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150 East 52nd St, 3rd Floor New York, NY 10022

Signal from Noise

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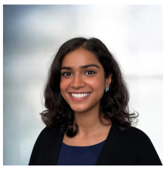
MEMORY AND STORAGE STOCKS ARE ON A TEAR. HOW LONG CAN THE GOOD TIMES LAST?



Hardika Singh

ECONOMIC STRATEGIST, MARKET INTELLIGENCE

Memory and storage stocks have been a red-hot winning streak this year. But increasingly, many investors are worried that the rally has gotten too far, too fast.

Micron shares have rallied about 30% just this week alone, sending its market value soaring above $1 trillion. Korea’s SK Hynix, as well, joined Micron in that exclusive club this week, with shares up 20%. Sandisk, Western Digital, and Seagate shares added 13%, 8%, and 7.6%, respectively, over the same period. In comparison, the S&P 500 rose a mere 1.4% this week, while Nvidia, responsible for kickstarting the AI mania, climbed 0.2%.

Underpinning the outperformance is a very simple premise: Demand for inference has exploded, making the race to develop next-generation models all the more urgent. That, in turn, means increased demand for memory chips: training the next-generation models means servers equipped with insane amounts of specialized memory chips to feed data to processors — as well as physical storage to remember data permanently. Without them, AI servers cannot operate. That has led to skyrocketing memory prices.

The reason why many investors don’t believe this rally is sustainable is because the memory and storage industry carries a reputation for being prone to boom-and-bust cycles. They’re considered to be a commodity, which means that during good times, everything’s great, but when the going gets tough, it’ll test you like nothing else ever did. If memory makers mistime their production cycle with market demands (which often happens), then they typically end up having to sell their inventory at a loss. This happened most recently in late 2022 and early 2023, when a prolonged downturn led to a supply glut.

However, there are signs that the industry's reputation is evolving past this historical reputation.

#1 If AI is indeed considered to be the fourth industrial revolution, then demand is expected to keep increasing as systems become more powerful.

#2 Adoption is also expected to grow, especially with incoming IPOs by OpenAI and Anthropic.

#3 Prior to the memory bottleneck, memory makers used to sign 1-year contracts, but now they've started signing long-term agreements, which gives them more revenue visibility. For example, Micron, SK Hynix, and Samsung have already completely sold out their entire HBM production capacities through the end of 2026. Micron, in particular, recently signed a five-year "strategic customer agreement."

#4 Micron, Samsung, and SK Hynix together command 90% of the global memory market, and supply isn't so easy to add. Micron is spending $50 billion to increase the size of its Boise, Idaho, campus, which would include the construction of new factories, but the plants aren't expected to be in production until the end of 2028.

As an added bonus, memory stocks trade at extremely low multiples compared to the broader market even after the recent run up. Micron trades at 10.2 times forward earnings, the only stock with multiples of around 10 that has over $1 trillion in market value. Sandisk trades at 9.7 times earnings. Tech stalwarts trade higher, like Nvidia at 21.4, Microsoft at 23.1, and Meta at 17.3. However, Western Digital and Seagate trade at multiples of 31.3 and 34.3, more expensive than the broader market.

So, if one believes that memory has broken out of its cyclical legacy, then at these levels the stocks might still be a fit for longer-term investors with high risk tolerance.

With that being said, here are the business models of Micron, Sandisk, Western Digital, and Seagate to help you in your decision making:

Micron

Micron makes money by designing and selling two types of technology:

DRAM (Dynamic Random-Access Memory): This is the memory that servers, computers, and phones use to run applications in real time. Once you turn a device off, this data vanishes. When you stack DRAM chips on top of one another, you get high bandwidth memory (HBM), which is a specialized DRAM that has high performance and low latency. In the most recent quarter, Micron's quarterly DRAM revenue grew 207% from a year ago to $18.768 billion.

