

INITIATION OF COVERAGE | AI COMPUTE | 18 OCTOBER 2026

Advanced Micro Devices

NASDAQ: AMD

Growth has a price. Execution must earn it.

BUY | The reference close offers modest upside to central value; execution and durable cash returns remain decisive.

Recommendation	Target / horizon	Reference close	Implied return
BUY - High risk	\$610.00 / 12-18 months	\$528.75 / 16 Oct 2026	15.4%

Investment conclusion

Our target rounds Base intrinsic value of \$607.56 to the nearest \$5. Probability-weighted value is \$591.16. The forecast reflects management’s 2027 operating outlook. The rounded target implies 15.4% upside, just above our 15% BUY threshold; unrounded Base upside is 14.9%. The simulation median remains below the reference; BUY is a high-risk, Base-led judgment rather than a prediction that most outcomes will be profitable. Competitive duration and cash conversion remain decisive.

The central case incorporates the Q3 revenue guidance midpoint and strong subsequent Instinct and EPYC growth. It also charges for working capital, capital expenditure, employee compensation and conditional customer warrants. Strategic investment funding and acquisition shares are distinct claims on the operating opportunity.

Base forecast - DR estimates	Value
FY2027 revenue	\$89.33bn
FY2030 revenue	\$252.45bn
FY2030 non-GAAP operating margin	38.0%
Terminal share of enterprise value	70.5%

Valuation origin: June 27, 2026. Information review: October 18. The dated closing-price comparison is separate from the financial-statement date. The 12-18 month horizon is a research realization convention, not a mechanically rolled-forward target. Publication date: October 18, 2026.

Investment thesis

The opportunity is real; price determines the investment return.

A credible alternative platform

AMD offers accelerators, server CPUs and complementary networking within an expanding software ecosystem. Its investment opportunity rests on sustained customer adoption and the ability to turn more complex systems into repeat revenue. Product qualification, software compatibility and customer economics matter more than an aggregate market-size narrative.

Commercial wins do not eliminate economic costs

Large deployment announcements support the demand thesis, but delivery timing, collections and incentive terms determine equity value. The model does not apply recurring cloud ARR multiples to chip sales or add announced gigawatts to an already modeled revenue ramp.

The strongest upside case

AMD may sustain faster growth and stronger returns for longer than our central case. A lower required return also raises present value sharply. The Bull outcome is materially above the reference price; the reference price may prove conservative if execution exceeds our central assumptions. We treat that possibility explicitly rather than assuming the Base path is certain.

Scenario	Analyst probability	Intrinsic value
Failure	10%	\$12.12
Bear	25%	\$123.00
Base	45%	\$607.56
Bull	20%	\$1,429.01

Scenario probabilities are Dilikoglu Research judgments. Failure is a severe execution and liquidity case; the assigned weight is not an observed default frequency. The target follows Base, while probability-weighted value describes the selected distribution.

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Operating forecast

Near-term guidance anchors a long-range analyst forecast.

Q3 management guidance is \$13bn revenue, plus or minus \$0.3bn, 56% non-GAAP gross margin and \$3.65bn non-GAAP operating expense. Base follows those anchors. Q4 sequential growth and all subsequent annual operating forecasts are independent estimates. [Q2 results]

Period	Revenue \$bn	Economic EBIT \$bn	Economic FCFF \$bn
H2 2026	27.56	5.42	-0.37
2027	89.33	21.74	11.47
2028	130.80	36.31	19.92
2029	185.73	57.48	31.44
2030	252.45	85.59	50.70
2031	330.63	111.53	70.92
2032	413.05	138.48	95.65
2033	487.74	162.34	118.73
2034	539.90	178.24	135.47
2035	556.10	181.97	140.57

The opening forecast is a half-year bucket. Historical H1 revenue contributes to FY2026 revenue but not to future cash-flow value. Instinct is estimated within reported Data Center revenue; remaining Data Center includes EPYC and other products. The split is not an issuer-reported accelerator revenue series.

