



Intel Corporation (INTC)

Updated October 28th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	-6.2%	Market Cap:	\$149 B
Fair Value Price:	\$18	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	10/05/23
% Fair Value:	195%	5 Year Valuation Multiple Estimate:	-12.5%	Dividend Payment Date:	11/09/23
Dividend Yield:	1.4%	5 Year Price Target	\$24	Years Of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	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 \$149 billion. The company generates about \$53 billion in annual sales.

On February 22nd, 2023, Intel announced that it was cutting its quarterly dividend by 65.8% to \$0.125, ending the company's dividend growth streak of 8 years.

On October 3rd, 2023, Intel announced that the Programmable Solutions Group segment would be separated into a standalone business. This is expected to take place on January 1st, 2024.

On October 26th, 2023, Intel reported third quarter results for the period ending September 30th, 2023. For the quarter, revenue fell 7.7% to \$14.2 billion, but beat estimates by \$560 million. The decline deaccelerated from prior quarters. Adjusted earnings-per-share of \$0.41 compared unfavorably to \$0.59 in the prior year, but was \$0.19 better than expected.

Revenue for the PC-Centric business was lower by 3% to \$7.9 billion as OEM inventory stabilized. Datacenter and AI Group declined 10% to \$3.8 billion due once again to competitive pressures. Network and Edge Group revenue was down 32% to \$1.5 billion due to higher inventories levels. Mobileye was up 18% year-over-year as product demand grew while Intel Foundry Services was higher by nearly 300% due to volume growth. Gross margin declined 10 basis points to 42.5%.

Intel guided towards revenue of \$14.6 billion to \$15.6 billion for the fourth quarter, which compares to consensus of \$14.35 billion. Adjusted earnings-per-share are projected to be \$0.44 versus consensus of \$0.32. For 2023, we project that the company will earn \$0.94, up from \$0.35. We continue to 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
EPS	\$1.89	\$2.31	\$2.33	\$2.72	\$3.47	\$4.59	\$4.89	\$5.10	\$5.47	\$1.84	\$0.35	\$1.97
DPS	\$0.90	\$0.90	\$0.96	\$1.04	\$1.08	\$1.20	\$1.26	\$1.32	\$1.39	\$1.46	\$0.50	\$0.50
Shares¹	4967	4748	4725	4730	4687	4600	4473	4119	4069	4133	4196	4100

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.

¹ Share count in millions

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Intel generated \$3.1 billion in adjusted free cash flow in 2022, down significantly from more than \$11 billion in the prior year. Adjusted free cash flow for the third quarter of 2023 was \$943 million, which was much improved from -\$6.3 billion in the same period last year and -\$2.8 billion in the second quarter of the year.

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	23.4	12.0
Avg. Yld.	3.9%	3.0%	3.0%	3.1%	2.9%	2.6%	2.1%	2.6%	2.7%	5.5%	1.4%	2.1%

Intel's shares have increased \$1, or 2.7%, since our July 29th, 2023 report. Based off the current share price and our earnings power estimate, Intel's stock has a price-to-earnings multiple of 23.4. 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 12.5% headwind to annual returns over this 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%	143%	25%

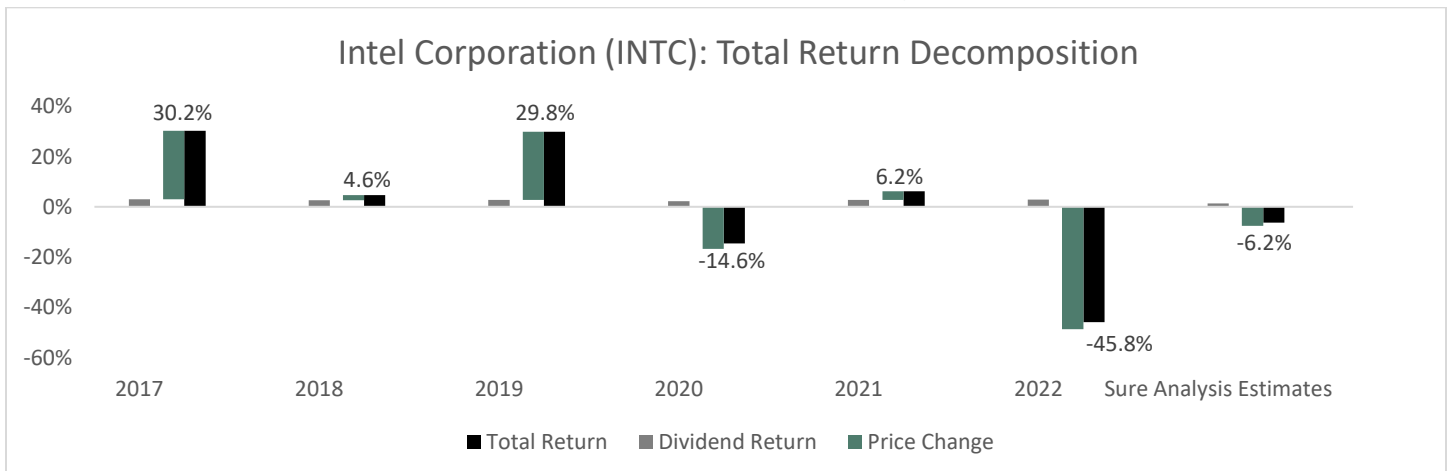
Intel saw earnings declines in both 2008 and 2009 as the company struggled during the last recession. The company's products are in demand when customers feel that their business is on solid ground and they feel comfortable purchasing more of Intel's offerings. Intel's dividend coverage had been strong,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

