Intel Q3 2020 earnings update – nothing new, same old story – continues to be ugly

The top news of the day is:

Trending News

1 **Intel shares plunge after Q3 data center sales fall 7%, missing estimates**

Don't you love the market!!!!

If you look at after hours trading, it started immediately, which means that nobody could had analyzed what happened and made a rational decision, just the conference call lasts a while and looking through it all takes time. I think we all know the market is irrational so no point in wasting more time on that. Let's discuss the earnings.

Summary: same for Intel – analysts see declining margins and immediately think that will be the case forever which lowers the value of the company! On the other hand, some things have tailwinds, some have headwinds as within normal businesses. All analysts are focused maximally up to 2022 while the investment thesis is what will happen afterwards, up to 2030. In the meantime, buybacks and dividend and cash flows keep coming and will likely be coming in some for or another over the coming years. Patience required.

What I see everybody's focus is on trying to nail the upside perfectly because why hold a laggard like Intel when you can buy a growth stock. That is the market we are living in, no question about buybacks or cash flows in the call.

Intel Q3 2020 earnings

The results were mostly a negative mixed bag.

Business Unit Summary

Key Business Unit Revenue and Trends

		Q3 2020	vs. Q3 2019
Data-centric	DCG	$5.9 billion	down 7%
	Internet of Things		
	IOTG	$677 million	down 33%
	Mobileye	$234 million	up 2%
	NSG	$1.2 billion	down 11%
	PSG	$411 million	down 19%
			down 10%
PC-centric	CCG	$9.8 billion	up 1%

Source: Intel press release

But, the company actually increased guidance and the business outlook got reiterated.

Business Outlook

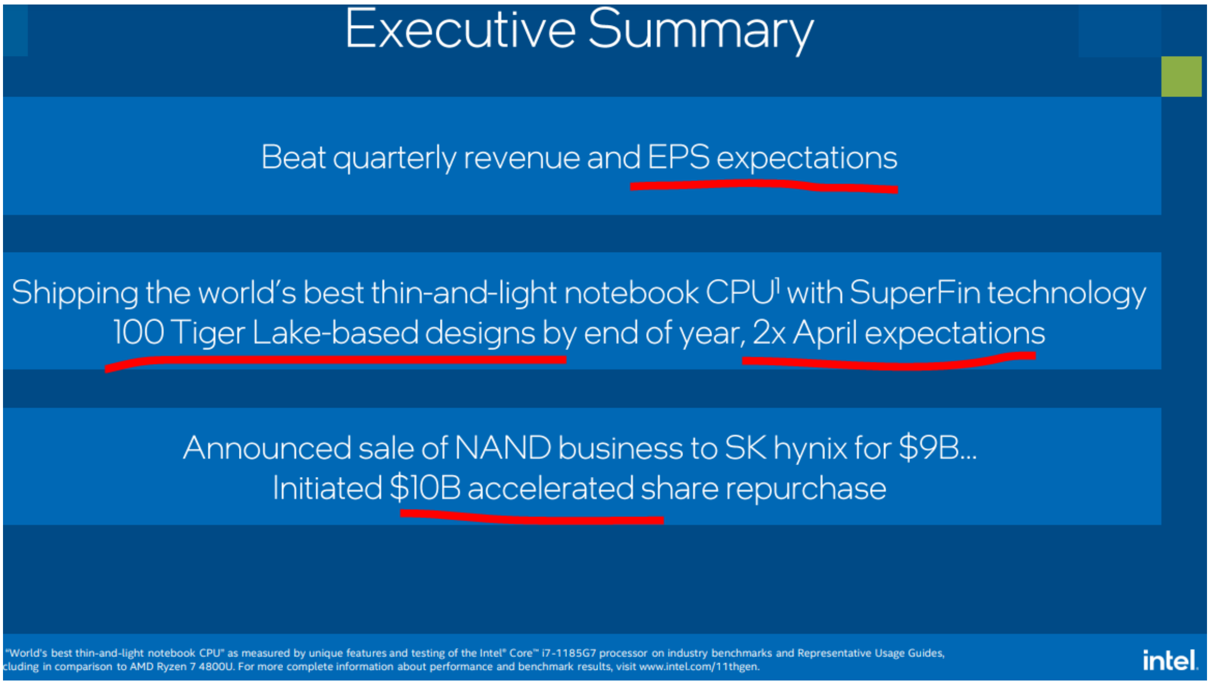
Intel's guidance for the fourth quarter and full-year 2020 includes both GAAP and non-GAAP estimates. Reconciliations between these GAAP and non-GAAP financial measures are included below.