Economic EBIT retains compensation and finite acquisition amortization; it is not a complete GAAP earnings forecast. The cash schedule adds back noncash compensation but the valuation retains future compensation as an economic cost. Existing awards are adjusted once because their claims enter diluted shares.

For 2027, Base estimates \$35.12bn Instinct revenue. Data Center grows 122.6% and the CPU/other-Data-Center proxy grows 79.9% versus the estimated full-year 2026 base. Management indicated Data Center growth above 100%, server growth above 70%, and that an analyst's \$30bn Instinct estimate was too low. The exact product forecasts remain DR estimates. [Q2 transcript]

Growth assumptions and competitive duration

Management aspirations and DR execution estimates remain separate.

Base assumption	DR estimate
2027-2030 GPU growth	145% / 85% / 65% / 50%
2027-2030 CPU growth	60% / 30% / 25% / 20%
Growth normalization	Five-year fade to 3% by 2035
2030 non-GAAP operating margin	38%
Terminal economic EBIT margin	33%
WACC / perpetual growth	10% / 3%
Terminal return on invested capital	30%

The first annual product growth rate is measured against annualized H2 2026, not full-year 2026 revenue. Later rates apply to the preceding annual forecast. After 2030, growth fades continuously rather than dropping abruptly to maturity.

AMD's November 2025 Analyst Day set three-to-five-year objectives above 35% company revenue CAGR, above 60% Data Center CAGR, above 80% Data Center AI CAGR and above 35% non-GAAP operating margin. These targets provide context, not contractual revenue or a guaranteed 2030 result. [Analyst Day]

Base reaches \$556.10bn revenue in 2035. This is a demanding scale assumption. Sustained software progress, supply availability and competitive pricing are necessary; success in early deployments alone does not establish the terminal economics.

Working capital and funding

Value must survive the cash demands of expansion.

Year	Capex \$bn	Change NWC \$bn	Strategic cash \$bn	Closing cash \$bn
2026	1.24	5.99	0.00	10.98
2027	4.02	6.16	5.00	21.09
2028	5.89	10.42	0.00	43.98
2029	8.36	13.68	0.00	82.28
2030	11.36	16.47	0.00	141.03
2031	11.90	19.64	0.00	223.49
2032	11.15	20.70	0.00	333.07
2033	11.71	18.78	0.00	468.85
2034	15.31	13.11	0.00	623.20
2035	23.85	4.03	0.00	783.22

Receivable, inventory and payable assumptions link growth to funding. Combined commitments are allocated between component purchases and services using DR estimates. Supply commitments create procurement floors; they are not deducted again as debt. Unused lease losses and guarantee calls are modeled separately. [Q2 10-Q]

Debt principal and interest are tracked outside unlevered cash flow. The revolver can bridge temporary needs within assumed availability and maturity limits; commercial paper is not counted as a second facility. Discretionary buybacks are excluded. This is not a covenant-compliance certification.

The Anthropic investment uses the full assumed \$5bn cash outlay in liquidity. Valuation deducts the estimated loss after recovery, rather than both the full investment and a second loss. Recovery is an analyst assumption, not a liquid market quote; no separate operating revenue uplift is added for the partnership. [Anthropic]

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Acquisitions, investments and equity claims

Separate disclosed transaction size from estimated settlement.

Claim	Treatment
World Labs	Reported approximate \$8.2bn all-stock agreement. DR retains a \$649.42 assumed issuance price pending disclosure of the exchange ratio; completion assumed.
Estimated acquisition shares	12.63m shares; no standalone synergy premium.
Anthropic	Reported up-to-\$5bn commitment. DR assumes full funding in 2027; scenario investment recoveries apply.
Taalas	Consideration not disclosed. No central transaction amount inferred; \$1bn/\$3bn/\$5bn cash-cost sensitivities shown.
Customer warrants	Up to 320m aggregate warrants; conditional delivery and price treatment, not unconditional share issuance.

