



Intel Corporation (INTC)

Updated January 26th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	14.6%	Volatility Percentile:	37.9%
Fair Value Price:	\$60	5 Year Growth Estimate:	7.0%	Momentum Percentile:	57.4%
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.0%	Growth Percentile:	64.9%
Dividend Yield:	2.7%	5 Year Price Target	\$84	Valuation Percentile:	84.4%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	84.0%

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 \$215 billion.

Intel released financial results for the fourth quarter and full year 2018 on January 24th. The company earned \$1.28 per share during the quarter, beating estimates by \$0.06 and growing 18.5% from the prior year. Revenue grew 9.4% to \$18.7 billion, though this was \$360 million below what analysts were expecting. For the year, Intel earned \$4.58 per share. This was \$0.05 above the midpoint for guidance and represented growth of 32% from 2017. Revenue for the year increased 13% to almost \$71 billion.

Client Computing revenues improved 10% to \$9.8 billion due to growing demand for the company's high-performance products. This division once again saw strong sales growth for commercial and gaming products. Data Center grew 9% to \$6.1 billion on the strength of cloud (up 24%) and communications (up 12%). While both Client Computing and Data Center groups showed strong quarterly sales growth, both divisions missed consensus estimates. Intel's Internet of Things Group experienced a 9% drop in sales. Excluding Wind River, which was divested in the second quarter, sales for this division were up 4%. The company's memory business grew 25% and achieved yet another quarterly record for revenue. In fact, all of Intel's businesses showed record annual revenue records.

Intel expects EPS of \$4.60 in 2019, just \$0.02 above 2018's results. For the first quarter, the company expects revenue of \$16 billion (vs estimates of \$17.3 billion) and EPS of \$0.87 (vs estimates of \$1.02). Intel shares declined 5.5% after the release of results as the market reacted negatively to weaker than expected guidance for 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.77	\$2.05	\$2.39	\$2.13	\$1.89	\$2.31	\$2.33	\$2.72	\$3.47	\$4.58	\$4.60	\$6.45
DPS	\$0.56	\$0.63	\$0.78	\$0.87	\$0.90	\$0.90	\$0.96	\$1.04	\$1.08	\$1.20	\$1.26	\$1.77
Shares	5523	5511	5000	4944	4967	4748	4725	4730	4687	4600	4500	4200

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 have averaged 14% per year. Since 2010, however, EPS have grown at a 7% rate per year. Applying the growth rate of 7% to the midpoint of Intel's guidance for 2019 and shares could earn \$6.45 by 2024.

Intel generated more than \$14 billion in free cash flow in 2018 and returned more than \$16 billion to shareholders during the year. The company paid out \$5.5 billion in dividends, with buybacks consuming the remainder of the company's capital return. While Intel paused its dividend growth in 2014, the company has increased it every year since. Overall, the dividend has a CAGR of more than 8% since 2008. Intel increased its dividend 5% for the upcoming March 1st payment.

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



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	22.2	10.1	9.2	11.7	12.2	13.2	13.8	12.3	10.9	10.3	10.2	13
Avg. Yld.	3.3%	3.0%	3.5%	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.7%	2.0%

Intel shares have increased \$1 since our October 27th report. Based off of the current share price and 2019 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 2024. Intel has maintained an average dividend yield that was above 3% for much of the last ten years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

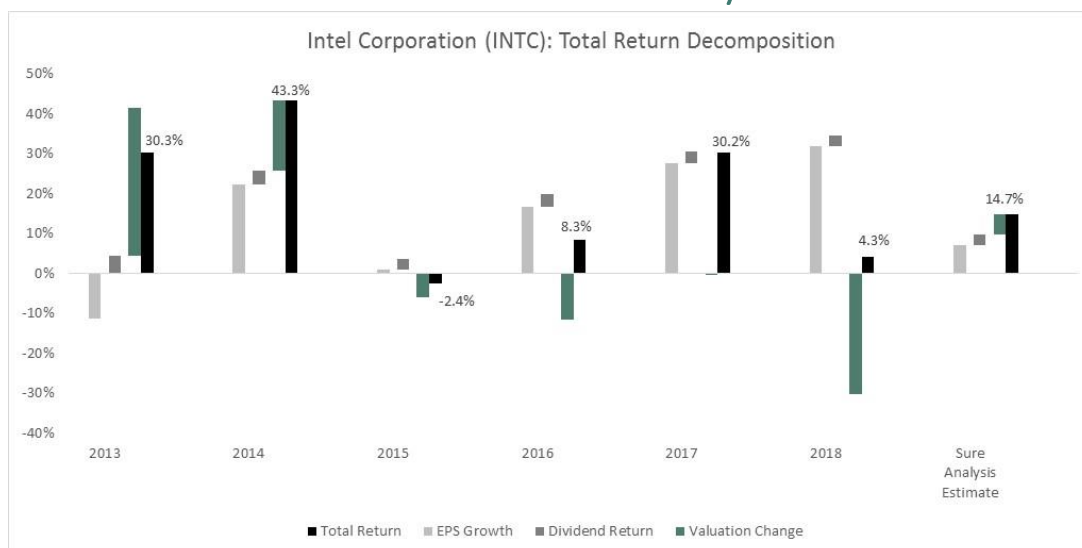
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	72.7%	30.7%	32.6%	40.8%	47.6%	40%	41.2%	38.2%	31.1%	26.2%	27.4%	27.4%

