

INITIATING COVERAGE

Advanced Micro Devices, Inc. (NASDAQ: AMD)*The Credible Second Source in AI Compute — Great Franchise, Demanding Price*

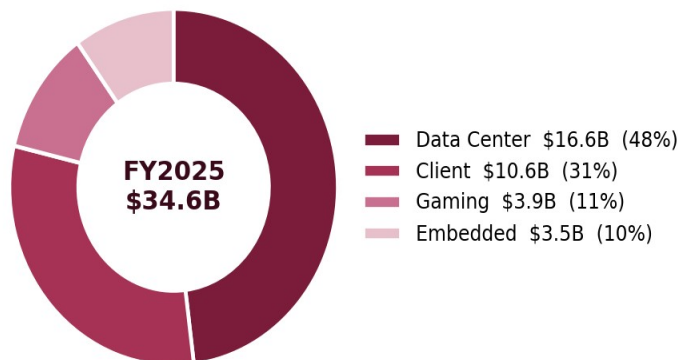
Naina Garg | Independent Equity Research | June 17, 2026

Rating	NEUTRAL	12-Month Price Target	\$540
Current Price (6/17/26)	~\$507	Implied Return	+6.5%
Bull Case	\$700 (+38%)	Bear Case	\$360 (-29%)

Investment Summary

We initiate coverage of Advanced Micro Devices at NEUTRAL with a 12-month price target of \$540. AMD has become the only credible second source to NVIDIA in AI accelerators and simultaneously taken record share from Intel in server CPUs — a genuinely improved competitive position backed by inflecting financials. Our hesitation is not the business; it is the price. After a ~133% year-to-date advance to roughly \$507, the shares trade at ~58x forward earnings, a premium to NVIDIA (~23x) despite a fraction of the market share, and above the Street's average target. We would become more constructive on evidence of a clean MI450 ramp or a pullback toward the \$400s.

The bull thesis in one line: AMD is a second source in a market whose total spend is still compounding ~70%+ a year, and even modest accelerator share gains compound into a large earnings story. The bear thesis in one line: the easy multiple expansion has happened, customer concentration (OpenAI, Meta) and the CUDA moat are real, and the stock already discounts flawless execution.

AMD FY2025 Revenue by Segment

Source: AMD FY2025 Form 8-K. Data Center is now the largest and fastest-growing segment.

Company & Segment Overview

AMD designs high-performance CPUs, GPUs and adaptive (FPGA) silicon across four segments. Data Center (EPYC server CPUs and Instinct GPUs) is now the company's center of gravity at roughly half of revenue; Client (Ryzen PC processors) and Gaming (semi-custom console and Radeon) form the consumer franchise; Embedded (the Xilinx FPGA portfolio) is the highest-margin, most stable segment. FY2025 revenue rose 34% to \$34.6 billion, and in Q1 2026 Data Center grew 57% year-over-year as Instinct GPU sales surpassed CPU sales for the first time.

Segment	FY25 Rev	YoY	Op. Margin	Q1'26 Rev	Q1'26 YoY
Data Center	\$16.6B	+32%	21.7%	\$5.8B	+57%

Client + Gaming	\$14.6B	+51%	19.6%	~\$3.6B	+23%
Embedded	\$3.5B	-3%	36.0%	\$0.87B	+6%
Total	\$34.6B	+34%	10.7%	\$10.3B	+38%

