



# Intel Corporation (INTC)

Updated January 28<sup>th</sup>, 2022 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$48	<b>5 Year CAGR Estimate:</b>	6.7%	<b>Market Cap:</b>	\$196 B
<b>Fair Value Price:</b>	\$45	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	2/4/2022
<b>% Fair Value:</b>	106%	<b>5 Year Valuation Multiple Estimate:</b>	-1.1%	<b>Dividend Payment Date:</b>	3/1/2022
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$58	<b>Years Of Dividend Growth:</b>	8
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	5.0%

## 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 \$196 billion. The company generates about \$75 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.

On 1/26/2022, Intel announced that it would invest more than \$20 billion in two advanced chip manufacturing factories in Ohio.

On 1/26/2022, Intel increased its dividend 5% to \$0.365 for the 3/1/2022 payment date.

Intel reported fourth quarter and full year earnings results on 1/26/2022. For the quarter, adjusted revenue grew 4% to \$19.5 billion, which was \$1.14 billion higher than expected. Adjusted earnings-per-share of \$1.09 compared to \$1.42 in the prior year, but was \$0.18 above estimates. For the year, adjusted revenue improved 2% to \$74.7 billion while adjusted earnings-per-share of \$5.47 compared to \$5.10 in 2020.

Revenue for the PC-Centric business decreased 7% to \$10.1 billion for the quarter, primarily due to component shortages as well as the modem ramp down. PC volume fell 18%, but average selling prices were higher by double-digits. Data Center Group continues to act well, with revenue growing 20% to \$7.3 billion. Enterprise and government revenue was higher by 53% and unit volumes grew 17%. The Internet of Things Group grew 36% to \$1.1 billion due to the ongoing recovery from COVID-19. Mobileye was up 7% to \$356 million due to higher global vehicle production. Programmable Solutions Group grew 15% to \$484 million on strong market demand. Gross margins fell 320 basis points to 53.6%. Leadership noted that supply chain constraints will be an issue at least into 2023.

Intel is expected to earn \$3.79 in 2022. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.13	\$1.89	\$2.31	\$2.33	\$2.72	\$3.47	\$4.59	\$4.89	\$5.10	\$5.47	<b>\$3.79</b>	<b>\$4.84</b>
<b>DPS</b>	\$0.87	\$0.90	\$0.90	\$0.96	\$1.04	\$1.08	\$1.20	\$1.26	\$1.32	\$1.39	<b>\$1.46</b>	<b>\$1.86</b>
<b>Shares<sup>1</sup></b>	4944	4967	4748	4725	4730	4687	4600	4473	4119	4069	<b>4069</b>	<b>3900</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 11% per year. We are maintaining our forecasted growth rate of 5% through 2027. Applying the growth rate of 5% to the midpoint of Intel's guidance for 2021 and shares could earn \$4.84 by 2027.

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

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Intel generated \$11.3 billion in free cash flow in 2021 and returned \$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 5.3% since 2012.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.7	12.2	13.2	13.8	12.3	10.9	10.7	12.3	10.5	9.4	12.7	12.0
Avg. Yld.	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.1%	2.6%	2.7%	3.0%	3.2%

Intel's shares have decreased \$1, or 2%, since our 10/22/2021 update. Based off of the current share price and expected earnings-per-share for 2022, Intel's stock has a price to earnings multiple of 12.7. 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 2027, valuation could reduce annual returns by 1.1% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	41%	48%	40%	41%	38%	31%	26%	26%	27%	25%	39%	39%

