Micron Technology’s Bad Days Are Here to Stay

Description

Micron Technology (NASDAQ: MU) needed to do something special with its fiscal fourth-quarter report to sustain its status as a high-flying stock, but that was unlikely to happen. The memory specialist posted a massive decline in its revenue and earnings.

And its guidance failed to inspire confidence on Wall Street, indicating that the path to recovery is going to be slow and painful.

Weak memory prices are Micron’s Achilles’ heel

Micron’s top and bottom lines have dropped by big margins for three consecutive quarters. In the fourth quarter, revenue fell 42% year over year to $4.87 billion as the average selling price (ASP) of both dynamic random access memory (DRAM) and NAND flash chips saw severe declines.

Micron got 63% of its revenue from the DRAM segment last quarter. Sales from this segment were down 48% annually even though bit shipments increased in the mid-teens, driven by significantly lower DRAM ASPs. Although Micron didn’t elaborate on the year-over-year DRAM price drop, management did point out that DRAM ASPs dropped 20% sequentially.

For the entire fiscal year, Micron reported a 30% decline in DRAM ASPs.

A similar story unfolded in the NAND flash segment, where revenue was down 32% from the year-ago period. NAND flash ASPs were down in the high single digits on a sequential basis. For the full year, Micron reported a mid-40% decline in NAND ASPs.

These massive declines in the ASPs of memory chips constricted Micron’s margins during the quarter. In fact, its non-GAAP gross margin was slashed in half as compared with the prior-year period, to just 30.6% in the fourth quarter.

The bad news for Micron investors is that a turnaround still seems some time away. For the first quarter of fiscal 2020, the chipmaker is forecasting non-GAAP earnings of $0.46 per share on revenue of $5 billion at the midpoint of its guidance range. These numbers are way lower than the year-ago period's revenue of $7.91 billion and earnings of $2.97 per share.

A non-GAAP gross margin projection of 26.5% for the fiscal first quarter indicates that Micron anticipates further weakness in memory prices. So it was not surprising to see investors sell the stock after the report was released, letting them book the gains that Micron has delivered so far this year.

Are there any silver linings?

Management believes that the memory industry could start turning around in calendar 2020 as demand is expected to exceed supply. CEO Sanjay Mehrotra had this to say on the latest earnings conference call:

> Based on our early view of calendar 2020, we expect the industry to see bit-demand growth of high teens to 20%, above supply growth of only mid-teens, which should help normalize supplier inventories and enable a healthy industry environment. We expect the long-term DRAM bit-demand [compound annual growth rate] to be mid to high teens.

On the NAND side, Mehrotra says that the ongoing supply reductions are leading to a drop in inventory levels. NAND demand growth in calendar 2020 is expected in the "high 20s to low 30% range," outpacing supply growth. What's more, Micron believes that NAND demand will grow at a compound annual growth rate in the low 30% range in the long run.

But it remains to be seen if Micron's forecast will materialize, since key end markets such as mobile and PC are under stress right now. For instance, global smartphone sales are expected to drop 2.5% this year as per Gartner's estimates. A slight rebound is expected in 2020 thanks to the rollout of 5G networks, but shipments will still be lower than 2018 levels.

Meanwhile, demand for PC chips could take a hit as **Intel**'s CPU shortage is not showing any signs of letting up. A recent report from Taiwan's Digitimes states that Intel's capacity for manufacturing 14nm chips has fallen behind the demand. This could lead to a delay in the launch of new PC models and reduce demand for memory chips, which would be bad for Micron.

So Micron investors should consider booking the profits they have made so far this year and putting their money in other stocks that have upside potential, as the continuing end-market uncertainty will keep weighing on its shares.

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