3 Reasons to Buy This Beaten-Down Tech Stock

Description

Xilinx (NASDAQ: XLNX) has lost its wheels spectacularly in 2019. There seemed to be no stopping Xilinx stock earlier this year as the company was pulling the right strings to take advantage of fast-growing markets. But tragedy struck once it emerged that the company is becoming a victim of the U.S.-China trade war.

Not surprisingly, investors have offloaded Xilinx stock, and it has lost around a quarter of its value in the past six months. But savvy investors should not ignore Xilinx, which looks like a great value right now and is sitting on several catalysts that could ensure long-term growth.

Let's take a look at the three reasons Xilinx stock is worth buying right now.

The FPGA opportunity

Xilinx is known for making field-programmable gate arrays (FPGAs). These are programmable chips that can be bought off the shelves by developers and configured to perform specific tasks. The advantage with FPGAs is that their functionality can be tweaked each time the device is powered up. Developers simply need to download a new configuration file into the FPGA and change the way it works.

The flexibility that FPGAs provide allows for a quicker time to market. This is the reason they are being used in 5G network deployments, boosting Xilinx's top and bottom lines substantially of late. But 5G is just one of the many areas in which FPGAs are being deployed.

For instance, FPGAs are being used in data centers to accelerate workloads. A third-party estimate projects that the market for data center accelerators will grow at a whopping compound annual growth rate of almost 50% through 2023. FPGAs are expected to enjoy the highest growth rate during this period as compared to other accelerators such as graphics processing units.

That's because FPGAs are capable of providing higher computational speeds and consume less power for the tasks they are designed to carry out. This allows data center operators to bring down operating costs.

FPGAs are also finding traction in the automotive space. Xilinx has been witnessing impressive growth in its automotive business thanks to the adoption of its chips by auto component suppliers, who have been incorporating its FPGAs into advanced driver assistance systems (ADAS). Xilinx claims to have already shipped more than 100 million of them to its automotive customers, and that number should keep growing in the long run as ADAS deployments gain steam.

So Xilinx can tap into a diversified pool of opportunities thanks to the versatility of the FPGAs it sells.

The elephant in the room

Xilinx is one of the best bets to take advantage of the FPGA opportunity because of its dominant position in this space. The chipmaker reportedly commands a 60% share of the FPGA market, outpacing bigger rival **Intel** (NASDAQ: INTC) thanks to its technology advantage.

The overall FPGA market is expected to be worth $11 billion by 2025, according to one estimate. Given that Xilinx has generated $3.2 billion in revenue over the past 12 months, it has the potential to significantly increase its revenue in the long run if it keeps hold of its strong FPGA market share.

The good news is that Xilinx has started sampling its 7-nanometer Versal chip to customers. The company claims that Versal is capable of delivering "10x increase in performance and significant power efficiency gains for a number of applications compared to the latest generation FPGAs and general-purpose processors."

Intel, on the other hand, has also started shipping its 10nm Agilex FPGAs to select customers, promising 40% performance gains and an identical reduction in power consumption as compared to its previous-generation chips. But because Intel's 7nm chips are still a couple of years away, Xilinx could continue to enjoy a technology advantage over Chipzilla and maintain its lead in the FPGA space.

Attractively valued

The final reason Xilinx is a good bet right now is its valuation. A trailing price-to-earnings ratio of 26 is slightly lower than the five-year average multiple of just over 27. But at the same time, the company's earnings growth is expected to gain momentum.

In all, Xilinx's potentially strong earnings growth, a cheaper valuation than before, and the catalysts listed above make it a tech stock to bet on for the long run.

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