Competitive Analysis:

Competition is especially high in the "design win" phase, when a customer chooses a vendor's chip for use in its electronic system. Due to the proprietary nature of PLD chips and development investments, the PLD vendor chosen for the product will generally remain the supplier throughout the product's life cycle.

Pros:

- PLDs taking market share from ASICs
- Superior structured ASIC product than its major competitor
- Partnership with Intel

Risk Factors:

- Majority of Altera's cash held internationally
- Communication end market make up almost half of Altera's revenue

Intrinsic Value: $51.11

Buy: $43.44
Sell: $58.77

TTM P/E: 23.53
Forward P/E: 20.62
Beta: 1.36

Market Cap: $11.43 Bil
Dividend Yield: 1.60%

Industry Trends:

The fundamental outlook for the semiconductors industry for the next 12 months is positive. Revenue is expected to grow 3.7% in 2013 and 3.95 in 2014, up from a decline of about 3% in 2012. Communications and consumer end markets will be the strongest, as carrier comments suggest to us an improved spending outlook, and continued growth in smartphones.

Investment Thesis:

Buy recommendation is based on the long-term, secular growth story of programmable logic devices (PLDs) taking share from more expensive application-specific integrated circuits (ASICs) and from downstream applications through integration.

Business Summary:

Altera Corp. is a worldwide supplier of programmable logic devices (PLDs), Hard-Copy brand structured application specific integrated circuits (ASICs), pre-defined design building blocks known as intellectual property cores, and associated software for logic development.

Total Return Estimates:

Key Valuation Assumptions:
- Est. Revenue Growth: 12%
- WACC: 8.43%
- Expected Inflation: 3%
- Terminal Growth Rate: 4%
- 10 yr. Risk Free Rate: 2.82%
- Equity Risk Premium: 5.90%
- Tax Rate: 20%

Key Financial Data:
- Est. 2013 EPS: $1.72
- Est. 2014 EPS: $2.20
- 3-5 Yr. Est. EPS Growth: 21%
- PEG (TTM): 1.32
- Credit Quality: A
- ROE: 15.09%
- ROA: 7.24%
- Price /Book: 3.34
- Price/Cash Flow: 19.3
- Debt/Equity: 0.1
- Current Ratio: 6.8
- Quick Ratio: 5.75

CSR Scores vs. Industry Average:

Human Rights: 0/1
Business Ethics Policy: 1/1
ESG Disclosure: 33.88/31.87
Equal Opportunity: 1/1
Emission Reduction: 1/1
Environmental Disclosure Score: 33.33/26.05

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