



Intel Corporation (INTC)

Updated April 23rd, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	5.9%	Market Cap:	\$244 B
Fair Value Price:	\$55	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	5/6/2021
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	6/1/2021
Dividend Yield:	2.4%	5 Year Price Target	\$70	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 \$244 billion. The company generates about \$73 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 3/21/2021, Intel announced that it would spend \$20 billion to build two advanced chip manufacturing factories in Arizona.

Intel reported first quarter earnings results on 4/22/2021. Revenue was down 0.7% to \$19.7 billion, but came in \$1.75 billion above estimates. Adjusted earnings-per-share of \$1.39 was \$0.06 lower than the prior year and \$0.25 below expectations.

The PC-Centric business continues to perform well, with revenue up 8% to \$10.6 billion due to higher demand for notebook and WiFi products. PC unit volumes grew 38%, partially offset by a 5% decline in average selling prices. Results elsewhere were mixed, most notably in the Data Center Group, where losses accelerated. Revenue fell 20% to \$5.6 billion volumes were lower by 13% and average selling prices decreased 14%. Demand for cloud products weakened and COVID-19 remains a headwind as well. Internet of Things Group grew 4% to \$914 million due to higher demand. Mobileye improved 48% to \$377 million due to a recovery in automotive markets. Memory was lower by 17% to \$1.1 billion. Programmable Solutions Group was down 6% to \$486 million, but the decline deaccelerated from the fourth quarter. Gross margins decreased 540 basis points to 55.2%, but came in ahead of consensus estimates of 57.6%.

Intel offered revised guidance for 2021. The company expects earnings-per-share of \$4.60 for the year, up from prior guidance of \$4.48.

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	\$4.59	\$4.89	\$4.94	\$4.60	\$5.87
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	4056	3800

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 8.4% 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 \$5.87 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 6.0% 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	10.7	12.3	10.5	12.8	12.0
Avg. Yld.	3.5%	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.1%	2.6%	2.4%	2.5%

Intel shares have increased \$2, or 3.5%, since our 1/22/2021 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 12.8. We are lowering our target P/E to 12 from 13 due to weaker short-term results and to better match the stock's long-term average valuation. If the P/E ratio were to match our fair value target by 2026, valuation could reduce annual returns by 1.3% 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%	30%	30%

