

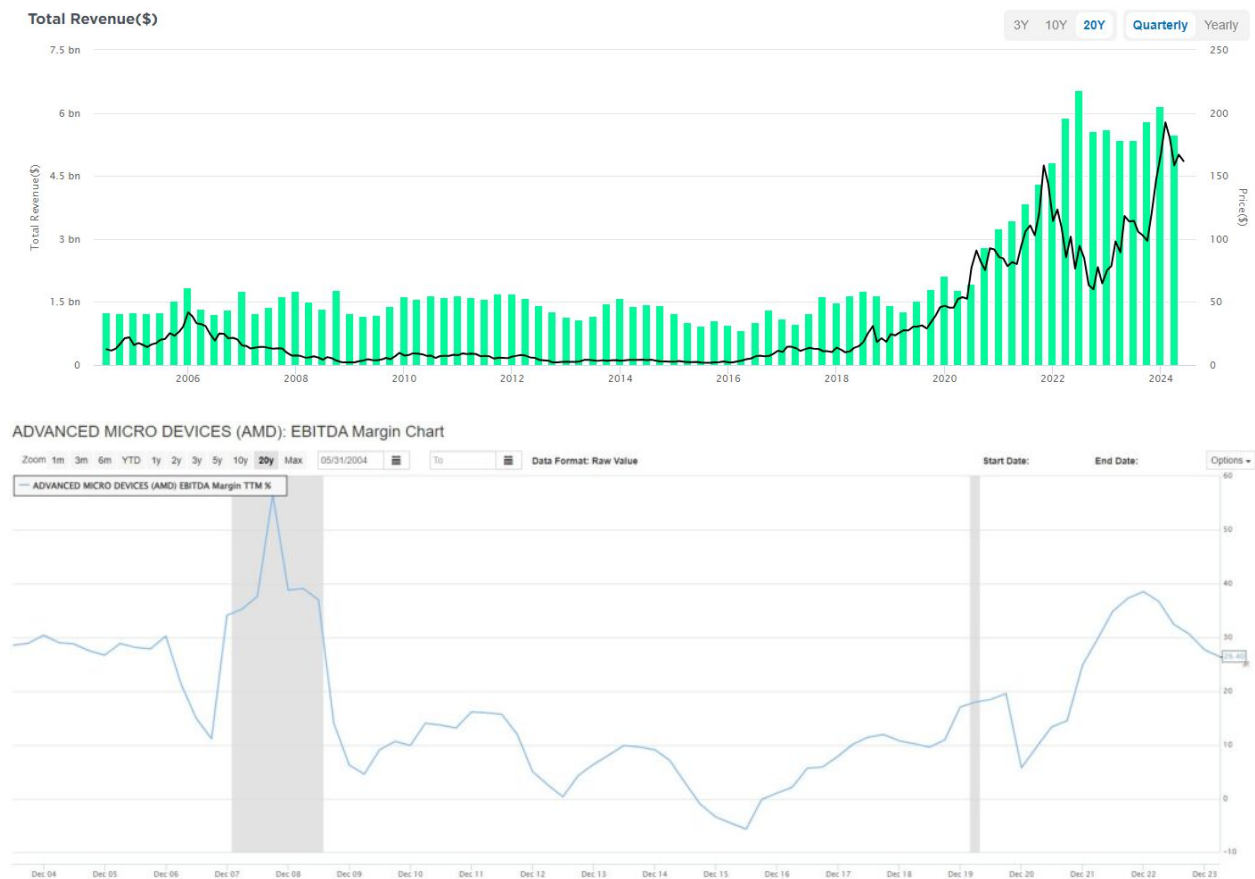
Friday Favorites- AMD

Advanced Micro Devices (AMD)

Morgan Stanley recently cut its price target for AMD and dropped its rating to equal weight, [citing](#) that investor expectations are too high for artificial intelligence. The analysts don't see much room for upward revision in AI; instead, the company is well positioned in the client and server CPU business. They also pointed out that the stock looks expensive on a fundamental basis, so we will take a closer look at AMD in this week's Friday Favorites.

Fundamental

AMD revenue rose sharply during the pandemic but has since leveled off. EBITDA margins followed a similar trend, reaching peak profitability in the fourth quarter of 2022 and retreating by roughly 12% since. Margins remain materially above the pre-pandemic level, as shown below.



