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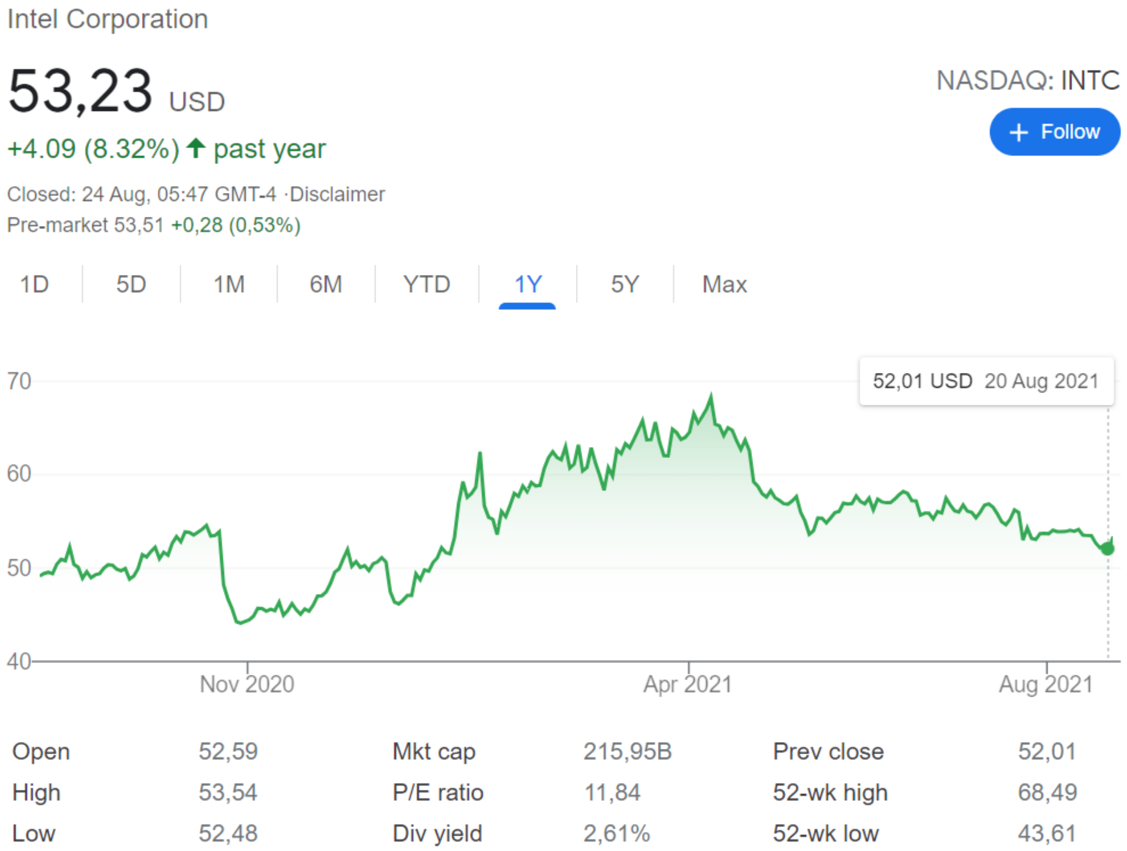
Intel Q2 2021 Earnings Update

