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Broadcom Inc (AVGO.O)

Management Callback Takeaways

CITI'S TAKE

We spoke with AVGO management post earnings and summarize our key takeaways.

Buy	
Price (02 Sep 26 16:00)	US$367.24
Target price	US$515.00
Expected share price return	40.2%
Expected dividend yield	0.6%
Expected total return	40.9%
Market Cap	US$1,747,174M

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F27/F28 forecast durability. True demand is coming from LLM companies, and AVGO is building XPUs with them. This is guaranteed demand in that they have 6 customers. They have to pay deposits on memory and leading edge wafers, they are take or pay. They are betting that GenAI for AVGO is a real, sustainable business environment.

DSP/Lasers/CPO growth. XPU is 70% of AVGO AI revenue, Remaining 30% in networking, which is top of rack switches or Tomahawk, these are profitable products because they are merchant. NVDA buys AVGO DSPs for datacenters. DSPs are a fraction of this 30% AI sales but are important. AVGO is one company with 1.6 terawatt DSP. These DSPs are a few billion but not at scale of XPUs. CPO is making progress, shipping first products but still in early stages.

HBM and memory dynamics. Gross margins at AVGO on a consolidated level are impacted on mix of semis versus software. Within AI vs non-AI semis, each XPU has different memory content and prices changes over time. In terms of memory, SRAM is the most expensive, then HBM, and then DDR. AVGO doesn't buy DDR the customers take care of that. Customers also have to buy NAND and then HDD. Investors should focus on operating margins and operating leverage.

Packaging and Substrate. Substrate production started production this quarter and this is targeting large XPUs. This factory is the location for next generation packaging. AVGO will partner on various CoWos technologies, use internal technology, and evaluate EMIB-T but EMIB-T isn't quite ready yet. The rest of world is pretty tight on substrates.

Evolution on Inference. AVGO doesn't just do training XPUs, some of their XPUs can be tweaked. Just like inference, the training XPUs can be optimized for creating the models.

VMware. This is driving into the enterprise market. AI in enterprises is still in the early endings. The only use case that is prevalent is coding assistance. AVGO

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



believes there is very little ROI in other enterprise AI spending today. AVGO is creating a harness that VMware has that enterprises can run API models with their internal data, which is an on-prem solution. The software business should stabilize at $8.7B.

System support on XPUs. It depends on the customers. Hyperscalers like Google and Meta have thousands of people that can build their own systems and racks. AVGO is more engaged with the AI labs to design their system and racks. Established hyperscalers want to do more themselves.

TPU share. AVGO has an LTA with Google, which is multi tens of billions per year. This agreement is take-or-pay and done annually. AVGO is at a different scale than MediaTek on technology and scale.

Capital Allocation. AVGO will update their capital allocation policy once a year, which will happen next quarter.

Broadcom Inc

Valuation
Our PT of $515, or 19X 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.