28 Jul 2026 22:14:40 ET | 14 pages

NXP Semiconductors NV (NXPI.O)

Analog Recovery Thesis Intact

CITI'S TAKE

NXPI reported 2Q26 sales of $3.5 billion (up 10% QoQ) above consensus of $3.46 billion (up 9% QoQ) due to upside from the Industrial and Comm end markets (combined 35% of 2Q26 sales). Gross margin was up 102 basis points QoQ to 57.7% in 2Q26, in line with consensus. 2Q26 EPS of $3.20 was 4% above consensus of $3.09 due to higher sales. NXPI guided 3Q26 revenue up 7% QoQ to $3.75 billion, above consensus of $3.70 billion (up 7% QoQ) and guided 3Q26 EPS to $3.70, above consensus of $3.61. We adjust our CY26/27/28 EPS 2%/1%/8% on higher sales and maintain Buy/TP of $370 on 17x P/E times revised CY28 EPS vs prior 19x P/E to reflect lower market multiples.

Gross Margins. 3Q26 gross margin improvement is primarily driven by higher utilization (low-80%s to mid-80%s) and revenue leverage (~50 bps), not pricing. Management indicated that every $1B of incremental revenue can drive ~100 bps of annual gross margin expansion (-/+50 bps) and believes 60% gross margin is achievable given revenue strength through 2027.

Structural Margin Expansion. Management sees roughly 200 bps of structural gross margin upside from VSMC ramps (2028-29) and the closure of 200mm factories as fixed costs decline. NXPI is also shifting its manufacturing mix from 30% fixed / 70% variable costs to 20% fixed / 80% variable costs over time.

Data Center. Management expects the data center business to reach ~$500M in 2026 and grow at a multiple of the industry's ~10% growth rate with the current product portfolio. NXPI is redirecting R&D toward next-generation control-plane switches and edge products to expand both reach and SAM.

Industrial & IoT pipeline conversion. A significant portion of the company's $1.5B funnel across more than 200 customers is tied to Industrial & IoT. Management expects revenue conversion within 18-24 months following a design win, versus roughly 2.5 years for automotive programs.

3Q outlook drivers: Industrial IOT is stronger than expected (up 38% YoY) measured on YoY basis. Improved visibility into 3Q, 4Q, and 1Q. Auto is seeing strength from across all regions, on a sequential and YoY basis.

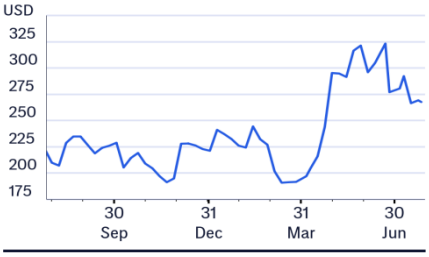
EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2025A	2.14A	2.26A	2.64A	2.96A	10.00A	na	11.81A
2026E	**2.62A**	**3.20A**	**3.86E**	**3.89E**	**13.57E**	**na**	**15.13E**
Previous	2.62A	3.27E	3.77E	3.69E	13.35E	na	na
2027E	**3.53E**	**4.03E**	**4.53E**	**4.52E**	**16.61E**	**na**	**18.70E**
Previous	3.54E	4.04E	4.54E	4.30E	16.41E	na	na
2028E	**4.17E**	**5.00E**	**5.75E**	**6.10E**	**21.00E**	**na**	**21.08E**
Previous	4.12E	4.88E	5.49E	5.03E	19.52E	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

Buy	
Price (28 Jul 26 16:00)	US$259.12
Target price	US$370.00
Expected share price return	42.8%
Expected dividend yield	1.6%
Expected total return	44.4%
Market Cap	US$65,420M