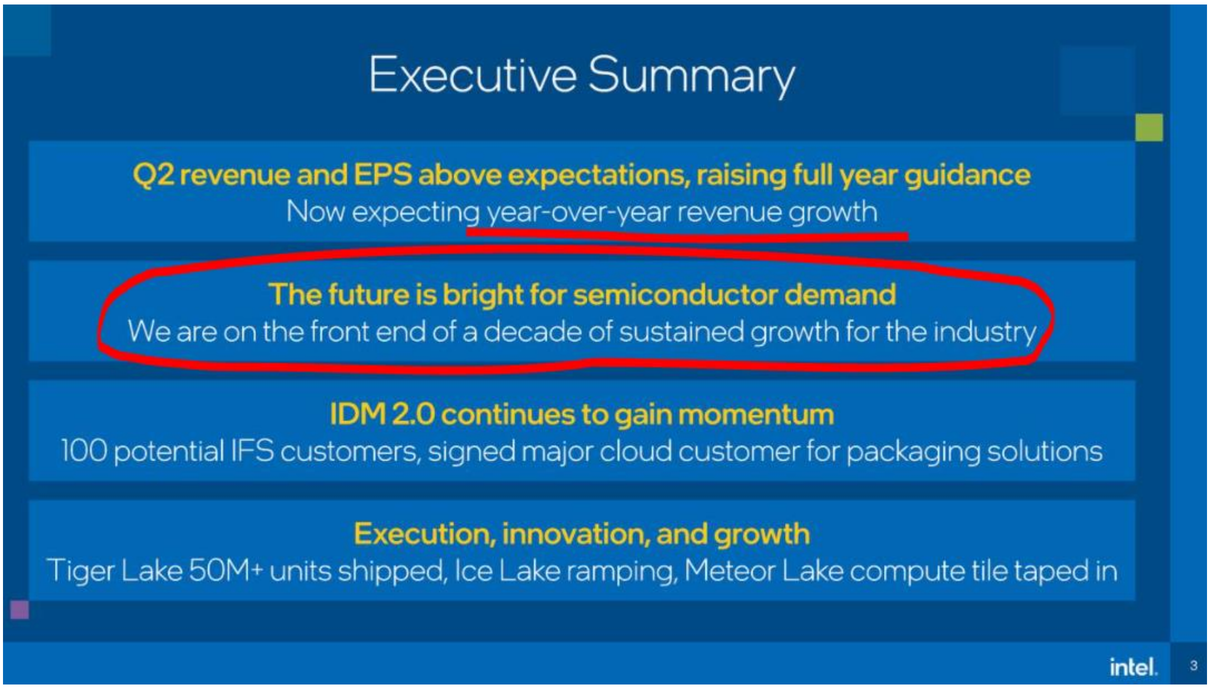
Intel stock has been volatile for sure over the last year which means there is a lot of sentiment related to it and few hold it as an investment. That is the market, most people want their stock to just go up, make money, feel great, feel smart and that to go into eternity.



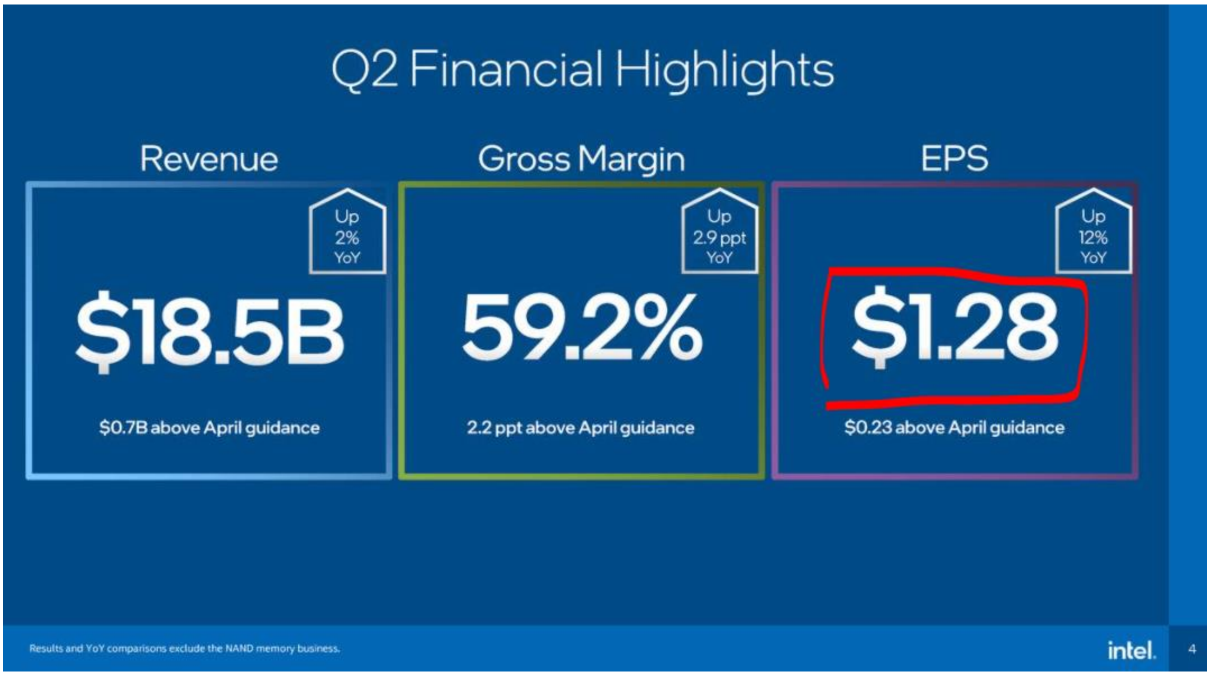
Such an attitude unfortunately destroys all the good things happening during a bull market because when the tide retreats, those looking for higher prices eventually end up swimming naked. Like it has been the case for those buying intel at almost $70 just a few months ago. Let's see what is going on with the business, that is key.