World Labs' final exchange ratio and Taalas' consideration are not available in the reviewed announcements. Zero modeled Taalas consideration is an unresolved input, not a claim that the acquisition is free. The current model also lacks a purchase-price allocation and incremental acquired operating forecast. [World Labs; Taalas]

Unknown Taalas cash consideration	Base IV
\$1bn	\$607.07
\$3bn	\$606.10
\$5bn	\$605.13

OpenAI and Meta warrant schedules contain redacted intermediate terms. The model uses expiry-bounded delivery estimates and price proxies, solved jointly with equity value. Full and zero warrant sensitivities bound this approximation; they do not certify legal vesting. Existing employee RSUs and options are estimated from available disclosures. [OpenAI warrant; Meta warrant]

Valuation

Cash generation and security claims form one consistent bridge.

Base DCF bridge	USD bn
Explicit forecast PV	349.489
Terminal PV	835.046
Enterprise value	1184.535
Adjusted opening net cash	5.567
Investment recovery value	2.179
Equity value	1192.281

Equity value divided by 1.9624bn economic share claims gives \$607.56. Terminal cash flow deducts reinvestment implied by 3% growth and 30% ROIC. The rounded target is \$610.00. The rating convention is BUY above +15% target return, SELL below -15%, otherwise HOLD. Dividends are excluded.

The discounted terminal EV/EBIT sensitivity gives \$1,013.61. It shares the DCF operating forecast and is not independent corroboration. Neither that result nor the separate check below is blended into the target.

Annualized guided EBIT check	Value / share
20x enterprise multiple	\$125.53
25x enterprise multiple	\$156.08
30x enterprise multiple	\$186.63

The separate check annualizes Q3 guided operating profit, subtracts estimated compensation and applies DR-selected 20-30x enterprise multiples. It assumes full customer warrants and reconciles opening cash, investments and subsequent investment losses. It deliberately omits future growth; it is a current earnings stress, not a comparable-company price target.

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Market expectations and sensitivity

The gap is driven by duration and required return.

Base is 14.9% and probability-weighted value 11.8% relative to the \$528.75 reference. The forecast incorporates the Q2 call's stronger 2027 outlook. Product estimates remain uncertain; the model does not change discount rates or remove contractual dilution to reproduce the reference price.

Separate sensitivity	Base IV
No customer warrants	\$708.94
Full customer warrants	\$595.63
2030 non-GAAP margin 35%	\$597.70
Terminal economic margin 38%	\$685.92
WACC 9%	\$734.69
Instinct Q2 allocation \$2bn	\$510.31
Instinct Q2 allocation \$4bn	\$722.34
Two-year growth normalization	\$410.78
Three-year growth normalization	\$465.91
Estimated employee awards +50%	\$601.94

Holding other assumptions fixed, approximately 10.82% WACC, or a -5.82 percentage-point adjustment in each 2027-2030 GPU growth rate, reproduces the reference. These are reverse sensitivities, not evidence of the market's actual assumptions.

Terminal value is 70.5% of enterprise value. A simple discount unwind from the balance-sheet date gives \$625.43 before intervening cash adjustments. Neither calculation removes the substantial uncertainty over competitive returns.

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Scenarios and Monte Carlo

The distribution is right-skewed and assumption-dependent.

20,000 draws; seed 20260914	USD per share
MEAN	\$702.82
MEDIAN	\$484.44
P10	\$34.69
P25	\$137.73
P75	\$938.74
P90	\$1,640.41

Conditional scenario	Median
Failure	\$12.24
Bear	\$123.54
Base	\$613.97
Bull	\$1,442.54

Below reference: 53.17%; above reference: 46.83%; above 120% of reference: 39.80%. Zero value: 1.84%. Reserve shortfall: 7.16%.

