



# Intel Corporation (INTC)

Updated October 22<sup>nd</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$49	<b>5 Year CAGR Estimate:</b>	12.7%	<b>Market Cap:</b>	\$225 B
<b>Fair Value Price:</b>	\$63	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	11/4/2021
<b>% Fair Value:</b>	77%	<b>5 Year Valuation Multiple Estimate:</b>	5.3%	<b>Dividend Payment Date:</b>	12/1/2021
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$81	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 3/21/2021, Intel announced that it would spend \$20 billion to build two advanced chip manufacturing factories in Arizona.

Intel reported third quarter earnings results on 10/21/2021. Adjusted revenue grew 4.6% to \$18.1 billion, which was \$170 million below expectations. Adjusted earnings-per-share of \$1.71 was a \$0.60, or 54%, improvement from the prior year and was \$0.60 above estimates.

Revenue for the PC-Centric business fell 2% to 9.7% billion primarily due to component shortages as well as the modem ramp down. Demand remains elevated for desktop products. PC volumes fell 6% year-over-year, but average selling prices for notebooks improved 10% and desktop was higher by 4%. Reversing trends seen for several quarters, Data Center Group grew 10% to third quarter record \$6.5 billion, though this was slightly below analysts' estimates. Supply chain issues were a headwind, but enterprise and government revenue was higher by 70% and unit volumes grew 8%. The recovery from COVID-19 continues for the Internet of Things Group, which grew 54% to an all-time record of \$1.04 billion. Mobileye improved 39% to a third quarter record of \$326 million due to higher global vehicle production. Programmable Solutions Group grew 16% to \$478 million due to gains in all markets. Gross margins improved 290 basis points to 56%. Leadership noted that supply chain constraints will be an issue at least through the end of 2022.

Intel expects to earn \$0.90 per share in Q4, well below estimates of \$1.01. The company again offered revised guidance for 2021 as well. The company expects adjusted earnings-per-share of \$5.28 for 2021, up from \$4.80 and \$4.60 previously.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$2.39	\$2.13	\$1.89	\$2.31	\$2.33	\$2.72	\$3.47	\$4.59	\$4.89	\$4.94	<b>\$5.28</b>	<b>\$6.74</b>
<b>DPS</b>	\$0.78	\$0.87	\$0.90	\$0.90	\$0.96	\$1.04	\$1.08	\$1.20	\$1.26	\$1.32	<b>\$1.39</b>	<b>\$1.77</b>
<b>Shares<sup>1</sup></b>	5000	4944	4967	4748	4725	4730	4687	4600	4473	4119	<b>4061</b>	<b>3800</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 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 \$6.74 by 2026.

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

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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.

## 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	9.3	12.0
Avg. Yld.	3.5%	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.1%	2.6%	2.8%	2.2%

Intel shares have decreased \$4, or 7.5%, since our 7/23/2021 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 9.3. 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 5.3% 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%	26%	26%

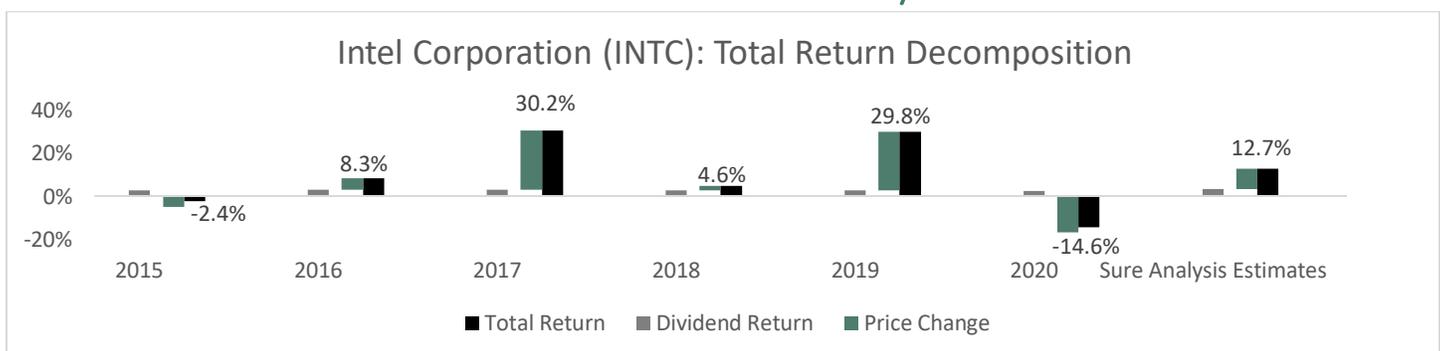
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel also has a very low dividend payout 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 12.7% annually through 2026, up from our previous estimate of 9.0%. The expected return consists of 5% earnings growth, a 2.8% yield and a mid-single-digit contribution from multiple expansion. Component shortages will be a headwind for Intel, and much of the technology sector, for the next year or so, putting a cap on business results. However, demand for the company's products remains high and several businesses had all-time or third quarter records. We have increased our 2026 price target \$7 to \$81 due to updated guidance for the year. Investors with a longer time horizon could see double-digit returns over the next five years while enjoying a market beating yield. Shares are rated as a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets (\$B)</b>	71119	84351	92358	91900	101459	113327	123249	127963	136524	153091
<b>Cash &amp; Equivalents</b>	5065	8478	5674	2561	15308	5560	3433	3019	4194	5865
<b>Acc. Receivable</b>	3650	3833	3582	4427	4787	4690	5607	6722	7659	6782
<b>Inventories</b>	4096	4734	4172	4273	5167	5553	6983	7253	8744	8427
<b>Goodwill &amp; Int.</b>	15521	15945	15663	15307	15265	23593	37134	36349	37103	35997
<b>Total Liabilities</b>	25208	33148	34102	36035	40374	47101	54230	53400	59020	72053
<b>Accounts Payable</b>	2956	3023	2969	2748	2063	2475	2928	3824	4128	5581
<b>Long-Term Debt</b>	7331	13448	13446	13655	22670	25283	26813	26359	29001	36401
<b>Total Equity</b>	45911	51203	58256	55865	61085	66226	69019	74563	77504	81038
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	19.3%	14.2%	10.9%	12.7%	11.8%	9.6%	8.1%	16.8%	15.9%	14.4%
<b>Return on Equity</b>	27.1%	22.7%	17.6%	20.5%	19.5%	16.2%	14.2%	29.3%	27.7%	26.4%
<b>ROIC</b>	24.7%	18.7%	14.1%	16.6%	14.9%	11.8%	10.2%	21.4%	20.3%	18.7%
<b>Shares Out.</b>	5000	4944	4967	4748	4725	4730	4687	4600	4473	4119
<b>Revenue/Share</b>	9.98	10.34	10.34	11.05	11.31	12.18	12.98	15.07	16.09	18.40
<b>FCF/Share</b>	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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