Intel Q2 2021 Earnings

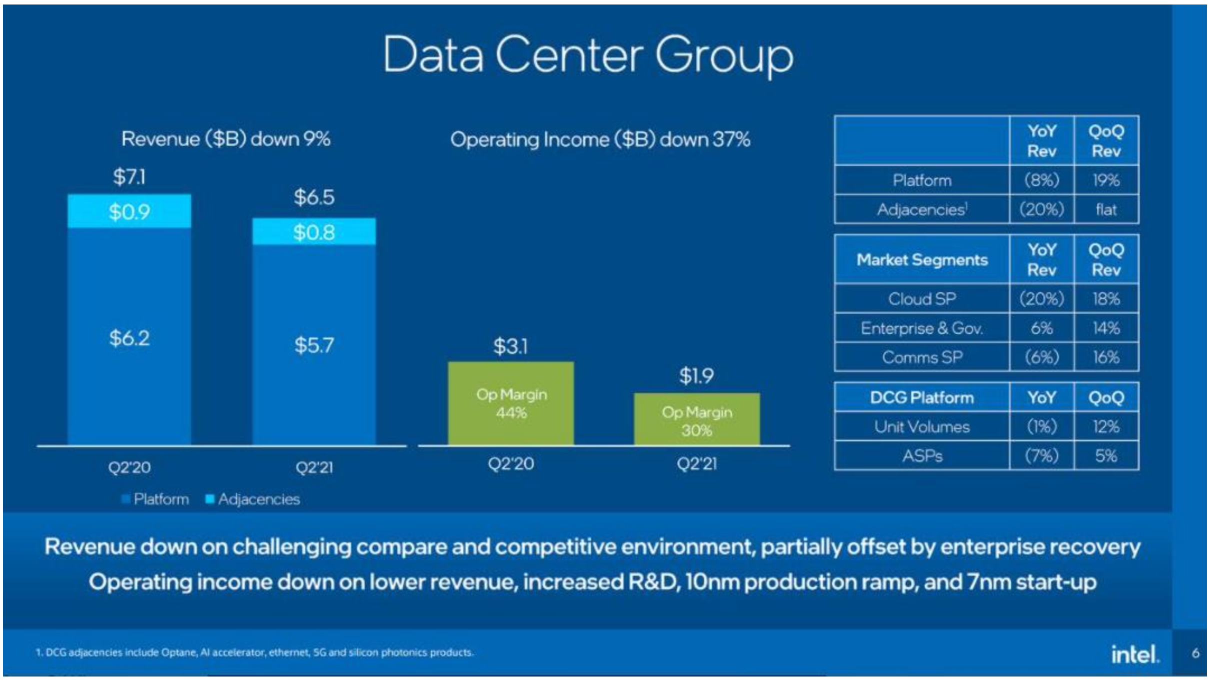
The company achieved growth and they are forecasting a decade of sustained growth for the industry in general. This is what I call a structural tailwind and that is something to always look for when it comes to investing because even if you or the business makes mistakes, the tailwind will make the mistakes easier to digest.