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



Atif Malik AC

Kelsey Chia, CFA

James Bowlin



NXPI.O: Fiscal year end 31-Dec

Price: US$259.12; TP: US$370.00; Market Cap: US$65,420m; Recomm: Buy

Profit & Loss (US$m)	2024	2025	2026E	2027E	2028E
Sales revenue	12,614	12,269	14,377	15,900	17,950
Cost of sales	-5,341	-5,362	-6,016	-6,415	-7,033
Gross profit	7,273	6,907	8,361	9,486	10,917
Gross Margin (%)	57.7	56.3	58.2	59.7	60.8
EBITDA (Adj)	**4,832**	**4,434**	**5,471**	**6,475**	**7,844**
EBITDA Margin (Adj) (%)	38.3	36.1	38.1	40.7	43.7
Depreciation	-925	-832	-726	-708	-747
Amortisation	0	0	0	0	0
EBIT (Adj)	**3,907**	**3,602**	**4,745**	**5,767**	**7,097**
EBIT Margin (Adj) (%)	31.0	29.4	33.0	36.3	39.5
Net interest	-275	-355	-352	-360	-360
Associates	-3	-4	-19	-100	-100
Non-Op/Except/Other Adj	0	0	0	0	0
Pre-tax profit	**3,629**	**3,243**	**4,374**	**5,307**	**6,637**
Tax	-686	-654	-879	-1,081	-1,347
Extraord./Min.Int./Pref.div.	-433	-568	1,269	1,784	1,784
Reported net profit	**2,510**	**2,021**	**4,764**	**6,009**	**7,074**
Net Margin (%)	19.9	16.5	33.1	37.8	39.4
Core NPAT	2,911	2,542	3,439	4,181	5,246

Per share data	2024	2025	2026E	2027E	2028E
Reported EPS ($)	9.73	7.95	18.79	23.87	28.32
Core EPS ($)	11.28	10.00	13.57	16.61	21.00
DPS ($)	4.06	4.08	4.08	4.08	4.08
CFPS ($)	10.78	11.25	19.64	28.77	32.64
FCFPS ($)	7.96	9.69	18.14	24.98	28.32
BVPS ($)	36.02	39.84	54.78	75.25	100.43
Wtd avg ord shares (m)	255	252	252	250	248
Wtd avg diluted shares (m)	258	254	254	252	250

Growth rates	2024	2025	2026E	2027E	2028E
Sales revenue (%)	-5.0	-2.7	17.2	10.6	12.9
EBIT (Adj) (%)	-8.1	-7.8	31.7	21.5	23.1
Core NPAT (%)	-10.4	-12.7	35.3	21.6	25.5
Core EPS (%)	-9.4	-11.4	35.7	22.4	26.5

Balance Sheet (US$m)	2024	2025	2026E	2027E	2028E
Cash & cash equiv.	3,292	3,267	5,351	9,796	15,035
Accounts receivables	1,032	1,055	1,421	1,531	1,786
Inventory	2,356	2,577	2,683	2,567	2,565
Net fixed & other tangibles	6,314	6,774	7,271	7,744	8,262
Goodwill & intangibles	10,766	11,846	11,578	11,351	11,163
Financial & other assets	625	1,041	539	539	539
Total assets	**24,385**	**26,560**	**28,843**	**33,527**	**39,350**
Accounts payable	1,017	997	1,063	1,117	1,238
Short-term debt	500	1,250	999	999	999
Long-term debt	10,354	10,972	9,777	9,377	8,977
Provisions & other liab	2,983	2,890	2,833	2,833	2,833
Total liabilities	**14,854**	**16,109**	**14,672**	**14,326**	**14,047**
Shareholders' equity	9,183	10,056	13,809	18,839	24,941
Minority interests	348	395	362	362	362
Total equity	**9,531**	**10,451**	**14,171**	**19,201**	**25,303**
Net debt (Adj)	**7,562**	**8,955**	**5,425**	**580**	**-5,059**
Net debt to equity (Adj) (%)	79.3	85.7	38.3	3.0	-20.0

