



Intel Corporation (INTC)

Updated October 30th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	5.7%	Market Cap:	\$119 B
Fair Value Price:	\$23	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/04/22
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Dividend Payment Date:	12/01/22
Dividend Yield:	5.0%	5 Year Price Target	\$30	Years Of Dividend Growth:	8
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Hold

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 120,000 people worldwide and has a current market capitalization of \$119 billion. The company generates about \$67 billion in annual sales.

On January 26th, 2022, Intel increased its dividend 5% to \$0.365 for the March 1st, 2022 payment date.

On October 26th, 2022, Intel completed its initial public offering of Mobileye Global Inc. (MBLY) into an independent company.

On October 27th, 2022, Intel reported third quarter results on for the period ending September 30th, 2022. Revenue declined 20% to \$15.3 billion, which was in-line with estimates. On an adjusted basis, revenue fell 15%. Adjusted earnings-per-share of \$0.59 compared to \$1.45 in the prior year, but was \$0.26 more than anticipated.

Revenue for the PC-Centric business decreased 17% to \$8.1 billion for the quarter, primarily due to lower PC demand. Datacenter and AI Group was lower by 27% to \$4.2 billion due to lower volume for servers. Network and Edge Group grew 14% to \$2.3 billion as 5G tailwinds have benefited the segment. Mobileye and Accelerated Computing Systems and Graphics Group grew 38% and 8%, respectively. Intel Foundry Services fell 2% to \$171 million. Gross margin declined 12.4% to 45.9%. The company announced it would attempt to reduce cost by \$3 billion in 2023 and \$8 billion to \$10 billion annualized by the end of 2025.

Intel now expects to see revenue of \$63 billion to \$64 billion, compared to prior guidance of \$65 billion to \$68 billion. The company is now projected to earn \$1.95 to per share in 2022, down from \$2.60, \$4.16, and \$3.79 previously. We have updated our forecast accordingly. Shares surged almost 11% following the earnings release.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.13	\$1.89	\$2.31	\$2.33	\$2.72	\$3.47	\$4.59	\$4.89	\$5.10	\$5.47	\$1.95	\$2.49
DPS	\$0.87	\$0.90	\$0.90	\$0.96	\$1.04	\$1.08	\$1.20	\$1.26	\$1.32	\$1.39	\$1.46	\$1.86
Shares¹	4944	4967	4748	4725	4730	4687	4600	4473	4119	4069	4125	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 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 2022 and shares could earn \$2.49 by 2027.

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.

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	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	14.9	12.0
Avg. Yld.	3.5%	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.1%	2.6%	2.7%	5.0%	6.2%

Intel's shares have decreased \$8, or 21.6%, since our August 1st, 2022 report. Based off of the current share price and expected earnings-per-share for 2022, Intel's stock has a price to earnings multiple of 14.9. 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, multiple reversion could be a 4.2% headwind to annual returns over this time period.

