NASDAQ: INTC

INTEL CORPORATION
BUY: US$27 (+38%)

BASIC INFORMATION

Last closed Price: US$20.87
12M Target Price: US$27
+ / - Potential: 38%
GICS Sector: Information Technology
GICS Sub-Industry: Semiconductors

PERFORMANCE

1Y Performance against Nasdaq Index

(Fig 1) Source: Barchart

FINANCIALS

Market Cap: US$91.44B
Shares: 48.6B
52-Wk High-Low: $52.28/$18.84
Ave Volume: 76.86M
P/E Ratio: 96.11

EXECUTIVE SUMMARY

This report recommends a long position in Intel Corporation with a **BUY** rating and a **US$27** price target. Despite weak earnings performance in 2023-2024, it is likely that Intel will begin its recovery due to the rising AI markets as it pushes out its new technology and foundry services. Intel is currently undervalued after the greatest drop in share price following the dotcom bubble burst, making it a good opportunity for investors.

KEY HIGHLIGHTS

- Underperforming revenue growth in main product markets, with Q2 2024 revenue of $12.8B down 1% YoY. Inefficient operations leading to Q2 2024 gross margin of 38.7%, down 1.1ppt YoY. Q2 2024 EPS $0.02 is down $0.11 YoY, damping investment sentiments.
- Plans to reduce expenses, cutting SG&A, R&D expenditure from estimated $20B in 2024 to $17.5B in 2025, >15% headcount cut by 2024 and suspension of dividends.
- Reduction of gross capital expenditure by 20% by 2024 and $1B of sales in 2025

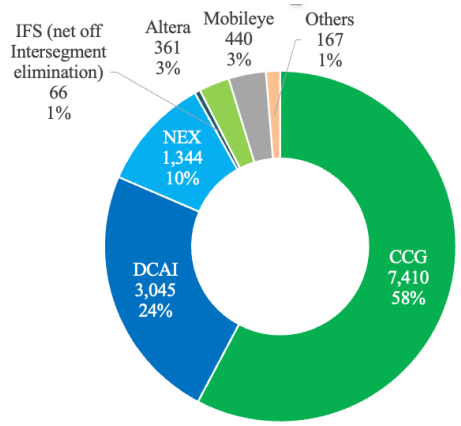
INVESTMENT THESIS

- **Intel's dominant position in the PC industry positions it well to capitalize on the rapid growth of AI-PC market growth**

BUSINESS OVERVIEW

Intel corporation, founded in 1968, is a leading provider of microprocessors and semiconductor products used for a range of computing applications. It has been undergoing a significant transformation to diversify its product portfolio and shifting towards new growth areas like AI, edge computing and foundry business. It has 6 business segments comprising of: Client Computing Group (CCG), Data Centre and AI Group (DCAI), Network and Edge Group (NEX), Accelerated Computing Systems and Graphics Group (AXG), Mobileye and Intel Foundry Services (IFS).

Revenue Mix:



(Fig 3) Source: Company data

INDUSTRY OUTLOOK

Semiconductor industry outlook is cautiously optimistic in 2024, with a rebound expected after a 9.4% decline in 2023. Key drivers include demand for AI-related chips, but risks from geopolitical tensions and supply chain disruptions remain significant. The

According to International Data Corporation (IDC) forecasts in Feb 2024, shipments of artificial intelligence PCs are estimated to grow from 50 million units in 2024 to 167 million in 2027, accounting for 60% of total PC shipments globally. In Q1 2024, Intel still holds a dominant 76.4% share of the global CPU market share despite losing some to AMD. (Fig 2). Thus, there is a strong opportunity present for Intel to ride on the wave of AI PC growth.