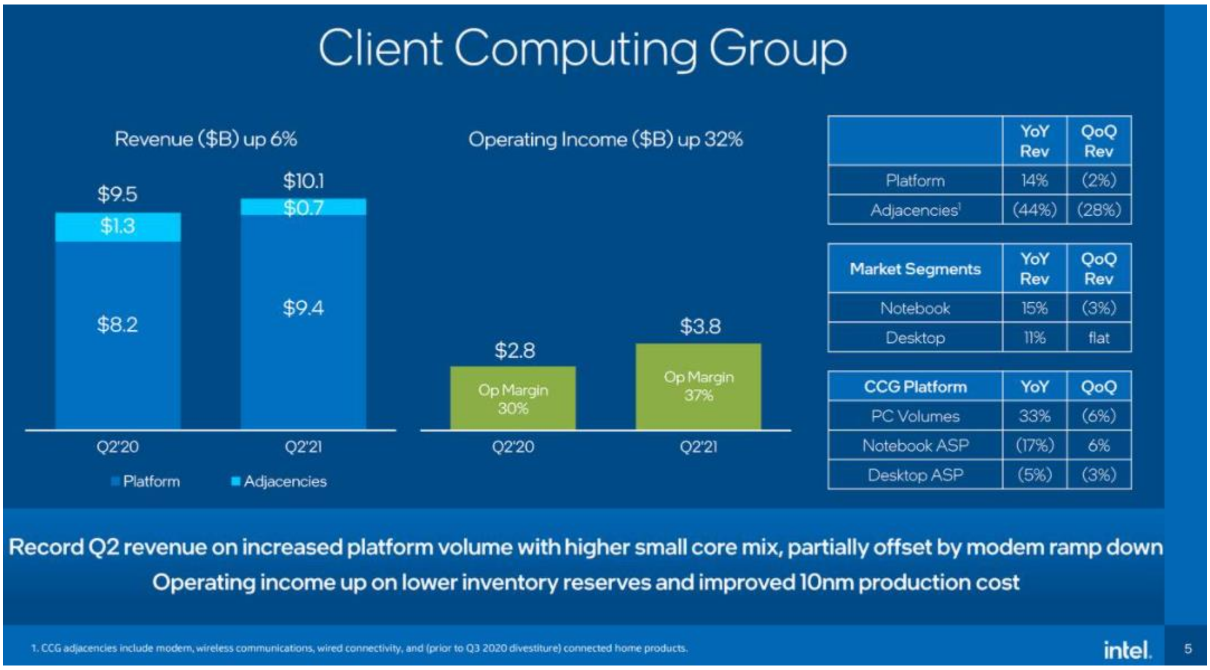
Good numbers



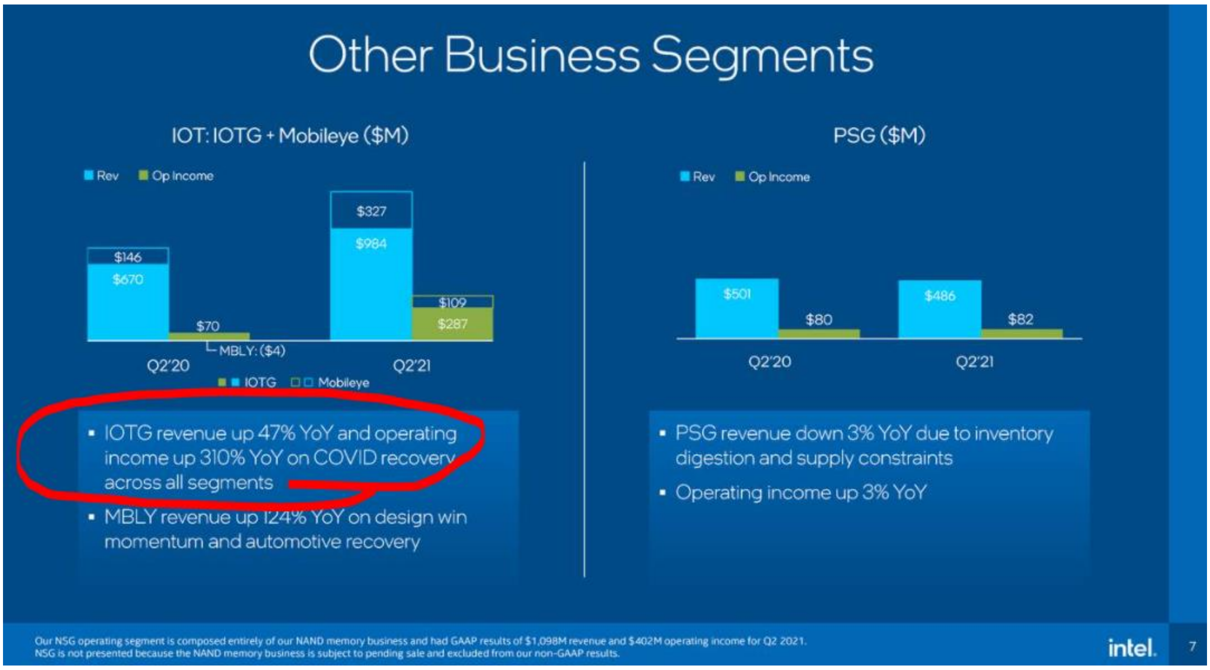
As expected, the data revenue has continued its decline due to the strong competition, but the tailwind might slow that down and the expectation is for it to strongly grow ahead on 5G.



