Intel Corporation (INTC) – Colgate Investment Group Report

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Summary
Company: Intel Inc.
Ticker: INTC
Market: NASDAQ
Long/Short: LONG
Target Price: $30.50

1 Profile

"Intel Corporation is a semiconductor chip maker company. The Company develops advanced integrated digital technology products, primarily integrated circuits, for industries, such as computing and communications. The Company designs and manufactures computing and communications components, such as microprocessors, chipsets, motherboards, and wireless and wired connectivity products, as well as platforms that incorporate these components. The Company's reportable operating segments are PC Client Group (PCCG) and Data Center Group. It also has non-reportable operating segments, whose product lines are based on Intel architecture: Embedded and Communications Group, Digital Home Group and Ultra-Mobility Group. The Company's NAND Solutions Group, Wind River Software Group, and Software and Services Group segments are included within the other operating segments category."[1]

2 Market Fundamentals

Current Price: $27.24 (After-Hours 2/20)
Market Capitalization: $136.09 B
52-Week Range: $19.16 (9/6/11) $27.50 (2/13/12)
YTD Price Change: 4.00
Yield: $0.84/3.15
Short Interest: 110.3M(2.17
Beta: 1.09

2.1 Public Comparables

INTC is in the semiconductors industry and has positive earnings, so PEG and PE are the most appropriate valuation measures.

PEG:

INTC: 1.05x

Industry Average: 3.59x

PE:

INTC: 11.14x

Industry Average: 57.63x

Annual Growth past 5 years:

EPS: 22.76%

Revenue: 8.82%

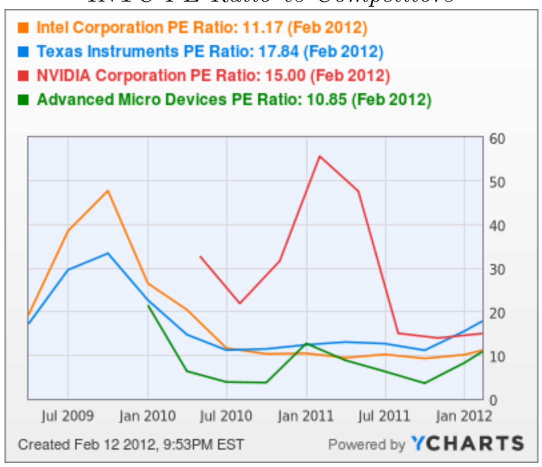
[1] S&P Capital IQ Report, 2/11/2012

Dividend: 14.36%

INTC seems inexpensive with a PEG value of 1.0511, below the Semiconductors industry median PEG of 1.28, which is supported by a PE of 11.1368 that is also below the industry median of 13.85.

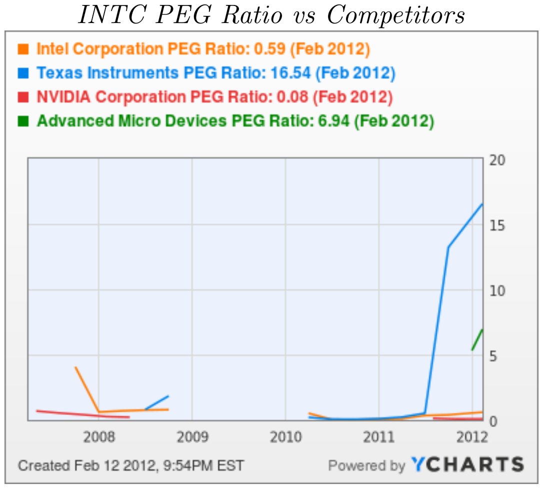
Charts

INTC PE Ratio vs Competitors



Here INTC has a relatively low P/E compared to its competitors, making it look relatively cheap, as also concluded in the previous section.

INTC PEG Ratio vs Competitors



INTC also a relatively low Price to Earnings Growth ratio compared to its competitors.

