



Applied Materials Inc

(AMAT - NASDAQ)

Beta: 1.43

Last Price: \$143.65

Preferred Purchase Price: <\$142

Target Price: \$161.21

Dividend: 0.69%

Gambling on the Semiconductor Shortage

Overview & Catalysts

Applied Materials, Inc. engages in the provision of materials engineering solutions used to produce new chip and advanced display. It operates through the following segments: Semiconductor Systems, Applied Global Services, and Display and Adjacent Markets.

- Strong Q2 Earnings and Guidance:** Reported revenue of \$5,582MM, GM of 47.7%, and EPS of \$1.63, ahead of respective consensus estimates of \$5,411MM, 47.0% and \$1.51. Within Semiconductor Systems Group (SSG), AMAT expects foundry/logic and DRAM will grow sequentially, while NAND revenue will decline from the F2Q peak.
- Semiconductor Capex:** Semiconductor capital spending environment remains constructive driven by 10nm/7nm/5nm FinFET at Foundry/Logic, sub-20nm DRAM, and 3D NAND investments that should improve as we look to next year and beyond. This becomes clearer as we understand the chip shortage could last into 2023 due to growing demand. Add that to high margin products from AMAT and we should see great earnings moving forward.

Forecasts

Applied Materials reported strong F2Q21 results and guided F3Q21 sequentially up, setting the stage for ~40% YoY growth in Semiconductor Systems Group (SSG) revenue for FY21. While the company's peers all raised numbers through this earnings season, AMAT maintained its outperformance. range AMAT expects foundry/logic will lead WFE growth, DRAM will grow ~in-line with WFE, and NAND will undergrow WFE in CY21, a mix very favorable to AMAT. Looking out to CY22, without providing much granularity, AMAT believes foundry/logic as a percentage of WFE will stay above 55%, a mix generally favorable to the margins.

The equity securities in these reports can vary in price depending on the market conditions. The Content is for informational purposes only, you should not construe any such information or other material as investment, financial, or other advice. Nothing contained on this report constitutes a recommendation to buy or sell any securities or other financial instruments. There are risks associated with investing in securities and may involve risk of losing the principal. A security's past performance is not a predictor or guarantee of future investment performance.

Price Target USD 161.21 | +12%



Scenario Analysis & Key Statistics

Downside Scenario	Current Price	Price Target	Upside Scenario
\$130	\$140.17	\$163.24	\$170

Shares O/S (B): 2.81

Gross Margin: 45.8%

52-week High: \$146

P/E: 29.16

Market Capitalization: 125.6B USD

Sales: \$19.8B

EPS: 4.8

Beta: 1.43

Expected Portfolio Performance

Initial Investment	\$100,000
Expected Price Appreciation	\$12,224
Exit Value	\$112,224
% Expected Return	12.22%

Valuation & Recommendation

As the wafer fab equipment (WFE) market leader, AMAT is exposed to the secular growth of WFE, and in particular, the segments that have outperformed WFE in the last cycle as semiconductor production has slowed down across logic, DRAM and NAND devices. In addition, compared to its closest peers, AMAT has a balanced mix of business between the logic/foundry and memory end markets, as well as the broadest product portfolio with a #1 or #2 position in multiple billion dollar categories, which should provide growth, stability, and profitability to the company for multiple years into the future. A \$160 price target on a ~21.5x multiple applied to FY22E EPS of \$7.38, with the multiple in line with where it has historically traded during the expansion phase of past semiconductor capital spending cycles: given the current semis environment, it is a reasonable assumption to assume accelerated capex over the next year or even two years.