



# Intel Corporation (INTC)

Updated October 23<sup>rd</sup>, 2020 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$48	<b>5 Year CAGR Estimate:</b>	13.0%	<b>Market Cap:</b>	\$203 B
<b>Fair Value Price:</b>	\$63	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	11/5/2020
<b>% Fair Value:</b>	76%	<b>5 Year Valuation Multiple Estimate:</b>	5.7%	<b>Dividend Payment Date:</b>	12/1/2020
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$81	<b>Years Of Dividend Growth:</b>	6
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 \$203 billion. The company generates \$70+ billion in annual sales.

On 10/19/2020, Intel announced that it was selling its Nand memory unit to SK Hynix for approximately \$9 billion.

On 10/22/2020, Intel announced third quarter earnings results. Revenue fell 4.7% to 18.3 billion, but was \$40 million higher than expected. Adjusted earnings-per-share of \$1.11 was in-line with estimates but 18% lower than the previous year.

The company's PC-Centric business grew 1% to \$9.8 billion due to strength in the notebook product line as consumers continue to deal with the work- and learn-at-home environment. Intel's data-centric businesses fell 10% to \$8.4 billion. Data Center Group was down 7% to \$5.9 billion, below consensus estimates of \$6.2 billion. While cloud revenue growth was strong at 15%, COVID-19 impacted demand in the segment's enterprise and government market. Sales from this end market were down 47%. The Internet of Things Group decreased 33% to \$677 million also due to the ongoing pandemic. Mobileye was up 2% to \$234 million, but 60% sequentially due to improvements in global vehicle production. Intel's memory business fell 11% to \$1.2 billion due to weaker demand, but this was partially offset by better average selling prices. Programmable Solutions Group decreased 19% to \$411 million as gains in cloud were more than offset by lower sales to communications and embedded end-markets. Gross margins fell 570 basis points to 53.1%. The company stated that its third 10nm facility in Arizona is now fully operational and Intel expects production volumes to be 30% higher than previously forecasted. Intel expects revenue of \$75.3 billion for 2020, up from \$75 billion previously. EPS is expected in a range of \$4.85 to \$4.90, up from \$4.85 previously.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$2.05	\$2.39	\$2.13	\$1.89	\$2.31	\$2.33	\$2.72	\$3.47	\$4.58	\$4.87	<b>\$4.88</b>	<b>\$6.23</b>
<b>DPS</b>	\$0.63	\$0.78	\$0.87	\$0.90	\$0.90	\$0.96	\$1.04	\$1.08	\$1.20	\$1.26	<b>\$1.32</b>	<b>\$1.68</b>
<b>Shares<sup>1</sup></b>	5511	5000	4944	4967	4748	4725	4730	4687	4600	4373	<b>4211</b>	<b>4200</b>

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 \$6.23 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.

<sup>1</sup> Share count in millions

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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	<b>9.8</b>	<b>13.0</b>
Avg. Yld.	3.0%	3.5%	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.1%	<b>2.8%</b>	<b>2.1%</b>

Intel shares have decreased \$3, or 5.9%, since our 7/24/2020 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 9.8. If the P/E ratio were to expand to our fair value target ratio of 13 by 2025, valuation could add 5.7% 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%	<b>27%</b>	<b>27%</b>

