

IQE

Demonstrating resilience to supply chain shifts

IQE has recently announced the successful qualification, commencement of initial production and receipt of additional orders of wireless products destined for Asian supply chains, as well as the commencement of initial vertical cavity surface emitting laser (VCSEL) production for a second major customer at its new foundry in Newport. The share price has risen by 29% following the announcements, which demonstrate that IQE's dominant position in the outsourced compound semiconductor epitaxy market gives resilience to reduced demand from individual customers.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	154.5	24.5	3.38	0.0	20.0	N/A
12/18	156.3	14.0	1.38	0.0	48.9	N/A
12/19e	147.2	5.4	0.52	0.0	129.8	N/A
12/20e	179.0	24.5	2.41	0.0	28.0	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

In June IQE cut its [FY19 guidance](#), resulting in a 25% drop in the share price. Its customers manufacturing wireless semiconductor chips for the mobile phone industry were cutting back inventory levels in response to the uncertainty regarding future demand caused by lengthening mobile phone replacement cycles and the potential impact of Huawei's addition to the US Bureau of Industry and Security's Entity List. Additionally, a major photonics (not VCSEL) customer experienced an internal issue. We noted at the time that IQE's dominant position made it relatively agnostic to any mid- to long-term shifts in market share at either component or OEM level. The recent wireless qualifications validate this view, confirming that IQE is successfully embedded in new, Asia-centric supply chains.

On the photonics front, IQE has commenced VCSEL production at Newport for a second major customer, this one serving the Android supply chain, and is at the advanced qualification stage on several other VCSEL projects. In addition, the chip customer behind the 2017 VCSEL production ramp-up has extended its current contract until the end of 2021. These developments support our view that IQE will be able to offset loss of production for the major (non-VCSEL) photonics customer fairly rapidly.

Production and qualification updates

Tech hardware & equipment

29 July 2019

Price **67.5p**

Market cap **£534m**

Net cash (£m) at end December 2018 20.8

Shares in issue 791.3m

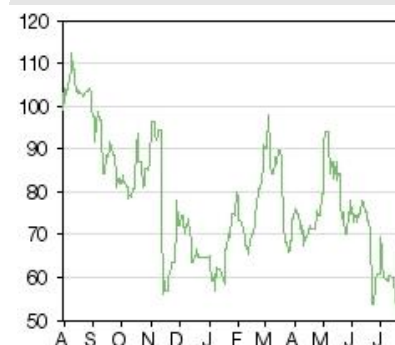
Free float 86.3%

Code IQE

Primary exchange AIM

Secondary exchange N/A

Share price performance



Business description

IQE is the leading supplier of epitaxial compound semiconductor wafers globally. The principal applications include radio frequency semiconductors, devices for optical networks, vertical cavity lasers, infrared semiconductors and power electronics.

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