



# Intel Corporation (INTC)

Updated February 4<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$30	<b>5 Year CAGR Estimate:</b>	0.6%	<b>Market Cap:</b>	\$125 B
<b>Fair Value Price:</b>	\$18	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	02/06/23
<b>% Fair Value:</b>	162%	<b>5 Year Valuation Multiple Estimate:</b>	-9.2%	<b>Dividend Payment Date:</b>	03/01/23
<b>Dividend Yield:</b>	4.9%	<b>5 Year Price Target</b>	\$24	<b>Years Of Dividend Growth:</b>	8
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Sell

## 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 130,000 people worldwide and has a current market capitalization of \$125 billion. The company generates about \$51 billion in annual sales.

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

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

On January 26<sup>th</sup>, 2023, Intel reported fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenue fell 32% to \$14 billion, which was \$490 million less than expected. On an adjusted basis, revenue fell 28%. Adjusted earnings-per-share of \$0.10 compared very unfavorably to \$1.15 in the prior year and missed expectations by \$0.10. For 2022, revenue fell 20% to \$63.1 billion while adjusted revenue was lower by 16%. Adjusted earnings-per-share of \$1.84 was down significantly from \$5.30 in the prior year.

Revenue for the PC-Centric business was lower by 36% to \$6.6 billion, mostly due to weaker demand in consumer and education markets. Datacenter and AI Group was down 33% to \$4.3 billion due to competitive pressures. Network and Edge Group revenue declined 1% \$2.1 billion due to weakness in product lines. Mobileye, Intel Foundry Services, and Accelerated Computing Systems and Graphics Group grew 59%, 30%, and 1%, respectively. Gross margin declined 10.8% to 58.1%.

Intel guided towards revenue of \$10.5 billion to \$11.5 billion for the first quarter, well below estimates of \$14 billion, and adjusted earnings-per-share of -\$0.15 was also well below estimates of \$0.25. For 2023, we project that the company will earn \$0.53. However, we estimate that the company has earnings power of \$1.54 per share.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.89	\$2.31	\$2.33	\$2.72	\$3.47	\$4.59	\$4.89	\$5.10	\$5.47	\$1.84	<b>\$0.53</b>	<b>\$1.97</b>
<b>DPS</b>	\$0.90	\$0.90	\$0.96	\$1.04	\$1.08	\$1.20	\$1.26	\$1.32	\$1.39	\$1.46	<b>\$1.46</b>	<b>\$1.46</b>
<b>Shares<sup>1</sup></b>	4967	4748	4725	4730	4687	4600	4473	4119	4069	4133	<b>4133</b>	<b>4000</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 2028. Applying the growth rate of 5% to the midpoint of our estimate for earnings power for 2023 and shares could earn \$1.97 by 2028.

Intel generated \$3.1 billion in adjusted free cash flow in 2022, down significantly from more than \$11 billion in the prior year. While Intel paused its dividend growth in 2014, the company has increased it every year since. Overall, the

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

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dividend has a CAGR of 5.5% since 2013. It should be noted that Intel has now held the dividend constant for five consecutive quarters, which we believe is likely to continue given the weakness of the business.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.2	13.2	13.8	12.3	10.9	10.7	12.3	10.5	9.4	14.4	19.5	12.0
Avg. Yld.	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.1%	2.6%	2.7%	5.5%	4.9%	6.2%

Intel's shares have increased \$1, or 3.4%, since our October 30<sup>th</sup>, 2022 report. Based off of the current share price and our earnings power estimate, Intel's stock has a price to earnings multiple of 19.5. 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 2028, then multiple reversion could be a 9.2% headwind to annual returns over this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	48%	40%	41%	38%	31%	26%	26%	27%	25%	79%	95%	74%

