



# Intel Corporation (INTC)

Updated August 8<sup>th</sup>, 2018 by Nate Parsh

## Key Metrics

<b>Current Price:</b> \$50	<b>5 Year CAGR Estimate:</b> 11.2%	<b>Volatility Percentile:</b> 55.8%
<b>Fair Value Price:</b> \$55	<b>5 Year Growth Estimate:</b> 7.0%	<b>Momentum Percentile:</b> 88.2%
<b>% Fair Value:</b> 91%	<b>5 Year Valuation Multiple Estimate:</b> 1.8%	<b>Valuation Percentile:</b> 78.9%
<b>Dividend Yield:</b> 2.4%	<b>5 Year Price Target</b> \$76	<b>Total Return Percentile:</b> 77.2%

## 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 \$230 billion.

Intel reported 2<sup>nd</sup> quarter earnings on July 26<sup>th</sup>. The company earned \$1.04 per share, \$0.07 above estimates and an improvement of 44% year over year. Revenue grew almost 14.9% to nearly \$17 billion, \$180 million above estimates.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$0.92	\$0.77	\$2.05	\$2.39	\$2.13	\$1.89	\$2.31	\$2.33	\$2.72	\$3.47	<b>\$4.15</b>	<b>\$5.82</b>
<b>DPS</b>	\$0.55	\$0.56	\$0.63	\$0.78	\$0.87	\$0.90	\$0.90	\$0.96	\$1.04	\$1.08	<b>\$1.20</b>	<b>\$1.68</b>

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.

Intel's divisions performed very well during the 2<sup>nd</sup> quarter. The PC division has been challenged in recent years, but Cloud Computing grew 6% year over year to \$8.7 billion. New 8<sup>th</sup> generation Core processors for laptops and businesses helped drive growth for this division. Data Center Group revenue climbed 27% to \$5.6 billion, though this was slightly below what analysts were looking for. This miss could be the cause of the 5% selloff post earnings. As a whole, however, Data-centric revenues were up 26% year over year. This is where the real growth for Intel will come from in the coming years. On the conference call, Intel management raised its guidance and now expects to earn \$4.15 per share, up from \$3.85 previously. In fact, Intel offered guidance for almost all of its metrics for the 3<sup>rd</sup> quarter and full year 2018 that were above what analysts were looking for.

Intel has generated \$6.3 billion in free cash flow in the first half of 2018. The company has returned \$8.6 billion to shareholders this year, repurchasing \$5.8 billion worth of its own stock and paying out \$2.8 billion in dividends. 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
<b>Avg. P/E</b>	21.7	22.2	10.1	9.2	11.7	12.2	13.2	13.8	12.3	10.9	<b>11.9</b>	<b>13</b>
<b>Avg. Yld.</b>	2.8%	3.3%	3.0%	3.5%	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	<b>2.4%</b>	<b>2.2%</b>

Intel shares have decreased \$4 since our May 21<sup>st</sup> report. Based off of the current share price and updated earnings guidance, Intel's stock has a price to earnings multiple of 11.9. If the valuation was to expand to our target P/E of 13, Intel's multiple could expand 1.8% per year through 2023. This is a significant improvement. At the time of our previous report, we anticipated an annual multiple reversion of 1.5%.

*Disclosure: This analyst has no position in the security discussed in this report and no plans to initiate one in the next 72 hours.*

Intel has maintained an average dividend yield that was above 3% for much of the last ten years. Even with the recent share price decline, Intel's dividend yield is 2.4%. This yield is above that of the S&P 500, but 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
<b>GP/A</b>	41.3%	36.8%	45.1%	47.5%	39.3%	34.1%	38.7%	34.2%	31.9%	31.7%	<b>33%</b>	<b>38.1%</b>
<b>Debt/A</b>	21.6%	21.5%	21.8%	35.4%	39.3%	36.9%	39.2%	39.8%	41.6%	44%	<b>44%</b>	<b>42%</b>
<b>Int. Cov.</b>	---	---	---	---	---	91.8	313.6	68.3	26.7	102.4	<b>106.1</b>	<b>120.6</b>
<b>Payout</b>	59.8%	72.7%	30.7%	32.6%	40.8%	47.6%	40%	41.2%	38.2%	31.1%	<b>28.9%</b>	<b>28.9%</b>
<b>Std. Dev.</b>	41.5%	29%	23.4%	28.8%	20.7%	16.5%	21.2%	23.7%	22.5%	21.1%	<b>21.8%</b>	<b>24.8%</b>

