3GW in 2027, as part of a larger 10GW deployment by 2029.

- **Meta**: Expect to deploy 3GW through the end of 2028. Initial order for 1GW which includes ASIC and networking will start delivery in 2H27.

- **Other 2 customers**: Expect shipments to begin in late 2026 and accelerate into 2027. Purchase orders totaled $6B.

- **Formation of AI XPV Platform**: Created an AI XPV platform with Apollo and Blackstone and other leading investors to deploy more than 20GW of compute capacity through the end of 2028. First tranche of platform ($35B) is being launched by Apollo now. **This arrangement is roughly ~8GW incremental to the expected deployment in 2028**.

- While networking as a % of AI sales mix is ~40% this quarter, AVGO believes the longer-term networking to XPU attach rate is roughly 30%.

- AVGO has locked in HBM pricing and will pass through any future price hikes to customers.

III – Estimate are Largely Unchanged

We are lowering our gross margins as AI ASIC mix increases from 54% in F26 to 79% in F28. However, opex is largely stable, and as such we adjusted our F26/F27/F28 EPS minimally by 1%/0%/1%.

Figure 3. Maintaining F26/F27/F28 EPS as Lower Gross Margins are Offset by Lower Opex

	Old	New		Old	New		Old	New	
	F26E	**F26E**	**Delta**	**F27E**	**F27E**	**Delta**	**F28E**	**F28E**	**Delta**
Total Revenue	**104,811.0**	**104,898.0**	**0%**	**164,500.0**	**164,500.0**	**0%**	**229,000.0**	**229,000.0**	**0%**
% Change Y/Y	64.1%	64.2%	0%	56.9%	56.8%	0%	39.2%	39.2%	0%
Gross Margins	**74.5%**	**73.6%**	**-92 bps**	**72.2%**	**70.2%**	**-194 bps**	**70.4%**	**68.2%**	**-216 bps**
SG&A %	4.1%	3.9%	-19 bps	3.0%	2.6%	-36 bps	2.7%	2.0%	-63 bps
R&D %	12.1%	11.2%	-82 bps	8.7%	7.3%	-139 bps	7.4%	5.9%	-144 bps
Operating Income	61,173.5	61,323.6	0%	99,439.7	99,132.8	0%	138,240.8	138,033.5	0%
Operating Margin %	**58.4%**	**58.5%**	**9 bps**	**60.4%**	**60.3%**	**-19 bps**	**60.4%**	**60.3%**	**-9 bps**
Other Income (Expense)	(2,410.7)	(2,299.6)	-5%	(1,923.5)	(1,498.2)	-22%	(1,116.9)	(510.1)	-54%
Tax Rate	19.0%	18.7%	-35 bps	18.2%	18.1%	-10 bps	17.8%	17.8%	-8 bps
Net Income	47,586.8	48,001.9	1%	79,784.1	79,977.4	0%	112,650.5	113,090.3	0%
Net Profit Margin %	**45.4%**	**45.8%**	**36 bps**	**48.5%**	**48.6%**	**12 bps**	**49.2%**	**49.4%**	**19 bps**
Diluted Shares	4,949.5	4,940.5	0%	4,929.5	4,917.5	0%	4,909.5	4,897.5	0%
EPS ex-amort/charges, incl. SBC	**$9.61**	**$9.72**	**1%**	**$16.19**	**$16.26**	**0%**	**$22.95**	**$23.09**	**1%**
% Change Y/Y	81.7%	83.6%	2%	68.3%	67.4%	-1%	41.8%	42.0%	1%
% Change Q/Q									
SBC EPS Impact	$1.81	$1.74	-4%	$2.02	$1.91	-6%	$2.28	$2.16	-6%
EPS ex-amort/charges, excl. SBC	**$11.43**	**$11.45**	**0%**	**$18.20**	**$18.17**	**0%**	**$25.23**	**$25.25**	**0%**
% Change Y/Y	67.5%	67.8%	1%	59.3%	58.7%	-1%	38.6%	38.9%	1%
% Change Q/Q									
Cash dividends per share	$2.60	$2.60	0%	$2.86	$2.86	0%	$3.14	$3.14	0%