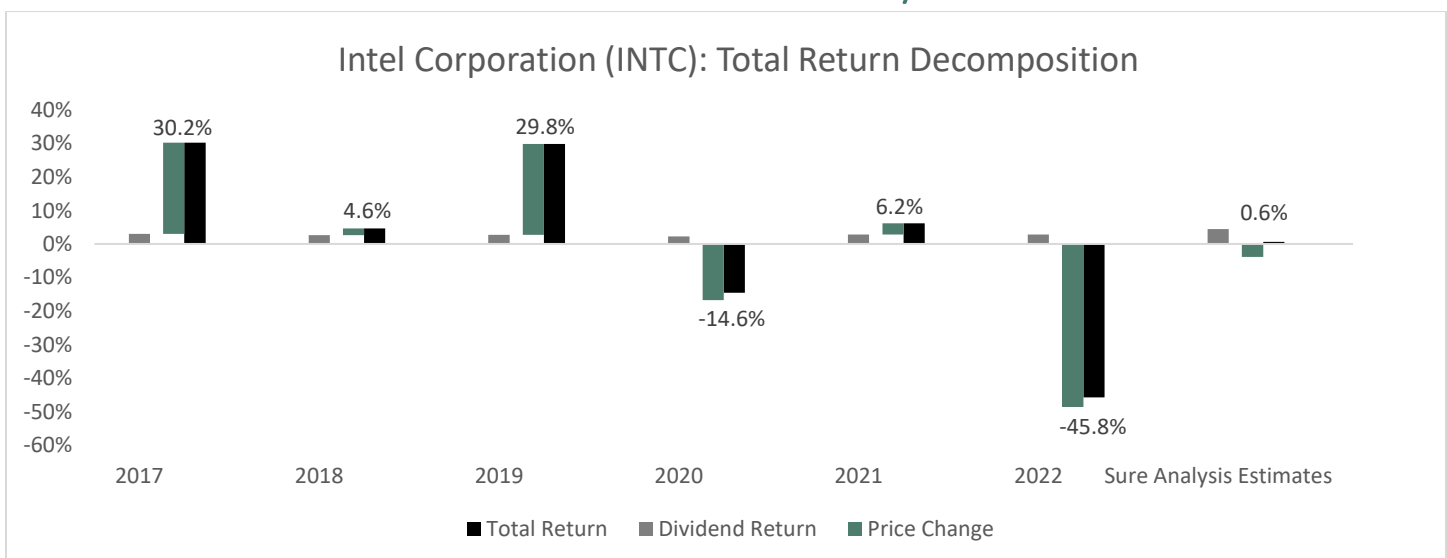
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel's dividend coverage had been strong, but recent results have likely indicate a pause on dividend growth.

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 0.6% annually through 2028, down from our previous estimate of 5.7%. The expected return consists of 5% earnings growth and a 4.9% starting yield offset by a high single-digit headwind from multiple contraction. Intel's quarter showed weakness in the most important areas of the business. Guidance moving forward was below the market's expectation. We now view shares of Intel as a sell due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	52708	55870	55355	59387	62761	70848	71965	77867	79024	63054
<b>Gross Profit</b>	31521	35609	34679	36233	39098	43737	42140	43612	43815	26866
<b>Gross Margin</b>	59.8%	63.7%	62.6%	61.0%	62.3%	61.7%	58.6%	56.0%	55.4%	42.6%
<b>SG&amp;A Exp.</b>	8088	8136	7930	8377	7452	6950	6350	6180	6543	7002
<b>D&amp;A Exp.</b>	8032	8549	8711	7790	8129	9085	10826	12239	11792	13035
<b>Operating Profit</b>	12531	15642	14356	14877	18434	23244	22428	23876	22082	2336
<b>Op. Margin</b>	23.8%	28.0%	25.9%	25.1%	29.4%	32.8%	31.2%	30.7%	27.9%	3.7%
<b>Net Profit</b>	9620	11704	11420	10316	9601	21053	21048	20899	19868	8014
<b>Net Margin</b>	18.3%	20.9%	20.6%	17.4%	15.3%	29.7%	29.2%	26.8%	25.1%	12.7%
<b>Free Cash Flow</b>	10029	10313	11692	12183	10332	14251	16932	20931	9662	(9617)
<b>Income Tax</b>	2991	4097	2792	2620	10751	2264	3010	4179	1835	(249)

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets (\$B)</b>	92358	91900	101459	13327	23249	127963	36524	153091	168406	182103
<b>Cash &amp; Equivalents</b>	5674	2561	15308	5560	3433	3019	4194	5865	4827	11144
<b>Acc. Receivable</b>	3582	4427	4787	4690	5607	6722	7659	6782	9457	4133
<b>Inventories</b>	4172	4273	5167	5553	6983	7253	8744	8427	10776	13224
<b>Goodwill &amp; Int.</b>	15663	15307	15265	23593	37134	36349	37103	35997	34233	33609
<b>Total Liabilities</b>	34102	36035	40374	47101	54230	53400	59020	72053	73015	78817
<b>Accounts Payable</b>	2969	2748	2063	2475	2928	3824	4128	5581	5747	9595
<b>Long-Term Debt</b>	13446	13655	22670	25283	26813	26359	29001	36401	38101	42007
<b>Total Equity</b>	58256	55865	61085	66226	69019	74563	77504	81038	95391	101423
<b>LTD/E Ratio</b>	0.23	0.24	0.37	0.38	0.39	0.35	0.37	0.45	0.40	0.41

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	10.9%	12.7%	11.8%	9.6%	8.1%	16.8%	15.9%	14.4%	12.4%	4.6%
<b>Return on Equity</b>	17.6%	20.5%	19.5%	16.2%	14.2%	29.3%	27.7%	26.4%	22.5%	8.1%
<b>ROIC</b>	14.1%	16.6%	14.9%	11.8%	10.2%	21.4%	20.3%	18.7%	15.8%	5.7%
<b>Shares Out.</b>	4967	4748	4725	4730	4687	4600	4473	4119	4069	4133
<b>Revenue/Share</b>	10.34	11.05	11.31	12.18	12.98	15.07	16.09	18.40	19.32	15.29
<b>FCF/Share</b>	1.97	2.04	2.39	2.50	2.14	3.03	3.79	4.95	2.36	(2.33)

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

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