

**Investing summary for Intel (Last updated 2 May 2022 on Q1 Earnings)**

- Expect margins to drop in 2022 and then remain flat for a few years – expect single digit growth for a while, acceleration only by 2025/2026!
- **Not great business developments with heavy capital investments could keep the pressure on the stock as the market usually wants confirmation, not promises.**
- **Gross margin 2022 down to around 52%, expected to stay around that for 2023 and 2024, then increase back to higher (54% to 58%) according to guidance.**
- **Revenue growth is forecasted to be 1.7% for 2022 with a margin drop, single digit growth and then acceleration to double digits after 2025 as the investments made in the 2021-2025 start to bear fruit.**
- **Stock as Investment:** I would say Intel is cheap in the \$40ties, incredibly cheap in the \$30ties and likely impossible cheap in the \$20ties.
- **The risks come from missing growth projections stated (12% growth in 2026). If it doesn't materialize, it will look ugly when the market loses faith in promises (so the risk is high as there is execution but also competition risk). Also, there is a big difference between hitting the growth mark in 2026 or 2028, if they hit it at all as the competition isn't staying still.**
- **Intel could be a China/Taiwan hedge as if there is mumbo jumbo there, Intel is the global counterparty for supply of chips.**

**Investment scenarios:**

- 1) **Reward:** Double by 2026, with biggest part of the gain in the latter years as the 'great growth plan' gets traction. \$20 billion of FCF, growing double digits – should lead to a valuation of 20 on FCF and thus a \$400 billion market cap which is a double from current levels (March 2022).
- 2) **RISK:** Missing the set growth targets, having a lower than expected return on invested capital (could be due to competition or to economic situation and demand – hard to predict what will the world look like in 2026/2030)

**Value investing strategy:** Wait for it to be an absolute bargain where you can't lose and left is only the upside (market capitalization in the \$150 billion on all else equal). It is unlikely it will happen, but it is worth to watch it for an absolute value investment).

**Normal investing strategy:** Intel looks undervalued on a relative basis given the potential of 15% FCF in 5 years from current levels.

**INTEL STOCK VALUATION MAY 2022:**

**Valuation based on EPS of around \$4 guided for 2022 and 36.5% payout ratio for dividend (likely being higher in the future.**

**Scenario A, growth of just 4% and then 10%.**

**Scenario Best case – growth of 6% and then 13%.**

**Scenario C – growth of 2% and then 7%.**

INTEL

LINK

<https://sven-carlin-research-platform.teachable.com/courses/335443/lectures/20924528>

43.59

## STOCK VALUE LIST!A1

												Terminal Value	Growth rate	
Scenario 1 normal case	EPS	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2031	4%	next 5 years
		4.00	4.16	4.33	4.50	5.04	5.64	6.32	7.08	7.93	8.88	118.94	12%	5 to 10 years
	12.5%)	1.30	1.20	1.11	1.03	1.02	1.02	1.01	1.01	1.00	1.00	36.63	13%	Discount rate
	INTRINSIC VALUE	47.32											15.0	Terminal multiple

												Terminal Value	Growth rate	
Scenario 2 best case	EPS	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2031	6%	next 5 years
		4.00	4.24	4.49	4.76	5.48	6.30	7.25	8.33	9.58	11.02	191.64	15%	5 to 10 years
	12.5%)	1.30	1.22	1.15	1.09	1.11	1.13	1.16	1.19	1.21	1.24	59.02	13%	Discount rate
	Present value sum	70.81											20.0	Terminal multiple

												Terminal Value	Growth rate	
Scenario 3 worst case	EPS	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2031	2%	next 5 years
		4.00	4.24	4.49	4.76	5.48	5.86	6.27	6.71	7.18	7.68	71.81	7%	5 to 10 years
	12.5%)	1.30	1.22	1.15	1.09	1.11	1.06	1.00	0.95	0.91	0.86	22.11	13%	Discount rate
	Present value sum	32.77											10.0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.6	47.32	28.39
Scenario 2 (best case)	0.2	70.81	14.16
Scenario 3 (worst case)	0.2	32.77	6.55
Stock Price		43.59	Sum
			49.11

SVEN CARLIN

R E S E A R C H

All in all, Intel is well priced for a 12.5% likely long-term investing return.

Will Intel go bust? With \$20 to \$30 billion of operating cash flows, just \$30 billion of debt and \$36 billion of cash and short term investments, operating in a sector with good demand growth, it is unlikely Intel will go bust, which makes it a value investment. Therefore, I would say the risk of total capital loss is very low.

The risk of not satisfactory returns is there if the market or the competition or Intel's execution doesn't work as planned.

Conclusion: From a risk reward perspective, it is likely that Intel will deliver a double digit investing return over time. Range of returns over 5 to 10 years is between 0% and 20% per year.

(of course, anything can happen in between but the below is the most likely business developments.

**Q1 2022 STOCK SITUATION:** It seem the market doesn't want to hold it as good things might only start happening by 2025. Thus news about it should be out in 2024, thus not interesting now from a market perspective.

From a value investing perspective: The market cap is \$178 million, the equity is \$103 billion and the company will likely make \$4 per share this year on which to build on. It has a PE ratio of 10 with much more upside than downside.

