



Alphawave Semi (AWE-LSE): £1.75

Market Cap: £1.27 B

Enterprise Value: £1.36B

EV/EBITDA: 17.5x

P/E: 42x

Rating: NEUTRAL

Short Interest: 1.4%

12-month perf (%): 75%

30-Day Average Daily Volume: 762k

Date: 4/1/2024

Company Background

We believe two factors are driving the AI megatrend: Higher computation and higher networking needs. AI applications demand high bandwidth and low latency, crucial factors for both training and inference workloads. We believe that AI technology is still in its nascent stages, and are actively seeking companies poised to benefit from this trend. AWE emerged as a compelling prospect, positioned to leverage these evolving networking trends. AWE specializes in connectivity solutions predominantly in data centers. However, we found evaluating their competitive positioning challenging, especially considering the integration risks associated with their recent acquisitions.

Challenges & Risks

- AWE faces substantial competition in the intellectual property (IP) domain from Synopsys and in design services from Marvell and Broadcom. To navigate this competitive landscape, AWE must either achieve technological leadership or adopt a distinctive go-to-market strategy compared to these larger entities. This might involve focusing on different market segments and price points, enabling AWE to carve out a niche within the broader market and effectively differentiate itself from its competitors.
- Over the past three years, AWE has expanded its operations through the acquisition of three companies, resulting in a tenfold increase in its workforce. Such rapid expansion and integration pose potential risks to the company's culture, operational execution, and employee retention.
- Among the various factors contributing to the decline in AWE's share price were the related party transactions with certain customers in China. AWE has been progressively reducing these transactions, yet its revenue from China remains substantial, making up about 40% of revenues in 2023. These revenue streams likely will see significant volatility in the interim with large effects on profitability.

Valuation

While the prevailing trends are highly favorable for Alphawave, evaluating their competitive edge against established incumbents remains challenging given their status as a newer market entrant and the associated execution risks. Currently, we maintain a neutral rating towards Alphawave, however, this can evolve towards a Buy Rating should we observe clear indicators of successful execution and an uptick in customer engagement. Such indicators would notably include securing IP or chiplet design wins with major hyperscale companies. Achievements of this nature are crucial for affirming Alphawave's technological prowess and solidifying its leadership within the industry. These milestones would underscore Alphawave's capacity to adeptly meet market demands and effectively compete within its industry's dynamic landscape, painting a more optimistic outlook for the company's future.

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Past performance is not necessarily indicative of future results. All investments carry significant risk and all investment decisions of an individual remain the specific responsibility of that individual. There is no guarantee that our research, analysis, and forward-looking price targets will result in profits or that they will not result in a full loss or losses. All investors are advised to fully understand all risks associated with any kind of investing they choose to do.