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Industry Update

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MWC 2014: It is an LTE world

Key Changes

Company	Target Price	Rating
FFIV.OQ	120.00 to 130.00(USD)	-

Source: Deutsche Bank

S2N #491 - LTE proliferation and cheaper handsets push data demand

The buzz returned this year to Mobile World Congress and we contributed as best we could, running between meetings, downing café con leches and snacking on jamon sandwiches. What was different was the focus of the buzz, which if last year was centered on smartphone growth and LTE unit volumes, then this year it was infrastructure. Almost every network equipment vendor we met with sounded optimistic about operator spending in the year ahead, especially with regard to LTE.

State of the Baseband - number two still undecided

As most of our readers know, we suggested a few months ago that Qualcomm would see little competition in 2014. In short, Mobile World Congress only reinforced this viewpoint. We met with most of the merchant baseband players and a number of industry contacts across the handset foodchain, and what is increasingly clear to us, is that this year the fight will be for a foothold, in hopes to make a play for meaningful volume, and the second spot, behind Qualcomm in 2015. While we have argued that Mediatek was the clear number two behind Qualcomm (they remain so in unit volumes and profits), this point has been muddied a bit by the mixed progress in LTE of a few others. Bottom line - all of QCOM's competitors have their challenges, which we detail inside.

Smartphones high end struggles to differentiate, while Firefox redefines cheap

It is strikingly obvious that differentiating on the high-end with hardware is limited. Every major handset OEM at the show had shiny new handsets (and tablets), as well as a wearable to go along with it. The good news for many across the globe is that smartphones are only getting cheaper. Firefox (Mozilla) took this one step further, introducing a $25 smartphone at the show.

The front-end end game

Last year we suggested that there would be consolidation in the frontend space, engineered by the active players - a result of Qualcomm's then announcement of RF 360. Before the show, RFMD announced a bid for Triquint. We do not feel like this is the end of the match-making, possibly with Triquint, and certainly outside of this deal, with other players attempting to redefine their own positions. Bottom line, the front end active players are merging with the front-end passive players (and other active players) in an attempt to develop fully integrated FEM's to compete with Qualcomm.

Infrastructure poised for growth:

Almost every network equipment vendor we met with sounded optimistic about operator spending in the year ahead. With LTE rollouts continuing around the globe, and beginning in earnest in places like Europe, China, Africa and CALA, we believe this will be a solid year for infrastructure spend.

Stock implications

We left MWC feeling incrementally positive on QCOM (limited LTE competition), FFIV (telco wins raising price target to $130), COMM (LTE builds), and MVNR (VoLTE builds), constructive on CIEN (see our separate preview note), neutral but constructive on RKUS (cable traction), CAVM (small cells), PSMI (CMOS PA performance) ADNC (Motion Q), slightly more cautious on CSCO (SP execution) BBRY (increasing security competition) and XXIA (testing virtualization)