

Advanced Micro Devices

Buy Trade – Position Open



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USA | TECHNOLOGY | TRADING NOTE

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Description

Advanced Micro Devices (NASDAQ:AMD) is a global semiconductor company. The company is engaged in offering x86 microprocessors, as standalone devices or as incorporated into an accelerated processing unit (APU), chipsets, discrete graphics processing units (GPUs) and professional graphics, and server and embedded processors and semi-custom System-on-Chip (SoC) products and technology for game consoles. The Company's segments include the Computing and Graphics segment, and the Enterprise, Embedded and Semi-Custom segment

Source: Thomson Reuters

Investment Action

AMD closed at USD 12.75, up about 11.65%, on news that Intel Corporation (NASDAQ:INTC) has agreed to give a licensing agreement that they previously had with NVDA, that was recently expired, to AMD instead. Additionally, AMD has released more details on its upcoming GPUs which might be competitive with NVDA in the lucrative Machine Learning segment. As such, we are bullish on AMD in the short term.

Shares of AMD were previously hit hard at the start of May, after a poor earnings report and low guidance from the company. Shares fell from USD 13.50 to close to USD 10.00, almost 33%. However, it seems the stock may have been oversold, as very soon after the price climbed back to USD 11.42 before last night's surge.

AMD climbed 11.65% last night on [news](#) of INTC making a deal with AMD to license its GPUs after its deal with NVDA expired. While the details of the agreement has yet to be formally announced, INTC's previous agreement with NVDA was worth about USD 1.5 bn over a 6 year period, or above USD 200 mn annually. AMD had reported a loss of close to USD 500 mn in their previous FY and a similar deal with INTC would nearly half that loss.

Additionally, AMD has shared more [details](#) about their Vega GPUs, revealing that the upcoming GPUs will be competitive with NVDA's offerings. They also have developed open-sourced ROCm Software for Machine Learning. As such, this represents AMD's first step into the Machine Learning industry and AMD's diversification away from its core gaming segment. This move is highly reminiscent of NVDA and how they diversified into other high growth segments, before shares of NVDA surged.

However, despite the positive news, AMD still has challenges ahead of them. NVDA has had a very large head start in the Machine Learning industry and AMD will have to fight hard to claim a significant market share. AMD has also been loss making with negative free cash flows for many years, with a lower operating margin vs NVDA. It remains to be seen if the events listed above will help AMD make the turn around to profitability.

To reiterate, we are bullish on AMD due to 1) INTC's licensing agreement with AMD and 2) AMD's diversification by stepping into Machine Learning. As such, we believe that in the short run, investors might be able to capture the run up on positive news, but should be cautious of AMD's long term profitability and ability to claim market share.

Postive

CLOSING PRICE	USD 12.75
ENTRY PRICE	USD 12.50
STOP LOSS	USD 11.00
TARGET PRICE	USD 14.50
PERCENTAGE UPSIDE	16.00%
RISK/REWARD	1.3

COMPANY DATA

Bloomberg Code	AMD US
O/S SHARES (MN) :	945
MARKET CAP (USD mn / SGD mn) :	12049 / 12049
52 - WK HI/LO (USD) :	15.55 / 3.69
3M Average Daily T/O (mn) :	70.58

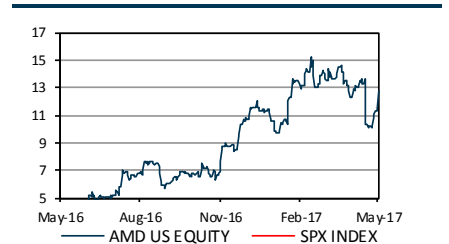
MAJOR SHAREHOLDERS (%)

MUBADALA DEVELOPMENT CO	10.25%
VANGUARD GROUP	9.24%
STATE STREET CORP	3.80%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.6	(17)	236.4
SPX RETURN	3.27	2.77	18.65

PRICE VS. SPX



Source: Bloomberg, P SR

KEY FINANCIALS

USD BN	FY 14	FY 15	FY 16	FY 17e
Revenue	5.5	4.0	4.3	4.8
EBITDA	0.4	(0.2)	0.1	0.4
NPAT (adj.)	(0.2)	(0.5)	(0.2)	0.1
EPS (adj.)	(0.21)	(0.62)	(0.27)	0.06
PER, x (adj.)	N/A	N/A	N/A	223.7
P/BV, x	11.00	13.74	25.5	23.4
DPS (USD)	N/A	N/A	N/A	N/A
Div Yield, %	N/A	N/A	N/A	N/A
ROE, %	-110%	N/A	N/A	N/A

Source: Company Data, P SR est.

Ho Kang Wei (+65 62121855)

hokw@phillip.com.sg

Counter	Sector	Ticker	Currency	Last Price	Time Horizon	Entry	Stop Loss	Target	Bloomberg Consensus T/P
Advanced Micro Devices	Technology	AMD	USD	12.75	1-3 Month	12.50	11.00	14.50	12.60

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin – amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin – sohls@phillip.com.sg

Property | Infrastructure

Peter Ng – peterngmc@phillip.com.sg

Macro

Pei Sai Teng – peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTe, FRM –
richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan – tandh@phillip.com.sg

Technical Analysis

Jeremy Ng – jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong – jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei – hokw@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited

Level 10 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

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