



Intel Corporation (INTC)

Updated October 27th, 2018 by Nate Parsh

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	14.6%	Volatility Percentile:	51.2%
Fair Value Price:	\$59	5 Year Growth Estimate:	7.0%	Momentum Percentile:	76.9%
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.0%	Growth Percentile:	62.3%
Dividend Yield:	2.6%	5 Year Price Target	\$83	Valuation Percentile:	82.4%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	80.9%

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 \$211 billion.

Intel reported 3rd quarter earnings results on October 25th. The company earned \$1.40 per share, \$0.25 above estimates and an improvement of 39% year over year. Revenue grew 18.6% to \$19.2 billion, more than a billion above estimates.

All segments of the company reported revenue growth, led by Client Computing (up 16% year over year) and Data Center (up 26%). Client Computing posted record revenue of \$10.2 billion, which was the result of strong commercial and gaming sales. Intel launched 8th Gen Intel Core processors which allows for better performance and longer battery life in lighter laptops. The average selling price for notebooks increased 4% while desktops grew 10%. While Data Center missed estimates in the 2nd quarter, sales for this division of \$6.1 billion were above consensus due to strong demand from cloud and communications customers. Intel's memory business (\$1.1 billion) and internet of things group (\$919 million) both saw record revenues. Intel now guides towards an earnings-per-share midpoint of \$4.53, up from \$4.15 previously. The company expects revenue to be just above \$71 billion for 2018, higher than their beginning of the year forecast of \$65 billion.

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	\$4.53	\$6.35
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
Shares	5562	5523	5511	5000	4944	4967	4748	4725	4730	4687	4600	4400

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 has generated more than \$11 billion in free cash flow in 2018. The company has returned \$12.6 billion to shareholders this year, repurchasing \$8.4 billion worth of its own stock and paying out \$4.2 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
Avg. P/E	21.7	22.2	10.1	9.2	11.7	12.2	13.2	13.8	12.3	10.9	10.2	13
Avg. Yld.	2.8%	3.3%	3.0%	3.5%	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.0%

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Intel shares have decreased \$4, or 8%, since our August 8th report. Based off of the current share price and updated earnings guidance, Intel's stock has a price to earnings multiple of 10.2. If the valuation was to expand to our target P/E of 13, Intel's multiple could expand nearly 5% per year through 2023.

Intel has maintained an average dividend yield that was above 3% for much of the last ten years.

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%	26.5%	26.5%
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%

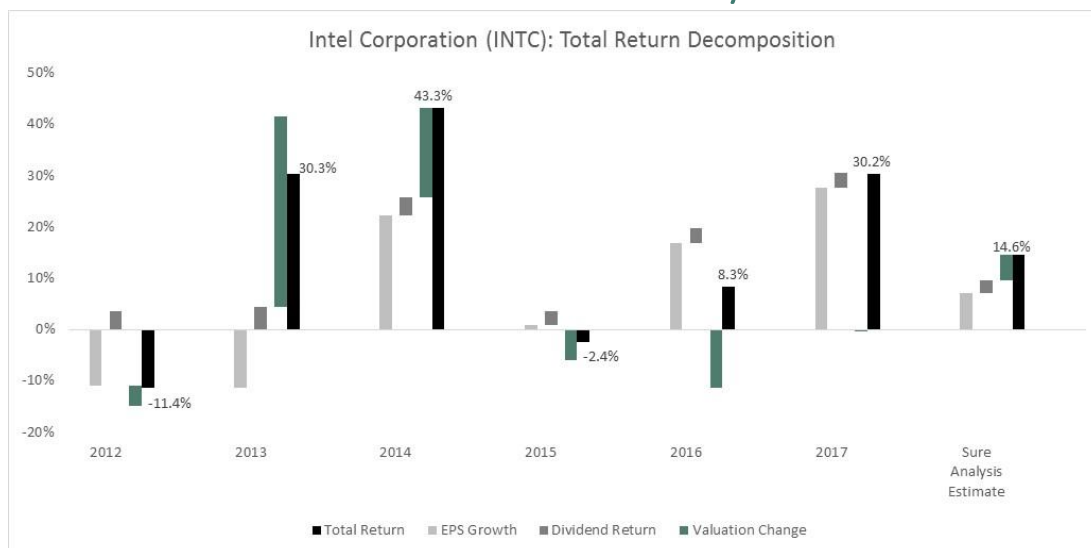
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. With a dominate position in its industry,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

