



Better Buy: Micron Technology vs. Qualcomm

Description

Micron ([NASDAQ: MU](#)) and **Qualcomm** ([NASDAQ: QCOM](#)) are two major chipmakers in the global electronics supply chain. Micron is the world's third largest maker of DRAM chips and fourth largest maker of NAND chips. Qualcomm is the world's largest maker of mobile chipsets and wireless modems.

Both stocks underperformed the Philadelphia Semiconductor Index's 15% gain over the past 12 months. Micron was hit by tumbling memory chip prices, while Qualcomm struggled with sluggish smartphone sales, conflicts with top customers like **Apple** ([NASDAQ: AAPL](#)), and a streak of probes regarding its business practices. The trade war also cast a dark cloud over both chipmakers' [futures in China](#).

But with trade talks set to resume next month, should investors consider buying either stock? Let's take a closer look at both chipmakers and see which one has a brighter future.

Understanding Micron's businesses

Micron generated 64% of its revenue from DRAM chips and 31% from NAND chips last quarter. Prices of both types of chips peaked last year due to soft sales of PCs, the saturation of the smartphone market, postponed upgrades at cloud data centers, and a global glut of chips.

Meanwhile, the trade war's evolution into a tech war is spurring China to develop more homegrown alternatives to foreign-made chips. Chinese chipmakers revealed their first domestic DRAM and NAND chips [earlier this year](#), and the mass production of those chips could eventually exacerbate the supply glut over the long term.

Micron expects market prices to rebound next year, but that recovery will likely be driven by decreased production from Micron and its main rivals — **Samsung**, **SK Hynix**, **Toshiba**, and **Western Digital** — instead of more sustainable tailwinds in the consumer electronics and data center markets.

Understanding Qualcomm's business

Qualcomm generated nearly three-quarters of its revenue from its mobile chipmaking business last quarter, while the rest came from its wireless patent licensing business, which collects royalties from every mobile device maker in the world.

Qualcomm's licensing unit usually generates more profit than its chipmaking unit, but that business model was scrutinized in recent years as OEMs and regulators claimed that Qualcomm's fees were too high. Regulators have also accused Qualcomm of locking competitors out of the mobile market by signing exclusive deals with OEMs and bundling its chips and licensing fees together.



Image source: Getty Images.

Qualcomm was already fined in several markets over [those practices](#), and faced several revolts with OEMs — including a lengthy battle with Apple and an unresolved dispute with Huawei. Apple [reached a settlement](#) with Qualcomm earlier this year to give its upcoming iPhones 5G modems, but it also acquired **Intel's** modem unit to wean itself off of Qualcomm's chips.

Which company is growing faster?

Micron and Qualcomm both posted weak revenue growth over the past year.

YOY revenue growth	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3
Micron	40%	38%	16%	(21%)	(39%)
Qualcomm	6%	(2%)	(20%)	(6%)	(13%)

YOY = Year-over-year. Source: Company quarterly reports. Non-GAAP.

Micron's revenue tumbled as DRAM and NAND prices fell. And it expects its revenue to decline 47% annually during the fourth quarter, which indicates that its business hasn't hit a cyclical bottom yet.

Micron's gross margin contracted from 61% to 39% between the third quarters of 2018 and 2019 as market prices plunged. It expects that decline to continue, with a gross margin of just 28% in the fourth quarter.

Qualcomm's revenue growth dried up as global smartphone shipments declined. The overall market was also fragmented by cheaper rivals like **MediaTek** and first-party chipsets from big OEMs like Apple, Huawei, and Samsung. Its licensing unit also faced tighter regulations in several markets. As a result, Qualcomm expects its revenue to decline 12%-26% annually in the fourth quarter.

Qualcomm's gross margin soared from 55% to 78% between the third quarters of 2018 and 2019, but that was mainly attributed to the \$4.7 billion settlement from Apple and its contract manufacturers to settle the aforementioned legal clashes.

Qualcomm didn't offer any guidance for its gross margin, but it will likely contract sequentially and annually in the fourth quarter as its revenue declines.

Which stock is cheaper relative to its growth?

Analysts expect Micron's revenue to fall 24% this year and another 14% next year. Its earnings are expected to plunge 48% this year and 58% next year. Those dismal forecasts indicate that the stock still isn't cheap at 19 times forward earnings.

Qualcomm's outlook looks healthier. Its revenue is expected to decline 15% this year but rebound 13% next year as the mobile market faces easier year-over-year comparisons. Its earnings, buoyed by big buybacks, are expected to dip 6% this year but rebound 21% next year.

That's a decent growth rate for a stock that also trades at 19 times forward earnings. Qualcomm also pays a forward yield of 3%, but Micron hasn't paid a dividend since the mid-1990s.

The winner: Qualcomm

I'm not a fan of either stock, but betting on Micron's recovery before memory prices bottom out is incredibly risky. Qualcomm also faces lots of challenges, but its better-diversified business makes it a better overall investment.

CATEGORY

1. Investing
2. Tech Stocks

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TICKERS GLOBAL

1. NASDAQ:AAPL (Apple Inc.)
2. NASDAQ:MU (Micron Technology, Inc.)
3. NASDAQ:QCOM (QUALCOMM Incorporated)

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