Increased demand for CPU and GPU chips drives AMD's revenue growth and margin expansion. Competition from NVDA GPUs is a substantial threat to the chipmaker. AMD dominates the CPU space, but NVDA currently has the upper hand in the GPU market with 80% of AI market share. Importantly, GPUs are what the AI chip race revolves around, as they are better suited to the complex calculations involved in machine learning tasks. AMD has a pipeline of upgraded GPU chips on the way, but so does NVDA.

As shown below, AMD trades at a moderately high forward P/E and a lofty trailing P/E. Clearly, the market expects substantial growth, and its PEG reflects that. However, its valuation ratios are relatively high compared to those of its peers, as shown below. It beats NVDA on a price-to-sales basis but is substantially more expensive on a price-to-earnings basis. Finally, although its PEG ratio is reasonable, it loses out to NVDA in a direct comparison. Its profitability and efficiency ratios toward the right of the table are also worse off.

Peers	Overview	Technicals	Fundamentals	Performance																			
Symbol ⌵	Market Cap	Yield%	ExDiv-Date	Div-Pay-Date	Earning Date	Enterprise Value	Trailing P/E	Forward P/E	PEG Ratio	P/S (TTM)	P/B	Trailing EPS	Forward EPS	Return on Assets	Return on Equity	Current Ratio	Quick Ratio	Debt/Equity	Gross Margins	Operating Margins	Profit Margins	EBITDA Margins	Payout Ratio
ADI	\$113.89B	1.86%	2024-03-04	2024-03-15	2024-02-22	\$103,809,622,016	35.32	26.37	-22.01	8.48	2.76	\$5.60	\$7.50	4.37%	7.81%	1.51	0.86	19.77	62.47%	23.96%	24.34%	49.11%	61.43%
AMD	\$261.49B	%			2024-01-31	\$288,969,359,360	347.30	33.00	2.00	12.86	5.22	\$0.52	\$5.47	0.37%	15.4%	2.51	1.67	5.56	50.27%	5.55%	3.77%	16.99%	0.00%
AVGO	\$807.42B	1.49%	2024-03-20	2024-03-29	2024-03-08	\$607,660,081,152	39.68	23.32	2.19	15.61	22.10	\$32.98	\$56.13	75.4%	24.75%	1.34	0.83	166.03	74.24%	31.77%	29.93%	51.96%	55.79%
INTC	\$130.35B	1.13%	2024-02-06	2024-03-01	2024-01-26	\$215,824,760,832	110.43	19.72	0.77	3.44	1.77	\$0.40	\$2.24	0.01%	1.57%	1.54	1.02	45.23	40.04%	9.37%	3.12%	17.76%	185.00%
MCHP	\$47.79B	1.88%	2024-02-22	2024-03-08	2024-02-02	\$53,924,802,560	20.96	28.66	-2.90	5.68	6.85	\$4.28	\$3.13	12.29%	35.19%	0.98	0.51	80.90	67.03%	30.05%	27.59%	47.73%	37.15%
NVDA	\$3.22T	0.02%	2024-03-05	2024-03-27	2024-02-22	\$2,243,972,038,656	75.80	29.75	0.98	37.08	51.80	\$11.92	\$30.37	38.55%	91.46%	4.17	3.39	25.73	72.72%	61.59%	48.85%	56.60%	1.34%

