MediaTek 4Q22 Earnings Call

Friday, February 3, 2023, 3:00pm Taiwan Time

PREPARED REMARKS

Jessie Wang, IR Deputy Director

Good afternoon, everyone. Joining us today are Dr. Rick Tsai, MediaTek CEO and Mr. David Ku, MediaTek CFO. Mr. Ku will report our fourth quarter results and then Dr. Tsai will provide our prepared remarks. After that, we will open for Q&A.

As a reminder: Today's presentation will provide forward looking statements based on our current expectations. The statements are subject to various risks and factors which may cause actual results to be materially different from the statements. The presentation materials supplement Non-TIFRS financial measures. Earnings distribution will be made in accordance with financial statements based on TIFRS. For details, please refer to the safe harbor statement in our presentation slides.

In addition, all contents provided in this teleconference are for your reference only, not intended for investment advice. Neither MediaTek nor any of independent providers is responsible for any actions taken in reliance on contents provided in today's call.

Now I would like to turn the call to our CFO, Mr. David Ku, for the fourth quarter financial results.

David Ku, Chief Financial Officer

Good afternoon, everyone. Now let's start with the 2022 fourth quarter financial results. The currency here is in NT dollar. Revenue for the quarter was NT$108.2 billion dollars, down 23.9% sequentially, and down 15.9% year-over-year. Full year 2022 revenue totaled NT$548.8 billion, up 11.2% from 2021.

Gross margin for the quarter was 48.3%, down 1 percentage point from the previous quarter, and down 1.3 percentage points year-over-year. Gross margin for 2022 was 49.4%, up 2.5 percentage points year-over-year.

Operating expenses for the quarter were NT$34.2 billion dollars, compared with NT$37 billion dollars in the previous quarter and NT$34.1 billion dollars in the year-ago quarter. Full year 2022 operating expenses was NT$144.1 billion, compared with NT$123.6 billion in 2021.

Operating income for the quarter was NT$18.1 billion dollars, down 45.3% sequentially and down 39.1% year over year. Non-TIFRS operating income for the quarter was NT$18.8 billion dollars. Full year 2022 operating income was NT$126.8 billion, up 17.4% year-over-year. Non-TIFRS operating income for the year was NT$131.5 billion dollars.

Operating margin for the quarter was 16.7%, decreased 6.6 percentage points from the previous quarter and decreased 6.4 percentage points year-over-year. Non-TIFRS operating margin for the quarter was 17.4%. Operating margin for 2022 was 23.1%, up 1.2 percentage points year-over-year. Non-TIFRS operating margin for the year was 24%.

Net income for the quarter was NT$18.5 billion, down 40.4% sequentially and down 38.6% year-over-year. Non-TIFRS net income for the quarter was NT$19.2 billion dollars. Full year 2022 net income for was NT$118.6 billion dollars, up 6% year-over-year. Non-TIFRS net income for the year was NT$122.7 billion dollars.

Net profit margin for the quarter was 17.1%, decreased 4.8 percentage points from the previous quarter and decreased 6.3 percentage points year-over-year. Non-TIFRS net profit margin for the quarter was 17.7%. Net profit margin for 2022 full year was 21.6%, down 1.1 percentage points year-over-year. Non-TIFRS net profit margin for the year was 22.4%.

EPS for the quarter was NT$11.66 dollars, down from NT$19.54 dollars in the previous quarter and down from NT$18.99 dollars in the year-ago quarter. Non-TIFRS EPS for the quarter was NT$12.04 dollars. Full year 2022 EPS was NT$74.59, compared with NT$70.56 in 2021. Non-TIFRS EPS for the year was NT$77.07 dollars.

A reconciliation table for our TIFRS and Non-TIFRS financial measures is attached in our press release for your information.

That concludes my comments. Thank you.

Jessie Wang, IR Deputy Director

Thank you, David. And now I would like to turn the call to our CEO, Dr. Rick Tsai for prepared remarks.

Dr. Rick Tsai, Chief Executive Officer

Good afternoon and belated happy Chinese New Year, everyone.

Our fourth quarter revenue came in at the low end of guidance as customers turned more conservative about demand during the quarter. End-demand in China has been weakened due to the fast spread of Covid since the ease of restrictions in mid-November last year. Therefore, customers continue to manage their inventory level cautiously at this stage before we could see demand recovery from China's reopening. On the gross margin side, we were at around the mid-point in the fourth quarter, demonstrating our pricing discipline under demand pressure.