3 Valuation Multiples

3.1 S&P Recent Multiples

	FY2008	FY2009	FY2010	TTM
EBITDA	12.31B	10.79B	20.7B	22.74B
Price/EBITDA	5.90	8.41	5.85	NA
P/E Ratio	15.92	26.36	10.45	NA

3.2 Trefis DCF Model

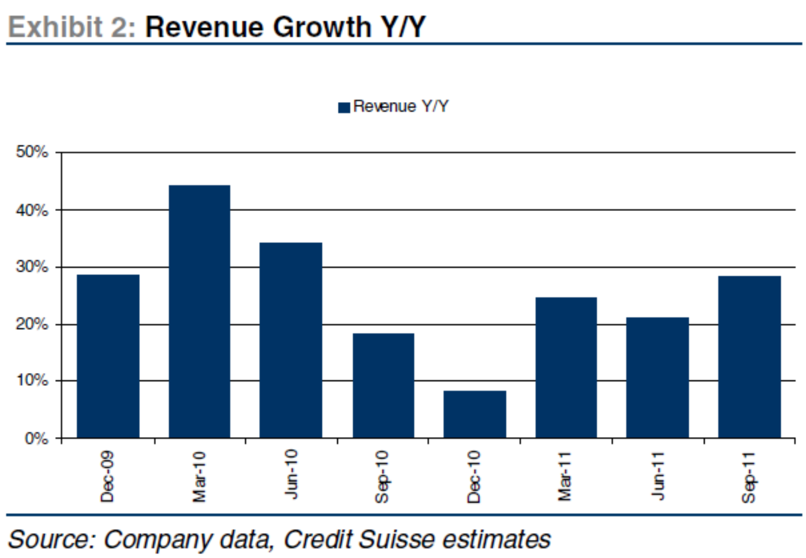
Calendar Year	2011	2012	2013	2014	2015
Revenue ($ Bil)	50.5B	53.8B	55.2	56.7	58.4
Adjusted EBITDA ($ Bil)	26.1	27.8	28.6	29.4	30.1
Inidrect Expenses ($ Bil)	13.5	18.5	17.3	16.5	16.6
Discounted Cash Flows ($ Bil)		8.92	9.70	9.99	9.53

Sum of Discounted Cash Flows= $151 Bil + Net Cash / (Debt) $4.37 Bil = Trefis Valuation for Intel = $155 Bil / Shares Outstanding (5.09 Bil) = Trefis Price Estimate per Share: $30.52

3.3 Revenue Growth Factors

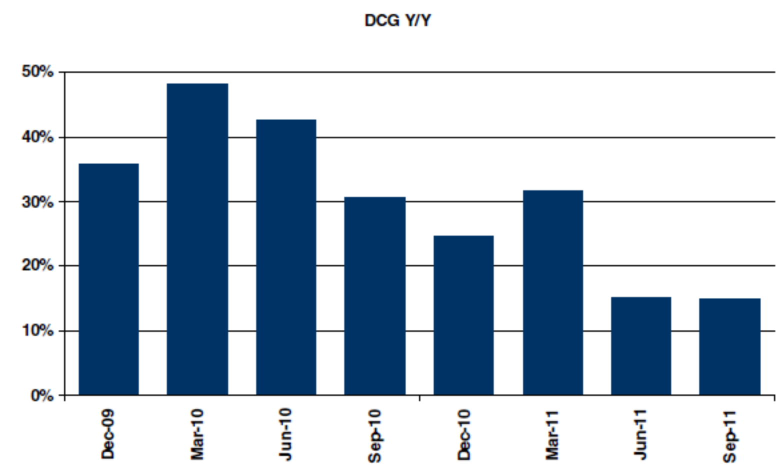
Here are three charts showing the overall growth of INTC, the growth of the PC Client Group, and the growth of the Data Center Group.

