



Applied Materials Inc. (AMAT)

Updated August 26th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$203	5 Year CAGR Estimate:	7.8%	Market Cap:	\$167 B
Fair Value Price:	\$162	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	08/22/24
% Fair Value:	126%	5 Year Valuation Multiple Estimate:	-4.5%	Dividend Payment Date:	09/15/24
Dividend Yield:	0.8%	5 Year Price Target	\$285	Years Of Dividend Growth:	7
Dividend Risk Score:	A	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Applied Materials began in a small office unit in 1967 and since that time, it has undergone some major, transformative changes. Those changes have afforded it some spectacular rates of growth and today, it has a market capitalization of \$167 billion and about \$27 billion in annual revenue. Applied Materials has become a major player in the semiconductor market, which makes up the majority of its revenue.

Applied Materials posted third quarter earnings on August 15th, 2024, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$2.12, which was a dime ahead of estimates. Revenue was also ahead by \$110 million, rising 5.4% year-over-year to \$6.78 billion.

Semiconductor Systems revenue was \$4.92 billion, a year-over-year increase of \$248 million. The company noted it believes it's well-positioned in the AI race, which should continue to fuel demand for its products and services.

Cash from operation was \$2.39 billion during the quarter, and \$1.19 billion was distributed to shareholders. That included \$861 million in share repurchases and the balance in dividends.

Guidance for the fourth quarter was for revenue of \$6.93 billion, with the normal plus or minus \$400 million caveat applied. Earnings-per-share guidance was in line with consensus at \$2.00 to \$2.36, against consensus of \$2.14.

We see \$8.50 in adjusted earnings-per-share for this year with one quarter to go.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.87	\$1.12	\$1.54	\$3.17	\$4.45	\$3.04	\$4.17	\$6.84	\$7.70	\$8.05	\$8.50	\$14.98
DPS	\$0.40	\$0.40	\$0.40	\$0.40	\$0.60	\$0.83	\$0.87	\$0.92	\$1.02	\$1.16	\$1.60	\$2.58
Shares¹	1,221	1,160	1,078	1,060	980	931	921	898	854	845	835	800

Applied Materials' earnings-per-share history is volatile to say the least, as the company has seen earnings rise and fall very rapidly from year to year in the past decade. Since the bottom in 2013, Applied Materials has managed to see what can only be described as explosive earnings growth. We forecast 12% annual growth in earnings-per-share in the coming years. We note that the outlook for semiconductors in general is very strong, and given the relatively muted growth of the past couple of years, we think growth from here will be strong for the foreseeable future.

Twelve percent annual earnings-per-share growth is an achievable goal given that Applied Materials has many levers it can pull to get there. Over time, demand for products like televisions and smartphones drive demand for Applied Materials' products. However, periods of weakness, like the start of 2020, do occur regularly. In particular, the company's memory businesses are stagnant at best. However, management is extremely bullish on the company's future, and estimates for 2024 and beyond see earnings at a new record on AI-driven demand.

The company is also buying back its stock. Management is very serious about spending money when the share price is off its highs, a vote of confidence investors should ignore at their own peril. The company's ample spending on buybacks slowed in 2020, but we think if the valuation is low, the company will continue to buy back stock in large quantities.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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We see continued growth in the payout, and while the buyback is certainly going to take priority, there is a robust dividend growth story as well. We believe Applied Materials will grow its payout at a significant rate.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.8	18.3	14.5	12.8	11.0	11.3	13.9	17.5	10.6	18.0	23.9	19.0
Avg. Yld.	2.0%	1.9%	1.8%	1.0%	1.2%	2.0%	1.5%	0.8%	1.2%	0.8%	0.8%	0.9%

Applied Materials' valuation has declined since our last update, and shares trade at 23.9 times this year's estimated earnings. That is ahead of our recently increased fair value estimate of 19 times earnings. The yield could move higher over time depending upon the pace of dividend increases. As mentioned, we do see robust dividend growth on the horizon, but the current yield is quite low and unattractive, and we expect it to remain that way.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	46%	36%	26%	13%	13%	27%	21%	13%	13%	14%	19%	17%

