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Research Report
Nov - 7 - 2024
Intel Corporation: INTC

Name	Intel Corporation
CEO	Mr. Patrick P. Gelsinger
Website	www.intel.com
Sector	Semiconductors and Semiconductor Equipment
Year Founded	1968

Profile	
Market Cap	$103.73B
EV	$134.23B
Shares Out	4,313M
Revenue	$54.25B
Employees	124,800

Margins	
Gross	40.07%
EBITDA	19.24%
Operating	-1.49%
Pre-Tax	-16.63%
Net	-29.42%
FCF	-27.76%

Returns (5Yr Avg)	
ROA	6.01%
ROTA	12.26%
ROE	10.99%
ROCE	7.32%
ROIC	8.9%

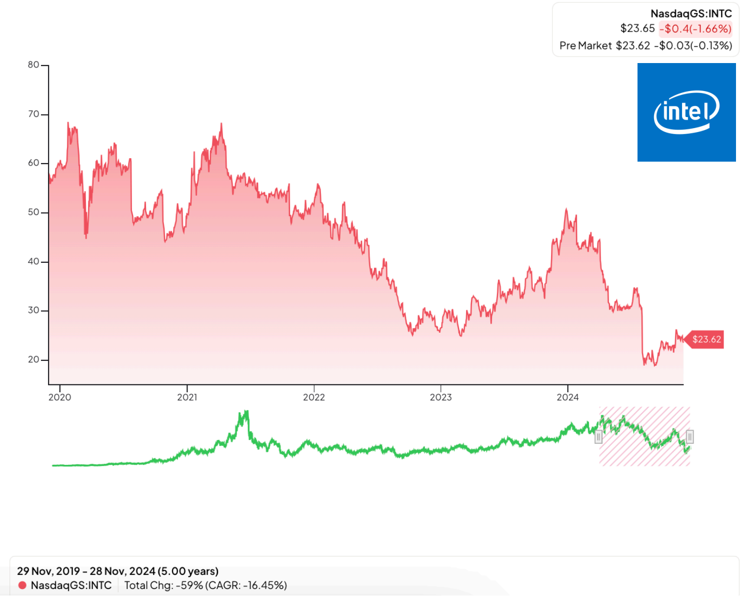
Valuation (TTM)	
P/E	-6.4
P/B	1.04
EV/Sales	2.44
EV/EBITDA	12.69
P/FCF	-6.77
EV/Gross Profit	6.1

Valuation (NTM)	
Price Target	$24.68
P/E	34.23
PEG	0.08
EV/Sales	2.43
EV/EBITDA	9.16
P/FCF	-11.66

Financial Health	
Cash	$24.09B
Net Debt	$25.17B
Debt/Equity	0.48
EBIT/Interest	-0.76

Growth (CAGR)	
Rev 3Yr	-11.58%
Rev 5Yr	-5.08%
Rev 10Yr	-0.13%
Dil EPS 3Yr	-10%
Dil EPS 5Yr	-2.52%
Dil EPS 10Yr	6%
Rev Fwd 2Yr	1.63%
EBITDA Fwd 2Yr	13.13%
EPS Fwd 2Yr	-2.95%
EPS LT Growth Est	25.24%

Dividends	
Yield	–
Payout	-13.2%
DPS	$0
DPS Growth 3Yr	-28.82%
DPS Growth 5Yr	-16.85%
DPS Growth 10Yr	-5.8%
DPS Growth Fwd 2Yr	-68.08%



- YTD: -50.15%
- 52w Low: 18.51
- 52w High: 51.28
- 5y High: 69.29

Investment strategy category: Value in changing structure
Position goal: Buy & hold for revenue and margins recovery
Buy trades: Hold at current level, buy on improved earnings or confirmed policies
Sell trades: Cautious if break 21.91-18.51, cautious if earnings worsen

Opportunity

This year Intel's stock has been trading at ten year lows, while the rest of the tech sector continue to flourish. The company has also traded below book value, not seen for more than 30 years. All this while management executes a turnaround plan, coupled with a portfolio of new product launches. Better than expected 24Q3 earnings spark hopes of a recovery, and anticipated trade tariffs and policies by the new administration could also benefit the company, given its strategic importance to the country. **It is expected that revenue and margins shall improve from current levels in the coming quarters and FY25**.