Server CPU share	2024 Q1 current quarter share	2023 Q4 prior quarter share	2023 Q1 year ago quarter share	Share change (points) quarter	Share change (points) year
Intel	76.4%	76.9%	82.0%	-0.5	-5.6
AMD	23.6%	23.1%	18.0%	+0.5	+5.6
Total	100.0%	100.0%	100.0%		

(Fig 2) Source: The A Register

In its recent conference, Intel has shared that it has launched an AI PC Acceleration program to its client base to ensure software compatibility for future AI applications. Furthermore, 8 out of 10 enterprise notebooks are said to be using an intel chip. This suggests that Intel has been innovating and refining its product to adapt to the rising market of AI PCs, and would likely be able to keep its market share in the AI PC industry as well. Since the PC segment (CCG) is a key revenue driver for Intel (Fig 3), which contributes to 58% of its revenue in 2Q 2024, it is likely that the company will see a positive boost in its total revenue and profit margin over the next few years.

- **Strategic cost management would help Intel improve its profit margin**

Intel's recent announcements to reduce operation costs and capital expenditures signal a strategic shift towards improving profitability. The company's focus on cutting almost US$10B of costs could alleviate the pressure on its profit margins, which have been under strain due to extremely high capital expenditures for its Foundry business. Streamlining operations would likely support a recovery in the company's financial performance, providing a foundation for long-term shareholder value.

global semiconductor market is forecasted to grow with sales reaching $588 billion in 2024.

SWOT ANALYSIS

Strengths:
- **Large market share in PC industry** enjoys grants from government, cheaper loans for R&D
- **Diversification** of revenue streams in its wide range of products

Weaknesses:
- **Operational missteps** causing slower manufacturing processes,
- **High capital expenditure** in the foundry business
- **Dependency on PC market**

Opportunities:
- Expansion into **AI and Data Centers**
- **Strategic partnerships** helps Intel break into foundry business

Threats:
- **Geopolitical risks**, higher export controls
- Competition on product innovation from strong rivals

COMPETITOR ANALYSIS

	P/E Ratio	EV/EBITDA
Intel	44.5	10.4
Nvidia	73.4	85.7
AMD	68.7	61.5
TSMC	30.8	15.9
Semiconductor Industry	61.5	31.6

(Fig 4) Source: Online reports

Furthermore, despite the US$3.1M loss incurred by the Foundry business in 2Q 2024, Intel's management expected that the business will break even by 2027.

- **Partnerships and deals secured for IFS is a catalyst for Intel Foundry Services**

Intel's push into foundry services has been met with much skepticism due to the high capital expenditures eroding its income, and the difficulty of obtaining market share from dominant firms like Taiwan Semiconductor Manufacturing Company (TSMC).

However, Intel's heavy investment in R&D to deliver its promised '5 Nodes 4 Years' is producing positive results. Intel 18A, a manufacturing process, is expected to be launched in 2025 and outperform TSMC's best node in terms of performance and efficiency. The implementation of Intel 18A could be a turnaround for Intel.

In Feb 2024, Intel secured a US$15B deal with Microsoft to produce custom chips using its 18A process, marking a positive first step in acquiring clients and making its foundry business profitable. Intel 18A's technical strengths increases its potential to help Intel break into this market segment to drive up its revenues. Even though the growth might be slow, Intel can expect a positive earning by 2027.

FINANCIAL ANALYSIS

Historical financial performance:
1H 2024 had reflected poor performance, with a negative EPS reported in 1Q 2024. Following the projections, the estimated EPS for FY2024 is $(0.37). This is largely due to continued dips in revenue but increasing cost of sales and depreciation.

Key assumptions for projections:
Revenue growth rates – positive growth starting FY2025 for products that are currently facing a decline – CCG, DCAI and NEX. A rough 3-6% is estimated due to the surging rise in demand for AI related products, and Intel

CREDIT ANALYSIS

	FY23A	FY24E	FY25E	FY26E	FY27E
Asset/Liability	2.3	2.4	2.3	2.3	2.3
Debt/Equity	0.4	0.4	0.4	0.4	0.4

Liquidity Ratio: Steadily above 2, meaning that its assets are
Solvency Ratio: Healthy balance between debt and equity.

