



Intel Corporation (INTC)

Updated July 24th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$51	5 Year CAGR Estimate:	11.6%	Market Cap:	\$214 billion
Fair Value Price:	\$63	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	8/6/2020
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.3%	Dividend Payment Date:	9/1/2020
Dividend Yield:	2.6%	5 Year Price Target	\$80	Years Of Dividend Growth:	6
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	4.8%

Overview & Current Events

Intel is the largest manufacturer of microprocessors for personal computers, shipping 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 \$214 billion. The company generates \$70+ billion in annual sales.

On 7/23/2020, Intel released second quarter earnings results. Revenue improved 19.5% to a second quarter record \$19.7 billion, topping estimates by \$1.2 billion. Earnings-per-share increased \$0.27, or 29%, to \$1.19. This was \$0.15 above estimates.

The company's PC-Centric business increased 7% to \$9.5 billion. This segment continued to benefit from the work and learn at home requirements related to the COVID-19 pandemic as notebook sales more than offset desktop declines. Intel's data-centric businesses grew 34% to \$10.2 billion. Data Center Group was the primary driver of growth as sales were up 43% to \$7.1 billion. This business had 47% growth in cloud service provider revenue. The company's memory business improved 76% to a record \$1.7 billion as the 10nm-based Intel Atom had an increase in demand. Programmable Solutions Group had 2% revenue growth due to cloud gains. The Internet of Things Group declined 32% due to the impact of the COVID-19 pandemic. Mobileye dropped 27% on lower automotive production due to COVID-19. Intel expects revenue of \$75 billion in 2020 and earnings-per-share of \$4.85.

Shares of Intel declined more than 16% following the release of earnings results. The primary reason for this was the company's announcement that it was delaying its release of 7nm CPU products by another 6 months. Intel expects the product line to launch in late 2022 or early 2023. These products have already been delayed prior to this announcement.

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	\$4.85	\$6.19
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	4284	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 \$6.16 by 2025.

Intel generated \$16.9 billion in free cash flow in 2019 and returned more than \$19 billion to shareholders last 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	10.5	13.0
Avg. Yld.	3.0%	3.5%	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.1%	2.6%	2.1%

Intel shares have decreased \$8, or 13.6%, since our 4/24/2020 update. Based off of the current share price and expected earnings-per-share for 2020, Intel's stock has a price to earnings multiple of 10.5. If the P/E ratio were to expand to our fair value target ratio of 13 by 2025, valuation could add 4.3% to annual results 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 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%	27%	27%