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%	75%	75%

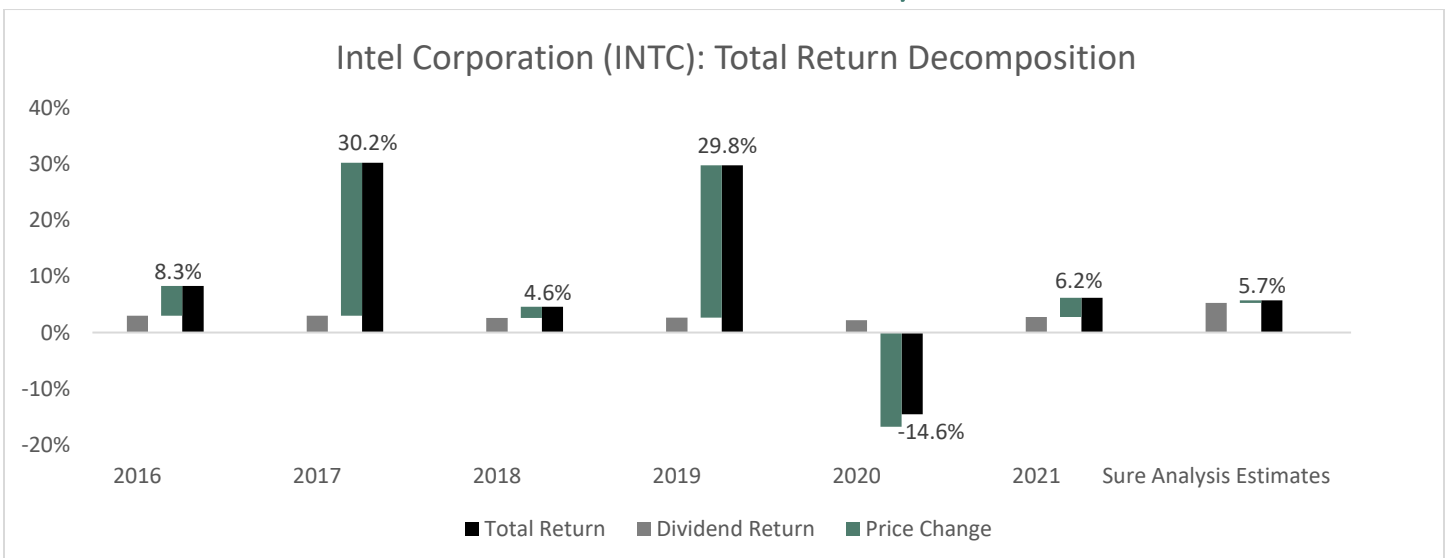
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel also has a very low dividend payout 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 5.7% annually through 2027, up slightly from our previous estimate of 5.5%. The expected return consists of 5% earnings growth and a 5.0% starting yield offset by a mid-single-digit headwind from multiple contraction. Intel's quarter results were very mixed, with its largest segments showing declines. The company also continues to lower full year guidance due to weakness in multiple end markets. On the plus side, the stock's yield is at one of the highest levels it has been in the last decade. That said, we have lowered our five-year price target \$10 to \$30 due to EPS estimates and we continue to view shares of 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
Revenue	53341	52708	55870	55355	59387	62761	70848	71965	77867	79024
Gross Profit	33151	31521	35609	34679	36233	39098	43737	42140	43612	43815
Gross Margin	62.1%	59.8%	63.7%	62.6%	61.0%	62.3%	61.7%	58.6%	56.0%	55.4%
SG&A Exp.	8057	8088	8136	7930	8377	7452	6950	6350	6180	6543
D&A Exp.	7522	8032	8549	8711	7790	8129	9085	10826	12239	11792
Operating Profit	14638	12531	15642	14356	14877	18434	23244	22428	23876	22082
Op. Margin	27.4%	23.8%	28.0%	25.9%	25.1%	29.4%	32.8%	31.2%	30.7%	27.9%
Net Profit	11005	9620	11704	11420	10316	9601	21053	21048	20899	19868
Net Margin	20.6%	18.3%	20.9%	20.6%	17.4%	15.3%	29.7%	29.2%	26.8%	25.1%
Free Cash Flow	7042	10029	10313	11692	12183	10332	14251	16932	20931	9662
Income Tax	3868	2991	4097	2792	2620	10751	2264	3010	4179	1835

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	84351	92358	91900	101459	13327	23249	127963	36524	153091	168406
Cash & Equivalents	8478	5674	2561	15308	5560	3433	3019	4194	5865	4827
Acc. Receivable	3833	3582	4427	4787	4690	5607	6722	7659	6782	9457
Inventories	4734	4172	4273	5167	5553	6983	7253	8744	8427	10776
Goodwill & Int.	15945	15663	15307	15265	23593	37134	36349	37103	35997	34233
Total Liabilities	33148	34102	36035	40374	47101	54230	53400	59020	72053	73015
Accounts Payable	3023	2969	2748	2063	2475	2928	3824	4128	5581	5747
Long-Term Debt	13448	13446	13655	22670	25283	26813	26359	29001	36401	38101
Total Equity	51203	58256	55865	61085	66226	69019	74563	77504	81038	95391
LTD/E Ratio	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
Return on Assets	14.2%	10.9%	12.7%	11.8%	9.6%	8.1%	16.8%	15.9%	14.4%	12.4%
Return on Equity	22.7%	17.6%	20.5%	19.5%	16.2%	14.2%	29.3%	27.7%	26.4%	22.5%
ROIC	18.7%	14.1%	16.6%	14.9%	11.8%	10.2%	21.4%	20.3%	18.7%	15.8%
Shares Out.	4944	4967	4748	4725	4730	4687	4600	4473	4119	4069
Revenue/Share	10.34	10.34	11.05	11.31	12.18	12.98	15.07	16.09	18.40	19.32
FCF/Share	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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