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Stock to watch: Micron shares double on surging memory chip demand

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Micron Technology Inc.

Thursday's close: $11.89, up 6 cents, or 0.5 per cent

52-week trading range: $5.16 to $11.99 a share

Annual dividend: none

Analysts' ratings: There were 18 buys, 9 holds and 3 sells, according to Bloomberg data. Target prices ranged from $7 a share as estimated by Susquehanna Financial analyst Mehdi Hosseini to $15 a share by Drexel Hamilton analyst Richard Whittington and Jefferies & Co. analyst Sundeep Bajikar.

Recent history: Rising prices for computer memory chips have sent shares of Micron soaring 98 per cent over the past year. Its stock hit a 52-week high on Thursday as the spot price for 2-gigabyte dynamic random access memory (DRAM) climbed to $1.78 from last October's low of 77 cents. Shares of Micron tumbled to a 52-week low last fall as the Boise, Idaho-based company remained mired in red ink as sales of personal computers - its traditional market - continued to lose ground to tablets and smartphones. Even though current DRAM prices are still far below the high of $4.10 in 2010, their recent climb has now spurred analysts to forecast a small third-quarter profit for Micron. The implosion of DRAM prices in recent years has caused memory chip makers to go out of business. Micron last year negotiated a deal to acquire Japanese chip maker Elpida Memory Inc., which had filed for bankruptcy protection. The bailout plan would give many creditors their money over time, but closure of the deal has been delayed by wrangling in the courts by unhappy creditors.

Manager insight: Micron will benefit from a "paradigm shift" towards growing memory-chip demand by smartphones and tablets, while supply will remain tight because of an oligopoly of players now remaining in the industry, says Nelson Cheung, a portfolio manager with Montreal-based Formula Growth Ltd.

The appetite for mobile-DRAM chips has ramped up because hand-held devices are becoming increasingly popular, and are upgraded more frequently by consumers than the traditional market of PCs and laptops, said Mr. Cheung, who began buying Micron shares last month for his Formula

Growth Global Opportunities hedge fund.

The current DRAM prices are “here to stay, and possibly strengthen,” he suggested. “Ultimately, if they [Micron] sell more, their fixed costs are the same, but the prices are going up. So it’s a margin and free cash flow story.”

There was about 30 DRAM suppliers a decade ago, but bankruptcies have whittled that number down to three major players with Samsung Electronics Co. holding about 50 per cent of the market followed by Micron and then SK Hynix Inc., said Mr. Cheung. He doesn’t expect competition from new entrants because a new plant is prohibitively expensive to build, in the $1-billion to $2-billion range.

Using current spot pricing for DRAM, he is forecasting earnings of $1.80 to $1.90 a share for fiscal 2014, and $2.40 to $2.50 a share for 2015, as Micron can expand plant capacity to meet rising demand, he said.

Mr. Cheung has a 12-month target of $18 a share for Micron. That excludes any impact from the acquisition of Elpida, which is expected to close before year end, and “will be a near-term catalyst” for the stock, he said. Conservatively, Elpida could add about $1 a share in earnings for fiscal 2014 and maybe $1.20 a share in 2015, he suggested.

A risk to Micron shares is a new player entering the DRAM market, “but we don’t believe that to be the case,” he said. But the company could be challenged by operational glitches arising from integrating Elpida, or surprises like weaker demand for mobile devices, or a faster-than-expected decline in sales of PCs and laptops, he acknowledged.