



Bulls Targeting Weekly Breakout Move in Analog Leader as Auto Production Resumes

Ticker/Price: MCHP (\$82.65)

Microchip Tech (MCHP) buyers early for 2,250 January \$82.50 calls \$5.10 to \$5.40 offers and follows buyers recently at the strike on 11/10 over 1350X. MCHP has also seen buyers in the September \$72.50 calls and June \$100 calls this month. Shares are flagging in a narrow range after the recent run up and poised for a breakout move above \$87 that measures out to \$95. MCHP is also right at the top of a big weekly range that can extend the move longer-term out to \$105-\$110. The \$46.23B company trades 16.8X earnings, 7.66X sales, and 30.5X FCF with a 2.15% yield. MCHP held an investor event last week and laid out a multi-year strategy to continuing gaining market share in microcontrollers and analog, expand gross margins through scale and M&A, and expand their product breadth in key end-markets like industrial and automotive. The company continues to see themselves positioned well for long-term growth amid secular trends like 5G, Edge Computing, and EVs and now sees their SAM of \$84B by 2025, up from \$60B in 2020. MCHP is coming off of a strong quarter with 26% growth Y/Y despite ongoing supply constraints and optimistic on the ramp in auto production in 2022. They also continue to pay down debt and expand capital return with a \$4B buyback announced. Analysts have an average target for shares of \$95 with a Street High \$120. Stifel starting at Hold in October citing valuation given their recent strong execution and potential for lead time-driven correction in the overall analog/mixed-signal semiconductor markets. BAML raising estimates on 9/17 citing their newfound pricing power and supply discipline with a very lean supply chain. Short interest is 2.3%. Hedge fund ownership rose 8% last quarter.

Hawk Vision:



Hawk's Perspective: MCHP sets up well for a continuation move above \$85.40 but think a safer entry for the longer-term swing would be a re-test of the 200-MA and big volume zone at \$76

Confidence Ranking: \$\$