INTC Revenue Growth Y/Y



INTC Data Center Group Revenue Growth Y/Y

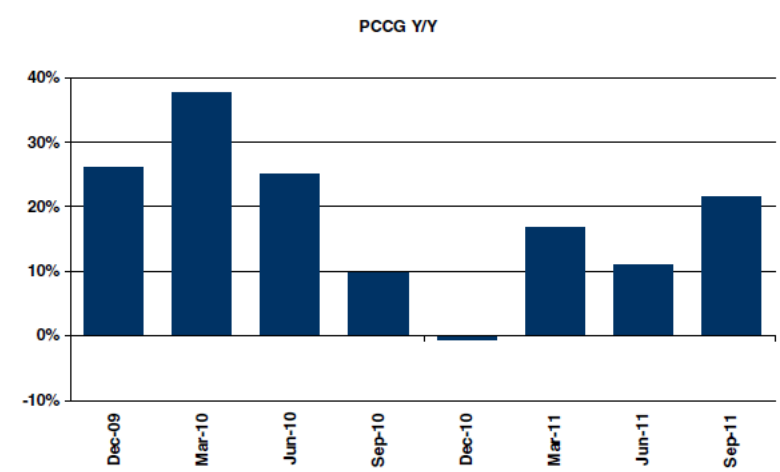
Exhibit 6: Data Center Group Y/Y



Source: Company data, Credit Suisse estimates

INTC PC Client Group Revenue Growth Y/Y

Exhibit 4: PC Client Group Y/Y



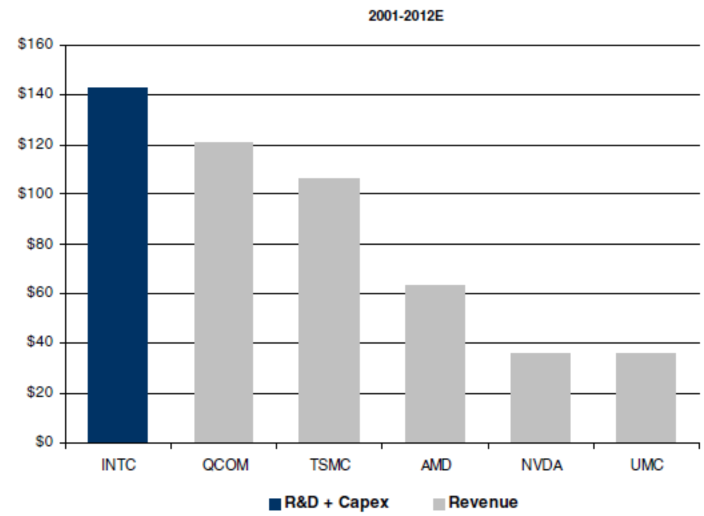
Source: Company data, Credit Suisse estimates

4 Investment Rationale / Potential Concerns

Positives

INTC is the largest-cap semiconductors company on the NASDAQ, and this allows it some advantages. For example, it spends more on R&D and Capex than any of its competition have generated in revenue (see chart).

Exhibit 1: Intel Investments Exceed Other's Revenue



Source: Company data, Credit Suisse estimates

This directly leads into some of the economic moats INTC currently has and (more importantly) is developing in the coming few years. One such specific example of R&D leading to a potential growth driver is INTC's new 3d transistor- the Tri-gate transistor- a technology which allows for the manufacturing of more transistors on the same piece of silicon than its competitors. Sustained high R&D spending for INTC has created barriers to entry for firms, supporting its higher margins and keeping returns at high levels.

To succeed in the coming months, Intel will seek growth in non-traditional computing markets- servers, tablets, and to a lesser degree, smartphones- as x86 reaches better power/performance ratios required for those applications. Servers will be a big driver in future years, as INTC has 93% market share and there is a large potential for growth in what is estimated to be a 3 trillion dollar industry.

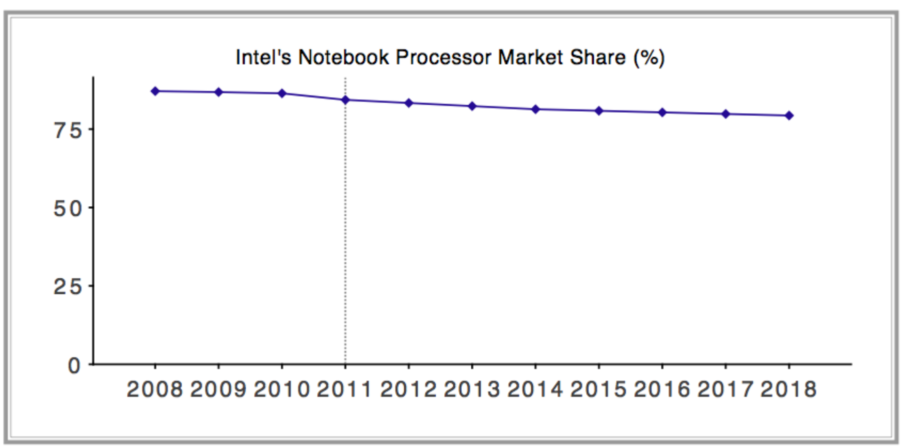
With respect to tablets, the Credit Suisse report issued 1/20/2012 estimates a 5-year CAGR of 76% when INTC establishes a larger presence in tablets. This will largely be fuelled by the needs of the non-AAPL tablet market.