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	23.0	25.9	19.1	15.6	12.3
PB (x)	7.2	6.5	4.7	3.4	2.6
EV/EBITDA (x)	15.1	16.7	13.3	10.6	8.1
FCF yield (%)	3.1	3.7	7.0	9.6	10.9
Dividend yield (%)	1.6	1.6	1.6	1.6	1.6
Payout ratio (%)	36	41	30	25	19
ROE (%)	28.2	21.0	39.9	36.8	32.3

Cashflow (US$m)	2024	2025	2026E	2027E	2028E
EBITDA	4,832	4,434	5,471	6,475	7,844
Working capital	-923	-613	-377	61	-133
Other	-1,127	-961	-116	707	441
Operating cashflow	**2,782**	**2,860**	**4,978**	**7,242**	**8,152**
Capex	-727	-396	-379	-954	-1,077
Net acq/disposals	41	-1,961	419	0	0
Other	0	0	0	0	0
Investing cashflow	**-686**	**-2,357**	**40**	**-954**	**-1,077**
Dividends paid	-1,038	-1,025	-1,029	-1,027	-1,019
Financing cashflow	**-2,744**	**-577**	**-2,927**	**-1,843**	**-1,835**
Net change in cash	**-651**	**-68**	**2,088**	**4,445**	**5,240**
Free cashflow to s/holders	**2,055**	**2,464**	**4,599**	**6,288**	**7,075**

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

2Q26 Earnings Review

Product gross margins. Distribution versus direct sales is driving margin differences more than end-market mix. Data center gross margins are roughly in line with the corporate average. Products launched several years ago had a 55% hurdle rate, versus 60% today.

Physical AI Competition. Competition varies by segment. Ambarella is vision-focused with limited overlap with Synaptics, while NXPI competes against Qualcomm and NVIDIA. In Asia, the competitive set is distinct, and STM appears more frequently at the low end. Management's approach in this fragmented market is to focus on specific use cases. Some customers are beginning to discuss agentic AI.

Capex: Normal capex remains under 5% of sales. Breaking ground in Aug for second factory expansion in KL and expect to be up and running in 2028 with the goal of matching supply from VSMC joint venture.

Figure 1. Lowering 2Q26 EPS by 2%, Raising 3Q26 EPS by 2%

	New	Old		New	Old	
FY end: Dec.	**2Q26E**	**2Q26E**	**Delta**	**3Q26E**	**3Q26E**	**Delta**
Total Revenue	**3,496.0**	**3,550.0**	-2%	**3,800.0**	**3,800.0**	0%
% Change Y/Y	19.5%	21.3%		19.8%	19.8%	
% Change Q/Q	9.9%	11.6%		8.7%	7.0%	
Gross Margins incl. SBC	**57.7%**	**58.0%**	-33 bps	**59.0%**	**59.0%**	0 bps
R&D as % of Sales	17.3%	17.8%	-52 bps	16.4%	17.2%	-80 bps
S&A as % of Sales	8.1%	7.8%	29 bps	7.5%	7.5%	0 bps
Operating Margin incl. SBC	**32.1%**	**32.4%**	-28 bps	**35.1%**	**34.3%**	80 bps
Interest expense, net	(87.0)	(92.0)	-5%	(85.0)	(90.0)	-6%
Tax Rate	19.8%	20.0%	-21 bps	20.0%	20.0%	0 bps
Results relating to equity-accounted investees	(3.0)	(4.0)	-25%	(6.0)	(6.0)	0%
Net income from continuing ops	828.0	842.6	-2%	993.0	964.7	3%
Net loss attributable to non-controlling interests	(15.0)	(14.0)	7%	(15.0)	(10.0)	50%
Net Income attributable to stockholders	813.0	828.6	-2%	978.0	954.7	2%
Net Income Margin incl. SBC	**23.3%**	**23.3%**	-8 bps	**25.7%**	**25.1%**	61 bps
Proforma EPS incl. SBC	**$3.20**	**$3.27**	-2%	**$3.86**	**$3.77**	2%
% Change Y/Y	41.8%	44.8%		46.0%	42.8%	
% Change Q/Q	22.0%	24.6%		20.5%	15.5%	
Proforma EPS No Options	**$3.61**	**$3.69**	-2%	**$4.27**	**$4.20**	2%
% Change Y/Y	31.1%	33.8%		37.5%	35.1%	
% Change Q/Q	18.4%	20.9%		18.2%	13.7%	
Cash dividends per share	$1.02	$1.02		$1.02	$1.02	

