



Intel Corporation (INTC)

Updated April 27th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$52	5 Year CAGR Estimate:	9.0%	Volatility Percentile:	37.1%
Fair Value Price:	\$56	5 Year Growth Estimate:	5.0%	Momentum Percentile:	38.8%
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.6%	Growth Percentile:	35.8%
Dividend Yield:	2.4%	5 Year Price Target	\$72	Valuation Percentile:	65.7%
Dividend Risk Score:	B	Retirement Suitability Score:	C	Total Return Percentile:	51.7%

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 capitalization of \$235 billion. The company generates ~\$70 billion in annual sales.

Intel released financial results for the first quarter on 4/25/2019. The company earned \$0.87 per share, which was \$0.06 above estimates, but a 6.5% decrease from the prior year. Revenue was essentially flat at \$16.1 billion, but beat estimates by \$30 million.

Client Computing grew 4% to \$8.6 billion due to a better mix of Intel's higher performance products. Gains in gaming, large commercial sales and modems also contributed to growth. Volumes for Intel's 10nm processor Ice Lake are expected to ramp up before the 2019 holiday season. Data Center sales declined 6% to \$4.9 billion. A 21% drop in enterprise and government revenue and a 4% decline in the communications service provider segment were only partially offset by a 5% gain in the cloud segment. The company's Internet of Things Group grew 8% to \$910 million. Excluding Wind River, which was divested in the second quarter of 2018, sales for this division were up 19%. Mobileye improved 38% to \$209 million due to strong uptake by customers. Margins declined 4% to 56.6%. Shares of Intel dropped 9% following results as the company cut its revenue and earnings-per-share forecast for both the second quarter and full year. Intel now guides towards a midpoint for earnings-per-share of \$4.35 for the year from \$4.60 previously. This would be a 5% decrease from 2018. Revenue is now expected to total \$69 billion, down from \$71.5 billion earlier. Intel said on the conference call that performance should improve in the second half of the year.

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	\$4.35	\$5.55
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, although the company rebounded to growth the following year. Earnings growth over the past decade have averaged 14% per year. Since 2010, however, earnings-per-share have grown at just 7% per year. We are lowering our forecasted growth rate to 5% due to expected weakness in 2019. Applying the growth rate of 5% to the midpoint of Intel's updated guidance for 2019 and shares could earn \$5.55 by 2024.

Intel generated more than \$14 billion in free cash flow in 2018 and returned more than \$16 billion to shareholders last year. The company repurchased \$2.5 billion worth of shares in the first quarter of 2019 and has \$15 billion remaining on its current share repurchase authorization. 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	12.0	13.0
Avg. Yld.	3.3%	3.0%	3.5%	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.4%	2.5%

Intel shares have increased \$5, or 10.6%, since our January 26th report. Based off of the current share price and updated 2019 guidance, Intel's stock has a price to earnings multiple of 12. If the P/E ratio were to expand to our fair value target ratio of 13 by 2024, valuation could be a 1.6% tailwind to total annual returns over this time period. Intel has maintained an average dividend yield that was above 3% for much of the last ten years, but it is much lower today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	73%	31%	33%	41%	48%	40%	41%	38%	31%	26%	29%	32%

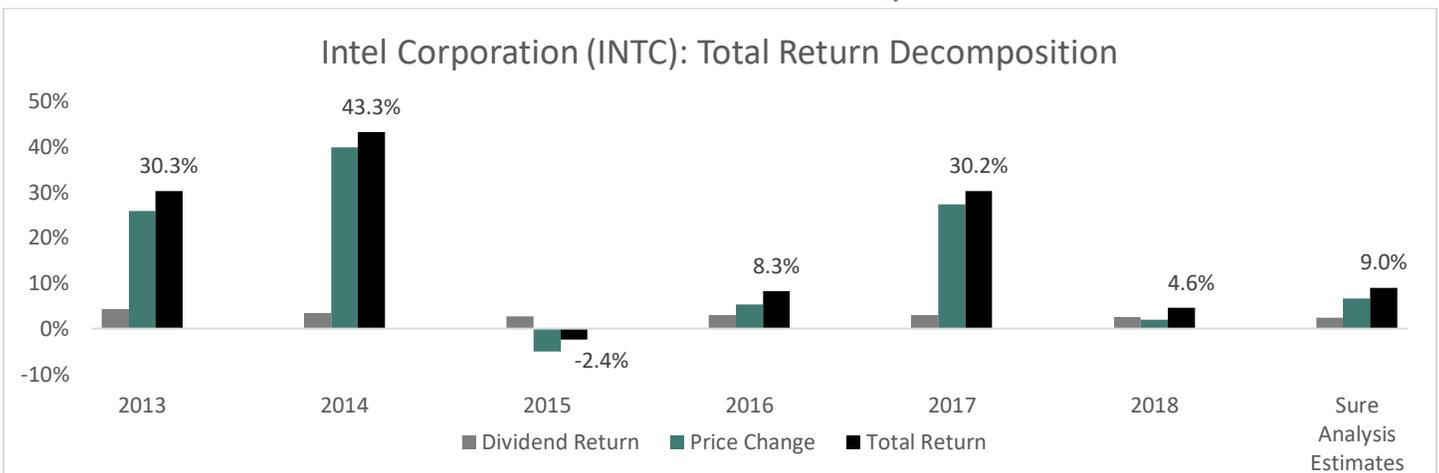
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel also has a very low dividend payout ratio, making it likely that the company will continue to pay its dividend during a recession.

Intel's key competitive advantage is that it is the largest and most dominate company in its sector. This gives the company size and scale that competitors can't match. This makes revenues slightly less cyclical today than they were in 2009, but are still dependent on growing demand.

Final Thoughts & Recommendation

Intel's first quarter report and reduction in guidance for 2019 were poorly received by the market and caused the stock to have one of its worst days in recent memory. Due to reduction in our earnings-per-share forecast, we estimate that Intel can offer a total annual return of 9% through 2024, down from 14.6% previously. The declines in the Data Center segment are concerning as this group had been a source of strength for Intel (9%, 26%, 27% growth over the previous three quarters). Despite this report, Intel continues to receive a buy recommendation for Sure Dividend. The stock is projected to have a solid combination of growth, yield and multiple expansion. Investors waiting for a decline in share price could be rewarded by purchasing Intel today. We have decreased our 2024 price target by \$12 to \$72 because of lower expected earnings results for 2019, and a reduction in projected earnings growth.

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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