Risk Factors

1. Slowing global PC demand and increasing lost of market share to AMD & NVDA caused Intel's largest revenue segment Client Computing to fall from 21Q4 highs $10.13bn to 23Q1 lows $5.77bn. While sales has slowly improved to 24Q3 $7.3bn, lower demand and market share could become extended.
2. Years of underinvestment has caused Intel to miss the boom in generative AI demand, as the industry shift from CPUs to GPUs. While recent Gaudi 3 AI accelerator launch and deal with AMZN to produce custom AI chips put Intel back in contention, the catch up could require extended time and cost.
3. The company is executing plans to deliver $10bn cost savings in 2025, cutting headcount by 15% and reducing 2024 CapEx by 20%. While restructuring is critical to "create a sustainable financial engine" to better compete, cutting resource could actually hamper its recovery when rivals increase resource.
4. Ongoing losses in Foundry business raise concern, as the segment's operating loss expanded from FY21 $5bn to FY23 $7bn on $18.9bn revenue, highlighting the scale of the challenge to turnaround.

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Main investment assumptions (cont'd)

1. **Importance to US:** ***It is expected that favourable major policy support shall occur under the Trump administration, likely with bipartisan support***

- Only three companies in the world are manufacturing the most advanced leading edge chips: Intel, Samsung, and TSMC, and INTC is the only company that is based in the US.
- As the only company manufacturing high-powered chips on US soil at scale, rather than outsourcing to Taiwan, INTC is a key part of the bedrock of the US's technology ecosystem.
- If INTC continues to fall short, there is concern that the most advanced semiconductor fabrication plants will no longer be available in the US, causing risk to the US economy and national security.
- The goal of making the US a leader in semiconductor manufacturing was a priority in the first Trump administration, and continues to have bipartisan support.
- US secretary of commerce had urge Google, Microsoft, Apple & other firms to buy chips from INTC.
- INTC is sole recipient of a new $3 bn government contract to make advanced chips for the US military.
- As a major advocate of boosting US manufacturing, Trump could impose tariffs that make foreign fabrication export to the US more expensive, directing more businesses to INTC.

2. **Turnaround plan in motion:** ***It is expected that margin and profit improvement from restructuring effort shall become more evident in coming quarters.***

- 24Q3 revenue beat expectations ($13.28bn v $13bn), raise 24Q4 guidance ($13.3-$14.3bn v $13.6bn).
- CEO Pat Gelsinger said INTC is making progress on executing a turnaround plan, had a "good operational quarter", and impairment & restructuring cost "largely finished" in this quarter.
- INTC making progress in reducing its workforce by 15 percent, in part of a $10bn cost-saving plan.
- Plans to spin out its semiconductor manufacturing business into an independent subsidiary called Intel Foundry, separating the manufacturing process from its chip-design business.
- Other chip companies that have separated their manufacturing and designing have succeeded, allowing them to focus on innovation without the high costs of running fabrication plants.
- Overall restructuring efforts to allow financial capacity to focus on more relevant products & processes.
- CEO Pat Gelsinger said "it's time for us to focus on having the financial and shareholder returns associated with those heavy investments (capacity & technology development and more competitive products) of the last three and a half years".

3. **Pipeline of new products:** ***It is expected that adding new products in traditionally dominant PC market and an expanding generative AI market shall help boost revenue in 2025.***

- Upcoming chips, such as the Lunar Lake for laptops & ultra-compact devices, and the Arrow Lake for desktops, will be built using TSMC's advanced 3nm process, ahead of AMD's competing offerings.
- At the same time, global PC market is showing signs of recovery and strengthening demand.

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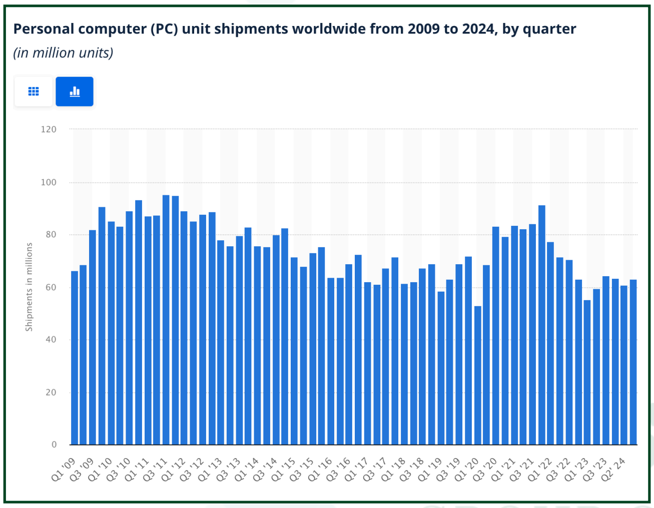
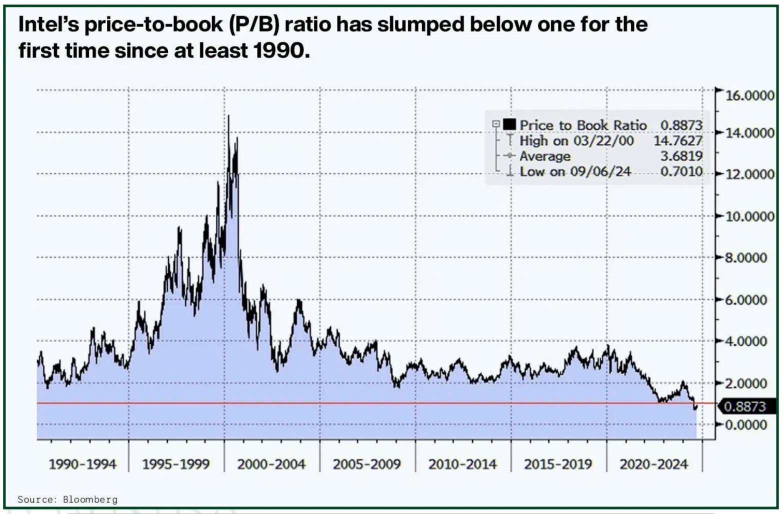
Main investment assumptions (cont'd)