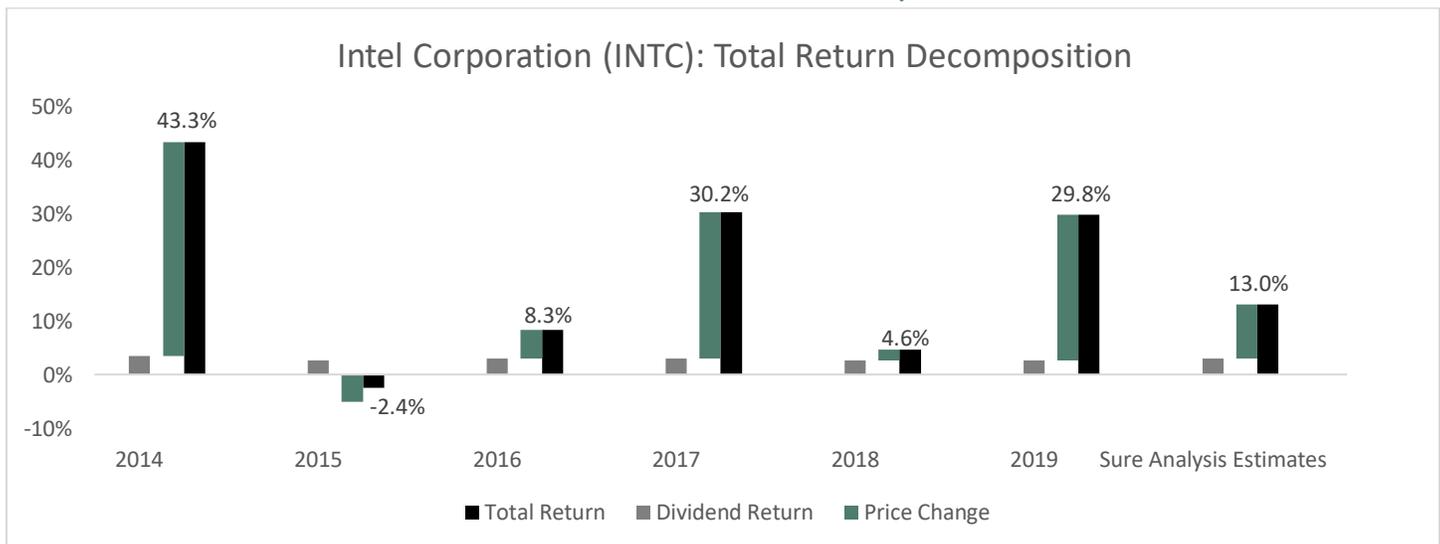
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel also has a very low dividend payout 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 13% annually through 2025, up from our previous estimate of 11.6%. Intel showed growth in its PC business, but data-centric business was down high single-digits. This combined with last quarter's announcement that the company's 7 nm CPU products would be furthered delayed until at least late 2022 has negatively impacted Intel's share price. Still, we have raised our 2025 price target \$1 to \$81 and maintain our buy rating on the stock as we feel the stock has become a deep value opportunity for those with a long-term horizon.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	43,623	53,999	53,341	52,708	55,870	55,355	59,387	62,761	70,848	71,965
<b>Gross Profit</b>	28,491	33,757	33,151	31,521	35,609	34,679	36,233	39,098	43,737	42,140
<b>Gross Margin</b>	65.3%	62.5%	62.1%	59.8%	63.7%	62.6%	61.0%	62.3%	61.7%	58.6%
<b>SG&amp;A Exp.</b>	6,309	7,670	8,057	8,088	8,136	7,930	8,377	7,452	6,750	6,150
<b>D&amp;A Exp.</b>	4,638	6,064	7,522	8,032	8,549	8,711	7,790	8,129	9,085	10,826
<b>Operating Profit</b>	15,588	17,477	14,638	12,531	15,642	14,356	14,877	18,434	23,244	22,428
<b>Op. Margin</b>	35.7%	32.4%	27.4%	23.8%	28.0%	25.9%	25.1%	29.4%	32.8%	31.2%
<b>Net Profit</b>	11,464	12,942	11,005	9,620	11,704	11,420	10,316	9,601	21,053	21,048
<b>Net Margin</b>	26.3%	24.0%	20.6%	18.3%	20.9%	20.6%	17.4%	15.3%	29.7%	29.2%
<b>Free Cash Flow</b>	11,471	10,133	7,042	10,029	10,313	11,692	12,183	10,332	14,251	16,932
<b>Income Tax</b>	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
<b>Total Assets (\$B)</b>	63186	71119	84351	92358	91900	101459	113327	123249	127963	136524
<b>Cash &amp; Equivalents</b>	5498	5065	8478	5674	2561	15308	5560	3433	3019	4194
<b>Acc. Receivable</b>	2867	3650	3833	3582	4427	4787	4690	5607	6722	7659
<b>Inventories</b>	3757	4096	4734	4172	4273	5167	5553	6983	7253	8744
<b>Goodwill &amp; Int.</b>	5391	15521	15945	15663	15307	15265	23593	37134	36349	37103
<b>Total Liabilities</b>	13756	25208	33148	34102	35123	39477	46219	53364	52981	58865
<b>Accounts Payable</b>	2290	2956	3023	2969	2748	2063	2475	2928	3824	4128
<b>Long-Term Debt</b>	2115	7331	13448	13446	13655	22670	25283	26813	26359	29001
<b>Total Equity</b>	49430	45911	51203	58256	56777	61982	67108	69885	74982	77659
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	19.7%	19.3%	14.2%	10.9%	12.7%	11.8%	9.6%	8.1%	16.8%	15.9%
<b>Return on Equity</b>	25.2%	27.1%	22.7%	17.6%	20.3%	19.2%	16.0%	14.0%	29.1%	27.6%
<b>ROIC</b>	24.0%	24.7%	18.7%	14.1%	16.5%	14.7%	11.7%	10.2%	21.3%	20.2%
<b>Shares Out.</b>	5511	5000	4944	4967	4748	4725	4730	4687	4600	4373
<b>Revenue/Share</b>	7.66	9.98	10.34	10.34	11.05	11.31	12.18	12.98	15.07	16.09
<b>FCF/Share</b>	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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