Intel Q1 2021 Earnings – The engineer vs. the big picture – who will win? From bean counter to vision

Summary: From a valuation perspective, the bean counting $15/20 billion in FCF have now become $10 billion where the rest is invested in growth – from foundry, to packaging, to new products, to building a whole new ecosystem around Intel so that it can get back to a dominant position that should lead to higher margins in the future.

In short, this is a completely different company that what it was 8 months ago – not a cash cow to be milked with some growth opportunities, but a completely new business after the pivot. It all depends now no how well will they pivot and also on what the competition will do.

The investment thesis will depends on ow good is the management on execution and how what they plan falls into the market. Analysts are focused on parts but might be missing the whole picture, which is logical given that it is uncertain.

More information, and long-term information will be shared at Intel's analysts day which will be key for longer term valuation. For now, I have lowered FCF for the coming 4 years and pushed it higher from 2025 -it actually increases the valuation a bit.

INTEL **LINK** https://sven-carlin-research-platform.teachable.com/courses/335443/lectures/20924528

STOCK VALUE LIST'!A1

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value 2030	Growth rate	
Scenario 1	FCF												6%	next 5 years
normal case	15.00	10.00	10.60	11.24	11.91	20.00	21.20	22.47	23.82	25.25	26.76	378.74	6%	5 to 10 years
in EUR	10%)	9.09	8.76	8.44	8.13	12.42	11.97	11.53	11.11	10.71	10.32	146.02	10%	Discount rate
	INTRINSIC VALUE	248.51											15.0	Terminal multiple

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value 2030	Growth rate	
Scenario 2	FCF												5%	next 5 years
best case	20.00	10.00	10.50	11.03	11.58	25.00	26.25	27.56	28.94	30.39	31.91	759.69	5%	5 to 10 years
in EUR	10%)	9.09	8.68	8.28	7.91	15.52	14.82	14.14	13.50	12.89	12.30	292.89	10%	Discount rate
	Present value sum	410.03											25.0	Terminal multiple

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value 2030	Growth rate	
Scenario 3	FCF												0%	next 5 years
worst case	12.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	70.00	0%	5 to 10 years
in EUR	10%)	9.09	8.26	7.51	6.83	6.21	5.64	5.13	4.67	4.24	3.86	26.99	10%	Discount rate
	Present value sum	88.43											7.0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.6	248.51	149.10
Scenario 2 (best case)	0.2	410.03	82.01
Scenario 3 (worst case)	0.2	88.43	17.69
		Sum	248.80

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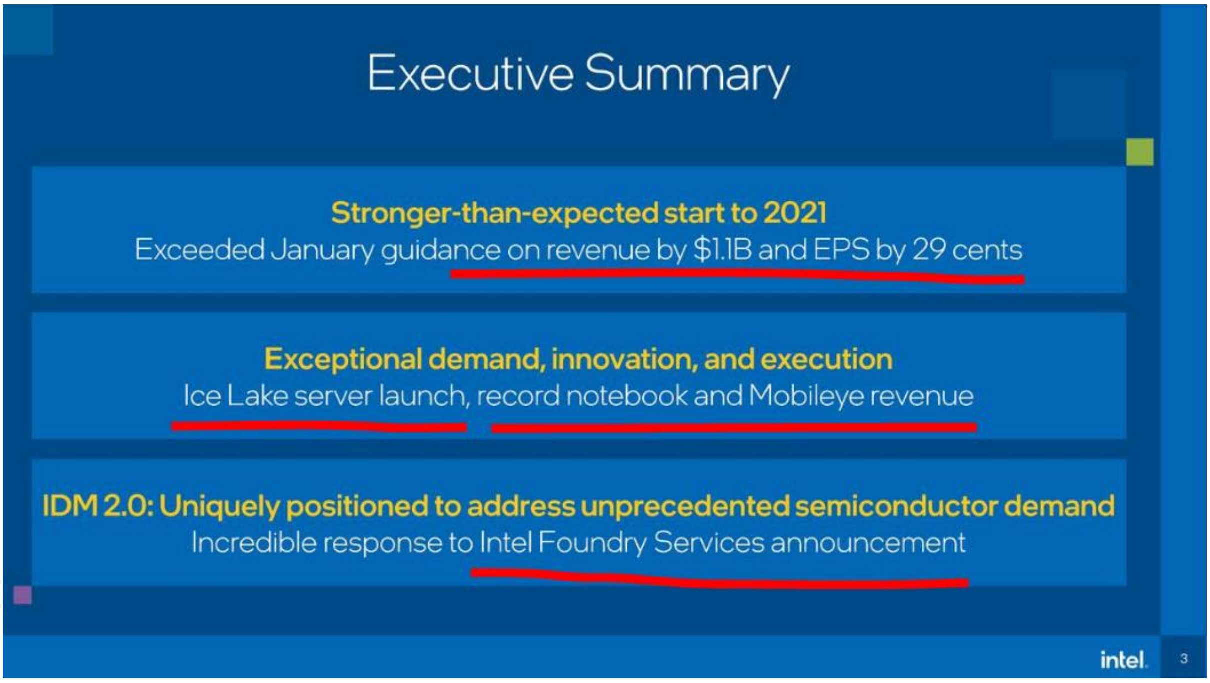
RESEARCH PLATFORM

