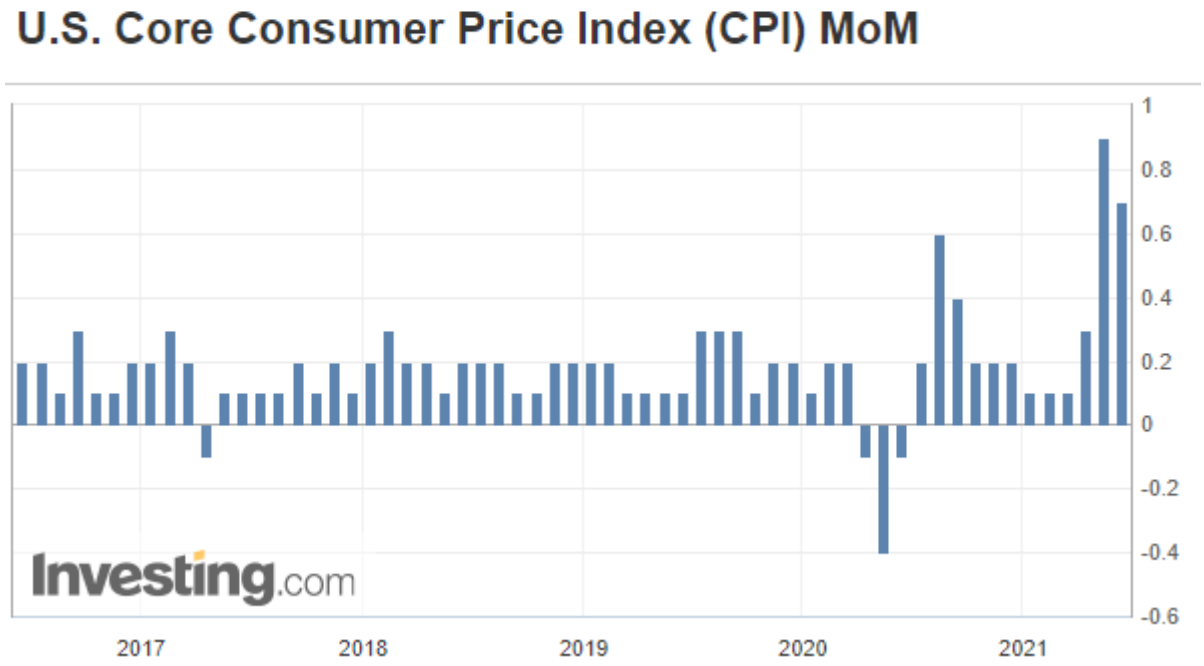
INTEL CORPORATION

SHORT IDEA

Macro view

- **Leading indicators**: Leading indicators are strong, particularly so in the US even though building permits saw a drawback. Mixed comments with problems in the supply chain, labor shortage and **inflation** with **higher commodity prices** seem to be common themes across many industries as demand increases.



Company Overview

Intel Corporation

NasdaqGS

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INTC	53.51 USD	-0.22	(-0.41%)	53.51 USD	0.00	(+0.00%)	Thu Oct 21st 2021 (After-Market)	Information Technology	Semiconductors and Semiconductor Equipment	$ 217.09B	12.9x	10,837,226	-6.30%	5.10%
Last Updated • Fri Sep 03 4:00PM EDT				After Market • Fri Sep 03 7:50PM EDT			Next Earnings Date	Sector	Industry	Market Cap	Forward P/E	Volume	Total Return (3M)	Total Return (1Y)

SNAPSHOT CHART

KEY DATA

Dividend Yield	2.60%	Avg Volume (10D)	19.26M
Beta (5Y Monthly)	0.59	Volatility (1Y)	32.72
Shares Outstanding	4.06B	Short Interest %	1.34%
Industry			Semiconductors and Semiconductor Equipment
Competitors			AMD MU TXN NVDA QCOM

PERFORMANCE RETURNS

	1M	3M	YTD	1Y
Price	-0.32%	-6.91%	7.41%	2.41%
Total	0.33%	-6.30%	9.43%	5.10%

VALUATION

	LTM	NTM
P/E	11.9x	12.9x
EV/Sales	2.9x	3.1x
EV/EBITDA	6.4x	7.9x
Price/Book	2.5x	

CAPITAL STRUCTURE

Market Cap	$ 217.09B
Total Debt	$ 35.41B
Cash & Inv.	$ 24.86B
Enterprise Value	$ 226.03B

NEWS

Intel (INTC) Dips More Than Broader Markets: What You Should Know	Zacks Investment Research	Sep 03 21
Intel Could Deal Serious Damage To Nvidia, AMD	SeekingAlpha	Sep 03 21
Juniper (JNPR) and Intel Ink Deal to Boost ORAN Ecosystem	Zacks Investment Research	Sep 02 21
Bull Of The Day: AMD (AMD)	Zacks Investment Research	Sep 02 21
Google's Latest Foray Sparks More Bad News For Intel, AMD	Benzinga	Sep 01 21

