

O2Micro International

Technology
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LED drivers and power management

O2Micro discontinued its eCommerce product line at the end of 2012, restructured operations and lowered operating expenses during 2013, and will report revenue by three new business units beginning in Q114: Backlighting, General Lighting and Power Management. The company plans to grow revenue and restore profitability during 2014.

Out with the old

Q4 revenue of \$19.1m increased by 14% over the previous year, but would have increased by 22% adjusting for discontinued operations. Cash burn from operations totaled \$11m and the company finished the quarter with \$75.9m in cash, equivalents and short-term investments and \$4.2m in debt. Consumer markets approximated 50% of sales, computer 30%, industrial 20%, and communications was less than 5%. Last year the company cut operating expenses, shifted resources toward Chinese tablets and smartphones and away from notebook PCs, and focused on key customers and opportunities. Legacy CCFL backlight driver revenue is no longer significant. Cash break-even is now at quarterly revenue of \$20-21m with accounting break-even at \$23-24m.

In with the new

Backlighting was the largest product line at 55% of sales last year. Three-quarters of revenue came from LED drivers for LCD TVs where the company claims 25-30% share mostly in China and Japan, with the balance from notebook PCs and flat panel monitors. Share gains are expected to support this slowly expanding market. Power Management accounted for 35% of sales last year, of which three-quarters came from notebook PCs and tablets primarily using DC-DC power management chips, but also battery charger controllers. Strong growth from the balance of this business in battery chargers for power tools, household appliances and electric vehicles should offset PC weakness this year. LED drivers for general lighting applications accounted for less than 10% of sales last year, but is expected to continue to double annually for at least the next couple of years. O2Micro is working with two top-tier LED suppliers: one in the US, and the other in Japan.

Valuation: Recovery offers upside

O2Micro is currently trading at 1.2x sales based on 2014 estimates after the company recently lowered Q1 guidance. We believe its shares will close the gap with its peers valued at 2-3x sales as revenue grows and earnings recover.

Consensus estimates

Year end	Revenue (\$m)	P/S (x)	GAAP EPS (\$)	Pro forma EPS (\$)	Pro forma P/E (x)	P/B (x)
12/12	97.7	0.9	(0.83)	N/A	N/A	N/A
12/13	73.8	1.2	(0.67)	(0.58)	N/A	0.7
12/14e	72.5	1.2	(0.46)	(0.39)	N/A	N/A
12/15e	82.4	1.1	(0.32)	(0.24)	N/A	N/A

Source: Company reports, Thomson, Bloomberg

Price \$3.20
Market cap \$89m

Share price graph



Share details

Code	OIIM
Exchange	NASDAQ
ADSs in issue	27.96m

Business description

O2Micro International is a fabless semiconductor supplier of analog/mixed-signal ICs for LED lighting, battery and power management applications. It is based in California's Silicon Valley, incorporated in the Cayman Islands, and its ADSs trade on NASDAQ.

Bull

- Reorganized and restructured operations to lower revenue break-even.
- History of power management expertise and experience.
- Significant potential growth from expanding markets for portable products and LED drivers.

Bear

- Declining sales, unprofitable, burning cash.
- Core backlighting and PC markets are either not growing or contracting.
- LED driver market is highly competitive.

Analysts

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