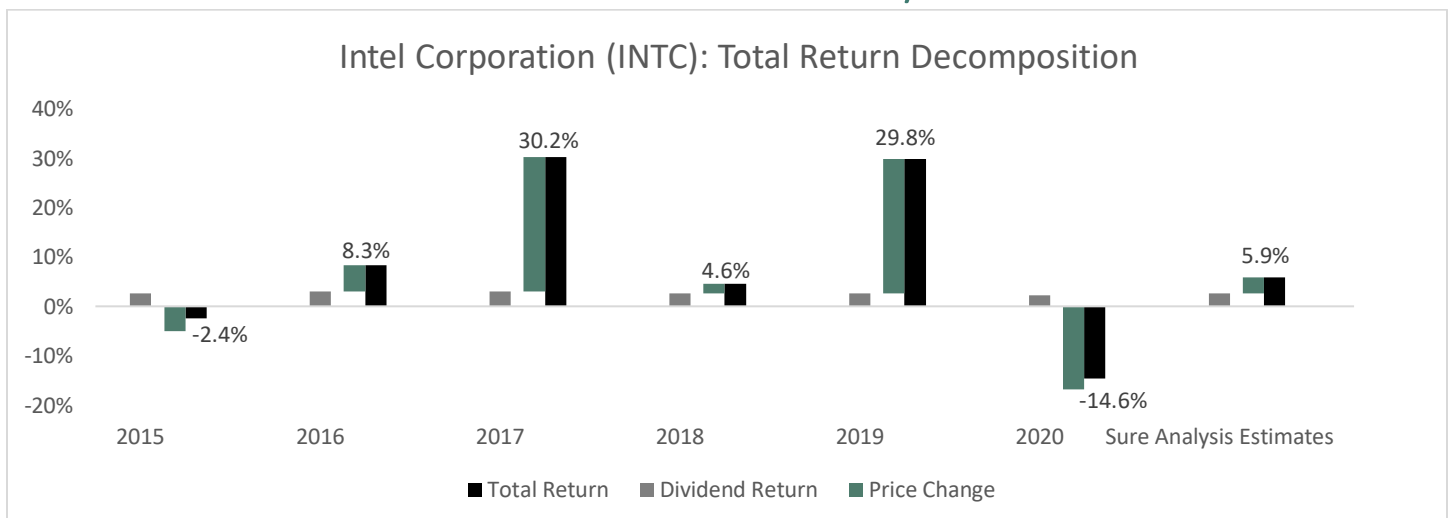
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel also has a very low dividend payout 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 is projected to return 5.9% annually through 2026, down from our previous estimate of 7.6%. The expected return consists of 5% earnings growth, a 2.4% yield and a slight headwind from multiple contraction. The company's PC business continues to see tailwinds from the COVID-19 pandemic, but its Data Center businesses remain mixed. Cloud offerings used to drive growth for the company, but it will likely take a recovery from the pandemic for this business to grow once more. We have lowered our 2026 price target \$4 to \$70 as a decrease in target multiple offset the benefit of a higher expected earnings-per-share. We maintain our hold rating on Intel.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	53999	53341	52708	55870	55355	59387	62761	70848	71965	77867
Gross Profit	33757	33151	31521	35609	34679	36233	39098	43737	42140	43612
Gross Margin	62.5%	62.1%	59.8%	63.7%	62.6%	61.0%	62.3%	61.7%	58.6%	56.0%
SG&A Exp.	7670	8057	8088	8136	7930	8377	7452	6950	6350	6180
D&A Exp.	6064	7522	8032	8549	8711	7790	8129	9085	10826	12239
Operating Profit	17477	14638	12531	15642	14356	14877	18434	23244	22428	23876
Op. Margin	32.4%	27.4%	23.8%	28.0%	25.9%	25.1%	29.4%	32.8%	31.2%	30.7%
Net Profit	12942	11005	9620	11704	11420	10316	9601	21053	21048	20899
Net Margin	24.0%	20.6%	18.3%	20.9%	20.6%	17.4%	15.3%	29.7%	29.2%	26.8%
Free Cash Flow	10133	7042	10029	10313	11692	12183	10332	14251	16932	20931
Income Tax	4839	3868	2991	4097	2792	2620	10751	2264	3010	4179

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	71119	84351	92358	91900	101459	113327	123249	127963	136524	153091
Cash & Equivalents	5065	8478	5674	2561	15308	5560	3433	3019	4194	5865
Acc. Receivable	3650	3833	3582	4427	4787	4690	5607	6722	7659	6782
Inventories	4096	4734	4172	4273	5167	5553	6983	7253	8744	8427
Goodwill & Int.	15521	15945	15663	15307	15265	23593	37134	36349	37103	35997
Total Liabilities	25208	33148	34102	36035	40374	47101	54230	53400	59020	72053
Accounts Payable	2956	3023	2969	2748	2063	2475	2928	3824	4128	5581
Long-Term Debt	7331	13448	13446	13655	22670	25283	26813	26359	29001	36401
Total Equity	45911	51203	58256	55865	61085	66226	69019	74563	77504	81038
D/E Ratio	0.16	0.26	0.23	0.24	0.37	0.38	0.39	0.35	0.37	0.45

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	19.3%	14.2%	10.9%	12.7%	11.8%	9.6%	8.1%	16.8%	15.9%	14.4%
Return on Equity	27.1%	22.7%	17.6%	20.5%	19.5%	16.2%	14.2%	29.3%	27.7%	26.4%
ROIC	24.7%	18.7%	14.1%	16.6%	14.9%	11.8%	10.2%	21.4%	20.3%	18.7%
Shares Out.	5000	4944	4967	4748	4725	4730	4687	4600	4473	4119
Revenue/Share	9.98	10.34	10.34	11.05	11.31	12.18	12.98	15.07	16.09	18.40
FCF/Share	1.87	1.36	1.97	2.04	2.39	2.50	2.14	3.03	3.79	4.95

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

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