Factoring in 3rd quarter earnings, we believe that Intel can produce annual returns of 14.6% through 2023, up from 11.2% previously. This estimate is a combination of earnings growth (7%), dividends (2.6%) and multiple expansion (5%). Intel's businesses performed very well in the 3rd quarter and raised its sales and earnings guidance for the third consecutive quarter. Both the PC and Data-centric businesses showed strong revenue growth. To us, Intel offers a combination of growth, yield and multiple expansion, something that can be hard to find in a mature bull market. We raise our 2023 price target \$7 to \$83 and reiterate our buy recommendation for shares of Intel.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	37586	35127	43623	53999	53341	52708	55870	55355	59387	62761
Gross Profit	20844	19561	28491	33757	33151	31521	35609	34679	36191	39069
Gross Margin	55.5%	55.7%	65.3%	62.5%	62.1%	59.8%	63.7%	62.6%	60.9%	62.3%
SG&A Exp.	5452	7931	6309	7670	8057	8088	8136	7930	8397	7474
D&A Exp.	4616	5052	4638	6064	7522	8032	8549	8711	7790	8129
Operating Profit	9664	5942	15588	17477	14638	12531	15642	14356	14760	18320
Op. Margin	25.7%	16.9%	35.7%	32.4%	27.4%	23.8%	28.0%	25.9%	24.9%	29.2%
Net Profit	5292	4369	11464	12942	11005	9620	11704	11420	10316	9601
Net Margin	14.1%	12.4%	26.3%	24.0%	20.6%	18.3%	20.9%	20.6%	17.4%	15.3%
Free Cash Flow	5729	6655	11471	10133	7042	10029	10313	11692	12183	10332
Income Tax	2394	1335	4581	4839	3868	2991	4097	2792	2620	10751

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	50472	53095	63186	71119	84351	92358	91900	102B	113B	123B
Cash & Equivalents	3350	3987	5498	5065	8478	5674	2561	15308	5560	3433
Acc. Receivable	1712	2273	2867	3650	3833	3582	4427	4787	4690	5607
Inventories	3744	2935	3757	4096	4734	4172	4273	5167	5553	6983
Goodwill & Int.	3932	4421	5391	15521	15945	15663	15307	15265	23593	37134
Total Liabilities	10926	11391	13756	25208	33148	34102	36035	40374	47101	54230
Accounts Payable	2390	1883	2290	2956	3023	2969	2748	2063	2475	2928
Long-Term Debt	1287	2221	2115	7331	13448	13446	14567	23567	26165	27679
Total Equity	39546	41704	49430	45911	51203	58256	55865	61085	66226	69019
D/E Ratio	0.03	0.05	0.04	0.16	0.26	0.23	0.26	0.39	0.40	0.40

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	10.0%	8.4%	19.7%	19.3%	14.2%	10.9%	12.7%	11.8%	9.6%	8.1%
Return on Equity	12.9%	10.8%	25.2%	27.1%	22.7%	17.6%	20.5%	19.5%	16.2%	14.2%
ROIC	12.3%	10.3%	24.0%	24.7%	18.7%	14.1%	16.5%	14.7%	11.7%	10.2%
Shares Out.	5562	5523	5511	5000	4944	4967	4748	4725	4730	4687
Revenue/Share	6.54	6.22	7.66	9.98	10.34	10.34	11.05	11.31	12.18	12.98
FCF/Share	1.00	1.18	2.01	1.87	1.36	1.97	2.04	2.39	2.50	2.14

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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