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 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 reviewing the most recent financial release, we forecast that shares of Intel can offer a total return of 14.7% through 2024, up from 14.6% previously. The company's two biggest divisions, Client Computing and Data Center, showed solid growth rates, though they missed estimates. Each of Intel's divisions showed all-time revenue records in 2018. Intel's guidance for 2019 contributed to the stock's steep decline following the results. We feel that this could be a buying opportunity for investors looking to enter the name. We continue to feel that Intel offers a solid combination of growth, yield and multiple expansion. We reiterate our buy recommendation for the stock and increase our 2024 price target \$1 to \$84 due to EPS guidance for the current year.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	35127	43623	53999	53341	52708	55870	55355	59387	62761	70848
Gross Profit	19561	28491	33757	33151	31521	35609	34679	36191	39069	43737
Gross Margin	55.7%	65.3%	62.5%	62.1%	59.8%	63.7%	62.6%	60.9%	62.3%	61.7%
SG&A Exp.	7931	6309	7670	8057	8088	8136	7930	8397	7474	6750
D&A Exp.	5052	4638	6064	7522	8032	8549	8711	7790	8129	9085
Operating Profit	5942	15588	17477	14638	12531	15642	14356	14760	18320	23244
Op. Margin	16.9%	35.7%	32.4%	27.4%	23.8%	28.0%	25.9%	24.9%	29.2%	32.8%
Net Profit	4369	11464	12942	11005	9620	11704	11420	10316	9601	21053
Net Margin	12.4%	26.3%	24.0%	20.6%	18.3%	20.9%	20.6%	17.4%	15.3%	29.7%
Free Cash Flow	6655	11471	10133	7042	10029	10313	11692	12183	10332	14251
Income Tax	1335	4581	4839	3868	2991	4097	2792	2620	10751	2264

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	53.10	63.19	71.12	84.35	92.36	91.90	101.46	113.33	123.25	127.96
Cash & Equivalents	3987	5498	5065	8478	5674	2561	15308	5560	3433	3019
Acc. Receivable	2273	2867	3650	3833	3582	4427	4787	4690	5607	6722
Inventories	2935	3757	4096	4734	4172	4273	5167	5553	6983	7253
Goodwill & Int.	4421	5391	15521	15945	15663	15307	15265	23593	37134	36349
Total Liabilities	11391	13756	25208	33148	34102	36035	40374	47101	54230	53400
Accounts Payable	1883	2290	2956	3023	2969	2748	2063	2475	2928	3824
Long-Term Debt	2221	2115	7331	13448	13446	14567	23567	26165	27679	26778
Total Equity	41704	49430	45911	51203	58256	55865	61085	66226	69019	74563
D/E Ratio	0.05	0.04	0.16	0.26	0.23	0.26	0.39	0.40	0.40	0.36

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	8.4%	19.7%	19.3%	14.2%	10.9%	12.7%	11.8%	9.6%	8.1%	16.8%
Return on Equity	10.8%	25.2%	27.1%	22.7%	17.6%	20.5%	19.5%	16.2%	14.2%	29.3%
ROIC	10.3%	24.0%	24.7%	18.7%	14.1%	16.5%	14.7%	11.7%	10.2%	21.3%
Shares Out.	5523	5511	5000	4944	4967	4748	4725	4730	4687	4600
Revenue/Share	6.22	7.66	9.98	10.34	10.34	11.05	11.31	12.18	12.98	15.07
FCF/Share	1.18	2.01	1.87	1.36	1.97	2.04	2.39	2.50	2.14	3.03

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

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