Showing 1 to 6 of 6 entries

1

2

3

4

5

6

10

Technicals

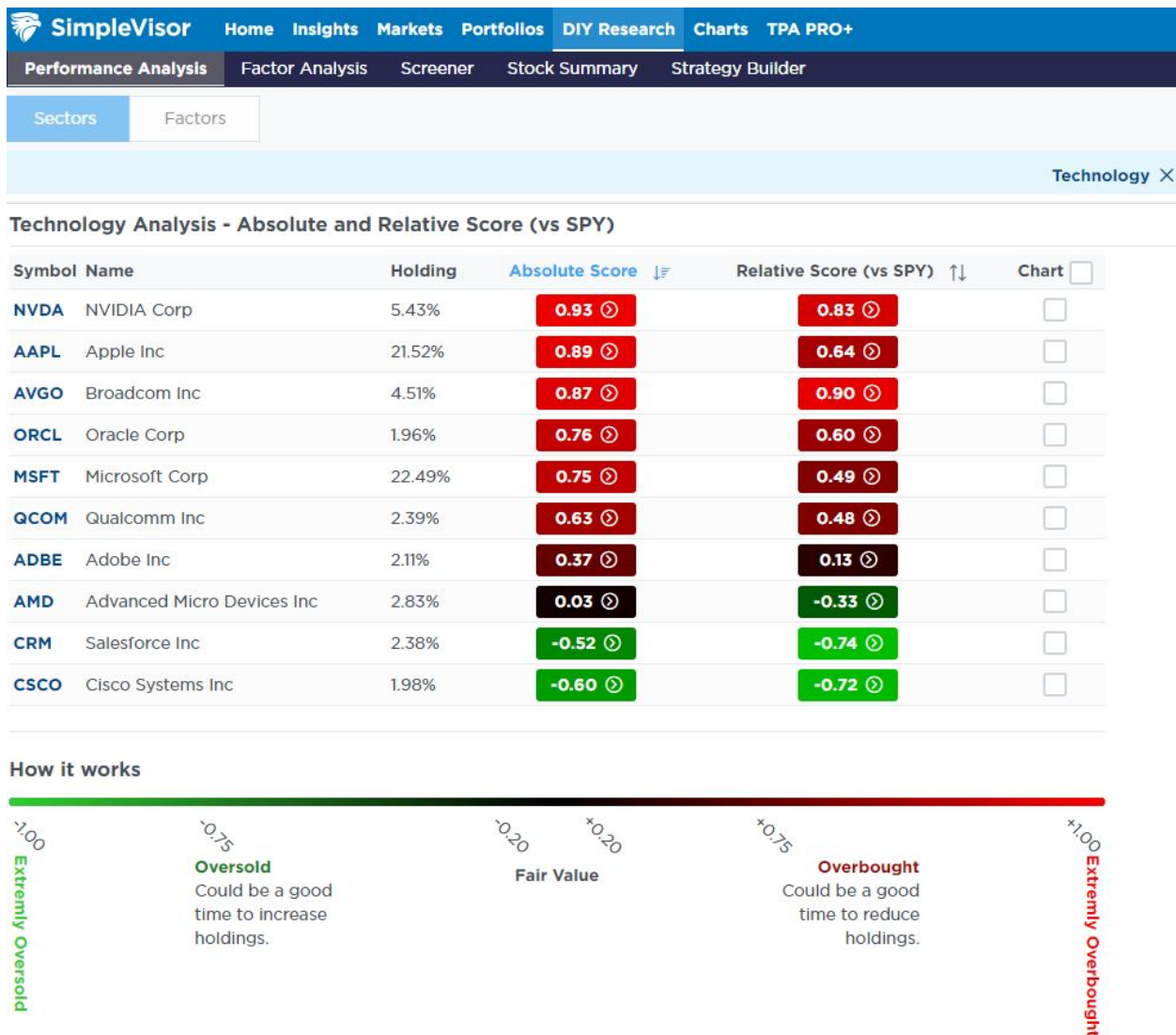
The daily chart below shows AMD's stock price has struggled over the past month despite NVDA's sharp rally. Following a solid beginning of the year, the price of AMD has languished quite a bit. It's forming a falling wedge pattern, a bullish reversal should it break out to the upside. This bodes well for the stock after the sharp rise yesterday.



AMD has another technical factor in its favor as well. As we wrote in Tuesday's [Daily Market Commentary](#), referring to the SimpleVisor sector analysis chart below:

The usual mega cap suspects (Apple, Microsoft, and Nvidia) drove the action last week as the market advanced 1.9%. The second chart below highlights the ten largest stocks in the technology sector. Given their recent performance, it wouldn't be surprising to see a short-term pullback in NVDA, AAPL, and AVGO. On the other hand, AMD and CRM could be the beneficiaries of a rotation out of those stocks and into the second-string AI trade.

AMD saw a 4.6% surge in its price yesterday, while NVDA, AAPL, and AVGO sold off -3.54%, -2.15%, and -3.7%, respectively. If AMD breaks above its resistance during this rotation, a larger advance to nearly \$180 would not be surprising.



Disclosure

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