

Intel

IFS event preview: positive for near-term sentiment, needs scale longer-term

Maintain Rating: NEUTRAL | PO: 50.00 USD | Price: 43.51 USD

IFS event + US Chips funding = positive n-t catalysts

We maintain Neutral ahead of Intel's (INTC) Feb-21 Intel Foundry Service (IFS) Direct Connect flagship event where the company plans to provide an update on its nascent foundry (outsourced manufacturing) and process roadmap. The IFS event is expected to feature prominent appearances from US Dept of Commerce (Sec. Gina Raimondo), Microsoft, Broadcom, Arm, Mediatek, OpenAI, Synopsys, Cadence and Ansys. While unannounced, we would not be surprised to see a statement of support from Nvidia also as a potential customer of INTC's packaging and 18A offerings. Overall, the IFS event could be a positive near-term stock catalyst especially if we get more proof-points of INTC's 18A process customer engagements, and if we get news around US Chips Act awards (INTC could get a material \$10bn+ award), Foundry success also accrues to INTC's sum-of-parts valuation as an incremental value generator.

However, IFS likely remains sub-scale for some time

Per Gartner, the global foundry market was \$116bn in CY23 dominated by TSMC at ~60% share, Samsung foundry around 10-15% share, with next three UMC, GlobalFoundries and SMIC at 5-7% each. INTC's \$952mn in IFS equated to <1% share and consisted of many old packaging contracts that are likely discontinued. For CY24E, consensus models IFS at \$952mn growing to almost \$5bn by CY27E at which point the global foundry market could be around \$169bn, implying <3% market share. To be fair, INTC's manufacturing advances (18A process yields) and geopolitics could drive very different outcomes. Thus far INTC has secured a total of 5 advanced packaging design wins and 4 Intel 18A customers, with a lifetime deal value of \$10bn+ and the majority of revenue starting in CY25E. This includes a "significant HPC customer" as well as a "meaningful prepay". While Intel has not named or quantified every customer, we expect the 18A customer list to potentially consist of Nvidia, Broadcom, Ampere, and Faraday.

IFS progress could get muddled in new reporting structure

From CQ1 earnings INTC plans to change its financial reporting into 3 new segments – 1) ProductCo (core PC, server, IoT, networking treated as a fabless segment), 2) ManufacturingCo (all manufacturing including IFS), and 3) Other segments (includes non x86 segments INTC is slowly divesting including Mobileye, Programmable Chips etc. INTC will only report sales and operating income, but not gross margin for each segment. The ManufacturingCo's sales will lump all of IFS sales along with internal price charged by INTC's manufacturing to the ProductCo segments. It's unclear if INTC will continue to disclose IFS as a standalone business, making it harder to perform apples-apples comparison with external foundries.

Chips Act funds partly reflected in CY24 expectations

We model around \$12bn in capital offsets to INTC's \$30.7bn in gross capex for CY24E. Of the \$12bn we expect \$10bn from the US Chips Act and hence any upside could be accretive to INTC's financials (more capital offsets lower depreciation expenses, boosts gross margins, though the impact depends on depreciation schedule.)

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Equity

Vivek Arya
Research Analyst
BofAS
vivek.arya@bofa.com

Duksan Jang
Research Analyst
BofAS
duksan.jang@bofa.com

Blake Friedman
Research Analyst
BofAS
blake.friedman@bofa.com

Lauren Guy
Research Analyst
BofAS
lauren.guy2@bofa.com

Stock Data

Price	43.51 USD
Price Objective	50.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-2-8
52-Week Range	24.73 USD - 51.28 USD
Mkt Val (mn) / Shares Out (mn)	183,960 USD / 4,228.0
Free Float	100.0%
Average Daily Value (mn)	1951.21 USD
BofA Ticker / Exchange	INTC / NAS
Bloomberg / Reuters	INTC.US / INTC.OQ
ROE (2024E)	4.0%
Net Dbt to Eqty (Dec-2023A)	38.4%
ESGMeter™	High

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Glossary:

HPC: High performance computing

IFS: Intel Foundry Services

Price objective basis & risk

Intel (INTC)

Our \$50 price objective is based on 26x our 2025E pf-EPS ex-stock comp expense, in the middle of compute peers (15x-40x), which we view as appropriate given manufacturing uncertainties and risks of new foundry strategy.

Upside risks to our price objective are 1) clarity or breakthrough on yields for 7nm process technology, 2) new products allowing Intel to limit share loss, 3) improving product mix which can drive upside to gross margins, 4) manufacturing slip up at key foundry competitors.

Downside risks to our price objective are 1) weaker-than-expected trends in a mature PC market, which is largest revenue generator for Intel, 2) further delays in 7nm process technology and roadmap, 3) accelerated share loss to AMD, 4) more competition in profitable data center market.

Analyst Certification

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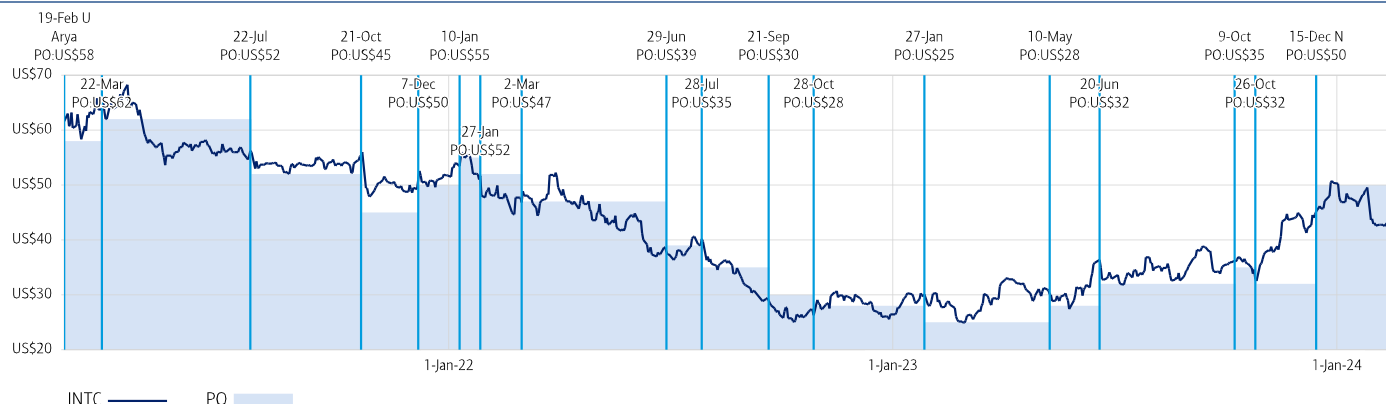
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Intel (INTC) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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