Cloud computing is growing.



If IOTG and Mobileye continue to grow at such rates as shown below, those will become a third segment in Intel's revenue reporting.


Other Business Segments
IOT: IOTG + Mobileye ($M)
Rev
Op Income
$146
$670
$70
MBLY: ($4)
$327
$984
$109
$287
Q2'20
Q2'21
IOTG
Mobileye
IOTG revenue up 47% YoY and operating income up 310% YoY on COVID recovery across all segments
MBLY revenue up 124% YoY on design win momentum and automotive recovery
PSG ($M)
Rev
Op Income
$501
$80
$486
$82
Q2'20
Q2'21
PSG revenue down 3% YoY due to inventory digestion and supply constraints
Operating income up 3% YoY
Our NSG operating segment is composed entirely of our NAND memory business and had GAAP results of $1,098M revenue and $402M operating income for Q2 2021.
NSG is not presented because the NAND memory business is subject to pending sale and excluded from our non-GAAP results.
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Outlook


Q3 2021 Outlook
Revenue
Up 5% YoY
$18.2B
Gross Margin
Down 1.5 ppt YoY
55%
EPS
Up 2% YoY
$1.10
Outlook and YoY comparisons exclude the NAND memory business.
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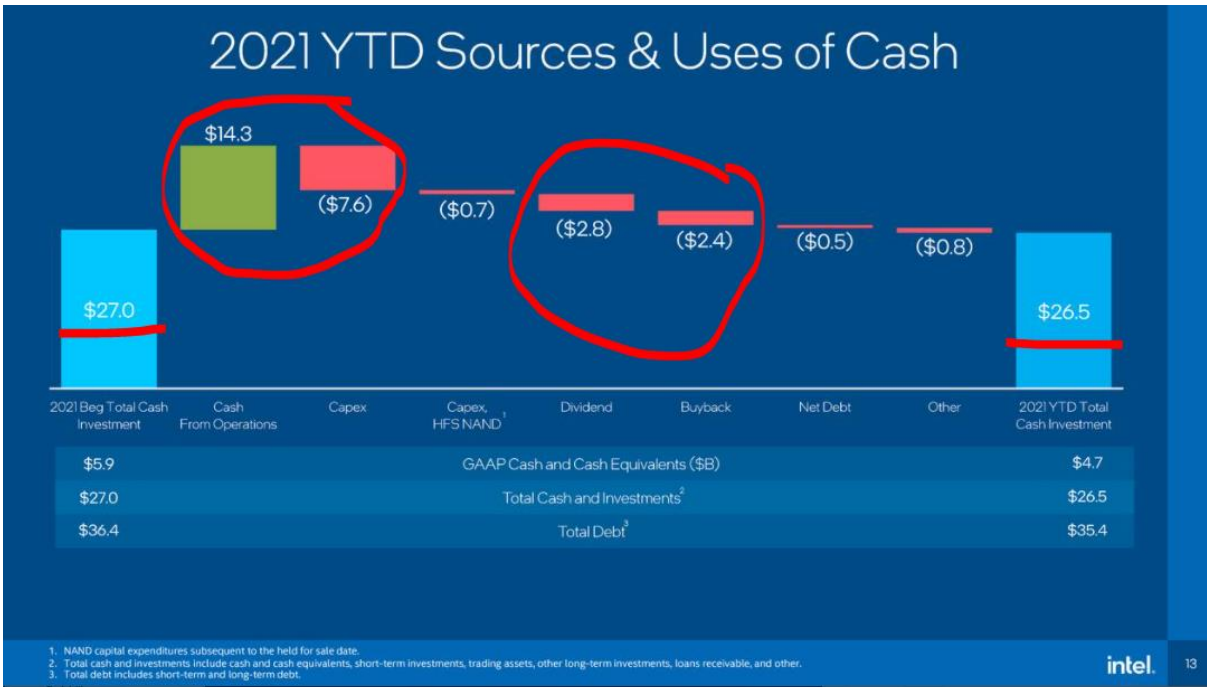
The investments are mostly financed by cash flows, which is a good thing.