Looking back at 2022, global semiconductor industry experienced rapid changes in demand amid macro uncertainties. Throughout these challenges, MediaTek managed to achieve record revenue and earnings for the full year of 2022. Notably, all three revenue groups including Mobile, Smart Edge Platform and power IC grew year-over-year for the 4th year in a row. This is the result of the solid execution of our technology leadership and global expansion strategies in the past few years. We now have built an industry-leading product portfolio and diversified global customer base which underpin our business foundation.

Now, I would like to make some comments on each revenue group for their fourth quarter results, 2022 achievements, 2023 market outlook and recent highlights.

In the fourth quarter of 2022, Mobile Phone business was negatively impacted by customers' aggressive inventory adjustments, declining 17% year-over-year and 29% quarter-over-quarter to account for 52% of total revenue.

For 2022 full year, mobile phone grew 10% year over year and Mediatek continued to be the leader in global smartphone market share. We made a very significant move with our 5G flagship Dimensity 9000 series solutions. In 2022, we gained greater than 20% of Android flagship market share in China market from zero percent in 2021.

We expect our flagship market share to continue to expand in 2023 with more solutions and further penetration into more regions. Vivo X90 and X90 Pro flagship smartphones powered by MediaTek's latest Dimensity 9200 is well received by consumers, generating higher sales than the previous model. Dimensity 9000+ was also adopted by several latest foldable flagship smartphones.

As the smartphones are adopting satellite connectivity, MediaTek is ready for providing 3GPP NTN, which is Non-Terrestrial Network, compliant solutions. It is 3GPP R17 standard based approach for enabling satellite communication by leveraging existing cellular technology and ecosystem which is easy to grow to larger scale, contrasting to other competing solutions based on proprietary technology. The first smartphone made by Bullitt, a British company, that equips with MediaTek 3GPP NTN solution will hit the market and start to contribute revenue in the first quarter. MediaTek is fully committed in this new, exciting application for our customers.

For 2023 full year, we think global smartphone shipment is likely to decline slightly but 5G penetration rate to increase from high-40% in 2022 to mid-50% in 2023. The higher global 5G penetration rate is expected to come from higher 5G adoption in mainstream segments in emerging regions such as India and Southeastern Asia where we have a very strong presence.

We are the major beneficiary to capture the trend of 4G to 5G migration. We continue to demonstrate our values to global customers by enabling leading 4G and 5G smartphone efficiently through our complete solutions as well as strong customer support. The solid partnership we've established with our global customers over the years will extend into the future.

Now let me move on to Smart Edge Platforms, which accounted for 42% of revenue in the fourth quarter. This group declined 14% from last year and 18% from last quarter due to customers' cautious inventory management.

For 2022 full year, our smart edge platform grew 13%. Among which, connectivity grew very strongly as we continued to gain shares and benefit from the on-going technology migrations to WiFi 6, 6E, 5G and 10GPON. We also demonstrated our leadership in WiFi 7 development. In addition, we grew our revenues significantly in consumer and enterprise ASIC as well as automotive products and continued to gain traction with global customers in the US and Europe.

Most of our Smart Edge Platform revenues come from consumer related applications, in a year such as 2023 where consumer demand is expected to be weak, our Smart Edge Platform businesses are not immune to broader macro impact.

However, technology upgrades will continue. We continue to see higher adoption of our industry-leading WiFi 6, 6E, 5G and 10GPON solutions across all kinds of devices. Our full WiFi 7 ecosystem is also ready to embrace a new technology cycle. We are gaining shares in premium segments in router, notebook, wired network and TV with our WiFi 7 solutions which already started to generate revenues in the first quarter.

In addition, we continue to expand globally by offering strategic values to global customers with our diversified connectivity solutions and strong capability in low power processors. For example, our business with global top-tier telecom operators continue to grow robustly across broadband, router and CPE. We further deepen our relationship with global customers in collaboration across computing, XR, IoT, ASIC and automotive applications. Those new business initiatives not only partially offset the current market slowdown but also pave the way for future growth.

Now moving on to Power IC, which accounted for 7% of total revenue in the fourth quarter and declined 21% from last year and quarter over quarter.

In 2022, power IC grew 13%, among which, revenues from automotive and industrial applications were more than doubled.

In 2023, we aim to continue to diversify our product mix and support the continuous 5G, WiFi migration across devices.

