

KLA Tencor Corporation Ticker: KLAC Sector: Technology	Intrinsic Value: \$83.06 Current Price: \$64.13 Stop loss: \$54.51 Upside Review: \$73.74	TTM P/E: 19.70 Forward P/E: 13.77 FV Imp P/E: 25.87 Beta: 1.34	Market Cap: \$10.73 Bil Dividend Yield: 2.80% 52 week range: \$50.23-\$67.05
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Industry Trends:

Worldwide spending on semiconductor equipment is expected to increase by 15.08% in 2014. Most of the demand will be driven by advancement of new technology nodes according to Moore's law. Major players like Intel, Samsung and TSMC continue to spend heavily on advanced technology

Investment Thesis:

KLA Tencor occupies an excellent position as a leader in the semiconductor equipment industry. Major semiconductor companies use its tools to control process, improve yield and thereby reducing their product cost. KLA has more than 50% market share in the process diagnostic and control market. Due to few competitors KLA commands premium for its products due to the necessity of its product in good and bad times

Business Summary:

KLA-Tencor Corporation engages in design, manufacture, and marketing of process control and yield management solutions for the semiconductor and related nanoelectronics industries worldwide.

Competitive Analysis:

KLA has very dominant position in the process market and it continues to invest heavily to maintain its innovation. The firm has the largest R&D budget and very close relationship with its customers. This helps the company to predict future trends before the competition.

Pros:

Leader in the highly profitable Process diagnostic and control tools

Through many years of industry experience KLA has extensive knowledge data base of Process market making it difficult for competitors to catch up

Diverse portfolio of yield enhancement tools

Risk Factors:

Competitors like Applied Materials are trying hard to take market share from KLA

KLA is exposed to the cyclical trends in the semiconductor industry

performance:



Direct Competitor Comparison

	KLAC	AMAT	ASML	PVT1	Indu
Market Cap:	10.73B	22.72B	39.10B	N/A	829.6
Employees:	5,820	13,700	10,360	N/A	1.1
Qtrly Rev Growth (yoy):	0.05	0.21	0.81	N/A	0
Revenue (ttm):	2.81B	7.51B	6.79B	N/A	346.3
Gross Margin (ttm):	0.58	0.40	0.40	N/A	0
EBITDA (ttm):	814.72M	1.18B	2.07B	N/A	37.7
Operating Margin (ttm):	0.26	0.10	0.24	N/A	0
Net Income (ttm):	551.59M	256.00M	1.55B	N/A	
EPS (ttm):	3.27	0.21	3.57	N/A	0
P/E (ttm):	19.70	89.86	24.81	N/A	26
PEG (5 yr expected):	1.02	2.07	0.55	N/A	1
P/S (ttm):	3.78	2.87	5.72	N/A	2

AMAT = Applied Materials, Inc.
ASML = ASML Holding NV
Pvt1 = Hitachi High-Technologies Corporation
Industry = Semiconductor Equipment & Materials

Total Return Estimates:

3 Yr FV Reversion*: 9%
5 Yr FV Reversion*: 5.3%

Key Valuation Assumptions:

Est. Revenue Growth: 12%
WACC: 10.31%
Expected Inflation: 3%
Terminal Growth Rate: 3%
10 yr. Risk Free Rate: 2.82%
Equity Risk Premium: 5.90%
Tax Rate: 21.4%

Key Financial Data:

Est. 2013 EPS: \$3.21
Est. 2014 EPS: \$3.70
3-5 Yr. Est. EPS Growth: 25%
PEG (TTM): 1.02
Credit Quality: B++
ROE: 15.96%
ROA: 8.71%
Price /Book: 2.99
Price/Cash Flow: 12.2
Debt/Equity: 0.2
Current Ratio: 4.86
Quick Ratio: 4.31

CSR Scores vs. Industry Average:

Human Rights: 0/1
Business Ethics Policy: 1/1
ESG Disclosure: 14.05/39.00
Equal Opportunity: 0/1
Emission Reduction: 0/1
Environmental Disclosure Score: N.A./40.78