Let me share my thoughts on the conference call and announcements before seeing whether I have to adjust the valuation.

Conference call notes

The CEO:

Pat Gelsinger

Thank you, Tony. Good afternoon, everyone. Thanks for joining our second quarter earnings call. It's a thrilling time for both the semiconductor industry and for Intel. We're seeing unprecedented demand as the digitization of everything is accelerated by the superpowers of AI, pervasive connectivity, cloud to edge infrastructure, and increasingly ubiquitous compute. Our breadth and depth of software, silicon, and platforms, and packaging and process, combined with our at-scale manufacturing, uniquely positions Intel to capitalize on this vast growth opportunity.

Notes: 7 nanometer progressing well, established Intel Foundry Services, FAB Construction projects underway in Oregon, Arizona, Ireland, and Israel

They are positioning themselves as the western option for chips, to be a counterpart to the Chinese dominance in the sector – not that stupid – dealing with European and US government.

Really good question":

Vivek Arya

Thanks for taking my question. Back one more on the Foundry business. We have heard that Intel commit, I think 20 billion to the U.S. Foundry over the next several years, another 20 billion to Foundry operations in Europe. I'm curious when that spending is going to start, and importantly, who are the target customers? Because when I look at the fabulous landscape, it's not the cloud vendors who are the large fabless customers. It's Apple, it's Qualcomm, it's NVIDIA, Marvell, AMD, etc. Many of them compete against Intel. I'm curious, who is -- who are the target customers here that can justify this nearly 40 billion of spending that Intel is committing to from a Foundry perspective? Thank you.

Answer: development will be tied with demand.

Good question on margins:

Ross Seymore

Hi, guys. Thanks for letting me ask a question. I wanted to turn to the profitability side of things, and specifically on DCG and the operating margin there. It's great to see that it improved from first quarter to second quarter. And given the revenue trajectory, I would assume it would improve again in the back half of the year.

But kind of trough to trough 2018 of digestion period to this most recent one, the operating margin is about 10 points lower, mid-20s roughly versus mid-30s prior. And I really wanted to understand, why is it lower this time? And perhaps even much more importantly, going forward, is there anything structurally that is going to stop that from returning back to the 40% to 50% operating margin range you guys have historically driven. Competitive dynamics, need to catch up on the manufacturing side, so you have headwinds there. People customizing more cloud competition internally, any of those dynamics that would stop you from getting back to that range? Thanks.

Answer:

