

After spin-off, AMD looks more attractive to Street

Shrinking debt, new products and Intel's attention boost chip maker's profile

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SAN FRANCISCO (MarketWatch) -- Eighty cents may not sound like much, but for Advanced Micro Devices Inc. it represents a not-so-modest turnaround for the struggling chip giant.

That's how much the company's stock has roughly risen in the past two weeks -- a gain of about 40% -- after completing a major spin-off meant to turn the Sunnyvale, Calif.-based chip maker into a more nimble competitor -- and one more attractive to Wall Street.

This certainly was evident Tuesday as AMD's shares surged more than 11.3% to close at \$2.76, outpacing the rest of the tech sector.

For the year to date, the company's stock is up about 28%, while rival Intel Corp. has seen its shares gain only 1.6%. AMD has also outperformed the Philadelphia Semiconductor Index, which is up 4.1% since Jan. 1.

"They were beaten down severely," said analyst Roger Kay of Endpoint Technologies Associates. "Also, I think it's fair to say that AMD has made it through the eye of the needle. The worst is over for now."

Just about a year ago, analysts wondered about AMD amid mounting financial woes, aggravated by losses due to its 2006 acquisition of ATI Technologies and production missteps that enabled dominant rival Intel to gain even more market share.

But AMD's decision to spin off its manufacturing faculties -- creating GlobalFoundries in a joint venture with the Advanced Technology Investment Co. and Mubadala Development Co., both of Abu Dhabi -- has given the chip company much needed breathing room, analysts say.

Analyst Doug Freedman of Broadpoint.AmTech said a big factor is the huge cash infusion AMD gets from the deal, including \$700 million from ATIC for its ownership interests in the new company. GlobalFoundries also assumed responsibility for about \$1.1 billion of associated AMD debt.

Inadvertent boost from an unlikely source

"They've retired some debt and there's expectation that they'll retire more debt because of the deal," Freedman said in an interview. Analyst Rob Enderle of the Enderle Group echoed this view saying, "The huge financial burdens have been mitigated and the market is looking at them more favorably."

Freedman said AMD also got an unexpected boost from Intel's reaction to the spin-off. On Monday, Santa Clara, Calif.-based Intel accused AMD of having breached the terms of a patent cross-license pact as a result of creating the new company. Intel is challenging AMD's assertion that GlobalFoundries is a subsidiary and therefore covered by the 2001 agreement.

But Freedman said that may have made it appear to investors that Intel felt threatened by the potential boost the AMD would get from the spin-off, boosting the smaller chip maker's image.

"Intel's complaint about the deal almost offers legitimacy to it, and legitimacy to AMD and to Intel's concerns about them as a competitor," Freedman said.

Other analysts say AMD's recent gains may also be based on the company's recent successes with new products.

"For example, the company is executing much better than it was at the time of Barcelona," Kay said, referring to the AMD chip used for high-end personal computers and workstations. The chip got bad reviews and came out late when it was released in 2007.

But AMD has bounced back with a new chip code-named Shanghai, which has gotten good reviews. The company also is getting positive marks for a new chip for notebooks and for a new graphics microprocessor that analysts say showed the wisdom of its ATI Technologies acquisition.

"The buzz surrounding the platform has been very strong," Enderle said. "A lot of good news surrounding the company of late is driving the share price."

Analyst John Dryden of Charter Equity Research also said that AMD's balance sheet is "secure for at least a year versus a couple quarters to support financial losses."

Some words of caution

"The worst is over near-term," Dryden said, although he added: "AMD is going to have to reduce the breakeven point below \$1.3 billion later this year or they won't be profitable before 2011."

For that matter, not all analysts share the positive vibes for AMD, especially at a time when the chip market is reeling from one of the most severe downturns in its history.

Analyst Brian Piccioni of BMO Capital Markets attributed AMD's gains to "volatility," something he said is "the name of the game in a bear market."

Despite recent gains, AMD still lags Intel in terms of product offerings, he added. "At the end of the day, viability is predicated on having competitive products," he said. "If you've got more cash to burn through, you have a bit more flexibility there. But you still have to have competitive products."

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