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Source: Citi Research, Company Reports

Figure 2. NXPI 3Q26 Sequential Revenue Growth Guidance

1Q26	Guidance	Citi QoQ Ests
Automotive	up MSD% QoQ	8%
Industrial & IoT	up MSD% QoQ	7%
Mobile	up mid-teens QoQ	16%
Comm Infrastructure	up HSD% QoQ	10%

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Source: Citi Research, Company Reports

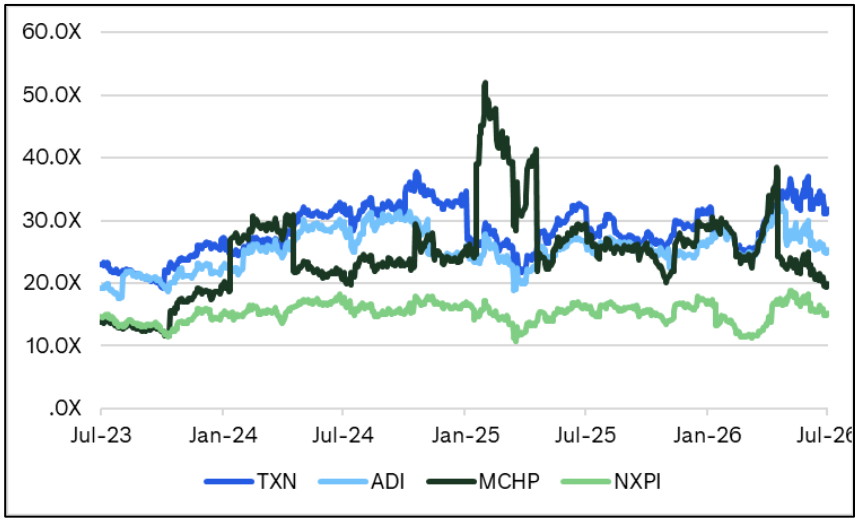
Figure 3. Raising C26 EPS by 2%, Raising C27 EPS by 1%, Raising C28 EPS by 8%

