

Time for Semiconductor Dividend Plays

As a semiconductor analyst I never understood dividends as a significant or meaningful investment criteria: most chip companies didn't offer them; the ones that did typically possessed the richer valuations of blue-chip issues, thereby rendering dividend yields in the very-low single digits; and the inherently volatile and cyclical nature of the semiconductor business and its equities significantly dampened my enthusiasm for long or Buy opportunities with annual upside appreciation potential less than 50%. The single-digit returns offered by dividends were literally lost in the noise of daily trading spreads, so why bother?

Well, now I get it. First, because of the stressed nature of financial markets since 2008 resulting in compressed fundamental valuations of the 'out-of-favor' equity class of investments, low trading volumes, and highly correlated share price movements reflecting world-wide monetary and fiscal gyrations du jour instead of company and/or industry business fundamentals. And second, due to the maturing of the semiconductor industry over the last decade with slowing macro revenue growth rate expectations and a greater number of cash-rich companies in the sector offering regular quarterly payouts. Currently 21 out of 104 equities in the Tokeneke Universe offer dividends.

I will leave the asset allocation argument to those more versed in broader financial markets and vehicles. But below I offer a cursory risk assessment for semiconductor equities offering dividends at this time.

Ticker	12/30/11 Price	Quarter Dividend	Annual Yield	Risk-Reward Evaluation
Safety with Upside Potential				
INTC	24.25	0.210	3.5%	Low risk company, stock upside if equities return to normal
MXIM	26.04	0.220	3.4%	Low risk company, stock upside if equities return to normal
LLTC	30.03	0.240	3.2%	Low risk company, stock upside if equities return to normal
XLNX	32.06	0.190	2.4%	Low risk company, stock upside if equities return to normal
MCRL	10.11	0.040	1.6%	Low risk company, stock upside if equities return to normal
Safety with Limited Upside				
MCHP	36.63	0.348	3.8%	Low risk company, fairly priced stock
ADI	35.78	0.250	2.8%	Low risk company, fairly priced stock
TXN	29.11	0.170	2.3%	Low risk company, fairly priced stock
ALTR	37.10	0.080	0.9%	Low risk company, fairly priced stock
TSM	12.91	0.023	0.7%	Low risk company, fairly priced stock
Some Risk				
STM	5.93	0.100	6.7%	Big company, solid business—but distressed, stock upside potential
ISIL	10.44	0.120	4.6%	Good business, stock upside potential
CY	16.89	0.090	2.1%	Good business, fairly priced stock
UMC	2.14	0.010	1.9%	Decent business, stock upside if equities return to normal
AVGO	28.86	0.120	1.7%	Newer issue doing well, fairly priced stock
QCOM	54.70	0.215	1.6%	High growth company, fairly priced stock
BRCM	29.36	0.090	1.2%	High growth company, fairly priced stock
POWI	33.16	0.050	0.6%	Good business, fairly priced stock
High Risk				
HIMX	1.00	0.030	12.0%	Distressed Korean ADR, high risk/high return
SPRD	20.88	0.100	1.9%	High risk company, fairly priced stock
IDCC	43.57	0.100	0.9%	IP company in play, fully valued stock

—Dan K. Scovel
Semiconductor Analyst

Tokeneke Research LLC
dscovel@tokenekeresearch.com

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