It will depend on execution so we will see. If they deliver on the promises, it will get very interesting. The bottom line, demand for Intel's products is strong and likely to continue growing over the next decade and we will see how Intel will bank on it.

On the current market cap – the risk and reward is still positive, but I'll be digging deeper into the sector over 2021 to get an even better feeling – I expect volatility as the analysts focus on what is certain and short-term as always.

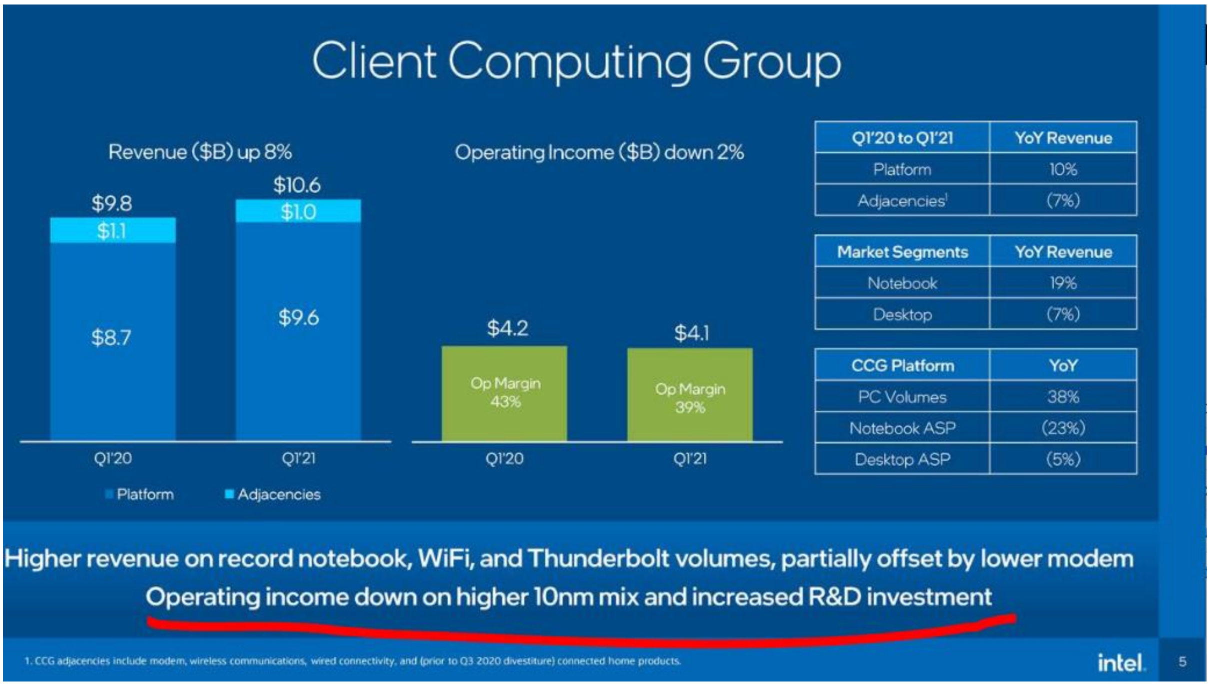
Contents

Let's start with the good:

