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Advanced Micro Devices (AMD US) – 2020 shaping up to be an outstanding year

We usually do not comment on quarterly results when there is not too much of a delta between expectations and actual results, which is the case for AMD's Q3-2019 results released yesterday. But in this case, there's a lot to say about the company.

We remind our investors that this stock is one of the top holdings in the **Artificial Intelligence & Robotics** Index since the launch of this theme back in October 2015, but also on some other Indexes such as **Security & Space** and **Innovation** which groups the best picks of all our investment themes.

Ryzen and EPYC processors (revenues up 36% Y/Y) were the main drivers (a 2% favorable impact) for the 43% gross margin the company has been reporting during the quarter. EPYC performance is particularly impressive as the company already secured significant wins for their 2nd generation EPYC 7nm GPUs (codenamed "Rome"). This product was just launched in early August of 2019.

We believe that the best days for the company are in front of them as AMD was able to prove to everyone that with the 1st generation of EPYC ("Naples"), server chips were better than the ones of Intel. With the 2nd generation, there is simply too much of a gap compared to Intel; no serious company in the server market can ignore it. Performance is on average 50% better at half the price. Companies can't wait until Intel's 10nm Ice Lake Servers are shipped, sometimes (if it not once again delayed) in 2H2020.

Furthermore, the bet AMD did back in 2018 to change foundry (from Global Foundries to TSMC) is starting to pay off handsomely (most of the marginality gains going to AMD itself) – and not only for AMD but also for TSMC, as AMD wins are also TSMC wins at the expense of Intel.

We believe that TSMC made some guarantees to AMD and its customers that their 7nm product lines will not be facing significant product shortages. We believe that both AMD and TSMC might pursue their quest against Intel for the foreseeable quarters. They are putting formidable pressure on Intel to possibly consider a spin-off of his fab and design activities if the company is not able to overcome fast enough the 10nm production's problems.

AMD, in the meantime, would be silly not to turn to his advantage this situation and is likely to see his average selling prices ("ASP") going up and with that, their gross and operating margins. We believe that AMD's Q4-2019 44% gross margins guidance is on the conservative side. With higher volumes on new products and higher ASPs, the company might have a spectacular 2020. New gaming consoles are also likely to provide support going into next year.

The one negative in fact (and the main reason the company lowered its guidance for Q3-2019 during the previous quarter release) in this quarter was the Semi-Custom Business (down 27% Y/Y). Microsoft and Sony are expected to launch new consoles in H2-2020 and customers are on a waiting mode until then. This business line is set to renew with strong growth starting in Q2/Q3-2020, and to contribute to the overall AMD's growth picture.

As a side call on GPU's and **Nvidia**, we believe that comments made from the company during their conference call on data center GPUs, which declined during Q3 but are set to resume growth going into the fourth quarter, are likely to weigh down on Nvidia stock price. Many investors piled on the stock in anticipation of a strong quarter release from the

company. We will not change the allocation on Nvidia (part of our strong allocations but not a top pick as it is the case for AMD), since we look beyond a one-quarter release.

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