Before we give the first quarter guidance, I would like to bring the next few points. Numerous industry research reports forecast that the semiconductor industry excluding memory in 2023 is expected to decline by mid-single digit percentage. As most of our customers maintain a conservative business outlook and have been managing their inventory very cautiously, their current level of inventory is approaching a normal level. However, with the recent reopen of China and relatively stable global economy, we believe demand visibility will gradually improve in the next few months and our business start recovering from the second quarter of this year. TV and WiFi, for example, are seeing a mild demand pick-up in the first quarter of 2023.

Thus, the first quarter of 2023 is likely a low point for MediaTek. In this environment, we will continue to exercise pricing discipline and protect our profitability.

We now expect our first quarter revenue to be in the range of NT$ 93 billion dollars to NT$ 101.7billion dollars, down 6% to 14% sequentially, and down 29% to 35% year-over-year at a forecasted exchange rate of 30.5 NT dollars to 1 US dollar. Gross margin is forecasted at 47.5%, plus or minus 1.5 percentage points. Quarterly operating expense ratio to be at 33%, plus or minus 2 percentage points.

For the full year of 2023, there are still a number of uncertainties regarding global macro-economic conditions, we will need to gain additional visibility with respect to magnitude of recovery in order to give you a full year revenue estimate in the next few months. As to gross margin, we aim to manage it at the level that our first quarter guidance indicates. We are also managing our expenses very cautiously and expect our total operating expenses to be flattish in 2023 comparing to that in 2022.

Last but not least, we reiterate our shareholder return program. Our cash dividend payment in 2023 will include a regular cash dividend which is based upon 80%~85% payout ratio and a NT$16 special cash dividend per share.

This concludes my prepared comments, thank you.

[Q&A]

<u>Q - Gokul Hariharan, JPMorgan</u>

Pretty resilient performance in the margin, especially. A couple of things. First, maybe I'll start with your commentary on demand and inventory. Could we get a little bit more detailed color on what you're seeing on inventory in the channel and customers? And also, I think MediaTek inventory on hand has also been coming down, but probably not coming down as much. So how do we see inventory in the channel and customers evolve in Q1? Are we going to be at a normal or slightly below normal level in Q1 already? Do you need to take MediaTek's own inventory down a fair bit still? And also, is the inventory situation in China different from inventory situation in the channel and for customers in the non-China market?

<u>A - Dr. Rick Tsai, CEO</u>

It's a long question. I think, our understanding and maybe our observation is that the smartphone inventory, including our customers and channels in China probably at about 3 to 3.5 months level. We believe it will go down to probably 2 to 2.5 months this quarter. I think that's what we are expecting to see. I think Chinese New Year time -- during the Chinese New Year time, the sellout in China as far as we understand, it's better, fairly good, but definitely better than our customers' expectation.

As to outside of China inventory, what I can say -- I don't have specific numbers. What I can say is some of our customers had a little better fourth quarter business than they expected. So I expect -- but they still have inventory at hand, so they're burning their inventory probably at a faster clip than expected.

Our own inventory days is still high. However, the inventory of quotas, the inventory volumes continue to go down quite substantially. We have really carefully managed our wafer start for our business. I think this careful management of the wafer start will continue at least for the foreseeable future. But we are also looking very carefully for customers' demand dynamic. I think this is the time of a transition. And we will be very careful in managing our inventory while fulfilling our customers -- any of our customers' demand.

Q - Gokul Hariharan, JPMorgan
All right. That's very helpful. The second question I had is on the 5G pricing, given there is a lot of noise in the market. Could you talk a little bit about what is MediaTek's expectations for overall 5G portfolio pricing this year? You have a few moving parts with the better traction for flagship while you're also moving down to lower segments. And also comment a little bit about how do you see the competitive intensity? Has the competitive intensity with your main competitor changed in the last 3 to 6 months?

A – David Ku, CFO
It's David here. I think overall, the market is always with a lot of dynamics and competition situation or competitive landscape situation is always part of the dynamic. We understand right now several sell-side analysts and also some investors were worried about the pricing, the price competition, even worry about -- extend that worry to market share or gross margin. But to be honest, it's not a straight or easy answer, but let me try to answer with you about our overall pricing strategy.

