

DESK NOTE UPDATE

05.02.2025

Advanced Micro Devices, Inc. (AMD) – Overreaction Creates Value:

AMD's Risk-Reward Now Looks Attractive

Conclusive Summary: The 9% after-hours drop in AMD's stock following its FY24 earnings report aligns with our prior expectations, as outlined in our last note, that better buying opportunities would emerge. **While near-term concerns around AI revenue visibility and a slight Data Center revenue miss drove the selloff, we remain confident in AMD's improving fundamentals and growth trajectory.** Strong execution in high-margin Data Center and Client segments, continued AI investments, and market share gains reinforce our bullish stance. **With the stock now approaching our recommended entry price of \$108, we reiterate our recommendation to buy at this level,** positioning for future upside as AMD capitalizes on AI and high-performance computing opportunities.

Key Developments and Insights:

1. **AI Revenue Guidance Discontinuation:** While the selloff is understandable due to lower visibility regarding AI revenues, we interpret the lack of AI revenue guidance as a strategic move to provide management with greater flexibility rather than a sign of weakness.
2. **Data Center Revenue Miss:** In the broader context, we view the -4.9% revenue miss in the Data Center segment (\$3.9B, +69% YoY vs. \$4.1B estimate) as a minor setback. AMD remains well-positioned for robust double-digit growth in 2025, driven by strong sales of Instinct GPUs and EPYC CPUs, the earlier-than-expected launch of MI350, and continued market share gains from Ryzen processors in both desktop and mobile segments.
3. **Margin Expansion Expected in 2H25:** The improving mix of higher-margin Data Center and Client segment revenue is expected to drive further gross margin expansion in the second half of 2025. While the Embedded and Gaming segments remain a drag, signs of stabilization in these areas could provide an additional boost to overall financial performance.
4. **R&D Investment & Competitive Positioning:** AMD's growing investment in AI, particularly in the emerging AI Networking segment and its ROCm software stack (a competitor to NVIDIA's CUDA), enhances its long-term competitive positioning. Additionally, the rise of China's LLM DeepSeek—recognized for its superior performance at a lower cost—could serve as a tailwind for AMD by driving increased adoption of its ROCm platform among cost-conscious enterprises seeking alternatives to CUDA. The launch of next-generation MI300 chips and expanded cloud deployments should further support future growth.
5. **Attractive Valuation Post-Selloff:** The after-hours stock drop, bringing AMD closer to our target buy-in level of \$108, presents an attractive risk-reward opportunity for investors. While AMD's outstanding \$4.7 billion share repurchase authorization is not a game-changer, it could act as a stabilizing factor, particularly if the selloff intensifies.

Ticker: AMD US

Previous day close price: \$119.50

Price range (52w.): \$112.80 - \$227.30

Target price: \$160.00 (+48% upside)

Reason for note: FY24 Earnings

Recommendation: **Buy@ \$108**

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Description: Advanced Micro Devices, Inc. (AMD) designs high-performance processors and technologies for computing, gaming, and data centers. Operating a "fabless" model, AMD focuses on innovation while outsourcing manufacturing to partners like TSMC. AMD's business comprises two segments: Computing and Graphics (C&G), featuring Ryzen CPUs and Radeon GPUs for PCs and AI applications, and Enterprise, Embedded, and Semi-Custom (EESC), which includes EPYC data center chips, semi-custom gaming console processors, and embedded solutions.

Valuation: Based on a combination of EV/Sales, EV/EBITDA, EV/EBIT, and P/E multiple calculations, we set a blended target price (TP) of \$160 for AMD, reflecting approximately 48% upside from current levels (\$108). We believe the concerns surrounding cash flow and profitability following the 4Q24 earnings report are overstated, and we therefore anchor our target price on a relative valuation basis. The stock is currently trading about one standard deviation below its 2-year and 5-year historical multiple averages. Furthermore, when compared to competitors, AMD appears approximately 20% undervalued from a historical perspective, and the est. PEG ratio of 0.61 also supports our thesis that AMD provides a solid growth at a reasonable price story.

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(Forward) Target Multiple		Financial Metric	Target EV	Net Debt	Target MCap	Shares	Target Price
BF EV/Sales	8.50	32,647	275,383	-3,845	279,228	1,623	\$172.89
BF EV/EBITDA	28.50	8,904	257,784	-3,845	261,629	1,623	\$158.30
BF EV/EBIT	31.00	8,398	267,217	-3,845	271,063	1,623	\$162.31
BF P/E	32.00	5.02			260,937	1,623	\$160.77
Multiple Price							\$163.05



Estimates Vs Actual And Our Stance

Metric	Q4 2024	YoY Change	1Q25 Guidance	Notes
Revenue	\$7.7B	+24%	~\$7.1B (\$6.8 - 7.4B)	Beat consensus (\$7.5B)
Gross Margin	54%	+330 bps	~54%	Stronger revenue mix
Operating Expenses	\$2.1B	+23%	~\$2.1B	Higher R&D/AI investments
Operating Income	\$2.0B	+347%	-	26% operating margin
EPS (Diluted)	\$1.09	+42%	-	Strong operational leverage

Segment	Revenue	YoY Change	Estimate	Key Drivers
Data Center	\$3.9B	+69%	\$4.1B	Strong Instinct GPU & EPYC CPU sales
Client (PCs)	\$2.3B	+58%	\$1.9B	High Ryzen demand, market share gains
Gaming	\$563M	-59%	-	Lower semi-custom console sales
Embedded	\$923M	-13%	-	Weakness in industrial & communication markets

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