Intel earnings update

Summary:

Intel is building and investing in its position over the next decade and longer. They were losing it and that is why they hired the new CEO. This obviously means huge spending and lower margins for a while and that has a negative impact on the stock.

However, they also now project 10 to 12% growth per year ahead and then improving margins from 2025 onwards.

They plan to keep growing the dividend but it is likely buybacks are not the focus anymore.

I have pushed the growth rates a bit higher in my valuation, that sticks to higher cash flows from 2025 onward, with a great return in an exuberant scenario. That pushes the valuation higher.

STOCK VALUE LIST'!A1

												Value	Growth rate	
Scenario 1	FCF		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	10%	next 5 years
normal case		15.00	10.00	11.00	12.10	13.31	20.00	22.00	24.20	26.62	29.28	32.21	439.23	10%	5 to 10 years
	10%)		9.09	9.09	9.09	9.09	12.42	12.42	12.42	12.42	12.42	12.42	169.34	10%	Discount rate
	INTRINSIC VALUE		280.22											15.0	Terminal multiple

													Terminal Value	Growth rate	
Scenario 2	FCF		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	12%	next 5 years
best case		20.00	10.00	11.20	12.54	14.05	25.00	28.00	31.36	35.12	39.34	44.06	786.76	12%	5 to 10 years
	10%)		9.09	9.26	9.42	9.60	15.52	15.81	16.09	16.39	16.68	16.99	303.33	10%	Discount rate
	Present value sum		438.17											20.0	Terminal multiple

													Terminal Value	Growth rate	
Scenario 3	FCF		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	5%	next 5 years
worst case		12.00	10.00	10.50	11.03	11.58	12.16	12.76	13.40	14.07	14.77	15.51	147.75	5%	5 to 10 years
	10%)		9.09	8.68	8.28	7.91	7.55	7.20	6.88	6.56	6.27	5.98	56.96	10%	Discount rate
	Present value sum		131.36											10.0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.6	280.22	168.13
Scenario 2 (best case)	0.2	438.17	87.63
Scenario 3 (worst case)	0.2	131.36	26.27
		Sum	282.04

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On the uncertainty, that is high too as we don't know whether demand will peak again in 2024 or in 2027, which will have significant impact on Intel. Also, any delays or errors in production, which have been there in the past, could mix things up.

In short, they are investing to build a big and diversified business in a sector with strong tailwinds. The market doesn't like the short term outlook and weakness, but if it works, it will be great for investors.

But, given the weaker short term outlook, it also means there might be more weakness ahead in the stock price – so definitely one to keep on the watch list.

Market Summary > Intel Corporation

49,74 USD

NASDAQ: INTC

+ Follow

+14.99 (43.14%) ↑ past 5 years

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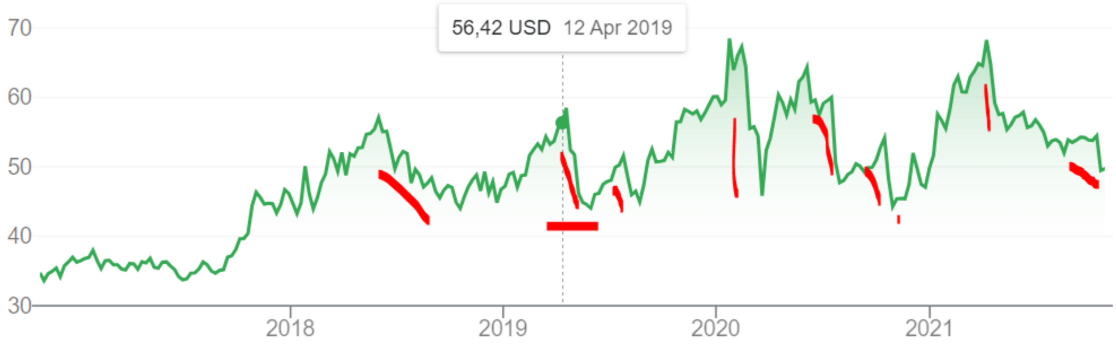
1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	49,82	Mkt cap	201,73B	CDP score	A-

Intel stock

Over the last few years, one gets used to the fact that Intel stock will drop on earnings. But, also, after year, you learn that a stock goes down mostly because people think it will go down or because it hasn't matched their short term expectations. 99% of the people that actually make the market don't care about the business and what is going on there – which is exactly where opportunities lie for those that prefer investing in businesses to watching stock prices or where will the stock price be in a year or two.

