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Applied Materials Inc (AMAT.O)

Citi Global TMT Conference Takeaways – Positive

CITI'S TAKE

We hosted Applied Materials CFO Brice Hill at Citi Global TMT conference today and recap key takeaways.

Buy	
Price (04 Sep 26 16:00)	US$454.71
Target price	US$710.00
Expected share price return	56.1%
Expected dividend yield	0.5%
Expected total return	56.6%
Market Cap	US$360,857M

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- **Demand Outlook and Visibility —** Management remains highly confident in continued growth, supported by rising 8-quarter forecasts from its largest DRAM and leading-edge logic customers, increasing hyperscaler capex, and continued AI compute demand. Customer forecasts have increased throughout the year, while AMAT's fab tracker now includes well over 100 projects globally, with more than 10 new fabs added in each of the last two quarters. Management expects CY27 to be another strong growth year.
- **WFE Framework —** AMAT sees increasing equipment demand from the system level, tracking GPUs, accelerators, CPUs, and memory content to translate AI architectures into requirements for leading-edge logic, DRAM and advanced packaging. This is triangulated against hyperscaler capex and individual fab timing/capacity, giving management greater visibility into the shape of future WFE demand.
- **Advanced Packaging / Panel-Level Packaging —** Advanced packaging was ~$1.4B last year and is expected to grow >70% in CY26, with management expecting growth to remain broadly in line with leading-edge logic and DRAM. Panel-level packaging remains in development rather than volume production, though AMAT is already generating equipment revenue and investing across lithography, e-beam inspection, and fine-line interconnects. Management views larger substrates as a natural extension of AI packaging as systems integrate more compute, memory, and interconnect content.
- **DRAM —** Management sees a materially larger DRAM investment cycle ahead as spending shifts from line upgrades toward greenfield capacity. Industry capacity was roughly 1.6M wspm a year ago and is adding ~400K this year, with another ~300–400K wspm of annual additions expected over the next several years. AMAT estimates an upgrade requires only ~25% of the equipment investment of a comparable greenfield fab, implying substantially stronger WFE economics as DRAM growth becomes more greenfield-driven.
- **ICAPS / NAND —** ICAPS utilization is recovering after several years of digestion, supporting moderate growth in CY26 and a more normal growth year in CY27. In NAND, layer scaling continues to increase bit density to

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support the high 20s growth, and management expects NAND to remain primarily an upgrade market with limited greenfield activity for at least the next few years.

- **HBM Despec —** Management views lower HBM stack content per AI system as broadly neutral for equipment demand. Customers are reducing memory per system primarily to maximize total AI system shipments under constrained memory supply, resulting in more GPUs, CPUs, and accelerators shipping for a given amount of memory. AMAT has not seen any reduction in equipment demand from this dynamic.

- **Broad Portfolio —** Management looks at the broad portfolio less than the desire to be broad, but more about the most enabling technology for the customers. Customers can develop future architectures using multiple AMAT process steps in an integrated environment, allowing AMAT to optimize material interactions and potentially win more process-tool-of-record positions.

- **Capacity —** AMAT is investing enough manufacturing capacity to support roughly 2x current quarterly systems output by 2028, though management emphasized this is a capacity-planning scenario rather than a revenue forecast. AMAT is also passing the aggregated 8-quarter demand forecasts to its suppliers to support their own capacity investments, with suppliers so far keeping pace despite customer forecasts rising throughout the year.

- **Gross Margins / Pricing —** Management continues to frame gross-margin expansion as a function of increasing product value rather than simply taking price. Gross margin has expanded roughly 300bps over the past three years, with pricing contributing as newer solutions deliver greater enabling value. Value-based pricing applies to both new and existing products, with the adjustments also reflecting higher labor, material, and component costs.

- **Services —** Services growth is running >20% in CY26 versus a mid-teens long-term framework, driven by stronger systems shipments and unusually high fab utilization across logic, DRAM, NAND, and improving ICAPS. Management expects growth to normalize toward mid-teens, supported by ~5–7% annual installed-base growth and higher revenue per tool.

- **PDC —** PDC is expected to grow >50%, driven by rising e-beam inspection intensity in more complex 3D architectures.

Applied Materials Inc

Valuation

We value AMAT at $710 using a 28x P/E multiple on 2028E EPS. We view a 28x multiple, above AMAT's 3-year average multiple of 21x, as appropriate given multi-year WFE upcycle, secular tailwinds, and incremental AI data center investment.

Risks

Downside risks to the achievement of our target price include the following: 1) As fab utilization and capital equipment orders are closely linked to the stock price, any material differences to our supply/demand model (e.g. demand drops suddenly, or supply increases more rapidly than we predict) may cause our valuation methodology to be inaccurate. 2) As the market share leader in multiple sub-segments of semiconductor equipment, AMAT is uniquely positioned to capitalize on inflections as well as face tough competition from large peers in industry cycles.