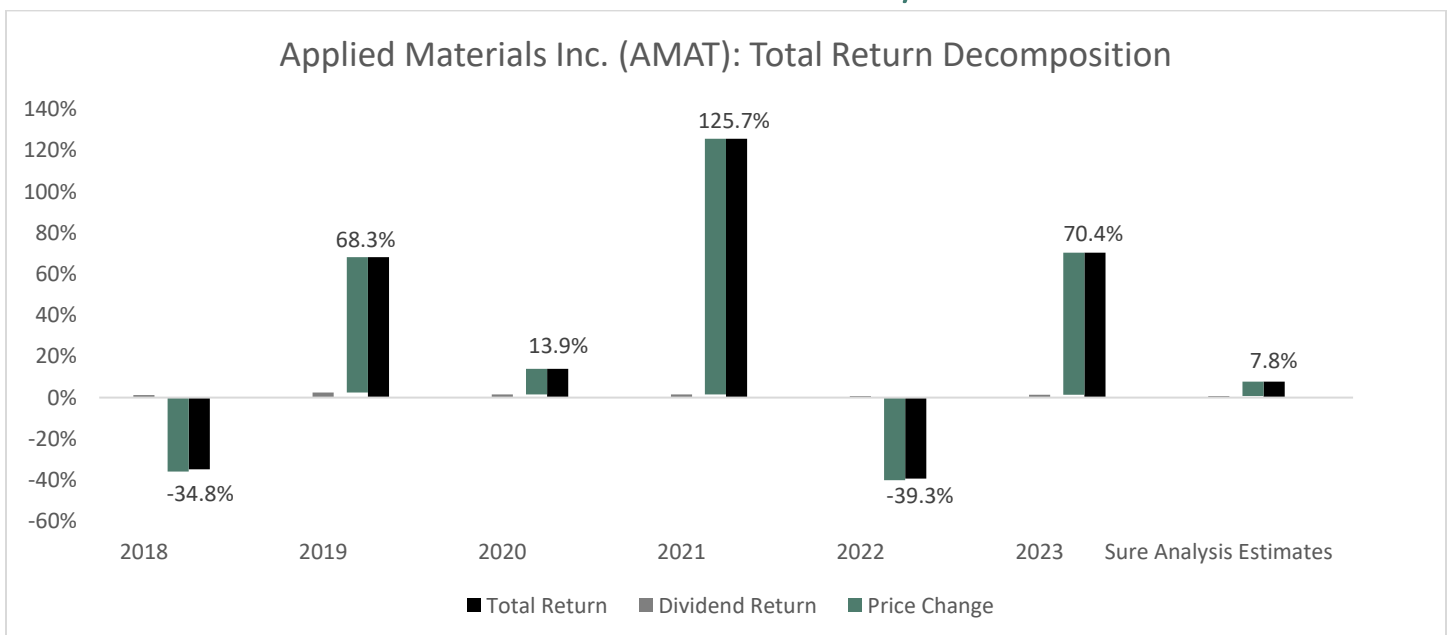
The payout ratio is low, and we expect it will stay that way as Applied Materials continues to return cash to shareholders through share repurchases. Still, maintaining or boosting the payout ratio over time will lead to solid dividend growth.

Applied Materials suffered during the last recession but produced enormous growth during the 2020 recession. Applied Materials' long history of solving complex engineering problems and its entrenched customers should help see it through. The company has created high switching costs for its customers with its excellent products, which we think is a long-term competitive advantage in a very competitive field. It is also seeing high rates of growth in its subscription business, which is well over half of revenue now.

Final Thoughts & Recommendation

We continue to see the valuation as ahead of fair value, despite rising earnings estimates. With expected growth strong, but the valuation far ahead of fair value, we rate the stock a hold. We see 12% earnings growth, a 0.8% yield, and a 4.5% headwind from the valuation totaling 7.8% annual estimated returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9,072	9,659	10,825	14,698	16,705	14,608	17,202	23,063	25,785	26,517
Gross Profit	3,843	3,952	4,511	6,612	7,517	6,386	7,692	10,914	11,993	12,384
Gross Margin	42.4%	40.9%	41.7%	45.0%	45.0%	43.7%	44.7%	47.3%	46.5%	46.7%
SG&A Exp.	925	897	819	895	1,004	982	1,093	1,229	1,438	1,628
D&A Exp.	375	371	389	407	457	363	376	394	444	515
Operating Profit	1,490	1,604	2,152	3,936	4,491	3,350	4,365	7,200	7,784	7,654
Operating Margin	16.4%	16.6%	19.9%	26.8%	26.9%	22.9%	25.4%	31.2%	30.2%	28.9%
Net Profit	1,072	1,377	1,721	3,519	3,038	2,706	3,619	5,888	6,525	6,856
Net Margin	11.8%	14.3%	15.9%	23.9%	18.2%	18.5%	21.0%	25.5%	25.3%	25.9%
Free Cash Flow	1,559	948	2,313	3,444	3,165	2,806	3,382	4,774	4,612	7,594
Income Tax	376	221	292	297	1,358	563	547	883	1,074	860

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	13,174	15,308	14,570	19,419	17,633	19,024	22,353	25,825	26,726	30,729
Cash & Equivalents	3,002	4,797	3,406	5,010	3,440	3,129	5,351	4,995	1,995	6,132
Accounts Receivable	1,670	1,739	2,279	2,338	2,323	2,533	2,963	4,953	6,068	5,165
Inventories	1,567	1,833	2,050	2,930	3,721	3,474	3,904	4,309	5,932	5,725
Goodwill & Int. Ass.	4,255	4,064	3,891	3,780	3,581	3,555	3,619	3,583	4,039	4,026
Total Liabilities	5,306	7,695	7,353	10,070	10,788	10,810	11,775	13,578	14,532	14,380
Accounts Payable	613	658	813	945	996	958	1,124	1,472	1,755	1,478
Long-Term Debt	1,947	4,542	3,325	5,304	5,309	5,313	5,448	5,452	5,457	5,561
Shareholder's Equity	7,868	7,613	7,217	9,349	6,845	8,214	10,578	12,247	12,194	16,349
LTD/E Ratio	0.25	0.60	0.46	0.57	0.78	0.65	0.52	0.45	0.45	0.34

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.5%	9.7%	11.5%	20.7%	16.4%	14.8%	17.5%	24.4%	24.8%	23.9%
Return on Equity	14.3%	17.8%	23.2%	42.5%	37.5%	35.9%	38.5%	51.6%	53.4%	48.0%
ROIC	11.4%	12.5%	15.2%	27.9%	22.7%	21.1%	24.5%	34.9%	36.9%	34.7%
Shares Out.	1,221	1,160	1,078	1,060	980	931	921	919	877	845
Revenue/Share	7.37	7.88	9.70	13.56	16.28	15.46	18.64	25.10	29.40	31.38
FCF/Share	1.27	0.77	2.07	3.18	3.08	2.97	3.66	5.19	5.26	8.99

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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