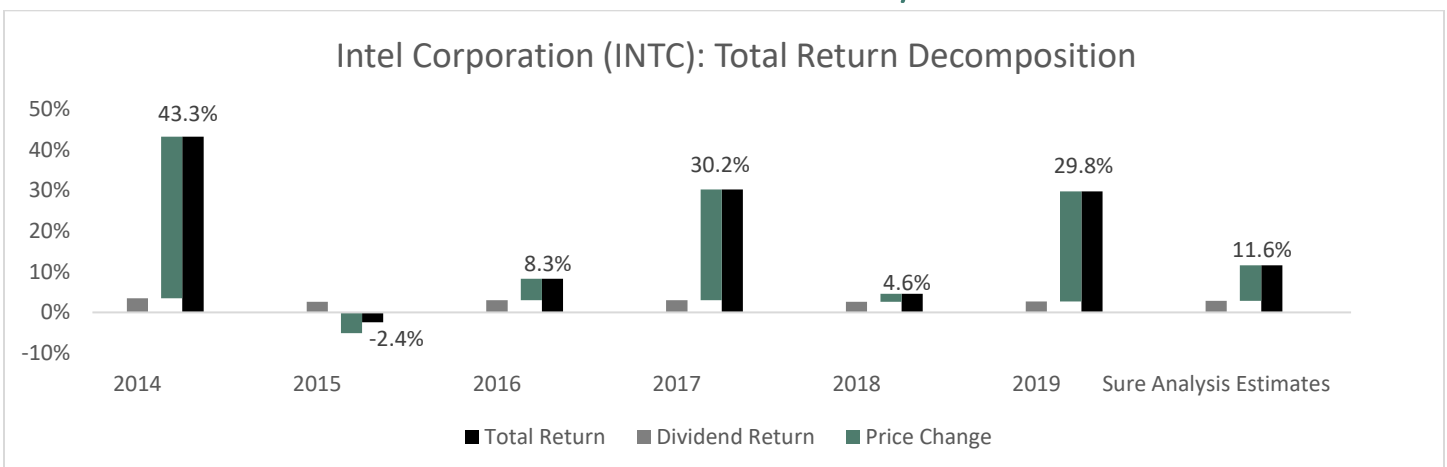
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel also has a very low dividend payout 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 second quarter results, Intel is projected to return 11.6% annually through 2025, up from our previous estimate of 8.3%. Intel's quarterly results were strong. Data-Centric results were considerably higher as the company's most important businesses were able to capitalize on the COVID-19 pandemic. PC-Centric results were also solid. That said, the market reacted extremely negatively to Intel's announcement regarding another delay in its 7nm CPU products. While this delay may allow a competitor to bring to market its own product, Intel's size and scale give it an advantage over nearly every peer. Long-term investors could benefit from the market's reaction while adding a solid dividend paying company to their portfolio. We maintain our 2025 price target of \$80, but now rate shares as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	43,623	53,999	53,341	52,708	55,870	55,355	59,387	62,761	70,848	71,965
Gross Profit	28,491	33,757	33,151	31,521	35,609	34,679	36,233	39,098	43,737	42,140
Gross Margin	65.3%	62.5%	62.1%	59.8%	63.7%	62.6%	61.0%	62.3%	61.7%	58.6%
SG&A Exp.	6,309	7,670	8,057	8,088	8,136	7,930	8,377	7,452	6,750	6,150
D&A Exp.	4,638	6,064	7,522	8,032	8,549	8,711	7,790	8,129	9,085	10,826
Operating Profit	15,588	17,477	14,638	12,531	15,642	14,356	14,877	18,434	23,244	22,428
Op. Margin	35.7%	32.4%	27.4%	23.8%	28.0%	25.9%	25.1%	29.4%	32.8%	31.2%
Net Profit	11,464	12,942	11,005	9,620	11,704	11,420	10,316	9,601	21,053	21,048
Net Margin	26.3%	24.0%	20.6%	18.3%	20.9%	20.6%	17.4%	15.3%	29.7%	29.2%
Free Cash Flow	11,471	10,133	7,042	10,029	10,313	11,692	12,183	10,332	14,251	16,932
Income Tax	4,581	4,839	3,868	2,991	4,097	2,792	2,620	10,751	2,264	3,010

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	63186	71119	84351	92358	91900	101459	113327	123249	127963	136524
Cash & Equivalents	5498	5065	8478	5674	2561	15308	5560	3433	3019	4194
Acc. Receivable	2867	3650	3833	3582	4427	4787	4690	5607	6722	7659
Inventories	3757	4096	4734	4172	4273	5167	5553	6983	7253	8744
Goodwill & Int.	5391	15521	15945	15663	15307	15265	23593	37134	36349	37103
Total Liabilities	13756	25208	33148	34102	35123	39477	46219	53364	52981	58865
Accounts Payable	2290	2956	3023	2969	2748	2063	2475	2928	3824	4128
Long-Term Debt	2115	7331	13448	13446	13655	22670	25283	26813	26359	29001
Total Equity	49430	45911	51203	58256	56777	61982	67108	69885	74982	77659
D/E Ratio	0.04	0.16	0.26	0.23	0.24	0.37	0.38	0.38	0.35	0.37

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	19.7%	19.3%	14.2%	10.9%	12.7%	11.8%	9.6%	8.1%	16.8%	15.9%
Return on Equity	25.2%	27.1%	22.7%	17.6%	20.3%	19.2%	16.0%	14.0%	29.1%	27.6%
ROIC	24.0%	24.7%	18.7%	14.1%	16.5%	14.7%	11.7%	10.2%	21.3%	20.2%
Shares Out.	5511	5000	4944	4967	4748	4725	4730	4687	4600	4373
Revenue/Share	7.66	9.98	10.34	10.34	11.05	11.31	12.18	12.98	15.07	16.09
FCF/Share	2.01	1.87	1.36	1.97	2.04	2.39	2.50	2.14	3.03	3.79

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

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