Notes from conference call:

Pat, CEO:

> The digitization of everything accelerated by the four superpowers of AI, pervasive connectivity, cloud to edge infrastructure, and ubiquitous compute are driving the sustained need for more semiconductors and the market is expected to double to $1 trillion by 2030.

This is what I call an investing tailwind.

In that time frame, the market for leading-edge nodes will rise to be over 50% of the total, while the market for leading edge foundry services, will grow at twice the rate of the semi-industry overall. We are one of the few companies with both the technical and financial resources to win in a market that is increasingly leading-edge and challenged by the extreme physics of rejuvenated and continuing Moore's Law.

Tiger Lake, Alder Lake, Ice Lake, Sapphire – on the market or coming soon.

Back in March, when we unveiled our powerful new IDM 2.0 strategy, I outlined our course for a new era of innovation at Intel, where I committed to (1) Expand our internal and external manufacturing to address unprecedented global demand for semiconductors. (2) open our doors to be a world-class foundry. (3) regain process leadership. (4) deliver leadership products in every category in which we compete.

Chips Act – favorable politics is also a tailwind

Finally, we expect our plans to benefit from investments from governments who understand that a healthy semiconductor industry is vital to their economic well-being and national security. With bipartisan support in both houses, we're hopeful that chips act will be passed by the end of this year, allowing us to accelerate decisions for our next U.S. site.

This will also enable a more level playing field with our competitors who enjoy significant support from their governments. We've also seen considerable interest in the EU with the European Chips Act, and the process to select our next site in Europe is proceeding rapidly. Intel remains the only global company committed to building a leading edge foundry in the U.S. and Europe for customers around the world.

Announcements that really underscore how we are rapidly bringing the geek back. As I have said, we are repositioning the Company for long-term growth, and we are analyzed in the investment plans required to achieve our goals and provide attractive long-term results for our shareholders.

We're forecasting EPS of $0.90 per share and a tax rate of 13%. We had previously expected $0.13 of the Q3 ICAP gain, to have occurred in Q4, which accounts for the change from prior Q4 expectations. Turning to our full-year outlook, we are holding revenue guidance at $73.5 billion, with gross margin up modestly to 57% and EPS of $5.28, up $0.48 from our prior guide.

Consistent with the investment mode we are in under IDM 2.0, we expect CapEx of $18 to $19 billion and free cash flow of approximately $12.5 billion, up $1.5 billion versus prior guidance. In our CCG business, we expect full-year revenue to be approximately flat year-over-year, as growth from an increasing TAM is offset by the ramp-down of our Apple modem and CPU revenue, and the exit of our home gateway business.

So, when Intel was with the previous bean counting CEO, the market didn't like it, now that it has a growth focused CEO, the market doesn't like it either. Ah, the market is crazy, but, here is the core of what intel is now and will be:

quarter. Moving to long-term financial guidance.

As Pat mentioned, with the movement of Investor Day to Q1, we want to provide some insights into the early years of our plan. First, our revenue outlook reflects fundamentally strong TAMs across our operating businesses, with growth driven by our leadership products. We see revenue in 2022 of at least $74 billion despite ongoing supply constraints.

As supply normalizes and our investments add capacity and drive leadership products into the marketplace, we expect to see our revenue growth accelerate to a 10% to 12% CAGR over the next four to five years.

For gross margin, with the impact of our investment in capacity and the acceleration of our process technology, we expect gross margins between 51% and 53% over the next 2-3 years before moving upward. We are in a time of accelerated investment in capital, process node acceleration, and R&D, as the foundation for changing the trajectory of the past few years.

In alignment with our IDM 2.0 strategy, we are forecasting 2022 CapEx of $25 billion to $28 billion, with potential for further growth in subsequent years. We believe our investments position the Company for very attractive long-term returns. Before I hand off to Q&A, as Pat mentioned, I plan to retire from Intel in May next year.

OF course, CAPEX of $30 billion scares the heck out of any analyst, this also means no buybacks, less or stable dividends and thus no immediate catalyst for the stock to go up.

Q&A –

Margins???

Pat Gelsinger

Let me start with the margin question and then I'll ask George to step in and help. First, I'd just say, this is a pivot point for the Company. We are repositioning Intel for growth to be a long-term growth Company. We see the massive opportunity that we have.

