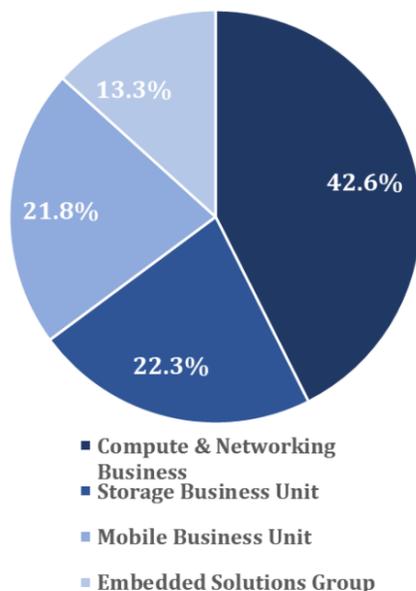


Company Overview

Figure 1. Micron Operating Revenue Mix



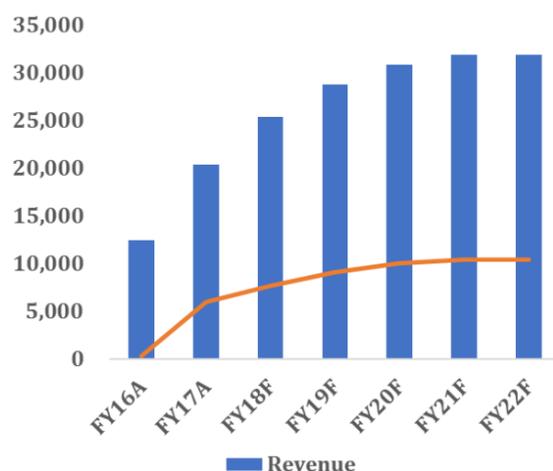
Sources: Bloomberg, Micron Annual Report

One of the largest memory chipmakers in the world, Micron manufactures and markets dynamic random access memory chips (DRAMs), static random access memory chips (SRAMs), flash memory, semiconductor components and memory modules. The company has 4 business segments: Compute and Networking, Storage Business, Mobile Business and Embedded Business.

(USD\$ M)	FY16A	FY17A	FY18F	FY19F
Revenue	12,399	20,322	25,316	28,744
<i>Gr Rate (%)</i>	-23.4%	63.9%	24.6%	13.5%
EBITDA	3,239	9,790	12,540	14,583
<i>Margin (%)</i>	26.1%	48.2%	49.5%	50.7%
Net Income	(199)	5,194	6,628	7,857
<i>Margin (%)</i>	(1.6%)	(25.6%)	26.2%	27.3%
FCF	(2,649)	(3,419)	5,422	6,151
EV/EBITDA	7.67	4.28	6.93	5.96