The mean exceeds deterministic probability-weighted value by 18.9%. Halving dispersion lowers it to \$615.37; zero dispersion gives \$588.84 and reconciles to the sampled scenario centers. Compounding, correlated inputs and the equity floor produce the skew; the result was not tuned to market price.

Simulation frequencies describe chosen analyst distributions, not empirically calibrated return probabilities. Additional draws reduce numerical noise, not uncertainty about customer behavior or long-term competitive advantages.

Catalysts and thesis falsifiers

Evaluate operating evidence rather than announcement volume.

AMD will report Q3 results on November 3 after market close. Its October 12 Helion announcement describes partner configurations planned for November availability; it discloses no incremental revenue or margin guidance. We add no separate revenue premium. [AMD earnings calendar; Helion]

Evidence that would improve the investment case

Q3 delivery against guidance, successful MI450 and Helios deployment, repeat customer orders and cash conversion would strengthen confidence. Evidence of durable margin expansion without disproportionate inventory or incentive costs would support a longer period of high returns. New deal economics must be incremental to the existing forecast before they add value.

Evidence that would weaken the case

Repeated shipment delays, weaker software adoption, pricing concessions or customer concentration could impair the modeled growth path. Rising receivables and inventory alongside slowing orders would weaken cash conversion. Additional customer support or acquisition spending without commensurate economic returns would reduce equity value.

Risks to the valuation judgment

A faster accelerator ramp, longer growth duration or lower discount rate can place fair value above the current price. Conversely, competition from NVIDIA, custom silicon and alternative systems can compress margins and returns even if industry demand continues to expand. Export restrictions and dependence on external manufacturing and advanced packaging add uncertainty.

Required review points

Review each earnings release against guidance and cash conversion. Replace estimated transaction settlement terms when disclosed. Reassess customer warrant proxies when milestones or legal terms become observable. Do not treat a share-price change by itself as confirmation or falsification of the operating thesis.

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Sources and analytical limitations

Reported facts, management outlook and DR estimates remain distinct.

Q2 2026 Form 10-Q | 2026-08-05

Primary source

Q2 results and Q3 outlook slides | 2026-08-04

Primary source

2025 Form 10-K | 2026-02-04

Primary source

2025 Financial Analyst Day targets | 2025-11-11

Primary source

OpenAI warrant and purchase milestones | 2025-10-06

Primary source

Meta warrant and purchase milestones | 2026-02-24

Primary source

Meta warrant: redacted milestone schedules | 2026-02-24

Primary source

World Labs definitive agreement: approximately \$8.2bn all-stock | 2026-09-28

Primary source

Taalas definitive acquisition agreement; consideration undisclosed | 2026-08-06

Primary source

Anthropic deployment and up-to-\$5bn strategic investment | 2026-07-22

Primary source

Third-quarter earnings scheduled for November 3 | 2026-10-06

Primary source

Q2 2026 earnings-call transcript: 2027 outlook and Instinct discussion | 2026-08-04

Primary source

Market reference: October 16 regular-session close of \$528.75, cross-checked using Stock Analysis and ChartExchange historical-price tables. Prices are not live.

Updated sources: Stock Analysis price history; ChartExchange price history; AMD Helion, October 12; AMD earnings calendar, October 6.

The accompanying frozen input register identifies numerical inputs and classifications. Product allocations, growth rates, terminal returns, investment recovery, transaction timing and intermediate warrant vesting are DR estimates. The model is not audited financial guidance, an engineering shipment forecast or a legal opinion on warrant eligibility.

Disclosures

Independent research; substantial forecast uncertainty.

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Sources are believed reliable, but accuracy and completeness are not guaranteed. Estimates and opinions may change as new information becomes available. Scenario values and simulation results depend on assumptions and should not be interpreted as guaranteed prices, probabilities or investment outcomes. Losses may be substantial.

The financial model begins from a historical balance sheet and includes estimated subsequent events. It does not represent a verified current balance sheet. Undisclosed acquisition consideration, redacted warrant milestones and uncertainty over future competitive returns remain material limitations.

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