



Intel Corporation (INTC)

Updated January 23rd, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	5.8%	Market Cap:	\$293 billion
Fair Value Price:	\$65	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/6/2020
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.0%	Dividend Payment Date:	3/1/2020
Dividend Yield:	1.9%	5 Year Price Target	\$83	Years Of Dividend Growth:	6
Dividend Risk Score:	B	Retirement Suitability Score:	D	Last Dividend Increase:	4.8%

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 \$293 billion. The company generates ~\$74 billion in annual sales.

Intel released financial results for the fourth quarter and full year on 1/23/2020. The company earned \$1.52 per share, \$0.27 above estimates higher than expected, which was a 19% increase from the previous year. Revenue increased 8.3% to \$20.2 billion, which was \$980 million higher than expected and an all-time record for the fourth quarter. For the year, adjusted earnings-per-share increased 6% to \$4.87 while revenue was up 1.6% to \$72 billion.

Intel's PC-Centric business was up 2% for the quarter, but flat for the year. This segment saw higher sales volumes for modems and desktop platforms. The data-centric business was especially strong, growing 15% to a fourth quarter record \$10.1 billion. Sales for the year were up 3%. Data Center Group was up 19% on the strength of cloud service revenue and a mix of high-performance processors. This segment had sales growth of 2% for the year. Internet of Things Group improved 13% and 11% for the quarter and year, respectively. This segment had improved performance in retail and transportation business. Mobileye grew 31% on continued higher adoption rates. The Memory business was up 10% for the quarter and higher by 1% for 2019 as products were in higher demand. Programmable Solutions Group decline accelerated in the fourth quarter, dropping 17% year-over-year. Intel expects adjusted earnings-per-share of \$5.00 for 2025. Shares were up more than 8% following results.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.05	\$2.39	\$2.13	\$1.89	\$2.31	\$2.33	\$2.72	\$3.47	\$4.58	\$4.87	\$5.00	\$6.38
DPS	\$0.63	\$0.78	\$0.87	\$0.90	\$0.90	\$0.96	\$1.04	\$1.08	\$1.20	\$1.26	\$1.32	\$1.68
Shares¹	5511	5000	4944	4967	4748	4725	4730	4687	4600	4373	4300	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 has averaged 14% per year. Since 2010, however, earnings-per-share have grown at just 7% per year. We are maintaining our forecasted growth rate of 5% through 2025. Applying the growth rate of 5% to the midpoint of Intel's guidance for 2020 and shares could earn \$6.38 by 2025.

Intel generated \$16.9 billion in free cash flow in 2019 and returned more than \$19 billion to shareholders during the year. 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 4.8% for the 3/1/2020 payment.

¹ Share count in millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.1	9.2	11.7	12.2	13.2	13.8	12.3	10.9	10.3	12.3	13.7	13.0
Avg. Yld.	3.0%	3.5%	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.1%	1.9%	2.0%

Intel shares have increased \$12, or 21.4%, since our 10/25/2019 update. Based off of the current share price and expected earnings-per-share for 2019, Intel's stock has a price to earnings multiple of 13.7. If the P/E ratio were to expand to our fair value target ratio of 13 by 2025, valuation could be a 1% headwind 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	31%	33%	41%	48%	40%	41%	38%	31%	26%	26%	26%	26%

