



Better Buy: Micron Technology vs. NVIDIA

Description

High-flying [tech stocks](#) **NVIDIA** ([NASDAQ: NVDA](#)) and **Micron Technology** ([NASDAQ: MU](#)) were in the same boat at the beginning of 2019. While graphics specialist NVIDIA was reeling in the aftermath of the [cryptocurrency mining bubble](#) that led to an excess supply of graphics cards and bloated channel inventories, Micron [lost its mojo](#) as the memory market went into oversupply and prices plunged.

Cut to the present, and not much seems to have changed for Micron, as its [latest results](#) indicate. NVIDIA seems to be turning around, though it is not [out of the woods yet](#). So which one of these two chipmakers should you put your money on? Let's find out.

The case for NVIDIA

NVIDIA's top and bottom lines plunged substantially last quarter, but the company's guidance gave investors reasons to be optimistic. The graphics card specialist expects its revenue to fall 9% year over year in the third quarter of fiscal 2020. That's much better than the 17% haircut its top-line took in the fiscal second quarter.

What's more, the bottom-line erosion is also expected to slow down: The guidance calls for \$760 million in net income this quarter, down from \$1.1 billion a year ago. For comparison, NVIDIA's net income had halved in the fiscal second quarter.

NVIDIA's guidance clearly suggests that the graphics card market is recovering at a nice pace. Revenue from the gaming segment was up 24% sequentially during the second quarter thanks to the production ramp of **Nintendo's** Switch Lite console, which is powered by NVIDIA's custom chip. Meanwhile, demand for NVIDIA's graphics cards is also being driven by gaming laptops, as CFO Colette Kress pointed out on the latest [earnings conference call](#): "The laptop business continues to be a standout growth driver as OEMs are ramping a record 100-plus gaming laptop models, ahead of the back-to-school and holiday season."

Beyond gaming, NVIDIA is witnessing strong growth in the [automotive business](#) thanks to a clutch of

impressive partnerships. The segment delivered terrific annual revenue growth of 30% last quarter and is now accounting for 8% of the company's total revenue. Meanwhile, the data center business is also [showing signs of life](#): Revenue inched up sequentially on the back of enterprise demand.

In all, NVIDIA's recovering gaming business and support from other segments such as automotive and data centers seem to have put the company on the path to a turnaround. But this is not the case at Micron.

Micron continues to struggle

Micron's latest quarterly report was a big disappointment. Revenue was down 42% compared to the prior-year period, gross margin plunged to just 28.6% from 61% a year ago, and net income fell a whopping 87%.

The guidance turned out to be another sore point, as it expects a top-line drop of nearly 37% year over year in the current quarter. The alarming guidance is not surprising, as demand for memory chips continues to remain weak and prices are on the wane, and the bad news is that a turnaround might not happen soon.

Raymond James analyst Chris Caso recently pointed out that higher DRAM inventory and seasonality will continue weighing on prices through the first half of 2020. The analyst also added that a sustained recovery in DRAM prices can be expected only in the second half of 2020.

This is bad news for Micron, as it gets 63% of its revenue from DRAM sales. The company is [anticipating a turnaround](#) in the demand-and-supply dynamics of the memory industry beginning in 2020, but a weak smartphone sales environment and Intel's processor shortage could weigh on a potential DRAM recovery.

However, Micron management remains upbeat about the prospects of a turnaround, pointing out several favorable trends that could help it make a comeback. CEO Sanjay Mehrotra said on the latest earnings conference call that DRAM customer inventories in the data center segment are leaner than before, and this led to sequential demand growth for the company's server chips last quarter.

Micron says that the graphics card market is also turning around, which seems credible given NVIDIA's latest performance. But the problem is that Micron's guidance doesn't indicate toward a huge improvement in its fortunes this quarter, so investors would be better off waiting for actual signs of a turnaround before betting on the stock.

The verdict

While NVIDIA has given quantifiable proof of its recovery with its guidance, Micron has not. Still, value hunters are probably attracted to Micron considering its dirt-cheap valuation.

The memory specialist has a trailing price-to-earnings ratio of 8.2 as compared to NVIDIA's multiple of 44. But Micron's forward P/E of nearly 8.5 suggests that analysts expect its bottom line to drop this fiscal year, which looks like a reasonable forecast considering the company's first-quarter fiscal 2020 outlook.

Moreover, Micron is dependent on memory prices for a turnaround. If the DRAM market remains under pressure and doesn't recover as management expects, the stock could head lower. NVIDIA, on the other hand, has shown much more resilience.

Its [non-GAAP](#) (adjusted) gross margin fell to 60.1% in the previous quarter from 63.5% in the prior-year period. But the same grew to the tune of 110 basis points on a sequential basis. As we saw earlier, Micron's margins fell substantially last quarter. So NVIDIA is more resilient as far as margins are concerned and seems better positioned to stage a recovery in its revenue and earnings, based on its latest quarterly performance.

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1. NASDAQ:MU (Micron Technology, Inc.)
2. NASDAQ:NVDA (NVIDIA Corporation)

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