I think our pricing strategy is always trying to find a dedicated balance among pricing, the market share and our gross margin. And on top of that three key considerations, we also need to consider about the demand profile, the product life cycle and also the segmentation we get in. So overall, I guess we will not be able to provide a detailed pricing guidance and it’s all confidential. But probably one of the best way to think about that is actually is to think about our gross margin.

As you can see from a guidance perspective, our gross margin actually holding up fairly okay, fairly good. And actually, just as I told you, overall, the market dynamic or the competition is out there, and we've been there for so many years. We know how to handle that. When necessary, we will respond nicely and strategically rather than panicly. I think that's our quick response.

Q - Gokul Hariharan, JPMorgan
So just following up, do you think the competitive intensity has gotten worse in the last 3 to 6 months, just relative to, let's say, middle of last year when demand was still a little bit better, or it's largely the same still?

A – David Ku, CFO
We don't think it's getting materially worse. It's always quite a strong competition out there.

Q - Sunny Lin, UBS
My first question is on your gross margin. So I wonder, there's a few upside and downside drivers going into next couple of quarters. But I guess, the concerns are on the downside from the increasing foundry costs, and also, your competitors are pushing the lower-cost solution, and also in the short term, your customers are still digesting inventories. And so could you let us know what gave you confidence that going into next couple of quarters, gross margin could sustain a Q1 level?

A – David Ku, CFO

Okay. Sunny, like I explained earlier, basically, we're trying to find a dedicated balance among pricing, market share and also gross margin. And more importantly, because we got so many dies, we can adjust among different segments. So for example, if we worry about the entry level of competition, but in the meantime, we're also gaining share nicely on the flagship, now that will be a good balance. So overall, I guess, that actually give us the confidence that we can find a dedicated balance among again, pricing market share and gross margin. That's point number one.

Point number two, about our cost structure, mainly I think both including the foundry and also in the back end. I think foundry, I guess, due to the market situation, it's actually -- it's not a pleasant situation but we also have the back end and other vendors. On a combined basis, more importantly, as you can see our overall industry position, we do believe -- actually it's not pleasant, but it's still manageable, especially when we take into the pricing discipline, also segmentations migrations or expansions into consideration, that actually gives us the confidence that we can actually maintain the gross margin at the current guidance level.

Q - Sunny Lin, UBS

Got it. So just a quick follow-up on your pricing strategy. Since you are aiming to remain disciplined whereas your competitor appears to be a bit more aggressive. So do you think in the maybe mainstream product segment going to the next couple of quarters, there will be some risk for your market share position?

A – David Ku, CFO

I think overall, like I said, competition is always there, and also it's very dynamic. Bear in mind there's entry level, there's mainstream and also the flagship. And we are actually making a pretty strong attack or offense on the flagship. And on the entry level side, we are on the defensive field because our market share is very high. So once we consider the both ends and consider the total package, rather than just slice and dice, only focused on one sector, I think actually, it's not as bad as people worry about.

Q - Sunny Lin, UBS

Got it. My second question is also to follow up on the destocking situation in China market. Because overnight, your competitor also share some comments and they seem to be a bit more negative and think the destocking may sustain a bit longer going to second quarter. So I just wonder, maybe from your perspective, what gives you maybe a bit more confidence that the destocking could be finished maybe by late Q1, early Q2, and therefore, your business will start to pick up?

A – David Ku, CFO

I think maybe we start from what's the market sell-out demand situation because we got some of the weekly sales numbers and also we got close conversations with our customers. I think to make a long story short, I think overall, much -- we see some encouraging final sell-out numbers. The market demand situation -- by the way, don't get me wrong, I'm not talking about a strong recovery, we're just talking about it's not -- no more bad news, probably that's the best way to think about that.

And when we talk to our customers, when they see the final sell-through situation, most of our customers feel much more comfortable about no more bad news coming in. And also consider about the reopen in China, most people will expect there will be some kind of a positive impact or positive move help to overall economy. But we didn't see that coming in yet, but at least we see the sigh of stabilize. So that's point number one. The demand profile is getting better and no more bad news on the demand profile side.

The second point is actually -- is because we know our sell-in numbers, and we kind of know the channel inventory, when the demand side is getting better, and we actually didn't really see that picking up on sell-in yet, that's actually a strong signal about digestion of the channel inventory and the customer inventory. So overall, given the overall volume and also momentum, we do feel fairly confident that -- actually is the demand profile should be better starting from maybe next quarter.

