Broadcom Forming Flat Base Ahead Of Third-Quarter Earnings

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Chip designer **Broadcom (NASDAQ: AVGO)** slipped this week, although it continues to trade above its 200-day moving average. Since early March, the stock has been forming a flat base and is 13% above its May 12 structure low of $419.14.

Its current consolidation takes Broadcom out of the running for the current top technical performer within the fabless semiconductor sub-industry group. Nonetheless, the fundamental case and strong prior uptrend make this one to watch.

Broadcom reports its third quarter on September 2, with analysts expecting earnings of $6.85 per share on revenue of $6.74 billion. Both would be year-over-year increases. There's even a "whisper number" of $7.13 per share. That means analysts and fund managers privately expect a number higher than the official estimate. If the whisper number is missed, that could send shares lower.

For the full year, Wall Street pegs earnings growth at 25%, to $27.58 per share. Next year, that's seen growing another 9% to $30.12 per share.

Broadcom topped earnings and revenue views in each of the past four quarters. Both earnings and revenue grew at double-digit rates in the past three quarters.

As of Thursday, shares of the chipmaker were up 0.19% in the past month, lagging the S&P tech sector, of which Broadcom is a component, comprising 1.86% of the index. The tech sector is

up 1.31% for the past month.

Analysts' price target for the stock rose from $470.36 90 days ago to $496.91 today. Since June 2, analysts boosted their price targets nine times. That's an encouraging sign for Broadcom's earnings and revenue outlook.

As a whole, the fabless semiconductor industry has rallied in the past three months. In that time, Broadcom returned 8.95%, below the 10.41% return of the iShares Semiconductor ETF (NYSEARCA:SOXX), which tracks an index comprised of U.S.-listed equities in the semiconductor industry.

Broadcom specializes in designing and manufacturing various software solutions for the semiconductor industry, and infrastructure connectivity applications. Its hardware and software is used in various scenarios including broadband, wireless, data storage and data centers.

Industries served include medical, automotive, and solar and wind power providers.

Research and development is a key component of Broadcom's growth. The company is active in the 5G, WiFi6 and artificial intelligence spaces, indicating a commitment to the next growth areas within connectivity and communication.

In addition, the company is growing through acquisition. In 2019, it purchased Symantec's enterprise security unit. The year before, it acquired semiconductor designer CA Technologies. These moves combined form the nucleus of Broadcom's security and business management offering.

Broadcom shares returned 46.98% over the past year, although that growth slowed this year, with the company returning just 8.75% year-to-date.

After climbing out of the 2020 correction, Broadcom notched a price gain in 9 of the next 10 months, rallying to a February

high of $495.14.

The stock found support above its 50-day line until October, when the broader market pulled back ahead of the election. It closed below its 10-week line the week ended October 30. It was the first time that happened since the week ended March 20, 2020.

After rebounding the week ended November 6, the stock trended higher along its 10-week line until the week ended March 5, 2021.

So far, the current base corrected 15% from peak to trough. That’s the outer limit for a consolidation to be characterized as a flat base. As of now, the buy point would be that previous structure high of $495.14.

As always, the earnings report could bring either cheer or disappointment. Either could come in the form of future guidance, or even a remark in the release about current or future market conditions.

While it may be tempting to buy a promising stock ahead of earnings, with the hope of capturing as much upside as possible, it’s best to wait until you see how the market responds to the report. Even if you have to chase a one-day rise – even a gap higher – that’s better than seeing your newly purchased stock crater after a disappointing report.

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