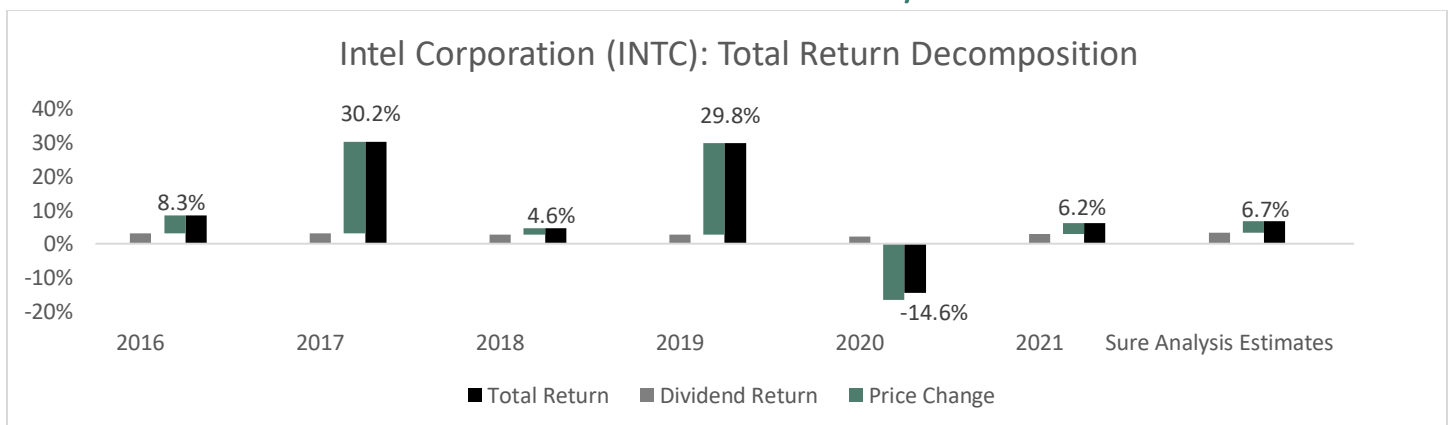
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel also has a very low dividend payout 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 6.7% annually through 2027, down from our previous estimate of 12.7%. The expected return consists of 5% earnings growth and a 3.0% yield offset by a low single-digit from multiple contraction. 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. We have lowered our 2027 price target \$23 to \$58 due to earnings estimates for 2022. We rate Intel as a hold due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	53341	52708	55870	55355	59387	62761	70848	71965	77867	79024
<b>Gross Profit</b>	33151	31521	35609	34679	36233	39098	43737	42140	43612	43815
<b>Gross Margin</b>	62.1%	59.8%	63.7%	62.6%	61.0%	62.3%	61.7%	58.6%	56.0%	55.4%
<b>SG&amp;A Exp.</b>	8057	8088	8136	7930	8377	7452	6950	6350	6180	6543
<b>D&amp;A Exp.</b>	7522	8032	8549	8711	7790	8129	9085	10826	12239	11792
<b>Operating Profit</b>	14638	12531	15642	14356	14877	18434	23244	22428	23876	22082
<b>Op. Margin</b>	27.4%	23.8%	28.0%	25.9%	25.1%	29.4%	32.8%	31.2%	30.7%	27.9%
<b>Net Profit</b>	11005	9620	11704	11420	10316	9601	21053	21048	20899	19868
<b>Net Margin</b>	20.6%	18.3%	20.9%	20.6%	17.4%	15.3%	29.7%	29.2%	26.8%	25.1%
<b>Free Cash Flow</b>	7042	10029	10313	11692	12183	10332	14251	16932	20931	9662
<b>Income Tax</b>	3868	2991	4097	2792	2620	10751	2264	3010	4179	1835

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets (\$B)</b>	84351	92358	91900	101459	13327	23249	127963	36524	153091	168406
<b>Cash &amp; Equivalents</b>	8478	5674	2561	15308	5560	3433	3019	4194	5865	4827
<b>Acc. Receivable</b>	3833	3582	4427	4787	4690	5607	6722	7659	6782	9457
<b>Inventories</b>	4734	4172	4273	5167	5553	6983	7253	8744	8427	10776
<b>Goodwill &amp; Int.</b>	15945	15663	15307	15265	23593	37134	36349	37103	35997	34233
<b>Total Liabilities</b>	33148	34102	36035	40374	47101	54230	53400	59020	72053	73015
<b>Accounts Payable</b>	3023	2969	2748	2063	2475	2928	3824	4128	5581	5747
<b>Long-Term Debt</b>	13448	13446	13655	22670	25283	26813	26359	29001	36401	38101
<b>Total Equity</b>	51203	58256	55865	61085	66226	69019	74563	77504	81038	95391
<b>LTD/E Ratio</b>	0.26	0.23	0.24	0.37	0.38	0.39	0.35	0.37	0.45	0.40

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	14.2%	10.9%	12.7%	11.8%	9.6%	8.1%	16.8%	15.9%	14.4%	12.4%
<b>Return on Equity</b>	22.7%	17.6%	20.5%	19.5%	16.2%	14.2%	29.3%	27.7%	26.4%	22.5%
<b>ROIC</b>	18.7%	14.1%	16.6%	14.9%	11.8%	10.2%	21.4%	20.3%	18.7%	15.8%
<b>Shares Out.</b>	4944	4967	4748	4725	4730	4687	4600	4473	4119	4069
<b>Revenue/Share</b>	10.34	10.34	11.05	11.31	12.18	12.98	15.07	16.09	18.40	19.32
<b>FCF/Share</b>	1.36	1.97	2.04	2.39	2.50	2.14	3.03	3.79	4.95	2.36

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

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