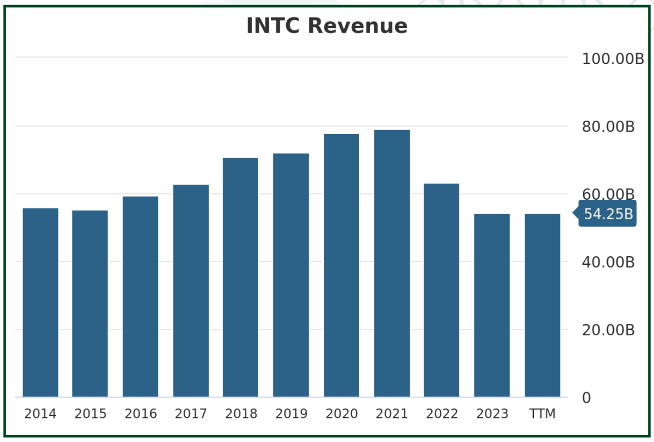
- New Sierra Forest and Granite Rapids chips built on "Intel 3" process node, are designed to compete more effectively with AMD's offerings in the server market.
- New Gaudi 3 AI accelerators priced at about $65,000 is about a third of Nvidia's comparable products, could have appeal to cost-conscious customers (although orders weaker than projected in 24Q3).
- Foundry manufacturing business could also see a turnaround as INTC rolls out its new 18A process in 2025, the company's most advanced manufacturing technology to date.
- Foundry business QOQ growth, entered into agreement with AWS & 2 others to produce custom chips.

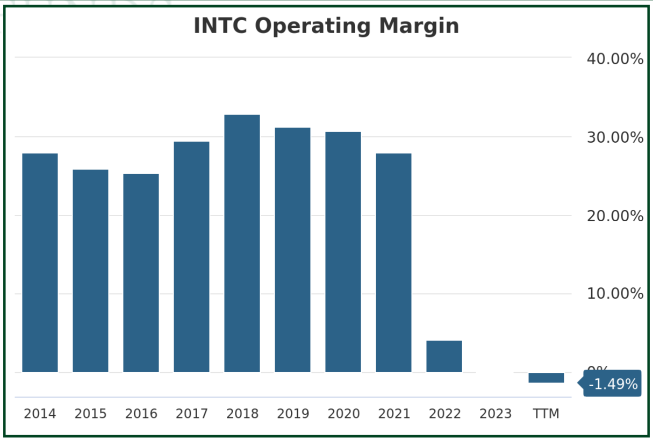
4. **Valuation: *It is expected that lower valuation shall provide a degree of support to share price while revenue and margins improve in 2025, and boosting share price for similar valuations.***

- Revenues declined from $79bn in 2021 to $63bn in 2022 to $54bn in 2023, and projected to decline to about $53bn in 2024 per consensus estimates, signalling possible slowing in pace of decline.
- Diluted EPS declined from 2018-2021 average $4.75bn to $1.94bn in 2022 to $0.4bn in 2023, and to about -$0.15bn in 2024. Consensus for EPS to turn positive in FY25 and onwards.
- Among chip companies, INTC has lowest P/S (1.97 v AMD 9.28, QCOM 4.69, TSM 9.98), lowest forward EV/Sales (2.52 v AMD 7.25, QCOM 4.34, TSM 7.52), lowest EV/EBITDA (13.18 v AMD 48.66, QCOM 15.46, TSM 14.14).
- P/B around 1, 2024 average book value per share $24.98, and $23.1 after impairment in third quarter.









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