

DESK NOTE

09.02.2025

Applied Materials (AMAT US) – *CHIPS Act, Stargate and Foundry CapEx Surge: Seize the AMAT Opportunity*

Conclusive Summary: We like AMAT for the long term **but recommend entering around \$165**, where the risk-reward profile is more favorable, with a **target price of \$216**.

As a leading semiconductor manufacturing equipment provider, AMAT is **well-positioned to benefit from strong secular trends, including AI-driven chip demand, High Bandwidth Memory (HBM) growth, and government incentives like the CHIPS Act and Stargate**. However, mild headwinds persist, including a 12% YoY decline in GAAP EPS (4Q24), weakness in the Display segment, and geopolitical risks, with **China accounting for 37% of revenue**. Despite these challenges, AMAT remains a key supplier to **TSMC, Intel, and Samsung**, all of whom are increasing capital expenditures. With its leadership in **advanced packaging and process technologies**, AMAT is set to capitalize on these industry tailwinds.

Competitive Position: Applied Materials, Inc. (AMAT) operates in a competitive landscape against global firms like ASML, Lam Research, Tokyo Electron, and KLA in semiconductor equipment, third-party service providers in aftermarket services, and Canon Tokki and SCREEN Holdings in display technology. AMAT differentiates itself through a broad portfolio, strong customer relationships, and leadership in materials engineering, particularly in deposition, etch, and advanced packaging. However, it faces challenges from ASML's dominance in EUV lithography, rising domestic Chinese competitors, and shifting display technologies. While its large installed base and recurring revenue provide stability, ongoing R&D and adaptability are crucial to maintaining its market position.

Valuation: Using a combination of EV/Rev, EV/EBITDA, P/FCF and P/E multiples, **we reach a blended target price (TP) of \$216, +18% above current levels**. We expect AMAT's valuation multiples to **gradually converge toward Lam Research (LRCX)**. The stock is trading at ½ standard deviation above its 2-year multiple averages and ½ standard deviation below its 5-year averages, suggesting room for multiple expansion due to TSMC potentially increasing CAPEX in the coming earnings. **We recommend buying AMAT around \$165.**

Ticker: AMAT US

Previous day close price: \$180

Price range (52w.): \$159 - \$256

Reason for note: Initiation

Target price: \$216 (+18% upside)

Recommendation: **Buy@ \$165**

Description: Applied Materials, Inc. (AMAT) is a global leader in materials engineering solutions, providing advanced manufacturing equipment and services for the semiconductor and display industries. The company operates through three key segments:

- Semiconductor Systems (73.3% of Revenue) supply fabrication tools for logic, foundry, and memory chipmakers.
- Applied Global Services (AGS) (22.9% of Revenue) offers recurring revenue streams through aftermarket services, spare parts, and factory automation.
- Display (3.3% of Revenue), which provides equipment for producing LCDs, OLEDs, and emerging display technologies.

AMAT's revenue model is driven by capital equipment sales, recurring service contracts, and strong demand for next-generation semiconductor and display innovations, supported by a robust backlog and a global supply chain. Three main Applied Materials customers are:

- Samsung Electronics (12% of AMAT Revenue),
- TSMC (11%),
- Intel (8%).

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Multiple Next 12 Months		Financial Metric	Target EV	Net Debt	Target MCap	Shares	Target Price
EV/Rev	5.5	29,600	162,798	-2,866	165,664	818	\$202.52
EV/EBITDA	17.5	9,523	166,650	-2,866	169,517	818	\$207.23
P/FCF	26.0	6,907				818	\$223.05
P/E	24.0	9.62				818	\$230.91
Avg. Multiple Price							\$215.93

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Earnings Preview:

AMAT APPLIED MATERIALS INC		Expected Report Date 02/13/2025 Aft-mkt		Next FY End 10/27/2025	
		Estimate Q1	Last Q Report 11/14/2024 2024 Q4		Year Ago
			% Surprise		
Sales, \$ mil.		7,152	7,045	1.14%	6,707
	<i>growth</i>	<i>qoq</i>	1.5%	<i>yoy</i>	6.6%
EBITDA, \$ mil.		2,238	2,161	--	2,099
	<i>growth</i>	<i>qoq</i>	3.6%	<i>yoy</i>	6.6%
Net Income, \$ mil.		1,893	1,906	5.34%	1,808
	<i>growth</i>	<i>qoq</i>	-0.7%	<i>yoy</i>	4.7%
EPS Adj, \$		2.28	2.30	5.84%	2.16
	<i>growth</i>	<i>qoq</i>	-0.8%	<i>yoy</i>	5.8%
EPS GAAP, \$		2.25	2.09	-2.79%	2.41
	<i>growth</i>	<i>qoq</i>	7.4%	<i>yoy</i>	-6.8%
Valuation		Current	-1STD	Average 2Y	+1STD
EV to Forward 12M Sales		4.82	4.30	5.05	5.79
EV to Forward 12M EBITDA		15.05	14.23	16.41	18.60
Price to Forward 12M EPS		18.76	17.33	19.90	22.46
EV/Sales		Fairly Priced			
EV/EBITDA		Slightly Underpriced			
PE		Fairly Priced			
Total Rating on Valuation		Fairly Priced			

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