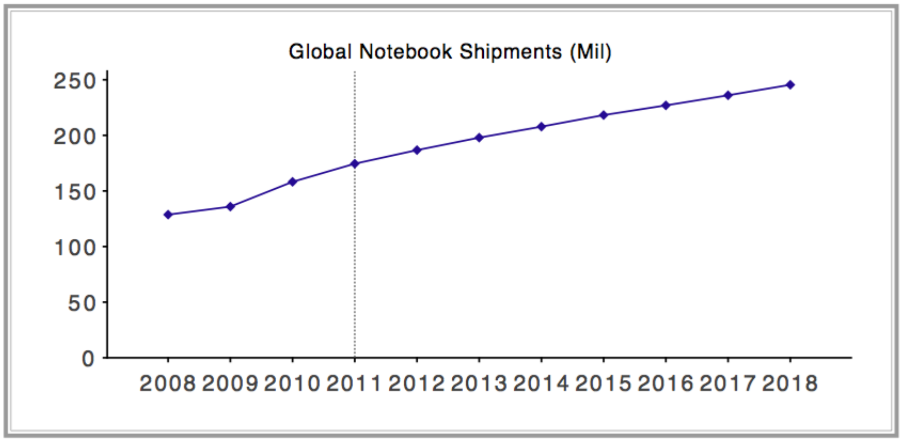
S&P reports issued 2/11/2012 predict a 3.7% rise in sales in FY 2012 and 7.7% in FY 2013, driven by Windows 8, aging computers, and new PC and server applications, which will all contribute to demand for new microprocessors. INTC will also benefit from the rampup of Ivy Bridge microarchitecture and the evolution of ultrabooks subnotebooks over the next few quarters, as INTC's 32nm and 22nm solutions outperform its competitor's offerings. S&P says this should lead to share gains in higher-end computing segments, which should help preserve margins.

According to Trefis, a plurality of the current stock price (36.1%) is based on INTC's work on Notebook Processors. INTC's core growth is founded in international growth in the computer industry, leveraging its dominant market share in PC and mobile PC.

Major revenue generating areas include:

- High margins
- Notebook processors (high end) (82.3% market share)
- Server processors (93% market share)
- Desktop processors (79.3%)
- Desktop and notebook chipsets





Overall, INTC holds strong market share in both PC and Server markets. Its growth hinges on the growth in total business (and not market share) as the world becomes more and more pc abundant. The shift from desktops to notebooks could be good for Intel as they have more domination in the notebook market.

Risks

INTC's market share has decreased over the past year (1-1.5%) in its main markets.

Lack of a mobile presence could be considered a risk for INTC. If mobile takes off like many predict that it will, INTC could be left without any rewards. However, it does appear that INTC is trying to offset this potential downside by adopting a "foundry"-style business, in which they offer their production facilities to produce all manner of chips. This was revealed in a recent announcement and has already been jumped on by chip maker TSM. This will also allow INTC a close look at many of their competitors products.

In addition, since INTC's growth is likely to be related to the growth of the semiconductor sub-industry,the sub-industry outlook is also relevant: An S&P Capital IQ report issued 2/11/2012 says:

> "We have a neutral fundamental outlook on the semiconductor industry. Given the uncertain global economic environment, we see risks related to soft PC and consumer electronics sales. As a result, we expect the supply chain to work down any excess inventories in the immediate term. While most chipmakers have had to experience lower sequential sales in the second half of 2011, we see growth resuming in the first half of 2012.We estimate flat sales for 2011, but expect improved economic conditions to lead to 3% growth in 2012."

They continue to say that they are, however, optimistic about an inventory rebuild in 2012 that should be supported by the adoption of ultrabooks (running Atom processors) and the anticipated release of Windows 8, which represents an enormous upgrade opportunity for PC vendors around touch input technology.

With the world becoming more pc abundant, consumers may opt for cheaper PCs which could hurt Intel's growth. Also, for Intel to come down to this level could be self cannibalizing to their core business.

Overall, lower-than-expected demand for PCs and less-than-anticipated traction for INTC's new chips could harm INTC's growth.

Negatives

Revenues from the Intel Mobile Communications Group (IMC) are declining sharply, down 24% q/q in 4Q to $508m. These declining revenues were largely expected to reflect INTC's socket loss in the iPhone 4s and (presumably) future iPhone generations. Credit Suisse expects IMC revenue to continue to decline as AAPL continues it's transition to QCOM for smartphones.

Windows 8 will be using an ARM heavy future strategy which could be bad for INTC. Technology-wise, ARMH and NVDA are catching up to the performance and battery life of current Intel chips