No reason why margins should not return to historical averages

George Davis

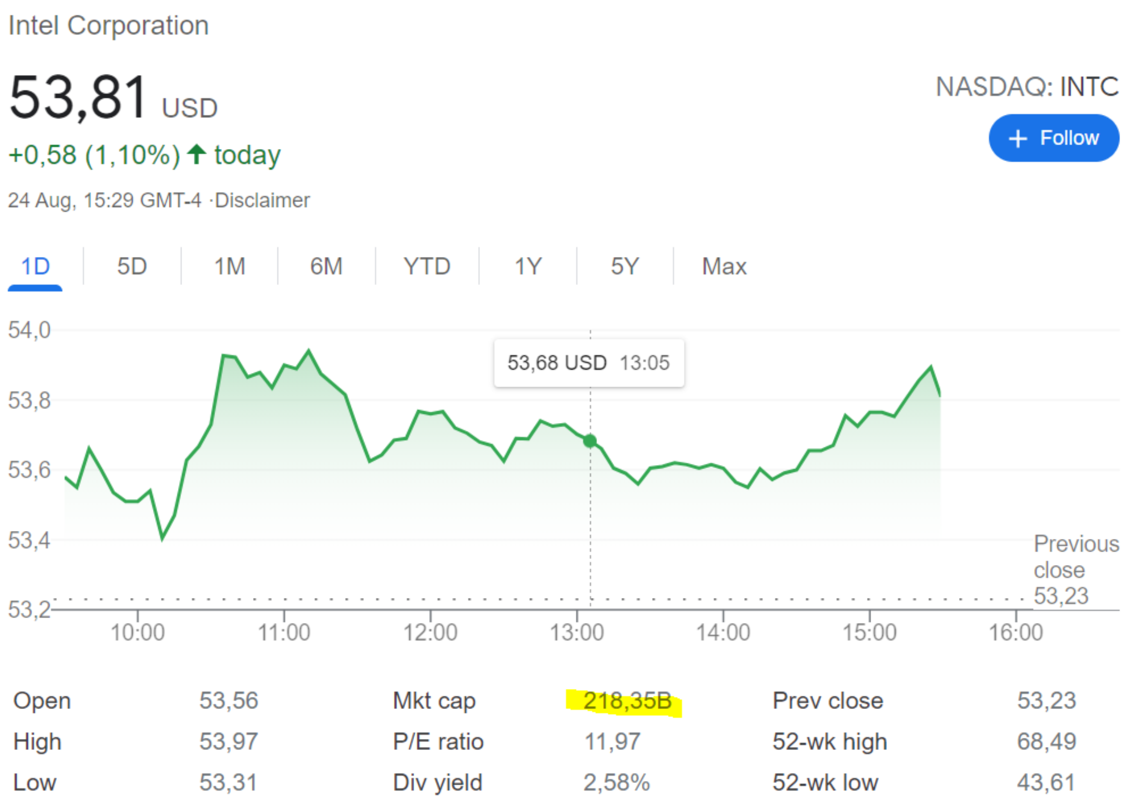
Yeah, thanks. Maybe starting at the latter part of your question. There's no long-term reason why you could not see DCG return to more historical margins. What you're seeing today is a reflection of a couple of things. First off, year-over-year, you've got significant factory start-up costs embedded for them which as you look at our operating margin. I would say another thing that people maybe are overlooking is our OpEx investments. We have significantly increased the OpEx and key areas of the Company even as we've taken down about $2 billion of OpEx since 2018 on various Portfolio actions.

And the DCG and the Xeon product line is absolutely critical to the Company. And so we have substantially increased OpEx within that as well, so that's the second largest impact. and we're going to continue to do that for as long as it's needed. And as you know, ultimately, it is your product competitiveness that gives you more flexibility to drive up ASPs further from today and drive higher gross margins. But I think the early comparison this year were just off as such a strong comparement. The first half of last year was just super strong, high XCC account quarters. And in the first half of this year, although Q2, quite frankly, it was a lot better than we thought coming into it for DCG, on strength in enterprise. But the comparisons year-over-year were quite tough.

Conclusion

Intel has a structural tailwind that helps, but on the other hand is working on so many things and the competition is not standing still.

Is Intel worth $218 billion might be the key question?



With their high investments, technologies and market penetration, one could say they are worth that much, plus the cash flows, could give a margin of safety. When will things improve from a business perspective is difficult to say, but that is investing – am I happy with the worst case scenario?

On the valuation, nothing to change – it is just that the upside is uncertain but I am pretty certain the stock will be volatile!

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

STOCK VALUE LIST'!A1

												Terminal Value	Growth rate	
Scenario 1	FCF	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	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
	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

												Terminal Value	Growth rate	
Scenario 2	FCF	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	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
	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

												Terminal Value	Growth rate	
Scenario 3	FCF	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	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
	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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The company is now valued for a 10% plus investment return long-term.