



The World's Best Artificial Intelligence Stock Is Still Dirt Cheap

Description

The age of artificial intelligence is upon us. AI and machine learning have the potential to create \$3.9 trillion in business value by 2022, according to research firm **Gartner** ([NYSE: IT](#)). Consulting firm McKinsey says that 82% of the businesses it surveyed are generating positive returns from their AI investments, including better customer satisfaction and productivity, better fraud detection at financial firms, and a host of other benefits. In dollar terms, spending on AI and cognitive systems will more than triple between 2018 and 2022, from \$24 billion to \$77.6 billion, for a compound annual growth rate of 37.3%, according to estimates from research firm IDC.

There are a lot of [tech companies](#) aiming to win pieces of this pie. These include [cloud computing companies](#) that own the vast data centers where information is stored and processed, the [chipmakers](#) producing the CPUs, GPUs, and FPGAs that can process the vast amounts of data involved, [software companies](#) that organize this data and produce AI programs, and IT consultancies that aid big businesses in implementing these systems.

The “picks and shovels” of AI

The heart of AI, though, rests in the basic components of memory and storage. According to hard disk maker **Seagate Technology** ([NASDAQ: STX](#)), 23 exabytes of data were produced in 2002 (To put that in a more familiar scale, that's 23 *billion* gigabytes.) In 2020, 23 exabytes of data will be produced *every five hours*. That's an immense amount of data that will need to be stored, either on hard disk drives or solid-state drives using NAND flash, and then fed to processors via dynamic random access memory (DRAM).

However, the memory and storage industry is notoriously cyclical, and it's currently at the bottom of that cycle, due in part to a spending pullback caused by the U.S.-China trade war. That may have opened up an opportunity for investors to buy memory and storage stocks, including my favorite in the space, **Micron Technology** ([NASDAQ: MU](#)).

Why Micron?

Micron tops my AI stock list because its [product portfolio](#) spans both NAND flash — the most modern storage technology — and DRAM, where it is one of only three global players left standing. That DRAM oligopoly can flexibly increase or slow production as market demand fluctuates, ensuring profitability throughout the product cycle.

And as Micron CEO Sanjay Mehrotra noted during an analyst day presentation last year, artificial intelligence servers require twice as much solid state memory and six times as much DRAM as standard servers. Since we are still in the early days of AI implementation, demand for NAND and DRAM should soar over the long term, even if the current period is challenging.

In addition, Micron and **Intel** ([NASDAQ: INTC](#)) are the only companies able to produce a new type of memory called 3D Xpoint, which is non-volatile storage, akin to NAND flash, but much faster. The drawback is that it's more expensive, but there are many AI applications that could benefit from its unique features.

Last year, Micron [exercised its option to purchase the 3D Xpoint fabrication plant](#) from IM Flash Technologies (IMFT), a joint venture Micron and Intel have co-developed since 2006. The two recently decided to go their own ways with 3D Xpoint technology; Micron exercised its option to take over the plant, so Intel will have to develop another facility. However, IMFT will supply Intel with 3D Xpoint wafers for up to a year.

And while Intel released its first 3D Xpoint Optane products back in April, Micron just took full control of IMFT and announced its first 3D Xpoint products last week.

Recent exciting announcements

On Oct. 24, Micron dropped a slew of press releases, including one addressing the introduction of its first 3D Xpoint SSD, the X100. It will feature speeds three times faster than the latest NAND Flash-based SSDs with 11 times the endurance, which should result in an end-user experience that's two to four times better than flash solutions.

In addition, Micron announced more product innovations and investments related to AI. These include [Authenta](#), a security key for IoT-enabled devices at the hardware level, as well as Micron's first portable consumer SSD, called [Crucial](#). And the company is acquiring [FWDNXT](#), a start-up that makes an integrated hardware and software solution for edge AI applications. Finally, it made a venture investment in German start-up [Volocopter](#), an autonomous air taxi company, which claims its vehicles are safer than helicopters.

All aboard the AI train

Despite all the things Micron has going for it, the stock still trades at just 7.6 times adjusted (non-[GAAP](#)) 2019 earnings. Now, that's not totally unreasonable, as its earnings are declining due to this year's crash in memory prices. While Micron earned \$6.35 per share in diluted EPS for the fiscal year that

ended in August, analysts on average only expect it to earn \$2.54 per share in the current fiscal year.

However, that should be the trough of this cycle, which means that Micron is trading for less than 19 times trough EPS, compared to the S&P 500, which trades at 22.5 times trailing earnings. Meanwhile the company earned \$11.95 per share as recently as fiscal 2018, meaning it's only trading at 4 times the peak earnings of the most recent "up" cycle.

While Micron has historically lost money during down-cycles, it doesn't seem like that will happen this time around. The memory industry is far more consolidated, and Micron has greatly reduced its cost structure and improved its balance sheet, with \$3.4 billion in net cash as of the end of the last quarter.

Despite the recent collapse in memory prices, Micron's stock is up by more than 50% so far in 2019. Nevertheless, that comes after a 2018 in which the stock declined mightily, and the stock is still well below previous all-time highs in the mid-\$60s.

With a fortress balance sheet, an unmatched product portfolio, and a valuation far below other leading [tech companies](#), this company at the heart of the AI revolution presents a great opportunity for long-term investors.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Syndicated

TICKERS GLOBAL

1. NASDAQ:INTC (Intel Corporation)
2. NASDAQ:MU (Micron Technology, Inc.)
3. NASDAQ:STX (Seagate Technology plc)
4. NYSE:IT (Gartner, Inc.)

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