Q4 2020	**GAAP**	**Non-GAAP**
	Approximately	Approximately
Revenue	$17.4 billion	$17.4 billion^
Operating margin	24.5%	26.5%
Tax rate	14.5%	14.5%^
Earnings per share	$1.02	$1.10

Full-Year 2020	**GAAP**	**Non-GAAP**
	Approximately	Approximately
Revenue	$75.3 billion	$75.3 billion^
Operating margin	29.5%	31.5%
Tax rate	14.5%	14.5%^
Earnings per share	$4.55	$4.90
Cash from Operations	$32.2-33.0 billion	N/A
Full-year capital spending	$14.2-14.5 billion	$14.2-14.5 billion^
Free cash flow	N/A	$18.0-18.5 billion

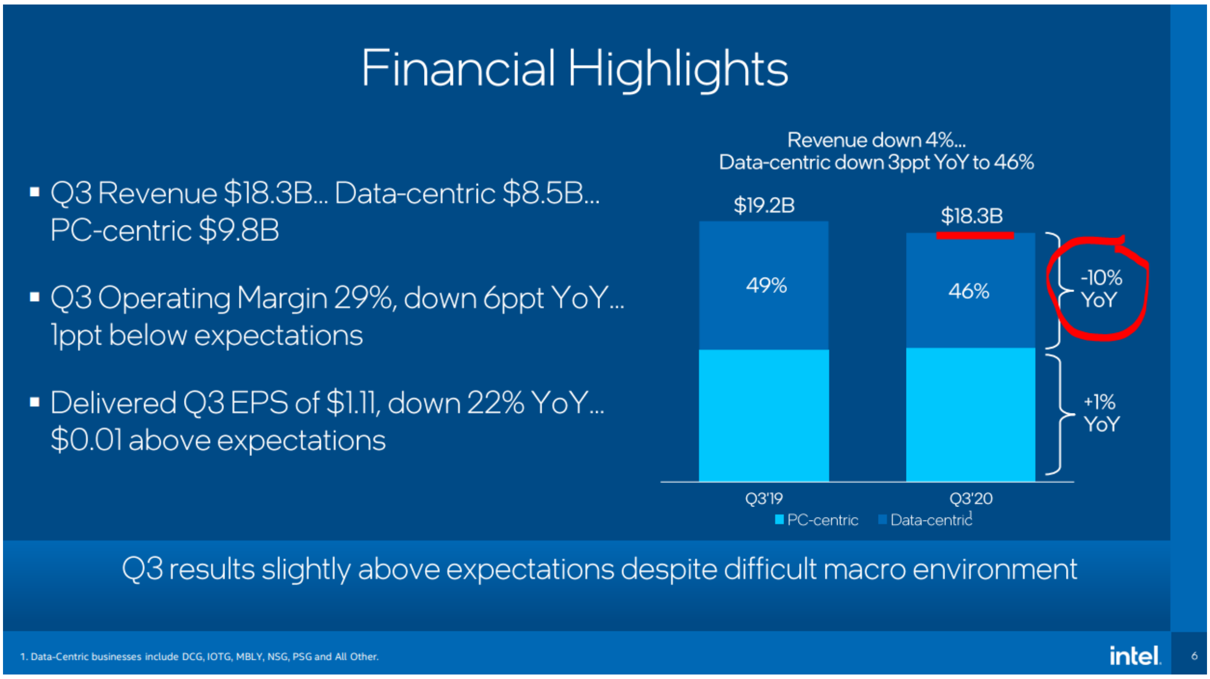
I bought INTC for the free cash flows and I see them coming there.

They mention new products and a good buyback of $10 billion, which, if the company is really undervalued, is a great thing.