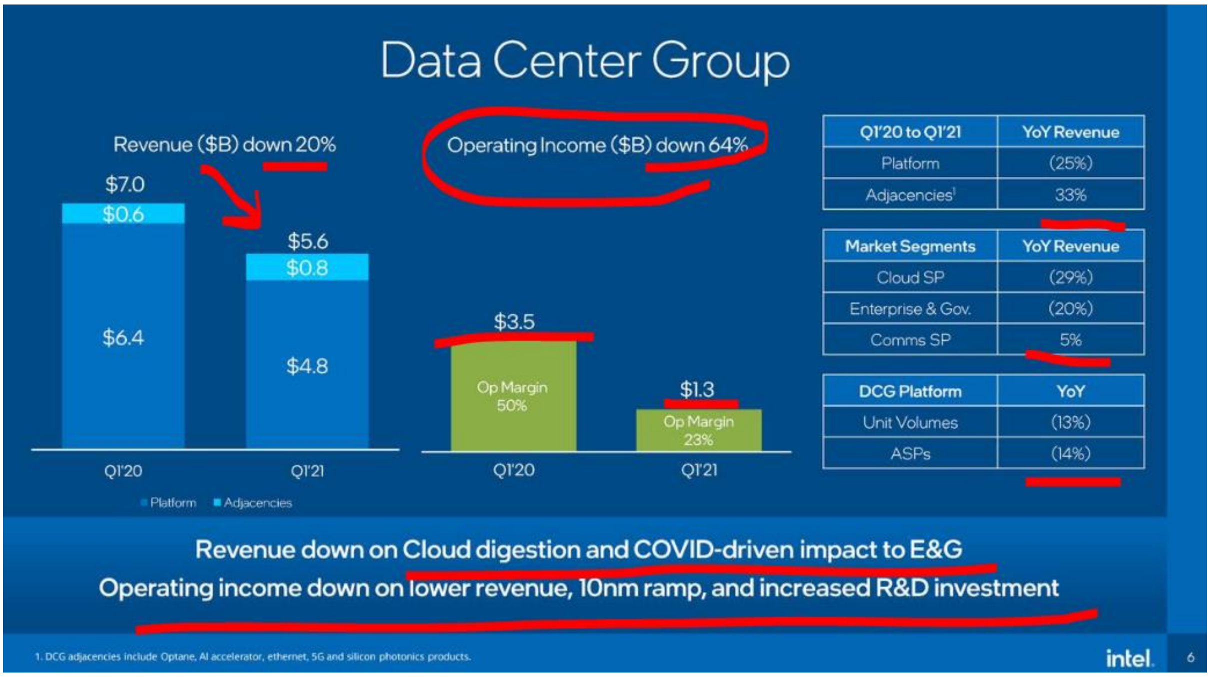


EPS is above expectations but gross margins are down.

Investing in R&D



The really bad is the following and this is also the reason why Intel has been cheap – the data centre decline has been expected and Intel is expected to lose market share.



However: "In data center, we believe revenue bottomed in Q1 and will increase in Q2 as cloud digestion impacts begin to subside, and enterprise and government momentum continues."

Analysts are bearish, but if you read the estimation of BofA, it is about stable earnings over the next 3 years, nothing terrible, just stable. Of course, it is not growth, which is something the market hates, especially these days.

They are sticking to FCF of $10 billion and investments of $20 billion.

So, nothing spectacular, first quarter of the CEO so they usually kitchen sink everything and make it look bad so that they can improve it. Intel is now about 2023, then 7nm, and beyond that – that will be the key when it comes to investing and also will better paint the risk and reward.

Conference call notes

- New products are being launched, from Ice-Lake to 10nm, so we will see how will that impact the business.
- The industry doesn't have the foundry capacity to cover for demand – will take years to develop – IDM 2.0 $20 billion to be invested and they say discussions with customers are positive.
- Semis critical for national infrastructure – another positive for the company
- This is what investors are waiting for and will be the thing to watch "7-nanometers is progressing well and IDM 2.0 puts us on a path to restore process performance leadership and build on our industry-leading packaging technologies. With IDM 2.0, we will have superior capacity and supply, resilience by leveraging our internal and external capacity and a superior cost structure."

"In Q1, we generated $5.5 billion of cash from operations and free cash flow of $1.6 billion. We repurchased $2.4 billion of shares, completing the $20 billion repurchase plan announced in October of 2019.

Going forward, we expect to have lower stock repurchases as we enter an investment phase to support strong demand growth in client, build initial infrastructure for future foundry volumes and make necessary investments to accelerate our return to process leadership. We remain committed to growing the dividend.

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Conference Q&A

Q: But on the move to 7 to 5, can we expect the team to ramp 5-nanometers two, two and a half years after your 7-nanometer ramp and then 3-nanometer ramp two, two and a half years after 5?

A: Yearly cadence – but focusing on packaging and bringing Intel back to its leading position.

George Davis

Hey. Hey, John, one thing I would add, we are going to see growth in all three of the major areas in data center, but the standout grower in Q2 is going to be cloud.

P&L QUESTION GOING FORWARD

George Davis

Yeah and thanks for the question. We are clearly going to cover a lot of those details at our Analyst Day, which will be much more forward-looking.

Q: x86 versus ARM both in the PC and the data center space. And would you guys ever consider maybe licensing the x86 technology to some of your hyperscale customers and having them design their own products with the foundry?