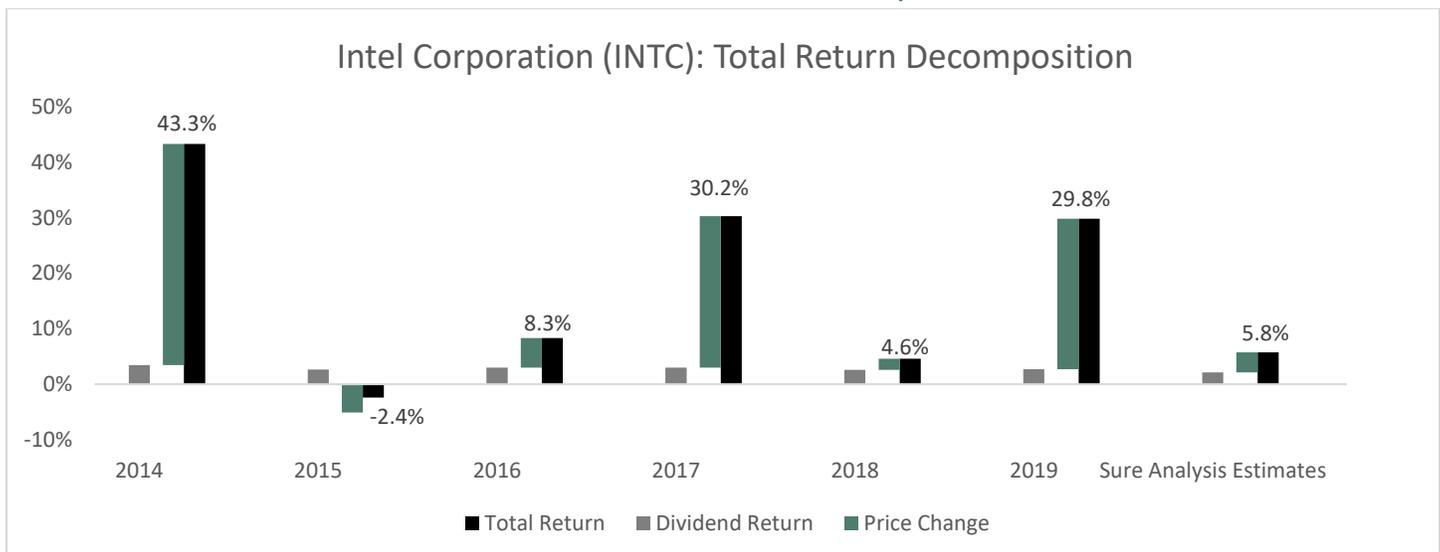
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel also has a very low dividend payout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

Following earnings results, shares of Intel are expected to return 5.8% annually through 2025, down from our previous estimate of 8.4%. Intel had a strong end to the year, showing growth on both the top and bottom-lines in the fourth quarter. Especially positive was growth in Intel's data-centric businesses, which had a record fourth quarter for sales. Full year results were solid as well. We have raised our 2025 price target \$7 to \$83 due to guidance for 2020, but maintain our hold rating on the stock due to mid-single-digit projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	35,127	43,623	53,999	53,341	52,708	55,870	55,355	59,387	62,761	70,848
Gross Profit	19,561	28,491	33,757	33,151	31,521	35,609	34,679	36,233	39,098	43,737
Gross Margin	55.7%	65.3%	62.5%	62.1%	59.8%	63.7%	62.6%	61.0%	62.3%	61.7%
SG&A Exp.	7,931	6,309	7,670	8,057	8,088	8,136	7,930	8,377	7,452	6,750
D&A Exp.	5,052	4,638	6,064	7,522	8,032	8,549	8,711	7,790	8,129	9,085
Operating Profit	5,942	15,588	17,477	14,638	12,531	15,642	14,356	14,877	18,434	23,244
Op. Margin	16.9%	35.7%	32.4%	27.4%	23.8%	28.0%	25.9%	25.1%	29.4%	32.8%
Net Profit	4,369	11,464	12,942	11,005	9,620	11,704	11,420	10,316	9,601	21,053
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	6,655	11,471	10,133	7,042	10,029	10,313	11,692	12,183	10,332	14,251
Income Tax	1,335	4,581	4,839	3,868	2,991	4,097	2,792	2,620	10,751	2,264

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	53.1	63.1	71.1	84.4	92.4	91.9	101.5	113.3	123.2	128.0
Cash & Equivalents	3,987	5,498	5,065	8,478	5,674	2,561	15,308	5,560	3,433	3,019
Acc. Receivable	2,273	2,867	3,650	3,833	3,582	4,427	4,787	4,690	5,607	6,722
Inventories	2,935	3,757	4,096	4,734	4,172	4,273	5,167	5,553	6,983	7,253
Goodwill & Int.	4,421	5,391	15,521	15,945	15,663	15,307	15,265	23,593	37,134	36,349
Total Liabilities	11,391	13,756	25,208	33,148	34,102	35,123	39,477	46,219	53,364	52,981
Accounts Payable	1,883	2,290	2,956	3,023	2,969	2,748	2,063	2,475	2,928	3,824
Long-Term Debt	2,221	2,115	7,331	13,448	13,446	13,655	22,670	25,283	26,813	26,359
Total Equity	41,704	49,430	45,911	51,203	58,256	56,777	61,982	67,108	69,885	74,982
D/E Ratio	0.05	0.04	0.16	0.26	0.23	0.24	0.37	0.38	0.38	0.35

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%	20.3%	19.2%	16.0%	14.0%	29.1%
ROIC	10.3%	24.0%	24.7%	18.7%	14.1%	16.5%	14.7%	11.7%	10.2%	21.3%
Shares Out.	5650	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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