



Intel Corporation (INTC)

Updated July 23rd, 2021 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|------|--|------|----------------------------------|----------|
| Current Price: | \$53 | 5 Year CAGR Estimate: | 9.0% | Market Cap: | \$225 B |
| Fair Value Price: | \$58 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 8/5/2021 |
| % Fair Value: | 92% | 5 Year Valuation Multiple Estimate: | 1.7% | Dividend Payment Date: | 9/1/2021 |
| Dividend Yield: | 2.6% | 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 \$225 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 second quarter earnings results on 7/22/2021. Revenue grew 2% to \$18.5 billion, which was \$700 million above expectations. Adjusted earnings-per-share of \$1.28 was a \$0.05, or 4.1%, improvement from the prior year and beat estimates by \$0.21.

The PC-Centric business remains very strong as revenue grew 6% to \$10.1 billion. PC volumes grew 33% year-over-year, which were partially offset by declines in average selling prices. The other businesses remain mixed. Data Center Group fell 9% to \$6.5 billion, primarily due to weaker results in the cloud business. Internet of Things Group grew 47% to \$984 million as this segment benefited from a recovery from COVID-19. Mobileye improved 124% to \$327 million due to the ongoing recovery in automotive markets. Memory was lower by 34% to \$1.1 billion. Programmable Solutions Group fell 3% to \$486 million, primarily due to supply constraints. Gross margins improved 380 basis points to 57.1%.

Intel again offered revised guidance for 2021. The company expects earnings-per-share of \$4.80 for the year, up from \$4.60 previously.

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 | \$4.80 | \$6.13 |
| 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 | 4049 | 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 \$6.13 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 | 11.0 | 12.0 |
| Avg. Yld. | 3.5% | 3.5% | 3.9% | 3.0% | 3.0% | 3.1% | 2.9% | 2.6% | 2.1% | 2.6% | 2.6% | 2.4% |

Intel shares have decreased \$6, or 10.2%, since our 4/23/2021 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 11.0. We are reaffirming our target P/E of 12 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 add 1.7% to 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 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% | 29% | 29% |

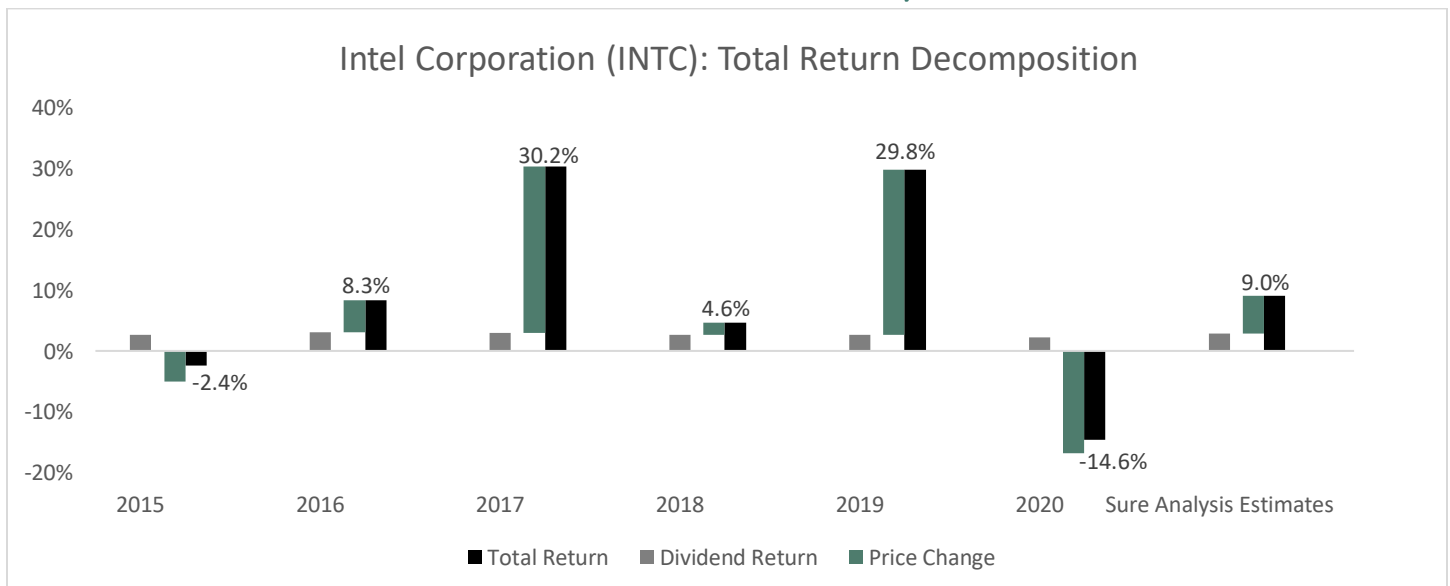
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel also has a very low dividend payout 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 9.0% annually through 2026, up from our previous estimate of 5.9%. The expected return consists of 5% earnings growth, a 2.6% yield and a slight tailwind from multiple expansion. The company's PC business remains healthy, but the other areas of the company are mixed. We have increased our 2026 price target \$4 to \$74 due to updated guidance for the year. 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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