ANALYST ESTIMATES

	FY 2021	FY 2022	FY 2023
Sales	$ 73.75B	$ 73.21B	$ 75.59B
YoY Chg	-5.28%	-0.74%	3.26%
EPS	4.78	4.45	4.77
YoY Chg	-9.77%	-6.87%	7.08%

Quantitative analysis

- Their revenue is also to contract this year and into next year

SALES | EBITDA | EBIT | EPS | EPS GAAP

	FY 2020	FY 2021	FY 2022	FY 2023
1Q Mar	$19.83B	$18.57B	$17.49B	$20.83B
2Q Jun	$19.73B	$18.53B	$17.89B	$21.16B
3Q Sep	$18.33B	$18.27B	$18.59B	-
4Q Dec	$19.98B	$18.26B	$18.94B	-
Year	$77.87B	$73.75B	$73.21B	$75.59B
Growth	-4.49%	-5.28%	-0.74%	3.26%

Quantitative analysis

- Their earnings and growth estimates are contraction until 2023, with greater contraction than revenue (negative operational leverage)

SALES | EBITDA | EBIT | EPS | EPS GAAP

	FY 2020	FY 2021	FY 2022	FY 2023
1Q Mar	1.45	1.39	*0.99*	*1.25*
2Q Jun	1.23	1.28	*1.05*	*1.29*
3Q Sep	1.11	*1.11*	*1.15*	-
4Q Dec	1.52	*1.01*	*1.21*	-
Year	5.30	*4.78*	*4.45*	*4.77*
Growth	-5.69%	-9.77%	-6.87%	7.08%

Quantitative analysis

- Gross margins are in line with the industry, but they have been steadily decreasing.

Financials shown in millions except for per share data.	Current	Mar 2021	Dec 2020	Sep 2020	Jun 2020	Mar 2020	Dec 2019	Sep 2019	Jun 2019	Mar 2019	Dec 2018	Sep 2018	Jun 2018
KEY FINANCIALS													
Total Revenues	77,712	77,712	77,867	78,098	78,955	75,732	71,965	70,413	70,386	70,843	70,848	69,244	66,230
Revenue Growth YoY	2.61%	2.61%	8.20%	10.91%	12.17%	6.90%	1.58%	1.69%	6.28%	10.64%	12.89%	11.54%	7.32%
Gross Profit (Loss)	42,450	42,450	43,612	44,142	45,696	45,067	42,140	41,489	42,554	43,095	43,737	43,343	41,047
Gross Margin	54.62%	54.62%	56.01%	56.52%	57.88%	59.51%	58.56%	58.92%	60.46%	60.83%	61.73%	62.59%	61.98%

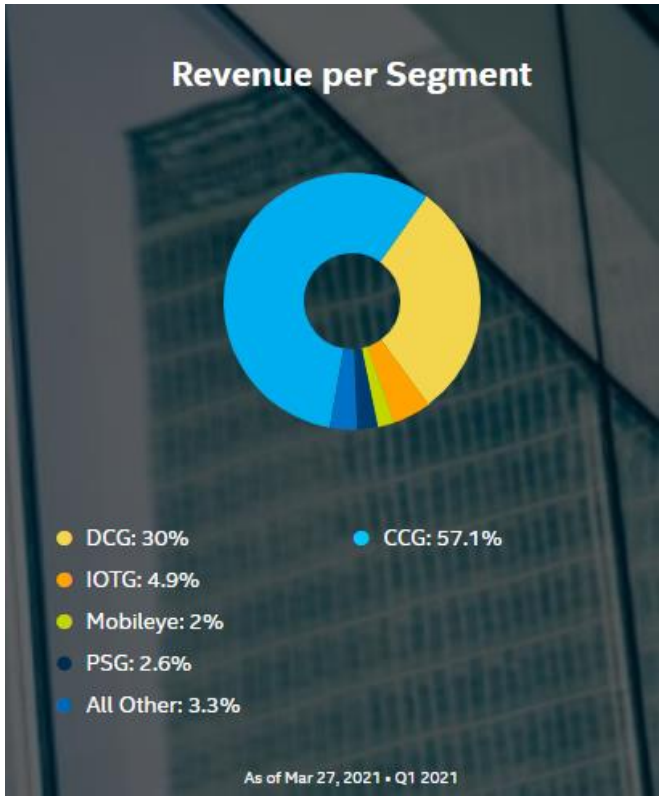
Qualitative analysis –Competition

- **Foundries**:
  - This is a tough business, electronic devices are getting smaller and smaller, and more energy efficient, creating great demand for these **high-technology and cutting-edge chips**.
  - The chips required for great themes such as autonomous driving, 5-G ,data centers, cybersecurity and cloud efficiency are these cutting-edge chips (<10nanometers)
  - The manufacturing facilities must be constantly upgraded in an expensive and complicated process and require highly personnel (labor shortage affects them) in order to achieve industry standards.