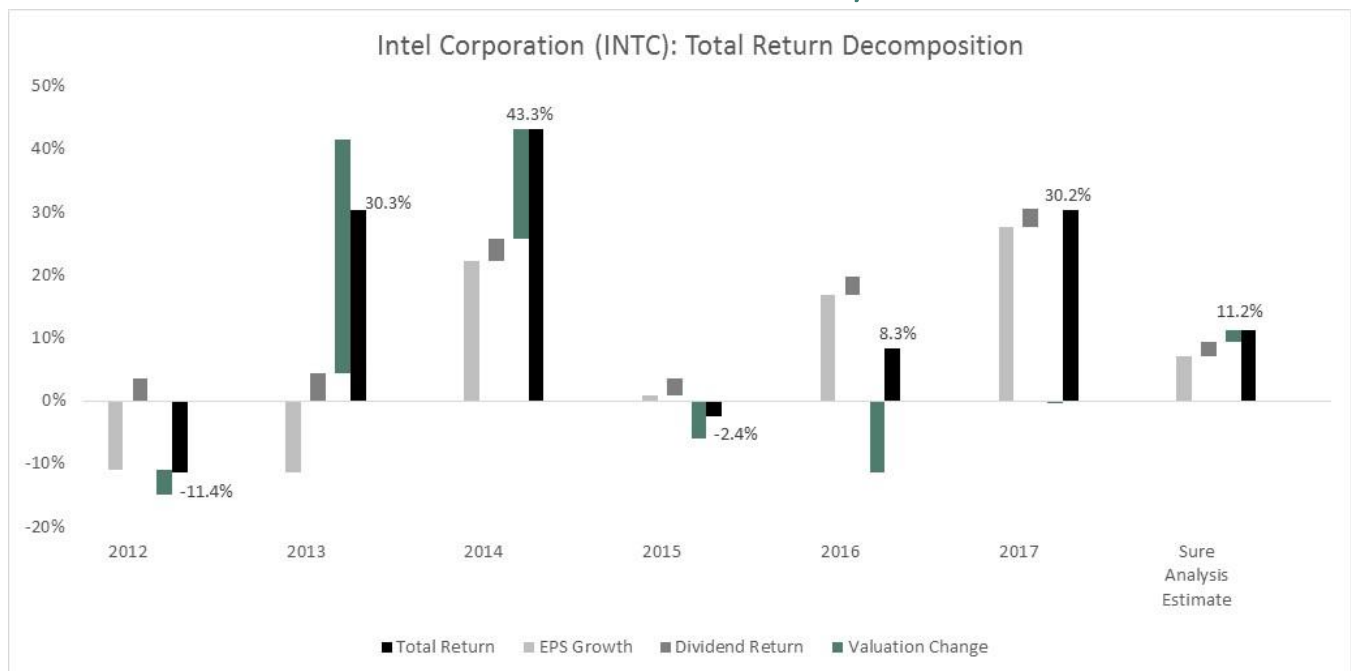
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. With a dominate position in its industry, 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

After second quarter earnings, we now forecast that Intel can offer investors annual total returns of 11.2% per year through 2023, up from 7.7% previously. This estimate is a combination of earnings growth (7%), dividends (2.4%) and multiple expansion (1.8%). Despite the slight miss on Data Center revenues, the division still showed very strong growth. With Intel now trading below our fair value, we feel this recent sell off has given investors an opportunity to purchase a quality company at a reduced price. We now have a buy rating on Intel and have increased our 2023 price target \$6 to \$76 due to updated earnings guidance.

## Total Return Breakdown by Year



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