This Suggests that Intel is not overly reliant on debt and has a low financial risk.

will likely experience increasing sales driven by general market growth.

Effects: Drive up revenues

Operating expenses – Pegged to the total revenue and follow the company guidance of hitting US$20B non-GAAP operating expenses by end of 2024, and further down to US$17.5B by end of 2025. Thus, percentage is tweaked to reach estimated figures and projected beyond 2025.

Effects: Drive down costs

Depreciation/Ammortization – Pegged to total revenue and assumed rates to be the same. No new capital additions for PPE and intangible assets were assumed for simplicity

Effects: High depreciation and amortization results in negative cash flows

Interest rates – Interest rate based on their latest bond issued at around 5-6%.

Common Stock – Following annual share-based compensation, common stock is projected to increase at a slightly lower rate compared to 2Q 2024.

Impact on EPS forecast

	FY23A	FY24E	FY25E	FY26E	FY27E
Revenue ($ M)	54,228	51,392	54,094	56,989	60,096
Gr Rate (%)	-14%	-5%	5%	5%	5%
Op. Income ($ M)	93	(2,574)	4,057	5,984	7,812
Margin (%)	0.2%	-5%	8%	11%	13%
EPS ($)	0.40	(0.37)	0.84	1.19	1.50
P/E (based on the current price)	52.2	NA	24.7	17.6	13.9
EBITDA ($ M)	9,695	6,221	14,027	16,446	18,803
EV/EBITDA (based on the current market cap+debt-cash)	13.9	21.6	9.6	8.2	7.2

Projected performance:

Project profit and loss statement suggests a slow but steady recovery for Intel, where the EPS slowly increases from $(0.37) in 2024E to $0.03 in 2025E and $1.50 by 2027E. This is driven by large reductions to operational costs and projected improvements to profit margins and sales.

VALUATION

Discounted Cash Flow:

		3Q 2024	4Q2024	2025	2026	2027
Net free cashflow for the company		(1,592)	(1,335)	(2,755)	2,374	5,553
Exit value (assuming EV/EBITDA at 11x)						206,830
		(1,592)	(1,335)	(2,755)	2,374	212,382
WACC	**8.34%**					
NPV of EV	160,273					
Less debt	(53,029)					
Add cash	11,287					
Equity value	118,531					
Estimated share price	**28**					

Instead of terminal value, an Exit Value at the end of 2027 is used instead

EBITDA at 2027	18,803
EV/EBITDA	11
Exit value	206,830

WACC Calculation:

	As at 30 Jun 2024	% of total capital	Cost	After tax cost
Debt	53,029	31%	5.5%	4.57%
Equity	120,434	69%	10.0%	10%
WACC				**8.34%**
Total capital	173,463			

EV/EBITDA Multiple Method:

FY25 EBITDA ($ M)	14,027
EV/EBIDA	11
Estimated EV	154,298
Less debt	(53,029)
Add cash	11,287
Equity value	112,556
Estimated share price	**26**

P/E Multiple Method:

FY25 EPS	0.84
P/E	31.00
Estimated share price	**26**

According to the 3 valuation methods, the estimated share prices are $26, $26 and $28. We adopt the average share price of $27.

INVESTMENT RISKS

Foundry business not meeting expectations
It is uncertain whether Intel can successfully compete with established players like TSMC with just a few partnerships, especially if it cannot address its operational inefficiencies. If these issues persist, the foundry business could continue to be a financial burden and negatively impact overall profitability.

Operational Missteps
Intel has previously lost market share to competitors like AMD due to delays in manufacturing, complacency, and a lack of innovation in product rollouts. If these inefficiencies and disorganization persist, the recent cost-cutting measures may only provide temporary relief, without addressing the underlying managerial issues.

Geopolitical Risks
The semiconductor industry is highly sensitive to global political tensions, such as the U.S.-China trade war. These tensions could disrupt Intel's supply chain, negatively affecting its operations and revenue.