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 cannot 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 lose 6.2% annually through 2028, up slightly from our previous estimate of a loss of 6.8%. The expected return consists of 5% earnings growth and a 1.4% starting yield that are more than offset by a low double-digit headwind from multiple contraction. Intel experienced less of a revenue decline during the period on a quarter-over-quarter basis and fourth quarter guidance topped estimates, but results remain weak in most businesses. Intel continues to receive a sell rating 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
Revenue	52708	55870	55355	59387	62761	70848	71965	77867	79024	63054
Gross Profit	31521	35609	34679	36233	39098	43737	42140	43612	43815	26866
Gross Margin	59.8%	63.7%	62.6%	61.0%	62.3%	61.7%	58.6%	56.0%	55.4%	42.6%
SG&A Exp.	8088	8136	7930	8377	7452	6950	6350	6180	6543	7002
D&A Exp.	8032	8549	8711	7790	8129	9085	10826	12239	11792	13035
Operating Profit	12531	15642	14356	14877	18434	23244	22428	23876	22082	2336
Op. Margin	23.8%	28.0%	25.9%	25.1%	29.4%	32.8%	31.2%	30.7%	27.9%	3.7%
Net Profit	9620	11704	11420	10316	9601	21053	21048	20899	19868	8014
Net Margin	18.3%	20.9%	20.6%	17.4%	15.3%	29.7%	29.2%	26.8%	25.1%	12.7%
Free Cash Flow	10029	10313	11692	12183	10332	14251	16932	20931	9662	(9617)
Income Tax	2991	4097	2792	2620	10751	2264	3010	4179	1835	(249)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	92358	91900	101459	13327	23249	127963	36524	153091	168406	182103
Cash & Equivalents	5674	2561	15308	5560	3433	3019	4194	5865	4827	11144
Acc. Receivable	3582	4427	4787	4690	5607	6722	7659	6782	9457	4133
Inventories	4172	4273	5167	5553	6983	7253	8744	8427	10776	13224
Goodwill & Int.	15663	15307	15265	23593	37134	36349	37103	35997	34233	33609
Total Liabilities	34102	36035	40374	47101	54230	53400	59020	72053	73015	78817
Accounts Payable	2969	2748	2063	2475	2928	3824	4128	5581	5747	9595
Long-Term Debt	13446	13655	22670	25283	26813	26359	29001	36401	38101	42007
Total Equity	58256	55865	61085	66226	69019	74563	77504	81038	95391	101423
LTD/E Ratio	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
Return on Assets	10.9%	12.7%	11.8%	9.6%	8.1%	16.8%	15.9%	14.4%	12.4%	4.6%
Return on Equity	17.6%	20.5%	19.5%	16.2%	14.2%	29.3%	27.7%	26.4%	22.5%	8.1%
ROIC	14.1%	16.6%	14.9%	11.8%	10.2%	21.4%	20.3%	18.7%	15.8%	5.7%
Shares Out.	4967	4748	4725	4730	4687	4600	4473	4119	4069	4133
Revenue/Share	10.34	11.05	11.31	12.18	12.98	15.07	16.09	18.40	19.32	15.29
FCF/Share	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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