Intel

Intel Hikes 3Q09 Outlook in Line with Our Recently Raised Estimates; Reiterate Neutral

Neutral

INTC, INTC US
Price: $20.25

Price Target: $17.00

Semiconductors

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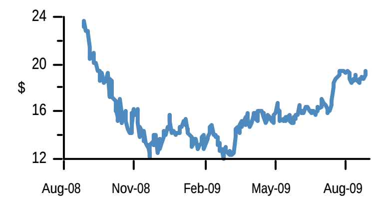
Today before the market open, Intel raised its 3Q09 outlook due to stronger-than-expected demand for microprocessors and chipsets.

- **Revenue and gross margin outlook raised.** Intel raised its 3Q09 revenue guidance from a range of up 1%-11% QoQ ($8.1-$8.9 billion) to a range of up 10%-15% QoQ ($8.8-$9.2 billion), roughly in line with our recently raised 3Q09 revenue estimate of $8.9 billion, due to stronger-than-expected demand for microprocessors and chipsets. The company also raised its gross margin guidance from its previous range of 51%-55% to a range of 53%-55%, roughly in line with our recently raised estimate of 55%, due to higher utilization rates.
- **In line with our recently-raised estimates.** The company's new expectations are in line with our recently raised estimates earlier this week. Please see our note titled "PC Food Chain Tracking In Line With Seasonality, Raising Estimates on Intel; Reiterate Neutral", published on August 27.
- **4Q09 depends on sell-through.** While business is good so far in the PC food chain, we believe normal demand, i.e. a normal back to school season, is needed to avoid inventory build-up and the inevitable correction. We maintain our belief in poor demand, so we expect a correction during 4Q09 following a below-seasonal back to school.
- **Many signs pointing to Intel peaking soon.** Despite the raise in guidance and our recently raised estimates, our rating on Intel remains Neutral, and we maintain our belief in poor demand. However, we note even if the much-anticipated V-shaped recovery materializes, we would find it hard to upgrade Intel because we believe buy-side estimates, gross margins, and peak EPS multiples are close to a peak on Intel. We expect the company to guide to 60% gross margins during 4Q09, and INTC stock is trading at 14X our peak Intel EPS estimate of $1.50.
- **Maintaining Intel estimates.** Since we already raised estimates earlier in the week, we are maintaining our C09 revenue and EPS estimates of $33.6 billion and $0.95. We note that we still expect below-normal seasonality for Intel during 4Q09. We are also maintaining our C10 revenue and EPS estimates of $35.0 billion and $1.13.
- **Reiterate Neutral Rating** due to our concerns on end demand and downside to estimates. Our price target is $17.00 on Intel, which is 15X our C10E EPS estimate, at the low end of its normal historical range of 15.0X-20.0X earnings.

Price Performance



	YTD	1m	3m	12m
Abs	32.5%	0.4%	25.5%	-16.1%

Intel Corp (INTC;INTC US)

	2008A	2009E	2010E
EPS (incl stk comp) ($)			
Q1 (Mar)	0.25	0.11A	0.24
Q2 (Jun)	0.28	0.19A	0.23
Q3 (Sep)	0.35	0.28	0.29
Q4 (Dec)	0.04	0.37	0.37
FY	0.92	0.95	1.13

Source: Company data, Reuters, J.P. Morgan estimates. F06/F07/F08/F09/F10 estimates include effect of stock option expenses.

Company Data	
Price ($)	20.25
Date Of Price	28 Aug 09
52-week Range ($)	23.71 - 12.05
Mkt Cap ($ mn)	113,298.75
Fiscal Year End	Dec
Shares O/S (mn)	5,595
Price Target ($)	17.00
Price Target End Date	31 Dec 09

See page 7 for analyst certification and important disclosures.

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