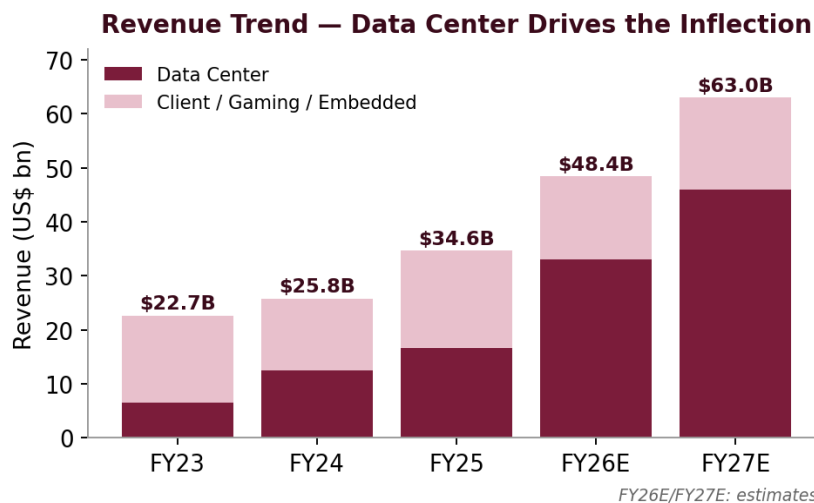
Source: AMD Q4/FY2025 and Q1 2026 results. Op. margin shown at segment level (FY2025).

The AI Opportunity: Instinct Ramp & Anchor Customers

AMD's data-center GPU franchise is the swing factor for the equity. At its November 2025 Analyst Day, management targeted greater-than-60% data-center revenue CAGR and roughly \$100 billion of annual data-center chip revenue within about five years, with AI revenue compounding more than 80% annually. The credibility of those targets rests on a string of marquee design wins:

- **OpenAI** — a 6-gigawatt Instinct commitment (MI450-led, first gigawatt in 2H 2026), accompanied by a warrant for up to ~160M AMD shares (~10%) tied to deployment milestones.
- **Meta** — a multi-year arrangement (announced Feb 2026) of up to 6 gigawatts and reported value above \$100 billion, also with an equity warrant.
- **Oracle** — a cluster of ~50,000 MI450 GPUs beginning 2026, plus additional wins at Microsoft, Google, Tencent and HPE (the Helios rack-scale platform).

The 2026 product cadence — MI355X (shipping), MI450 (2H 2026) and the Helios rack-scale system — positions AMD against NVIDIA's Vera Rubin generation. AMD's own benchmarks claim leadership on inference tokens-per-dollar; the honest caveat is that **training still runs overwhelmingly on CUDA**, and ROCm, while much improved, has not displaced it.



Source: AMD filings; FY26E/FY27E are author estimates anchored to management's >60% Data Center CAGR guidance.

The CPU Franchise: Quietly Winning

Beneath the AI headlines, AMD's server CPU business reached a record 46.2% of x86 server revenue share in Q1 2026 (33.2% of units), with the revenue-versus-unit gap reflecting premium, high-core-count SKUs. Management raised the server-CPU TAM to greater than \$120 billion by 2030, arguing that agentic-AI workloads lift the CPU attach rate alongside GPUs. The next-generation 'Venice' EPYC extends the roadmap, and AMD continues to take PC share from Intel in Client. This is a durable, cash-generative franchise that the market largely ignores in favor of the GPU story.

Financial Profile & Estimates

The financial inflection is real: Q1 2026 revenue grew 38% with non-GAAP gross margin of 55%, operating income of \$2.5 billion and record free cash flow of \$2.6 billion. Management's Analyst Day model implies more than \$20 of non-GAAP EPS over time at a greater-than-35% revenue CAGR and greater-than-35% operating margin. Our estimates below are deliberately below that long-range model to reflect ramp and margin-mix risk.

