



Intel Corporation (INTC)

Updated January 22nd, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	7.6%	Market Cap:	\$234 B
Fair Value Price:	\$58	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/7/2021
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Dividend Payment Date:	3/1/2021
Dividend Yield:	2.4%	5 Year Price Target	\$74	Years Of Dividend Growth:	7
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	5.3%

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 nearly \$78 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 1/21/2021, Intel reported fourth quarter and full year earnings results. The company earned \$1.42 per share for the quarter, down 10% year-over-year, but a beat of estimates by \$0.41. Revenue declined 1% to \$20 billion, but was \$2.5 billion above estimates. For the year, GAAP EPS grew 5% to \$4.94 and was \$0.06 above our estimates. Revenue grew 8% to an all-time company record of \$77.9 billion.

The PC-Centric business finished off a strong 2020 with sales growing 9% to \$10.9 billion in the fourth quarter. PC unit volumes grew 33%, which lead to a record revenue for the business. The Data-centric business declined 11% for the quarter, but grew 9% for the year. Data Center Group declined 16% in Q4, but was up 11% for the year. Platform revenue fell, but adjacencies was higher due to 5G ramp up. The Memory business was lower by 1%, but grew 23% for the year as bit growth was partially offset by lower average selling prices. The Internet of Things Group was lower by 16% due to COVID-19 headwinds and Mobileye grew 39% to a new quarterly record. Programmable Solutions Group fell 16% in the fourth quarter. Gross margins for the company were down 250 basis points to 56% while the operating margin was lower by 20 basis points to 30.4%. Free cash flow for the year grew 25% to \$21.1 billion. Analysts expect EPS to decline 9.3% to \$4.48 for 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.39	\$2.13	\$1.89	\$2.31	\$2.33	\$2.72	\$3.47	\$4.58	\$4.87	\$4.94	\$4.48	\$5.72
DPS	\$0.78	\$0.87	\$0.90	\$0.90	\$0.96	\$1.04	\$1.08	\$1.20	\$1.26	\$1.32	\$1.39	\$1.77
Shares¹	5000	4944	4967	4748	4725	4730	4687	4600	4473	4119	4119	4000

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 6% per year. We are maintaining our forecasted growth rate of 5% through 2026. Applying the growth rate of 5% to the midpoint of Intel's guidance for 2021 and shares could earn \$5.72 by 2026.

Intel generated \$21 billion in free cash flow in 2020 and returned \$19.8 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 5.4% since 2011. On 1/21/2021, Intel increased its quarterly dividend 5.3% to \$0.3475.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.2	11.7	12.2	13.2	13.8	12.3	10.9	10.3	12.3	10.1	12.7	13.0
Avg. Yld.	3.5%	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.1%	2.6%	2.4%	2.4%

Intel shares have increased \$9, or 18.8%, since our 10/23/2020 update. Based off of the current share price and expected earnings-per-share for 2021, Intel's stock has a price to earnings multiple of 12.7. If the P/E ratio were to expand to our fair value target ratio of 13 by 2026, valuation could add 0.4% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	33%	41%	48%	40%	41%	38%	31%	26%	26%	27%	31%	31%

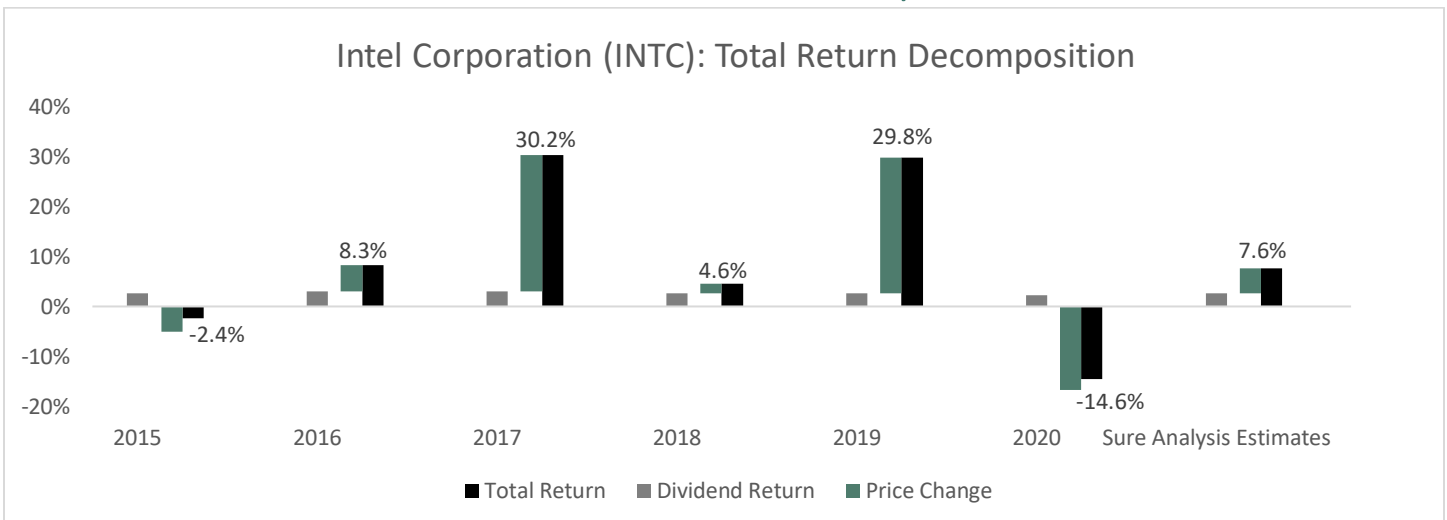
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel also has a very low dividend payout 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 fourth quarter results, Intel is projected to return 7.6% annually through 2026, down from our previous estimate of 13%. The expected return consists of 5% earnings growth, a 2.4% yield and a slight tailwind from valuation expansion. Intel's PC business was very strong during the last quarter, in large part due to the COVID-19 pandemic as customers purchased equipment needed for the work and learn at home transition. The data-centric businesses were weak for the quarter, but showed high single-digit growth for the year. Intel is expected to see a decline in EPS for the current year and we have lowered our 2026 price target \$7 to \$74 to reflect this. We now view Intel as a hold due to the increase in share price since our last update.

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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