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CREEpy guidance triggered by short term issues doesn't scare us

CREE, one of our top positions in the Artificial Intelligence & Robotics certificate, yesterday reported its latest quarter result. The stock closed down 15.9% as the company guided substantially lower due to ongoing disruption of sales to Huawei and soft LED and EV demand, particularly in China.

Even if its Wolfspeed business reported good growth, especially considering the trade war issues (22% g YoY – the high end of their guided range), the LED business is suffering by trade uncertainties. Due to the high operational leverage the margin of this business is highly impacted as lower factory utilization is having a negative impact on CREE's profitability. We see this weakness as temporary even if next quarter things are not going to get better, actually margins on its LED business should go much lower. We are seeing an opposite movement in margin compared to what we have seen during FY 2019 where margin improvement was a direct result of higher factory utilization (especially in the first half of the year) and cost reductions.

The company however is still very positive on WolfSpeed, its Power and RF business, where the real upside for this company really lies, and they are still convinced to do the largest capital investment in the history of Silicon Carbide (SiC) and Gallium Nitride (GaN) technologies that will support the growing demand that they expect from automotive, communications infrastructure and industrial segments. We are pleased to see that the company announced a multi-year supply agreement with ON Semiconductor, making this the fourth long-term agreement announced in the past year and a half. These four wafer supply agreements, which now total close to \$600 million, demonstrate how their technology is helping to drive the transition in the power semiconductor industry from silicon to silicon carbide.

Demand for SiC is expected (source: Canaccord Genuity) to grow to more than \$20 billion by 2030, mainly driven by a major expansion in electric vehicles and the need for charging stations. Cree is talking about an opportunity pipeline of more than \$9 billion covering the automotive, solar, telecommunications, industrial, and mil-aero sectors.