



Applied Materials

Company Overview

Applied Materials (AMAT) is a well-diversified, California based company that dominates the market for early-stage equipment in the process of turning silicon wafers into computer chips. While they are also invested in factory optimization and refurbishment services, and display technologies, I am most interested in their memory chip maker sales, a lucrative division of technology that is experiencing rapid growth. Applied Materials' largest customers are Taiwan Semiconductor (TSM), Micron (MU), and Intel (INTC). All three are current world leaders in memory chip manufacturing. Additionally, Taiwan Semiconductor and Intel recently gave strong capital expenditure guidance's, meaning they are willing and able to spend more on capital from Applied Materials.

Recent Company Purchase

Applied Materials recently increased its stake in memory chip makers in July of 2019 by completing the acquisition of Kukosai Technologies for \$2.2 billion. This acquisition will both reduce competition, while immediately increasing revenue. Kukosai also specializes in producing silicon wafers. With them, Kukosai will bring production efficiency, and valued customers, including the world leader in memory chips – Samsung. Most importantly though, the Japanese based company will help expand Applied Materials' Asian footprint. In 2018 alone, Kukosai did \$1.28 billion in revenue and was on pace to do \$1.50 billion in 2019.

Reasons to Remain Bullish Amid COVID-19

It's no secret that the semi-conductors and chip manufacturers have been hit hard from the COVID-19 virus. Now is the perfect time to look at balance sheets, dividends, and other financial hints to see which companies will rebound strongly. Therefore, I am very bullish on Applied Materials to come out of this set back with momentum. On March 13, 2020, they announced that they were boosting their dividend by 5% to 22 cents a share. In a time when many companies are suspending or drawing back on payouts to shareholders, this boost points to the company's healthy balance sheet. AMAT is sitting on billions of cash, which can help them withstand months of no shipments if conditions worsen. With this stock cratering 37% below its February 20th, 2020 highs on Fridays close, there is room to run and more with this healthy balance sheet in a growing sector.

Beta

Applied Materials' beta of 1.51 means it is 51% more volatile than the S&P 500. This positions it well for a massive upswing in the coming weeks/months.

Company	Mkt. Cap (Billions)	P/E FY1	EV/EBITDA FY1	Beta	Dividend
Applied Materials	38.83	14.33x	14.6x	1.51	1.99%
Lam Research	31.75	16.35x	10.5x	1.49	2.06%

Source: MarketBeat, Macrotrends

April 2, 2020

Ticker: AMAT
Price: \$42.28
Rating: BUY at Market
Sentiment: Bullish Long-Term

Investment Rationale Summary

- CEO Gary Dickerson listed among the best CEO's by **Barron's** in June 2019
- **Deutsche Bank** Analyst Sidney Ho rates AMAT the "best risk-reward among large cap names in the space", while boosting his PT to \$72
- In December of 2019, a **Cowen** analyst ranked AMAT as his top pick for 2020, seeing it likely to hit \$80
- **Wall Street** analysts have 83% buy, 13% hold ratings

Potential Downside Risks

- The Semi-Conductor industry is a crowded space. AMAT faces the most competition from Lam Research (LRCX)
- The memory chip super-cycle of demand is prone to wild swings, leading to many consolidations
- According to **Bloomberg News**, this industry is consolidating rapidly, putting immense pressures on suppliers like AMAT to bulk up in return.

Technical Analysis