Near-term, we could have chosen a more conservative route with modestly better financials, but instead, the Board, the management team, and this is why I came back to the Company, choosing to invest, to maximize the long range business that we have. Overall, these are great markets that we're going to be leaning into with very unique positions that we have with our technologies and products.

They are going to invest also in 5nm nodes, that is also costly, will lower margins and you don't know when there will be results as delays might impact things etc. So, margins ahead are expected to be around 52% to only go up from year 3 onward. But ok, 4 percentage points down in margin is $3 billion on $78 billion in revenue, thus on a 2021 basis, free cash flows would be not $12 billion but $9 billion.

Intel Corp INTC | ★★★★

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Quote Chart Stock Analysis Performance **Key Ratios** Financials Valuation Insiders Ownership Filings Bonds

Financials

Export Ascending

	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	2020-12	TTM
Revenue USD Mil	53,999	53,341	52,708	55,870	55,355	59,387	62,761	70,848	71,965	77,867	78,474
Gross Margin %	62.5	62.1	59.8	63.7	62.6	60.9	62.3	61.7	58.6	56.0	56.3
Operating Income USD Mil	17,477	14,638	12,531	15,642	14,356	14,760	18,320	23,244	22,428	23,876	23,000
Operating Margin %	32.4	27.4	23.8	28.0	25.9	24.9	29.2	32.8	31.2	30.7	29.3
Net Income USD Mil	12,942	11,005	9,620	11,704	11,420	10,316	9,601	21,053	21,048	20,899	21,102
Earnings Per Share USD	2.39	2.13	1.89	2.31	2.33	2.12	1.99	4.48	4.71	4.94	5.15
Dividends USD	0.78	0.87	0.90	0.90	0.96	1.04	1.08	1.20	1.26	1.32	1.37
Payout Ratio % *	31.6	40.8	48.6	42.8	40.7	47.9	37.3	36.4	29.2	25.6	26.7
Shares Mil	5,411	5,160	5,097	5,056	4,894	4,875	4,835	4,701	4,473	4,232	4,097
Book Value Per Share * USD	9.22	10.36	11.16	11.81	12.08	13.34	15.13	15.83	17.31	18.35	22.15
Operating Cash Flow USD Mil	20,963	18,884	20,776	20,418	19,017	21,808	22,110	29,432	33,145	35,384	34,084
Cap Spending USD Mil	-10,764	-11,842	-10,747	-10,197	-7,446	-9,625	-11,778	-15,181	-16,213	-14,453	-16,758
Free Cash Flow USD Mil	10,199	7,042	10,029	10,221	11,571	12,183	10,332	14,251	16,932	20,931	17,326
Free Cash Flow Per Share * USD	1.83	1.36	2.00	1.91	2.47	2.16	2.42	3.03	3.25	4.73	—
Working Capital USD Mil	13,844	18,460	18,516	11,711	24,689	15,206	12,079	12,161	8,929	22,495	—

* Indicates calendar year-end data information

Of course, free cash flows will not be there if they spend $30 billion in capex, but the question is: will the capex lead to great profits in the future?

Given that nobody in the sector is spending that kind of money, especially not in the western world, Intel might be positioning itself for a strong future ahead.

The following is fair":

> So overall, a couple of years of pressure returning over that horizon as we see these growth areas and our datacenter, our client business in these four new growth markets, the networking, graphics, mobility, autonomy, foundry. And we've made a strong choice. We're going to be decisive and we're very transparent, right?
>
> And upfront, we're laying out an understanding of where we're going and we elected to give that guidance earlier than we might have otherwise, not just for next year, but over the horizon as well. So now is the time and we're making that decision boldly and aggressively. George, you want help in the last parent of the question?

Deutsche bank: from where will the growth come in the future?

Answer: datacenter and other 4 businesses.

> Very few companies can do that, and we're finding great interest for our foundry business to be able to satisfy those. So if you think about the growth in the core business plus these major new business areas, and we've done a lot of modeling against this and really built a very robust plan to go execute it, we feel very confident in the double-digit CAGR that we described. We're excited about it.
>
> The teams are leaning into it. And even better than that, our customers are excited about it. And with that customer enthusiasm, I'm very confident in what we've described here. We are leaning in. Now's the time to make it happen. And we're making the investments to realize that today.