Metric	FY2025A	FY2026E	FY2027E
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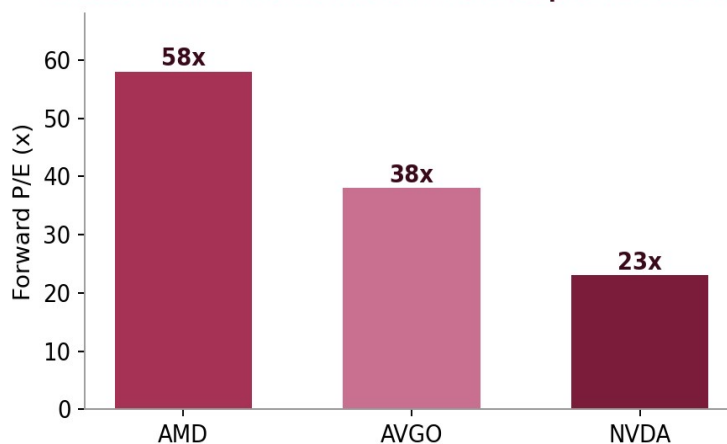
Total revenue (US\$ bn)	34.6	~48.4	~63.0
Revenue growth	+34%	~+40%	~+30%
Data Center revenue (US\$ bn)	16.6	~33	~46
Non-GAAP EPS (US\$)	4.17	~5.50	~12.00
Non-GAAP gross margin	~53%	~54%	~55%

FY2025 actuals from AMD filings; FY2026E/FY2027E are author estimates. EPS figures non-GAAP.

Valuation

AMD screens expensive on every absolute and relative metric. At ~58x forward earnings and ~20x EV/sales, it trades at a premium to NVIDIA — the share leader with the wider moat — and the Street's average price target (~\$430–486) already sits below the current price, meaning the stock has out-run the sell side. We anchor our valuation on FY2027 estimates rather than the optically extreme FY2026 multiple, applying ~45x to ~\$12 of FY2027 non-GAAP EPS to reach our \$540 base-case target.

Valuation: AMD Trades Above NVIDIA Despite Far Less Share



Source: aggregated market data, mid-June 2026; multiples vary by provider and should be refreshed at publication.

Scenario Analysis

Our framework spans execution outcomes on the MI450 ramp and the durability of AI capex. The bull case assumes a clean ramp, share gains toward double digits and sustained premium multiple; the bear case assumes ramp slippage or an AI-capex air-pocket compressing both estimates and the multiple.

Scenario	FY27 EPS	Multiple	Price Target	Return
Bull	~\$14	50x	\$700	+38%
Base	~\$12	45x	\$540	+6.5%
Bear	~\$12	30x	\$360	-29%

Returns measured against the ~\$507 reference price.

Key Risks

- **CUDA moat / ROCm gap.** Software lock-in keeps the bulk of training on NVIDIA; AMD's wins skew to inference and to customers willing to invest in porting.
- **Valuation.** ~58x forward P/E above NVIDIA's, with consensus targets already beneath the price — priced for perfection.
- **Customer concentration & circular financing.** OpenAI and Meta dominate the GPU backlog, both via equity warrants tied to deployment; slippage, dilution, or an AI-capex pause would hit hard.

- **Execution / ramp risk.** MI450/Helios is a new rack-scale operational muscle against NVIDIA Vera Rubin; AMD has a history of GPU ramps slipping.
- **Gross-margin dilution & China.** Early-ramp GPU deals can carry lower margins than CPUs, and U.S.–China export rules remain a wildcard for accelerator sales.

Catalysts (Next 12 Months)

- **Q2 2026 earnings** (early August, to be confirmed) — performance versus the ~\$11.2B guide.
- **MI450 launch & first OpenAI / Meta / Oracle deployments** in 2H 2026 — the single most important catalyst.
- **Helios rack-scale availability** and additional hyperscaler/sovereign design wins.
- **Server-share milestones** toward the >50% EPYC revenue-share target with 'Venice'.

Disclosures & Methodology

This report is an independent research sample prepared for portfolio-demonstration purposes only. It is not investment advice, not a solicitation, and the author may hold no position. Figures are drawn from AMD SEC filings, the November 2025 Financial Analyst Day, company press releases, and third-party financial data providers as of mid-June 2026; market-data points and consensus estimates should be refreshed at the time of any decision. Forward estimates are the author's own and carry no assurance of accuracy.