

**Investing summary for Intel (Last updated 8 August 2022 on Q2 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, if.....?!?!?!!!
- **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% (q2 2022 46%), expected to stay around that for 2023 and 2024, then increase back to higher (54% to 58%) according to guidance. (Q2 2022 – decline further for a while but expect return in Q4 2022)**
- **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. (if they manage to turn the trend around)
- **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). (IT ACTUALLY HAPPENED NOW with Market cap \$145 billion)**

**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. (EPS IS NOW GUIDED FOR \$2.3 – which makes any valuation useless)**

**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**

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

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2031	Terminal Value	Growth rate
Scenario 2	EPS													
best case	4.00	4.00	4.24	4.49	4.76	5.48	6.30	7.25	8.33	9.58	11.02	191.64	6%	next 5 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	15%	5 to 10 years
	Present value sum	70.81											13%	Discount rate
													20.0	Terminal multiple

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2031	Terminal Value	Growth rate
Scenario 3	EPS													
worst case	4.00	4.00	4.24	4.49	4.76	5.48	5.86	6.27	6.71	7.18	7.68	71.81	2%	next 5 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	7%	5 to 10 years
	Present value sum	32.77											13%	Discount rate
													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

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R E S E A R C H

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

**THE KEY INVESTING QUESTION IS WILL INTEL REACH \$5 in EPS in 2026 – if yes, then the stock will double, if not....**

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.

**Q2 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 \$145 million, the equity is \$103 billion and the company will likely make \$2.3 per share this year on which to build on. It has a PE ratio of 15 with much more upside than downside.

**They lowered their outlook from \$76 billion in revenue to \$65 billion for the year which is huge.**

**INVESTING QUESTIONS:**

Why and when will the stock go up? There is not answer to that now, given the guidance and numbers in addition to the macro slowdown, no clear catalyst ahead.

On the other hand, Taiwan issues or something might help it, but you never know when.

## Reconciliation of Non-GAAP FY Outlook

(In Billions, Except Per Share Amounts)	Full-year 2021 Actuals	Full-year 2022 Outlook Approximately
<b>GAAP revenue</b>	<b>\$79.0</b>	<b>\$65 - \$68</b>
NAND memory business	(4.3)	-
<b>Non-GAAP revenue</b>	<b>\$74.7</b>	<b>\$65 - \$68</b>
<b>GAAP gross margin percentage</b>	<b>55.4%</b>	<b>44.8%</b>
Acquisition-related adjustments	1.6%	2.0%
Share-based compensation	0.4%	1.1%
Patent settlement	-%	0.3%
Optane inventory impairment	-%	0.8%
NAND memory business	0.6%	-%
<b>Non-GAAP gross margin percentage</b>	<b>58.1%</b>	<b>49.0%</b>
<b>GAAP earnings per share—diluted</b>	<b>\$4.86</b>	<b>\$2.57</b>
Acquisition-related adjustments	0.36	0.37
Restructuring and other charges	0.65	(0.23)
Share-based compensation	0.49	0.79
Patent settlement	-	0.05
Optane inventory impairment	-	0.14
(Gains) losses from divestiture	-	(0.30)
(Gains) losses on equity investments, net	(0.67)	(1.05)
NAND memory business	(0.33)	-
Tax Reform	-	(0.17)
Income tax effects	(0.06)	0.13
<b>Non-GAAP earnings per share—diluted</b>	<b>\$5.30</b>	<b>\$2.30</b>
<b>(In Billions)</b>		<b>Full-year 2022 Outlook</b>
<b>GAAP cash flow from operations</b>		<b>\$16.8</b>
Net additions to property, plant and equipment		(23.0)
Payments on finance leases		(0.4)
Sale of equity investment <sup>1</sup>		4.6
<b>Adjusted free cash flow</b>		<b>\$(2.0)</b>

When it comes to possible returns, yes, if they manage to turn it around, Intel will do well, if not, it will keep doing badly (dividend cuts, and who knows). There is Intel bulls and Intel bears, I really don't know who will win as there is the potential, but also the risk.

My main idea is that the whole chips trend might have been overblown in the last 2 years, so there will likely be a slowdown, as seen Intel is slowing down spending too, until the cycle reverts again, and that is something impossible to predict. Even the CEO said in the conference call that they don't know how deep or wide will the current semiconductor cycle downturn be.

The lower the stock goes, the better is the risk and reward, but predicting when and what is impossible here. Thus, this is a bet and you have to see how it fits your portfolio – I am not really into betting now personally, at least not on semis.

For the Large Research Platform Portfolio position, there is still room to add, but into the low thirties and then again into the twenties.

INTC INTEL CORP	540	19,110.60 USD	37.34	-1,050.30
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