Q - Randy Abrams, Credit Suisse
I actually wanted to ask then about the non-smartphone. If you could give a bit more on the outlook, I guess, first, just the power management where the consumer side has been quite weak, how you see that stabilizing? And then for the Smart Edge, I guess, the same way because there's talk about more of the -- both consumer and industrial IoT slowing. So how you see the broader market where we're at in that slowdown plus inventory correction? And then to lift us out, if you could talk a bit about WiFi 7, if you see much this year where it's more a 2024 story and if you're seeing auto move the needle? Sorry, a lot in that.

A - Dr. Rick Tsai, CEO
Okay, Randy. On the Power IC side, yes, it is -- we described it has gone through a pretty bad fourth quarter. And -- but what we have been doing is the -- again, to manage the revenue, just like David just said, managing the revenue, including pricing, market share and gross margin. We kind of decided not to engage in some of the really bloody competition, so that we manage our margin relatively well, while we continue to move into more -- shall we say higher-end applications, more stable applications such as industrial applications and automotive applications. And that's the direction we're going for some time and I think some of the effects will start to show up this year.

In the first quarter, I mean, we're not doing well but we're not doing badly either. So my thinking about the Power IC is -- I think we're going to get back to a reasonable track soon.

On the other Smart Edge products, you asked about the WiFi. Our WiFi business did really quite well last year. Fourth quarter, of course, everything went down pretty badly, including WiFi. But overall, our WiFi business improved 28% Q-over-Q. We are quite confident that the demand will come back up, such as the broadband demand, gradually. And our market share will be stable and maybe better after that.

Our technology in WiFi 7 , I think we're really pretty much at an equal status against our two competitors. But we do expect the real revenue, of course, to come in more in 2024 than in 2023. But the important thing in 2023 is to gain the key design-in into different segments. I think WiFi 7, a bit of like our 5G strategy is, we are moving to engage in high-end segment at the very beginning rather than play a follower role. Do I miss something? That's a very long question.

Q - Randy Abrams, Credit Suisse

It's a long question. I think actually -- maybe just if you could take the Smart Edge, where you think we're at relative to smartphone? Do you see the same prospect that we start to sign of life lift off in the second quarter? And then when you mentioned just on automotive, if it's moving the needle, like if that's like low mid-single-digit contribution, and is it mostly like modem and like telematics, smart cockpit?

A - Dr. Rick Tsai, CEO

Okay. Well, Smart Edge platform in general, I think, actually, if you ask me, I would feel a little better compared to smartphone in terms of this changing of direction shall we say. It is more -- if you look at the business in that what we call the Smart Edge platform is quite diversified, many of which rely in a more stable -- a relatively more stable business segment. So it would hit, yes, but the come back, I think it's a bit sooner and it's more -- I mean, you have to look at it occupied 42% of our revenue in the fourth quarter, and if you add the Power IC, it's the high 40s even 50%. So we're -- in that sense, now we are quite diversified, especially vis-a-vis 5G overall smartphone.

As to automotive, we are -- well, we don't have a lot of revenue right now. But we do have, I would think, quite competitive road map for the smart cockpit segment. We have auto competitive telematics road map. We're engaging in different regions in China, Europe and the U.S. OEMs. Right now, I think the key thing, again, is to win the design-in, to win the socket. This is a long-term business, as we all know. So we are being patient. We are investing inside the company aggressively. We are determined to gain, I hope our fair share of this high-growth business.

Q - Randy Abrams, Credit Suisse

And my second one is shorter. Just on the OpEx, maybe David can answer. The move to be flattish. If you could talk a bit what -- if there are certain areas you're diverting to do that? Or is it more of just a discretionary squeeze on everything? Just wanted to see where after being very aggressive the last couple of years on development.

A – David Ku, CFO

Randy, I would say probably is that we need to work on both ends, a, it's actually very discretionary, b, actually is also very strategic, because internally, we need to reshuffle, reallocate our -- the focus of all our engineering resource to the future growth, especially for the 2 to 3 years. In the meantime, we need to have to be cautious about the operating expense management according to the external environment. So it's actually we're working on both ends. We're working on both ends.

Q - Randy Abrams, Credit Suisse

Is future growth, should we think that's auto and networking or Smart Edge? I mean, just to think if there's a couple of pieces where you're really putting more resource?

A – David Ku, CFO

The answer is yes, as well as some other areas as well.