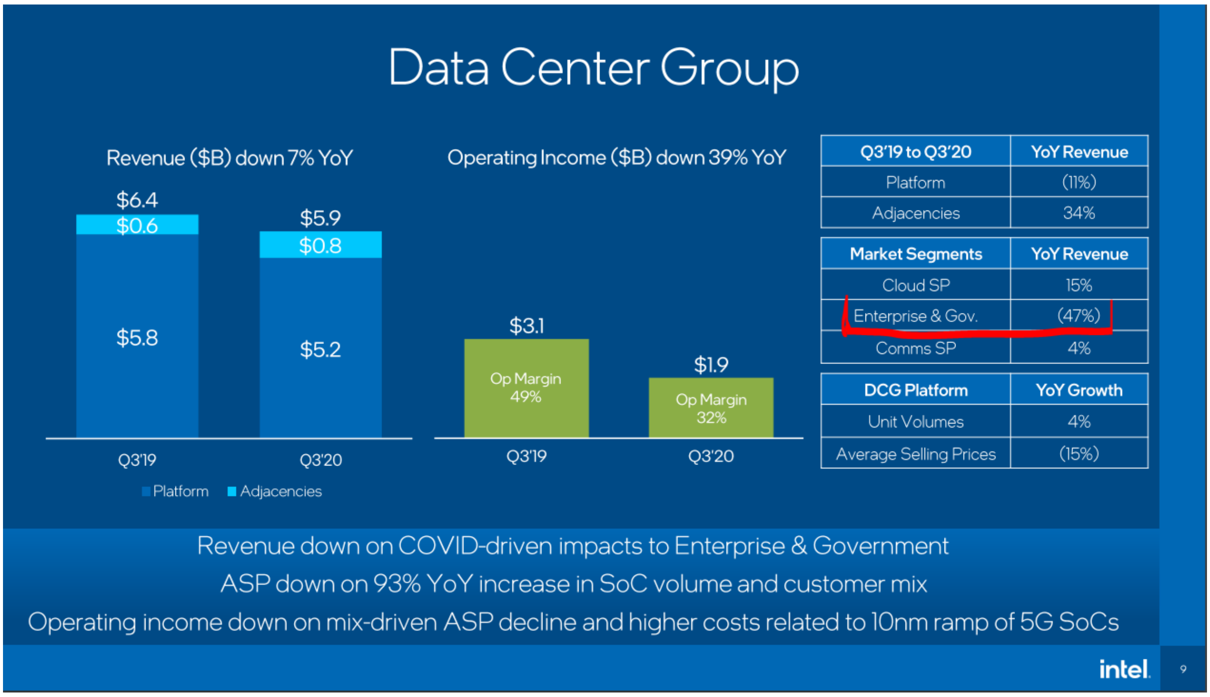


Source: Intel Presentation

Now, to focus on the bad news, the decline in the data centric revenue.



The biggest decline comes with enterprises and governments which is logical, at this point in time I think everybody is waiting, budgets are stretched and it is likely that it will take some time for things to return back to normal, other sectors are still growing however which is ok.



Capital expenditures for the year are $19.1 billion, and that continues as is which is where we can get free long-term upside.

They have sold the NAND business for $9 million to focus on things with a higher return on investment. What they sold made $2.8 billion in revenue over the first 6 months of 2020 or let’s say 5.6 billion per year and 0.6 billion in operating profits, thus 1.2 billion per year. If that is operating, then we can say 0.6 in profits. Thus, they sold it for a PE of between 10 to 20, for the less valuable, highly competitive part of the company.

Conference call notes:

- Expecting Tiger Lake by the end of the year, plus a lot of new products and ideas
- First question is on the decline in margins and that this is the beginning of a slippery slope? Management says margins will get healthier as the mix normalizes and Tiger Lake gets going. Because of pushing the 10nm forward in 2020 margins are also lower and should be higher in 2021. They also see IOTG coming back in 2021 as it was hit hard.
- On 7nm, Intel believes it is well positioned for 2020, 2021 and 2022 and by the end of this year or early next will make the decision to be best positioned in 2023. Own or third party fab.

In the mean-time, with all the above, dividends keep coming, buybacks are being made and investments too. Nobody know when and if, it is cheap because it is ugly at the moment, so we will see over the long-term. It is more about the unknown than the known here.