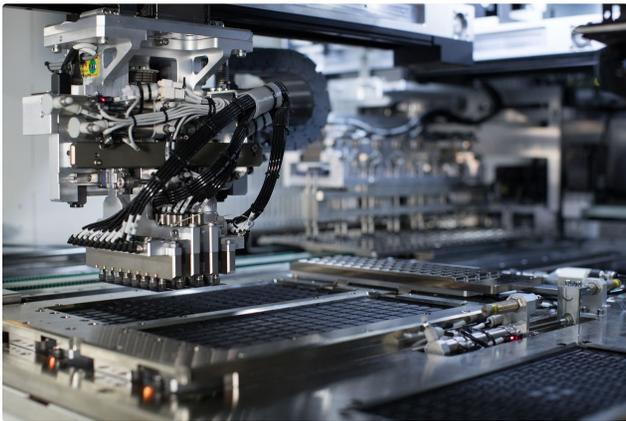


# This Tech Stock Is a Cheap Play on 5G, Electric Vehicles, and the End of Covid

By [Eric J. Savitz](#) Nov. 13, 2020 7:15 pm ET



NAND flash memory chips being tested in Micron's Singapore fabrication facility.  
Courtesy of Micron

It would be impossible to design a business with more impediments to success than making memory chips. Still, it's not hard to see why you'd try. The global datasphere will grow to 175 zettabytes (that is, 175 plus 21 zeros) in 2025 from 33 zettabytes in 2018, according to IDC. And all that data needs to be stored.

Investors have long viewed memory as a commodity, though, and you can see the consequences in the low multiple they've paid for shares of Micron Technology (ticker: MU), the biggest pure play bet. But the outlook for Micron is brightening—and the stock could double from here.

First, let's talk about the hurdles. To make memory chips, you need two expensive things: chip-design expertise and manufacturing capacity. In its latest fiscal year, Micron spent \$2.6 billion on research and development and close to \$8 billion on capital equipment. Together, that's almost 50% of revenue.

DRAM, or dynamic random access memory, accounts for 70% of Micron's business. You find DRAM in PCs, servers, smartphones, and cars. Those DRAM chips shuttle data between microprocessors and various data sources inside a computer. There are just three primary players—Micron, [Samsung Electronics \(005930.Korea\)](#) and [SK Hynix \(000660.Korea\)](#).

NAND flash accounts for the rest of Micron's sales. Flash is nonvolatile, meaning it doesn't disappear when you turn off power. That's why flash is used for solid-state drives, or SSDs, which have largely replaced traditional spinning hard disks. There are a handful of flash players: Micron; Samsung; a joint venture between Kioxia, the former Toshiba Memory business, and [Western Digital \(WDC\)](#); Hynix; and [Intel \(INTC\)](#), which is [selling its NAND business to Hynix](#). (For much more on Intel's future, see page 22.)

Micron shares have a year-to-date gain of 8%, badly lagging behind the [Nasdaq Composite's 30%-plus rise](#). The performance reflects a myriad of Covid-19 related issues.

Early in the pandemic, Micron focused on stabilizing production, Sumit Sadana, Micron's chief business officer, told me this past week.

"We're the fourth-largest semiconductor manufacturer in the world, and we have very strong relationships with suppliers," he says. "We were able to keep the supply chain whole." In other words, Micron continued to spend on its business, even as demand became volatile.

"We've had everything and the kitchen sink thrown at us," Sadana says. "The pandemic caused spikes in demand from cloud companies that were trying to service a huge increase in e-commerce, working from home, streaming video, and learning from home. All of that caused increased stress on cloud infrastructure. We also saw corporations equipping staff to work remotely, so there were spikes in demand for

commercial laptops. Later, those purchases steadied, and consumer laptop demand went up.”

But there were offsets, including economic pressures that spurred companies large and small to slow their technology spending. Memory demand took a hit from a global shutdown of auto production, and there was weakness in mobile phone demand. And the U.S. crackdown on Huawei hit Micron hard. Huawei had been Micron’s largest customer, accounting for close to 10% of sales. Now, it’s zero.

But having navigated all of that, Micron’s [outlook is improving](#). Demand for automotive chips has come back quickly, as demonstrated by strong recent results from [NXP Semiconductor \(NXPI\)](#) and [Texas Instruments \(TXN\)](#). Longer term, memory content per vehicle will grow, as the world adopts electric and autonomous cars.

Sadana sees a good year ahead for smartphones, too. After a 10% drop in units this year, he sees double-digit unit growth in 2021. That’s coming from a huge wave of 5G phone sales, which Sadana expects to reach 500 million units next year, up from 200 million this year. Importantly, 5G phones use up to twice the DRAM and flash as comparable 4G models, Sadana says.

Less discussed, he says, is a boost to memory demand as data centers shift to microprocessors with more cores. “They require more memory to keep processing efficient,” he says. DRAM and NAND can account for up to two-thirds of the system cost for data center servers, he adds.

Paul Meeks, portfolio manager of the Wireless Fund, which owns Micron stock, says Micron’s current quarter earnings of about 45 cents a share should mark a cyclical bottom. Wall Street currently forecasts the company to earn \$3.06 this fiscal year, but as recently as two years ago, the memory vendor earned closer to \$12 a share. Meeks thinks profits are headed back in that direction. Even at a still depressed earnings multiple of 10 times, that puts the stock at \$120, a double from its recent close.

“Micron has insane operating leverage, for better or worse,” Meeks says. “They are still cyclical, still prone to big swings, but in this cycle, they stayed profitable at the low.”

Shekhar Pramanick, co-manager of the Columbia Seligman Communications and Information Fund, is bullish, too. He notes that if you go back to 2008, PCs were 60% of DRAM demand. But that demand has diversified. Today, PCs account for just 20% of DRAM consumption or less, with servers 30%, and mobile 35%. And requirements now vary—the market has become less commodity-like.

Pramanick says that DRAM capital spending has been modest for two years running, which should support prices. In short, he thinks the ingredients are there for Micron to trade higher—maybe a lot higher.

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