Source: Citi Research

Figure 4. AVGO Business Segment Largely Unchanged

	F25	F26E			F27E			F28E		
		Old	New	Delta	Old	New	Delta	Old	New	Delta
Semiconductor Revenue	**$36,858**	**$75,737**	**$74,501**	-2%	**$134,546**	**$134,995**	0%	**$199,485**	**$199,121**	0%
% of Sales	58%	72%	71%		82%	82%		87%	87%	
YoY		105%	102%		78%	81%		48%	48%	
AI semis	**$20,200**	**$58,050**	**$56,450**	-3%	**$115,700**	**$115,700**	0%	**$180,000**	**$180,000**	0%
% of Sales	32%	55%	54%		70%	70%		79%	79%	
YoY		187%	179%		99%	105%		56%	56%	
Non-AI semis	$16,658	$17,687	$18,051	2%	$18,846	$19,295	2%	$19,485	$19,121	-2%
% of Sales	26%	17%	17%		11%	12%		9%	8%	
YoY		6%	8%		7%	7%		3%	-1%	
Infrastructure Software	**$27,029**	**$29,074**	**$30,397**	5%	**$29,954**	**$29,505**	-1%	**$29,515**	**$29,879**	1%
% of Sales	42%	28%	29%		18%	18%		13%	13%	
YoY		8%	12%		3%	-3%		-1%	1%	
Total	**$63,887**	**$104,811**	**$104,898**	0%	**$164,500**	**$164,500**	0%	**$229,000**	**$229,000**	0%
YoY		64%	64%		57%	57%		39%	39%	

Source: Citi Research

Bull/Bear: Broadcom Inc (AVGO.O)

US$ 625.00 ▲51% Upside	US$ 500.00 ▲21% Upside	US$ 375.00 ▼9.2% Downside

Spread 61pp
Current Price and expected returns (upside/downside) as of 03 Jun 2026

BULL Assumptions

- Higher demand for custom AI accelerators and AI networking
- Higher revenue growth and cost synergies from the VMware acquisition
- Multiple expansion to 25X P/E

BASE Assumptions

- AI sales of more than $100B by F27E
- 20X P/E

BEAR Assumptions

- Severe decline across all its businesses
- Lower margins
- Multiple compression to 15X P/E

Broadcom Inc

Company description

Broadcom Inc (AVGO) is a semiconductor company that specializes in semiconductor solutions for wired infrastructure and wireless communications and was formed as a result of the merger of Avago Technologies and Broadcom Corporation in 2016. Headquartered in San Jose, CA, and Singapore, Broadcom has roughly 15,000 employees worldwide. The company's products are used primarily in wired infrastructure, networking, handset, connectivity, broadband, storage and industrial applications. Broadcom's major customers include handset OEMs and communications equipment OEMs. Broadcom has manufacturing facilities in Fort Collins, CO, Breinigsville, PA, Matamoros, Mexico, and Singapore. The company also outsources part of its manufacturing to third-party foundries.

Investment strategy

We are Buy-rated on AVGO given accelerating Y/Y AI sales in 2026 & 2027.

Valuation

Our PT of $500, or 20X F28 EPS, is at the low end of recent trading range of 20-40X to reflect intensifying competition.

Risks

We see the following key risks to our target price:

Customer: We estimate it derives ~35-40% of sales from its largest customer, Google. Therefore, any major uptick/downtick in demand for Google's products could result in upside/downside to our estimates and rating for Broadcom.

SG&A target: Broadcom's long-term SG&A target is <3% of revenue (excluding stock-based compensation), one of the lowest among semi peers. However, if Broadcom is unable to reach its SG&A target, it could result in downside to our estimates and rating for Broadcom.

Competition: Any fluctuations in market share between Broadcom and its competitors could result in upside/downside risk to our estimates.

M&A: If Broadcom pursues further acquisitions, it could lead to margin/EPS accretion/dilution and result in upside/downside to our estimates.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.