NAND Flash Memory: This holds onto data even when the power is off. Micron uses NAND to build SSDs (Solid State Drives) for laptops and massive data centers and automobiles. In the most recent quarter, Micron's quarterly NAND revenue grew 169% from a year ago to $4.997 billion.

Micron has four business units:

1. Cloud memory: This is the highest-grossing business unit, earning $7.75 billion in revenue in the most recent quarter, focusing on providing memory solutions for private, hosted and hybrid cloud models.

2. Core data center: Micron designs advanced memory and storage solutions specifically engineered to power high-performance AI workloads and cloud servers. It earned $5.69 billion in revenue from this segment in the most recent quarter.

3. Mobile and client: This is what feeds into smartphones, laptops and consumer PCs. In the most recent quarter, Micron made $7.71 billion in revenue from this line.

4. Automotive and embedded: Micron's technology is also used for the automotive industry. According to their website, these automotive applications enable such technologies as advanced driver-assistance systems, autonomous vehicles, enriched cabins, connected cars and shared vehicles. In the most recent quarter, this segment generated $2.71 billion in revenue.

Sandisk

Sandisk doesn't touch DRAM or AI processing chips. Instead, it co-develops flash-based data storage that can be used for home, studio, data centers, and more. It uses non-volatile storage, meaning it keeps information intact whether the devices are on or off.

It has three end markets:

1. Data center: This is the fastest-growing segment, with revenue reaching $1.5 billion in the latest quarter, growing 233% from a quarter ago. The earnings report said that revenue in this segment was driven by strong demand for its TLC-based enterprise SSD portfolio, which powers performance intensive compute workloads where speed and latency are important.

2. Edge: Edge refers to embedded flash memory that's put inside phones, cars, laptops and more. In the most recent quarter, revenue grew 118% from a quarter ago to $3.7 billion.

3. Consumer: This is the segment that's responsible for selling Sandisk-branded USB drives, SD cards for cameras, and portable external SSDs, but it's also the smallest market. Revenue in the most recent quarter fell 10% from a quarter ago to $820 million.

Western Digital

In early 2025, Western Digital officially completed a spin-off of its Sandisk flash memory business. While Sandisk is concentrated in NAND flash memory, the new Western Digital focuses on Hard Disk Drives (HDDs), which offers greater capacity at a lower cost than SSDs. (SSDs are a better choice when durability, energy efficiency, and transfer speeds are priorities.)

Around 80% of storage within the cloud is on HDDs. As such, 90% of Western Digital's revenue comes from data centers, AI and cloud, according to its investor presentations.

Seagate

Like Western Digital, Seagate, too, dabbles in permanent physical storage, selling HDDs. Strengthening cloud and enterprise demand has boosted its data center revenue to grow 55% from a year ago to $2.5 billion in the most recent quarter, coming in at about 80% of the total revenue. Edge IoT end market, which comprises all other products, posted a revenue increase of 12% from a year ago to $612 million.

Seagate is rolling out a new hard-drive storage technology called heat-assisted magnetic recording, or HAMR, which is expected to reduce unit cost by 10-15% and post a 40% improvement with a 1 exabyte deployment—an exabyte is a billion gigabytes.

Western Digital is expected to roll out its HAMR in a couple of years.

Conclusion

A blistering hot rally in shares of memory and storage makers has driven the broader stock market to highs. Though the war isn't over and a peace deal hasn't been reached, oil prices have mostly hovered around $100 a barrel. Earnings are to thank for the market's continued strength, causing the S&P 500's price-to-earnings multiple to decline to 21.1 from 22.0 at the start of the year, even though the S&P 500 has added 10% this year. Still, it's a valid concern—if highflyers like Micron, Sandisk, Western Digital, and Seagate tumble, they could drag down the market with them. However, due to how the AI infrastructure is set up, memory and storage may no longer be considered a cyclical commodity, which suggests that they could still be a buy for the long-term, risk-tolerant investors.

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