Qualitative analysis –Revenue

- The majority of their business comes from **personal computers (light blue)** chip manufacturing (Client Computing Group)

- The other big part of their sales comes from their **data center (yellow)** business.



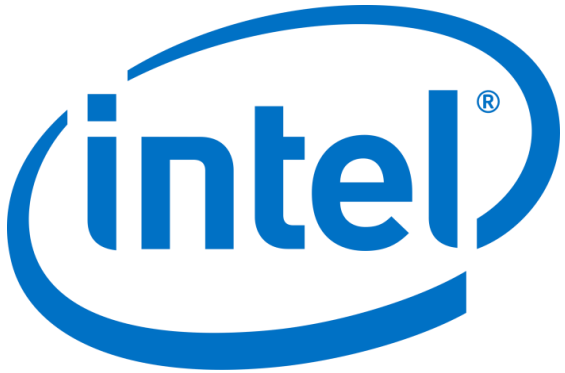
Qualitative analysis –Competition

- 56% total market share
- 90% market share of leading-Edge chips (<10nanometers)
- Customers include Apple, Qualcomm, Nvidia, AMD

Qualitative analysis –Competition

- 60% goes into their own devices
- Competitors unwilling to outsource to Samsung (they compete on a product level)
- Lost NVIDIA business to TSMC

Qualitative analysis –Competition



- They are stuck at 10 nanometer chip production capabilities – *"Within the next couple of weeks, we'll tape in the compute tile for Meteor Lake,* ***our first 7-nanometer CPU for 2023"***

- Lost Apple business to TSMC

Qualitative analysis – 7 nanometer chip

- As stated before, the manufacturing costs to produce these <10 nanometer chips are very high, and there is no guarantee that when their 7 nanometer chip arrives in 2023 it won't be obsolete or within the market standards.

> *"And when we think about the second half of the year on the overall margin, we think you're seeing -- **going to see some margin impact actually from the supply situation** impacting the mix and the volume that we're going to see out of client, again, **the 7-nanometer start-up costs ramp throughout the year.** So that's probably the next biggest factor and then a little bit offset by the fact that we're going to see server start to recover."*

Qualitative analysis – New Fabs

- Intel has apparently **benefited by AMD and Nvidia not being able to keep up with demand for a while now**. While Intel has plans to address some of the issues limiting chips for U.S. car plants, the company announced a **$20 billion plan** to build new advanced chip factories in Arizona back in March that will ironically take a couple of years to build. Intel plans for production from the new **Arizona fabs to start in 2024** while the CEO is out forecasting the chip **shortage to end in 2023** suggesting very bad timing.

Intel's US Manufacturing Powerhouse

For more than 40 years, Arizona has been vital to Intel's ability to create the world-changing technology we all depend on. Today, Arizona is Intel's first mega-factory network and home to Intel's newest, leading-edge manufacturing facility, Fab 42, and state-of-the-art semiconductor packaging capabilities.

Qualitative analysis – New Fabs

- In the meantime TSMC is doing the same.

Taiwanese Apple Supplier TSMC To Build $12B US Chip Factory After Months Of Pressure From Trump Administration

"The chipmaker said it expects the factory, to be built in Arizona, to cost about $12 billion over the course of nine years between 2021 and 2029. ***Production could start as soon as 2024****, TSMC noted."*

Qualitative analysis – Acquisition

- Intel has subject to **rumors** about taking over Global Foundries in a $30bn takeover deal, which wouldn't address the technological problem Intel is facing since Global Foundries doesn't produce cutting-edge chips. - Mike Orme, who covers the semiconductor market for Global Data says GlobalFoundries fabs ***"are not state of the art"***, explaining ***"they produce 14nm and lower level"***
- We are taking the stance that this takeover would be a negative catalyst for the company

Catalysts

- Earnings Call Oct 28th , where they are expected to provide good news on the production of these new chips and maybe the acquisition.

- Last AMD earnings call was negative for this stock since it highlighted how this competitor is winning market share to Intel, same for NVIDIA.
  - AMD: Oct 26th
  - NVIDIA: Nov 17th

Trade Structure

- Since all our catalysts are in the ending of October and November, with a pride target of $45 we can do a Calendar Spread as follows:

	Strategy	Calendar	Calendar
	Expiry	Oct and Nov	Oct and Nov
	strikes	50	50
	prices	0.48 and 1.45	0.48 and 1.45
	contracts	(10) and 20	(10) and 20
	Calc Date	Oct	Dec
	cost	$ (2,420.00)	$ (1,250.00)
	$ 60.00	$ (2,420.00)	$ (2,420.00)
	$ 55.00	$ (1,649.00)	$ (2,420.00)
Price Points	$ 50.00	$ 1,282.00	$ (2,420.00)
Profit and Loss	$ 45.00	$ 3,142.00	$ 7,100.00
	$ 40.00	$ 7,600.00	$ 17,100.00
	$ 35.00	$ 12,578.00	$ 27,100.00

Price target gives us 5.6:1 ratio