Q - Bruce Lu, Goldman Sachs
I think for the first question is still regarding the smartphone. I think in the first quarter, given your guidance like smartphone businesses is something like 30%, 40% down year-on-year, which obviously, you can see some recovery in the second half. But I wanted to ask what's beyond that? I mean, in 2024 onward, smartphone 5G penetration rate is plateauing. It seems to me that the market share movement is not the key growth driver for MediaTek as well. So what can we expect MediaTek to grow in the smartphone business beyond like 2023 when the inventory replenishment play out in the second half?

A – David Ku, CFO
Bruce, again, is actually -- thinking about the product portfolio, right? We have close to -- for last year or fourth quarter last year, we have close to 50% of the revenue coming out from non-smartphone. And that actually present a lot of growth opportunity. We talk about the Smart Edge, we're talking about IoT, we're talking about Metaverse, PMIC. And also, if you judge from the customer segmentation, now we get into the operators, industrial and also from product line, we're also talking about automotive. So that actually presents a pretty sizable growth opportunity. And I want to highlight it start with almost 50% of the revenue contribution already. That's point number one.

Point number two, let's come back to the smartphone. Again, smartphone, within smartphone, we still believe actually say wireless technology. I think we keep talking about that 5G smartphone is part of the 5G cycle, while there are also other applications for 5G.

For example, thin modem, right now, the industry talking about reduced capability modem, for example, in the U.S., we are taking a very good market share on the CPE side. So we do believe, actually in the last few years and including this year, it's actually lay out a very good 5G foundation from an infrastructure perspective. We actually have the infrastructure ready, and we do believe there's going to be more opportunity coming out from the 5G modem or 5G technology on top of 5G smartphone. I think for 5G smartphone, given the high penetration, like you said, there's no secret. I mean, the growth rate needs to be saturated or slowing down but doesn't mean -- again, 5G cycle, product cycle is bigger than 5G smartphone cycle. I think that's actually is our response.

Q - Bruce Lu, Goldman Sachs
I see. I think your first part of the question actually was my second question, but let's take back to smartphone a little bit. What kind of addressable market for the 5G thin model can we expect in the coming few years?

A – David Ku, CFO
Again, earlier last year, we kind of announced about the 5G thin modem on the PC application. And also, we talked about 5G CPE with the operators. And also going forward, we do believe a lot of IoT-related product will require 5G's modem over there. It could be 5G modem for speed, it could be redcap modem for the latency and also for the speed and the connectivity. So we do believe -- we think about the broader sense of IoT and have a 5G modem over there.

Q - Bruce Lu, Goldman Sachs

Or the question should be about, what kind of addressable market for non-smartphone 5G market for MediaTek?

A – David Ku, CFO

Taking this year -- for 2022, our view is actually the 5G overall addressable market is actually around $30 billion. And for the phone SoC (Corrected), account for $20 billion, so this year, right now, it's actually $10 billion of 5G thin modem (Corrected) market already, which, by and large, actually telematics, for example, and also 5G modem as well.

Q - Bruce Lu, Goldman Sachs

I see. Okay. So it's like half of the smartphone market, okay. It's actually a lot bigger than expected. The second question, again, is that you talked about which you answered in the very beginning. If you can help, can you help to rank like top three of the product, which can grow in the non-smartphone business because you guys talked about a lot. Can we rank it like a top three because everything is like -- our perspective, we do understand that we have multiple growth drivers from the non-smartphone market, but the absolute number for MediaTek revenue is close to USD 20 billion. So we need something really big enough to move the needle. So we try to dig a bit detail that that's focused on the top 2 or top 3 growth product in the non-smartphone business, can we have that?

A - Dr. Rick Tsai, CEO

I think you have to look at this in -- I think, in some kind of cadence. One is for the next 2 to 3 years, then the other is probably from the next 3 to 5, 6 years. Connectivity is definitely a critical growth driver for us, for the next 2 to 3 years. It's still a lot of upside for both WiFi and as David just said, 5G modems or reduced capability modems or different -- I think that's still untapped, a lot of untapped market.

Then for WiFi, for us, is moving to much more different higher end as we have done in 5G. So I think these provide already a quite good outlook for next couple or 3 years. But further out, we are investing heavily in automotive and in some other areas that we probably would prefer not to really discuss. But some of those are -- these are high -- really with very large TAM.

Power IC is another area that will provide us, I think, a really good and stable growth going forward. I have -- it's about $1.4 billion of revenue last year. I think having a growth rate for -- in the teens is quite achievable for instance.