	New	Old		New	Old		New	Old	
FY end: Dec.	**2026E**	**2026E**	**Delta**	**2027E**	**2027E**	**Delta**	**2028E**	**2028E**	**Delta**
Total Revenue	**14,377.0**	**14,281.0**	1%	**15,900.0**	**15,700.0**	1%	**17,950.0**	**17,000.0**	6%
% Change Y/Y	17.2%	16.4%		10.6%	9.9%		12.9%	8.3%	
% Change Q/Q	0.0%	0.0%		0.0%	0.0%		0.0%	0.0%	
Gross Margins incl. SBC	**58.2%**	**58.1%**	6 bps	**59.7%**	**59.7%**	0 bps	**60.8%**	**60.4%**	42 bps
R&D as % of Sales	17.1%	17.5%	-34 bps	16.4%	16.4%	-1 bps	15.2%	15.3%	-15 bps
S&A as % of Sales	7.9%	7.9%	7 bps	7.0%	7.0%	0 bps	6.1%	6.1%	-1 bps
Operating Margin incl. SBC	**33.0%**	**32.7%**	29 bps	**36.3%**	**36.3%**	1 bps	**39.5%**	**39.0%**	58 bps
Interest expense, net	(352.0)	(362.0)	-3%	(360.0)	(360.0)	0%	(360.0)	(360.0)	0%
Tax Rate	20.0%	20.1%	-5 bps	20.0%	20.0%	0 bps	20.0%	20.0%	0 bps
Results relating to equity-accounted investees	(19.0)	(20.0)	-5%	(100.0)	(100.0)	0%	(100.0)	(100.0)	0%
Net income from continuing ops	3,495.4	3,425.3	2%	4,225.3	4,166.1	1%	5,289.6	4,910.4	8%
Net loss attributable to non-controlling interests	(56.0)	(45.0)	24%	(44.0)	(44.0)	0%	(44.0)	(44.0)	0%
Net Income attributable to stockholders	3,439.4	3,380.3	2%	4,181.3	4,122.1	1%	5,245.6	4,866.4	8%
Net Income Margin incl. SBC	**23.9%**	**23.7%**	25 bps	**26.3%**	**26.3%**	4 bps	**29.2%**	**28.6%**	60 bps
Proforma EPS incl. SBC	**$13.57**	**$13.35**	2%	**$16.61**	**$16.41**	1%	**$21.00**	**$19.52**	8%
% Change Y/Y	35.7%	33.6%		22.4%	22.9%		26.5%	19.0%	
% Change Q/Q	0.0%	0.0%		0.0%	0.0%		0.0%	0.0%	
Proforma EPS No Options	**$15.24**	**$15.05**	1%	**$18.28**	**$18.11**	1%	**$22.68**	**$21.24**	7%
% Change Y/Y	28.6%	27.0%		19.9%	20.3%		24.1%	17.3%	
% Change Q/Q	0.0%	0.0%		0.0%	0.0%		0.0%	0.0%	
Cash dividends per share	$4.08	$4.08		$4.08	$4.08		$4.08	$4.08	

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Source: Citi Research, Company Reports

Figure 4. Analog Peer P/E FY2 Valuation



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Source: Citi Research, FactSet

Bull/Bear: NXP Semiconductors NV (NXPI.O)

US$ 400.00 ▲54% Upside | US$ 370.00 ▲43% Upside | US$ 250.00 ▼3.5% Downside



Spread 58pp
Current Price and expected returns (upside/downside) as of 28 Jul 2026

BULL Assumptions

- Higher revenue and gross margins
- Multiple expansion

BASE Assumptions

- 17X C28 EPS

BEAR Assumptions

- Lower revenue and gross margins driven by the auto/industrial correction
- Multiple compression due to global recession

NXP Semiconductors NV

Company description

NXP Semiconductors (NXPI) is a supplier of mixed-signal and digital integrated circuits. The company's products are used in a variety of end markets such as mobile, consumer, industrial, communications, automotive, and computing. Based in Eindhoven, the Netherlands, NXP has roughly 33,000 employees worldwide. The company's products include semiconductors such as microcontrollers, security chips, RF, analog, interface, and digital processing technologies.

Investment strategy

We are Buy-rated on NXPI on broad recovery in the analog market as rising tide lifts all boats.

Valuation

Our price target of $370 is based on a 17x P/E applied to CY28 EPS, given peer multiple expansion tied to rising data center exposure.

Risks

End Market: NXP derives roughly 55% of sales from the automotive end market and roughly 18% of sales from the industrial end market. Therefore, any major changes in auto sales or industrial activity could result in upside/downside to our estimates and target price for NXP.

Competition: NXP competes with several companies in analog, digital, and microcontrollers. Consequently, any changes in market share could result in upside/downside risk to our estimates and target price.

Inventory Risk: NXP sells roughly 50-60% of its products through distributors. As a result, we believe any major fluctuations of inventory in the distribution channel could result in upside/downside risk to our estimates and target price.

Macroeconomic: NXP's geographic exposure spans multiple geographies including the U.S., Europe, and Asia. As a result, any prolonged macroeconomic strength/weakness could result in upside/downside to our estimates and target price.