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MU: An element of urgency

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Our recent checks indicate that despite the recent runup and despite a firming up of investor sentiment, there is further upside to MU. We would be ***long into print tonight****.*

We were among the first on the Street to warn of imminent downturn to memory dynamics back in March'22 (link); we called out downside to our then PT of $90. The stock rolled over a few days later. This time around we are calling upside to our current PT of $80 set in May'23.

Our checks indicate that there could be more burbling below the surface than mere inventory stabilization and a tentative uptick in end demand. We think there may well be ***an element of urgency*** *to end demand dynamics thus providing memory suppliers with pricing power for the first time in two years. We suspect MU management may provide enough ballast in their commentary to drive up consensus estimates for gross margins. We think the stock has the* ***potential for the high 80s level*** *in the near term.*

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The context: The stock has played out largely as we anticipated at the start of the AI-driven semis cycle earlier this year. Going into the earnings event tonight, stock price has **run up to our $80 PT we had set in May'23** immediately following NVDA's blow-out results (link). And for pretty much the reasons we had anticipated – bottoming out of spot pricing, HBM dynamics and a positive macro environment.

Over the next six months, it has become consensus that cutbacks in supply succeeded in draining excess channel inventory and that demand from end markets may be showing tentative signs of improvement. The bulls have assumed the arrival of a cyclical upturn, but without providing clear catalysts outside of the AI theme. The cautious view on the Street wonders whether the uptick in sell-in demand is sustainable or if it is merely driven by channel fill.

We are seeing peculiar signals emerge: After nearly two years of supply glut, investors are happy enough to deal with inventory stabilization and tentative demand recovery. But could there be more? Is a **shortage** situation brewing? Have downstream players begun to worry about DRAM potentially going into **allocation**, not just for high-end HBM but also for some pockets of commodity memory?

- Commodity DRAM bits going into Consumer devices: While the Street is aware of tentative demand recovery in PC and handset space, demand in the ultra-commoditized consumer space is believed to be relatively tepid. However, we have begun to pick up signals that even players in the Consumer Electronics space, of late, have **begun to worry about sourcing supply** for their 2024 consumer device models. Fears of an abrupt change in availability is forcing some downstream players to ask if memory suppliers are about to go into allocation mode.

- ❖ Premium DRAM bits going into HBM: While the Street is aware of the surge in demand for HBM products, we are picking up signals that available supply of HBM may have been **locked up by AI players all through 2024, and even into 2025**.
- ❖ Sharp uptick in NAND pricing: We are picking up signals of smartphone vendors willing to pony up **upwards of ~30% more in pricing** than they were a few months ago.

If we are right, how is this going to play out for MU?

- ❖ We think gross margin is likely to normalize sooner than consensus expectations – as early as 3FQ24 vs consensus expectations of 4FQ.
- ❖ We think fab utilization and DRAM supply start creeping towards normalization by 3FQ
- ❖ By 2CH24, we think MU and its peers could be looking at acquiring new DRAM capacity from semicap vendors.

Our PT of $80 was derived (back in May'23) by a 15x EPS multiple over our Fy27 estimate of $27.8bn/$6.1, based on 9% CAGR over Fy24 consensus revenue, and then discounted back at 5% rate. The recent run-up into earnings has lifted the stock to our PT.

Net/Net: We think Fy24 estimates, revenue up 40% y/y, are going higher. And with it, the stock price.

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