Investment Thesis

Figure 3. Micron Revenue and Operating Profit

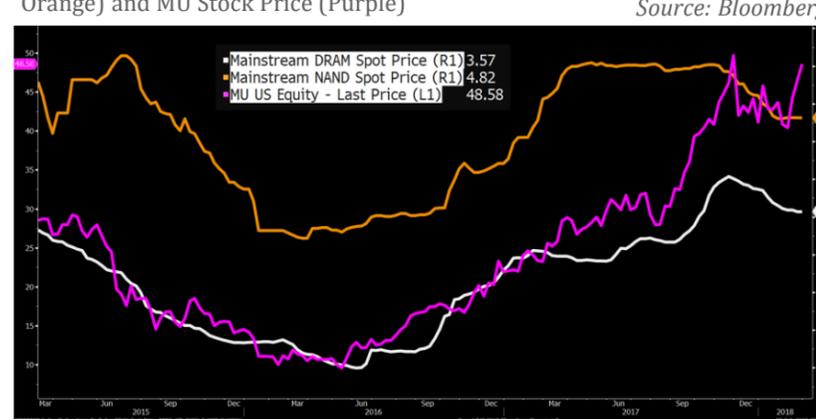


Sources: Micron Annual Report, Estimates

- Strong demand for DRAM and NAND memory to boost revenue:** Higher memory usage in cloud services and increasing use of SSDs in notebooks, data centers and servers are supporting sales growth.
- Micron's margins expanded, driven by higher prices in DRAM and NAND memory due to a favorable supply-demand environment.** Improved cost-per-bit of smaller transistors has also aided gross margin. Increased adoption of specialty and server DRAM and higher-end NAND products can expand margin and sales, as these products carry higher prices.
- MU and INTC Separation:** 9th Jan announcement that the companies will go their separate ways after the development of the 3rd generation 3D-NAND is a net positive for Micron. The expected increase in MU's quarterly NAND specific R&D costs will be more than offset by the higher profits and margin dollars that Micron's NAND chips will bring after the agreement ends, since Micron will no longer have to supply the NAND chips at cost to Intel.

Industry Outlook

Figure 2. Mainstream DRAM and NAND Spot Prices (White & Orange) and MU Stock Price (Purple)



1. Limited supply growth to support selling prices: Continued healthy supply outlook in both NAND and DRAM market. DRAM market to see limited supply growth due to increased complexity of new technology migrations and limited cleanroom space. Capacity cuts are to be expected in the DRAM market, as companies such as Samsung transition to advanced, smaller transistors. NAND market to see potential easing of supply constraints in the 1H of the year. Similar to DRAM, supply will be somewhat limited due to complexity challenges as the industry moves to 64-layer 3D NAND.

2. Strong memory demand environment: Continued healthy industry outlook in both NAND and DRAM market. Demand in DRAM market is expected to be driven by cloud computing growth, data centres new high-end phone launches, although a slight slowdown in mobile is expected, whereas demand in NAND market is likely to be driven by cloud datacentre demand, healthy SSD use, and high-end phone launches.

Valuations

Our 12 month price target from date of coverage is US\$69.24, assuming a terminal growth rate of 0% and WACC of 8.9%. This factors our optimistic outlook for Micron amid a favourable growth environment and expected higher selling prices in both DRAM and NAND memory.

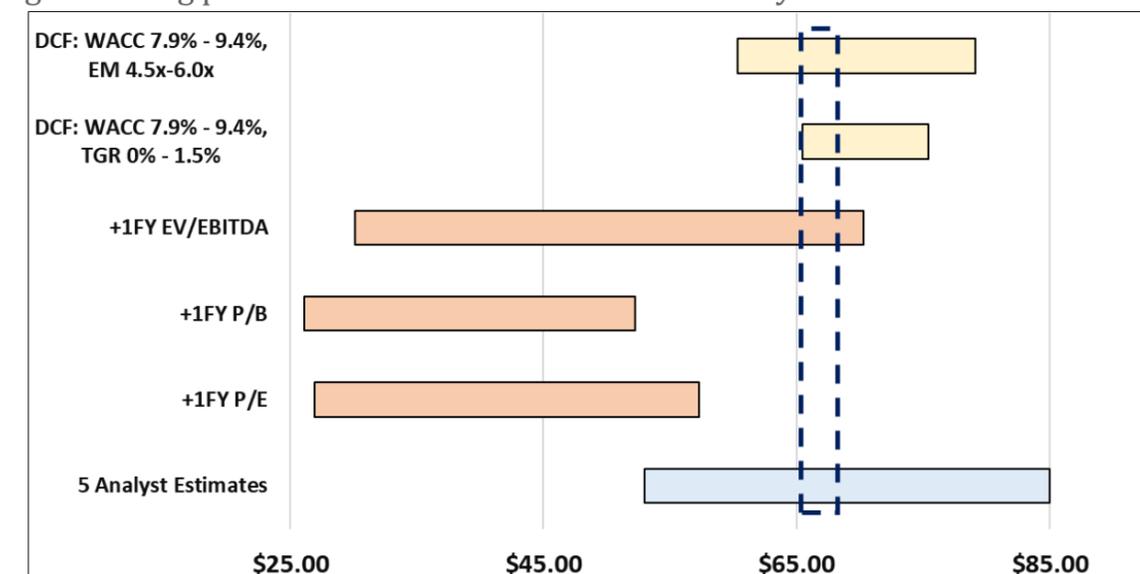


Figure 4. Valuation Summary

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