Q - Bruce Lu, Goldman Sachs

So the long-term growth -- revenue growth compound guidance for 10% to 15% still stands?

A – David Ku, CFO

I think given the market dynamic, we probably need to revisit that. But right now, we like the -- similarly, like for the full year guidance, we probably won't be able to provide that. But we probably will come back with a different view given the market dynamic and material movement in the last year.

Q - Brett Simpson, Arete Research

Rick, I had a question about the recent U.S. restrictions around Huawei. Can you maybe just explain the licensing situation as it looks like Huawei have been shipping good volumes in 4G handsets. Have you been shipping components to Huawei? And if so, what's the impact of the latest restrictions on MediaTek's business?

A - Dr. Rick Tsai, CEO

We do not have a license to ship 4G SoC to Huawei. We do not. I think we probably have some license for the smaller components like PMIC that sort of thing. But really, it doesn't contribute much of the revenue for us. So the impact, the latest -- I don't know if it's a formal announcement or not, but at least the latest story from the press, I don't think will have any kind of a material impact on us.

Q - Brett Simpson, Arete Research

That's clear. And just a follow-up. I think you've mentioned in your prepared remarks, you think the smartphone market overall is going to be slightly down this year. But if we focus on domestic China, I think there's various analysts talking about sell-out demand last year of about 250 million units. It was quite a depressed year overall in China for obvious reasons. How do you see specifically the China smartphone market playing out this year? Do you see meaningful growth? Or do you think it's going to maintain at these low levels? Or how should we think about that?

A - Dr. Rick Tsai, CEO

Well, China's market last year number, I think, 250 million, 260 million depending on who you talked to, but it's about there. Our view for this year is a mild pickup compared to last year's number, so maybe 10 million more kind of a range. It's not a big pickup, but at this time, any pickup is a good pickup.

Q - Brett Simpson, Arete Research

Interesting. And maybe just a last one, if I can. In the Mobile division, how much do you think you're under-shipping to demand at the moment? I mean I guess if I look at your fourth quarter revenue in mobile, it's fallen about 17% year-on-year. Is that -- would that reflect the gap between your sales and overall demand? And I'm just trying to understand how that difference between your business and what was happening on a sell-out basis?

A – David Ku, CFO

To be honest, actually, it's hard to quantify that because currently, we only have -- for this quarter specifically, we only have all the way to end of January the market sell-out numbers. But if we only based on the first month of this year, I think the gap is rather large, but we also need to consider about the working days, the Chinese New Year holiday situation. So that will be the first quarter.

But if you compare to last quarter, the fourth quarter, I would say, again, it's roughly -- which indicates the channel inventory, customer inventory is probably in the range of like 3 months, ballpark range, 3 plus/minus months on the channel side.

Q - Charlie Chan, Morgan Stanley

So the first question should be for Rick. Rick, you mentioned about MediaTek continue to hold the technology leadership, and you don't want to be just -- you don't want to be a follower for the future 5G competition. So do you think there's any way to depreciate your technology versus your competitor? And on that matter, I'm wondering what's your view about to migrate to 3-nanometer for your China smartphone product in terms of timing and also the benefits?

A - Dr. Rick Tsai, CEO

Charlie, I think for the 5G competitive landscape, I'm not saying we are necessarily better, but we are definitely on par with our competitor. And this is basically a 2-player field. So we are -- the definition of leadership is up to anybody's interpretation. But from my end, if I look backward for 5 years, I would gladly say that we have caught up in technology leadership. So that's one. If you look at the SoC, I mean, look at our flagship, I mean the SAM is different for us, I know that, our flagship chip capability, actually branding in China, I think we are really making a strong and great progress. I'm very proud of our people.

And for two, the use of the leading-edge process node. And then we are also -- we're being very aggressive. We are definitely engaging with TSMC to use the latest 3-nanometer process as soon as we can.

Q - Charlie Chan, Morgan Stanley

I see. So to -- on that point, because you're kind of the veteran on that foundry service, right? So I'm not sure from your perspective or MediaTek perspective, whether veteran can really bring a big benefit to maybe your competition or end users? Just as some preliminary observation that would be great.

A - Dr. Rick Tsai, CEO

Well, I believe there will be some advantage, but probably not because TSMC serves all customers. They do not serve just MediaTek. So I do not -- let me put this way, I will not count on it as the key competitive advantage.