5 Technical Analysis

Long-term Technical Analysis

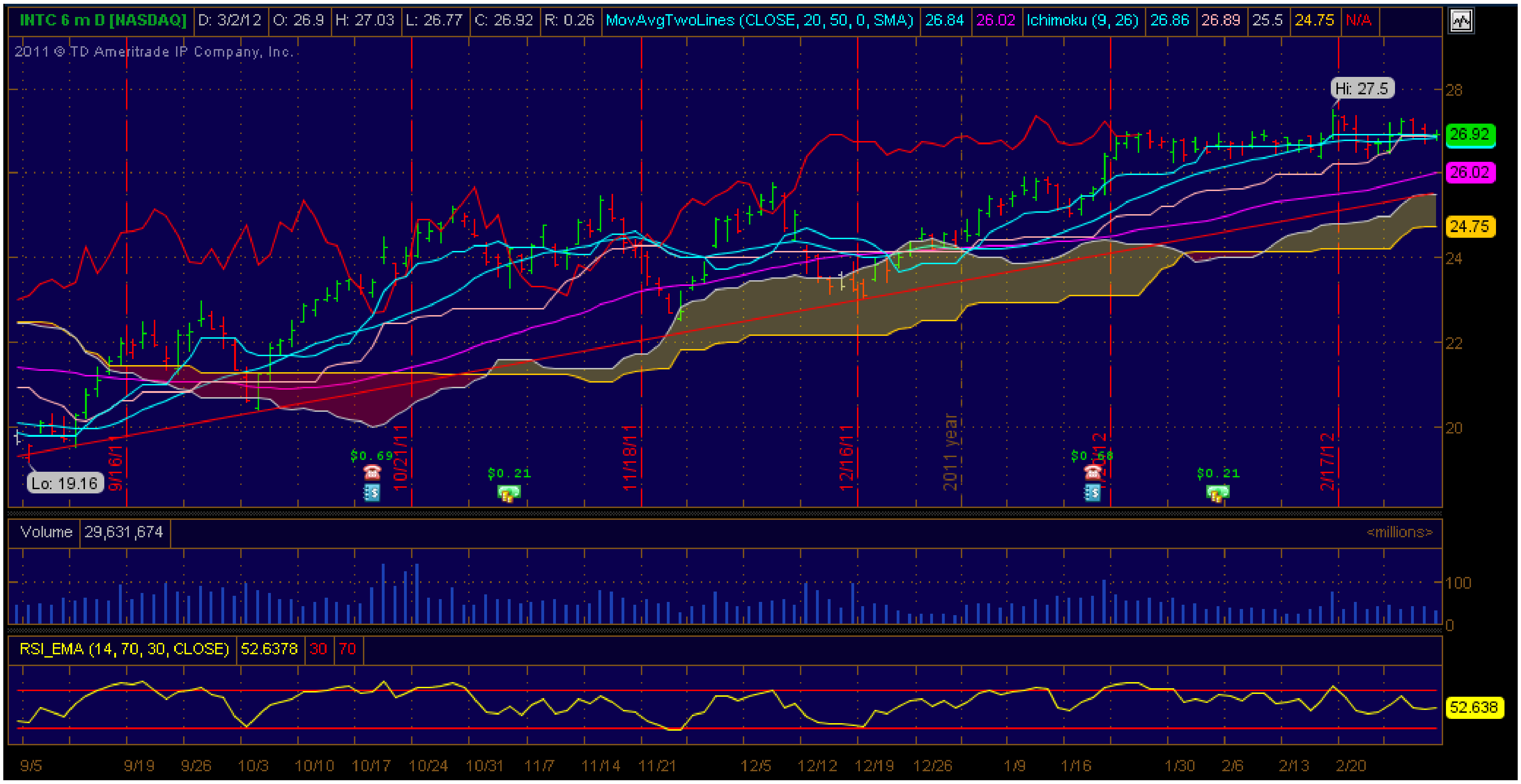
Some brief analysis:

One can see that the stock is currently in a diagonal price channel. This is in fact part of how we derived the target price (the other factor was of course analyst reports and DCF estimates). The stock has been in a steady upward channel since early 2010, and this trend is visible over the past 9 months.

In recent months, the channel has provided both support and resistance to the movement of INTC. Back in October, there was a great opportunity to buy- there was a golden cross and a few days later the RSI indicated the stock was oversold. There was another such golden cross in early January. The stock has seemed to fluctuate in this channel and this could indicate a good buying point for the future.

At the present time, the 50 day moving average is well above the 100 day moving average. This is not a weak positive sign. I believe the stock will continue to act within the channel, and the regression trend line will continue to provide support, as it has historically. RSI appears to be neither bullish nor bearish.

Short-term Technical Analysis



For shorter-term TA, I looked at the chart for 3 months at 1 day intervals, and the RSI and Ichimoku cloud studies. The RSI is currently neither bearish or bullish, and doesn't immediately call us to enter. There is an upwards trend on the graph indicated by a red line I drew. The Ichimoku clouds support this trend well. They provide both support and resistance for the price level at various times in the past 3 months.

At the current price, even though it is well above the trendline, I can see the trend line acting as support for the level if it were to come down and bounce off it. The same applies for the Ichimoku cloud, which is at the same level as the trend line.

I would look for an entry point where the RSI indicates INTC is oversold (or at least ¡ 40) and price level is closer to the trend line.

Note:

Thank you for reading this report. Please email us if you have any questions.