



Intel Corporation (INTC)

Updated May 21st, 2018 by Nate Parsh

Key Metrics

| | | |
|-------------------------------|--|-------------------------------------|
| Current Price: \$54 | 5 Year CAGR Estimate: 7.7% | Quality Percentile: N/A |
| Fair Value Price: \$50 | 5 Year Growth Estimate: 7.0% | Momentum Percentile: N/A |
| % Fair Value: 108% | 5 Year Valuation Multiple Estimate: -1.5% | Total Return Percentile: N/A |
| Dividend Yield: 2.2% | 5 Year Price Target \$70 | Valuation Percentile: N/A |

Overview & Current Events

Intel is the largest manufacturer of microprocessors for personal computers. The company ships about 85% of the world's microprocessors. Intel also manufactures products like servers and storage devices that are used in cloud computing. Intel employs more than 100,000 people worldwide and has a current market cap of almost \$260 billion.

Intel reported 1st quarter 2018 earnings on 4/26/2018. The company earned \$0.87 per share, which beat estimates by \$0.15 and was a 32% improvement from Q1 2017. The company saw revenue growth of nearly 9% year over year to \$16.1 billion. This was more than \$1 billion above expectations. Intel also gave second quarter sales and earnings guidance that was above the market's expectations. A lowered tax rate added \$0.30 to 2018's EPS midpoint, which now stands at \$3.85. All of the company's divisions showed growth in the quarter, with data-centric business growing 25%.

Growth on a Per-Share Basis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$0.92 | \$0.77 | \$2.05 | \$2.39 | \$2.13 | \$1.89 | \$2.31 | \$2.33 | \$2.72 | \$3.47 | \$3.85 | \$5.40 |
| DPS | \$0.55 | \$0.56 | \$0.63 | \$0.78 | \$0.87 | \$0.90 | \$0.90 | \$0.96 | \$1.04 | \$1.08 | \$1.20 | \$1.68 |

Along with most companies in the market, Intel's earnings declined during the last recession, though the company rebounded to growth the following year. Earnings growth over the past decade has averaged 14% per year. Since 2010, however, EPS has grown at a 7% rate per year. Applying the growth rate of 7% to the midpoint of Intel's guidance for 2018 and shares could earn \$5.40 by 2023.

For some time, the PC business has been challenged, but this segment managed to grow 3% in the quarter. What should really interest investors is Intel's data-centric businesses. This division supplies storage, servers and products that are related to the Internet of Things. All combined, this division was up 25% in Q1. Data centric sales represented 49% of total sales, a new record for the company. These products are growing at a steady clip and should for the foreseeable future. While growth for the PC business is welcomed, it is the data-centric products that will be a real driver of growth.

Intel is a very shareholder friendly company. The company generated free cash flow of \$3.4 billion during the quarter, a 70% increase from the previous year. Intel returned almost all of it to shareholders during the quarter in dividends and buybacks. While Intel paused its dividend growth in 2014, the company has increased it since. Overall, the dividend has a CAGR of more than 8% since 2008. The last raise was announced 1/25/2018 and resulted in 10% increase.

Valuation Analysis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Now | 2023 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 21.7 | 22.2 | 10.1 | 9.2 | 11.7 | 12.2 | 13.2 | 13.8 | 12.3 | 10.9 | 14 | 13 |
| Avg. Yld. | 2.8% | 3.3% | 3.0% | 3.5% | 3.5% | 3.9% | 3.0% | 3.0% | 3.1% | 2.9% | 2.2% | 2.4% |

Shares of Intel traded with an artificially high price to earnings multiple in 2008 and 2009 due to steep earnings declines. Since 2010, shares have an average multiple of 11.7. Based off the strength of Intel's data centric growth and PC business improvements, we feel shares deserve a slightly higher target multiple. If shares were to revert to our target P/E of 13, the stock could experience a multiple contraction of 1.5% per year through 2023.

Intel has maintained an average dividend yield that was above 3% for much of the last ten years. Thanks to a share price increase of 48.8% from the start of 2017, Intel's stock yields just 2.2%. This yield is above that of the S&P 500, but well below the yield on the 10-Year Treasury Bond.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| GP/A | 41.3% | 36.8% | 45.1% | 47.5% | 39.3% | 34.1% | 38.7% | 34.2% | 31.9% | 31.7% | 33% | 38.1% |
| Debt/A | 21.6% | 21.5% | 21.8% | 35.4% | 39.3% | 36.9% | 39.2% | 39.8% | 41.6% | 44% | 44% | 42% |
| Int. Cov. | --- | --- | --- | --- | --- | 91.8 | 313.6 | 68.3 | 26.7 | 102.4 | 106.1 | 120.6 |
| Payout | 59.8% | 72.7% | 30.7% | 32.6% | 40.8% | 47.6% | 40% | 41.2% | 38.2% | 31.1% | 31.2% | 31.1% |
| Std. Dev. | 41.5% | 29% | 23.4% | 28.8% | 20.7% | 16.5% | 21.2% | 23.7% | 22.5% | 21.1% | 21.8% | 24.8% |

Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. With a dominate position in its industry, revenues are most likely less cyclical today than they were in 2009. That being said, investors should be prepared for some earnings weakness in the next recession.

Intel has relatively little debt that is due over the next five years and ample cash flow to meet interest coverage. The company is nowhere near overleveraged and likely has the ability to use debt to fund an acquisition. Intel also has a very low dividend payout ratio, making it likely that the company will continue to pay its dividend during a recession.

Final Thoughts & Recommendation

Intel shares of increased almost 50% since the start of 2017. This share price advance has reduced our annual return estimates to 7.7% per year through 2023. This estimate is a combination of earnings growth (7%), dividends (2.2%) and multiple reversion (-1.5%). This type of return with solid dividend growth potential will not likely be of interest to those investors seeking high growth. The current yield is well below the historical average and that of the 10-Year Treasury Bond, so income investors might want to seek alternative investments. On the positive side, Intel has a lot of cash on hand, a low dividend payout ratio, impressive interest coverage and just raised guidance for Q2 and 2018. Intel offers solid total return over the next five years. It is a hold at current prices.

Total Return Breakdown by Year