I do believe that we are very good in utilizing the capabilities of TSMC's leading-edge process and converting them into our product capabilities in terms of performances or power consumption. But other than that, I think we really need to really work on our own. We have a much better system design or system software. Is our IT competitive? CPUs or GPUs. I think overall, as I said earlier, I believe we are certainly on par.

Q - Charlie Chan, Morgan Stanley

And my next question is to David, if I may. So the company provides the full year OpEx should be flat, right? So I'm wondering about the trend of SG&A, whether that would go up or go down. Specifically, we are hearing that for chip industry, not just smartphone, for CPU, sometimes you need to provide a rebate to create some incentive. So I'm not sure if MediaTek also need to provide some rebates, even it's just a temporary? And how does that impact your OpEx?

A – David Ku, CFO

Charlie, first of all, when we talk about OpEx, which including the rebate, SG&A, the whole package, okay, so everything is including that line already. So we're not -- we don't really single out and only talking about R&D. So again, we're talking about from total operating expense, including R&D, SG&A and anything else basically, anything below gross margin line. So from that perspective, we'll be flattish. But everything included, like including but not limited to the question you asked.

Q - Charlie Chan, Morgan Stanley

Yes. But just a very short term, right? Given the tough decision that other analysts just described in the first half. Do you think SG&A or rebate portion will increase in the first half?

A – David Ku, CFO

Charlie, we're talking about the full year. So I don't quite understand what you mean by short term. I'm talking about for full year 2023 versus 2022, full year OpEx will be flat as just our goal to manage that. And that's including SG&A. But from a quarter-to-quarter, it will depend on the revenue patterns. So it's really hard for me to give out the guidance as a one single line. It will vary from quarter-to-quarter if you look at the quarter to quarter. But I think it will be helpful for you guys to understand from a full year perspective, it'll be flattish.

Q - Charlie Chan, Morgan Stanley

Okay. Yes, that's super helpful. So just in case this question wouldn't be raised because lots of people are asking me a common question about OPPO's internal competition, can management address that issue and whether they will impact MediaTek's long-term pricing power?

A – David Ku, CFO

Charlie, I understand. Let me just be clear on that point because I read your research and I understand you have some concern the question on that, but I'll be really clear and forthcoming. Our SG&A and also which is part of the OpEx line, it's actually quarter-over-quarter maybe vary, but all within a reasonable range, okay? So we are not trying to do anything funny or strange. Everything will be reflecting properly. But from a quarter-to-quarter perspective, it will vary quarter-over-quarter, but it's not going to be changed substantially.

Q - Charlie Chan, Morgan Stanley

Management want to take that OPPO internal AP question?

A - Dr. Rick Tsai, CEO

I really don't want to comment on our customers' activities. But suffice it to say that we have, I would say, a very strong relationship with our customers. But we do not really comment on such specific questions.

Q – Laura Chen, Citi

Just wondering that David already mentioned about the dynamic on the gross margin trend. So I'm just wondering that if there is any chance that MediaTek to renegotiate with your foundry partner, to mitigate the potential gross margin pressure since we all know that the current foundry utilization rate is relatively low. So is there any chance for MediaTek to manage the cost from your foundry?

A – David Ku, CFO

Laura, given the fact that our foundry's allocation is pretty centralized -- to vendors but -- probably we'll not be able to comment on that question. But let me try and answer from a different perspective. It's very dynamic. So we work actually very closely with our partner, and we will see how it goes. But for the specific guidance, I probably would not be able to provide that guidance given the fact that we only have very large vendors out there.

Q – Laura Chen, Citi

Okay. I understand. And also, I know that because of a lot of uncertainties ahead. So we're not able to provide full year guidance at the moment. But can you also share with us your view on the overall smartphone market outlook? We already talked about, a lot about the inventory situation right now. But I'm just wondering that from your perspective, if we expect a gradual recovery starting maybe Q2 this year. Is there any chance to still expect a flat year for MediaTek for 2023?

A – David Ku, CFO

I probably, again, that's actually the same question asked us to provide the full year guidance. Unfortunately, given the market dynamic, we will not be able to provide. But if you ask the possibility, I mean, anything is possible. But actually, there's nothing we can guarantee. But the good news is, like we explained currently, unless we see some stabilization of the market demand, I think that actually is -- we will see how it goes. Whether or not it will just stabilize and flat layer or it will be coming back, that will affect our answer to your earlier question.

-End of Q&A session-