INTC 3Q: Great Quarter, Disappointing Guidance

INTC		*Intel*			
Qtr:	3Q	**Grade:**	*D*	***Growth*** *(qtr-qtr)*	
Rev:	15,778	**Rev:**	+++	**Rev:**	+16.6%
GM:	64.8%	**EPS:**	+++	**Fcst:**	-4+3%
EPS:	$0.80	**Fcst:**	-	**Div:**	$0.26

Intel *(INTC, $37.75 +0.46)*
3Q Earnings: INTC announced 3Q results yesterday after the close. Revenue and earnings exceeded the high-end of the range of expectations and the mid-point of pre-announced upside for $15.6B +/-$300M on PC market strength. However, virtually flat 4Q guidance fell short of expectations and seasonal norms as the inventory build part of last quarter's PC strength is expected to be consumed.

Client Computing Group *(PCs)*: Revenue of $8.9B was up +21% sequentially with units up +17% and ASPs (average selling prices) up +2%. On a year-to-year basis: revenue grew by +5% with units down by -4% and ASPs up +6%; desktop units down -6% and ASPs flat; notebook units up +4% and ASPs up +3%; and tablet units down. For the first 9-months of 2016 desktop units are down -5% with ASPs up +2%, while notebook units are down -1% with ASPs up +2%, and tablet units are down.

Data Center Group: Revenue of $4.5B up by +13% sequentially with units up +13% and ASPs down -1%. Year-to-year sales were up +10% with units up +12% and ASPs down -3% with cloud strong, but enterprise weak.

Internet of Things Group *(wearables, cameras, drones, other)* with revenue of $689M up +20% sequentially and up +19% year-over-year; Non-Volatile Memory Solutions Group *(NAND)* revenue of $649M up +17% sequentially and down -1% on the year; Intel Security Group *(software/McAfee)* with revenue of $537M million was flat sequentially, up +6% on the year—and will be 51% divested 2Q17; and Programmable Solutions Group *(Altera)* had revenue of $425M which was down -9% sequentially and up +6% compared to ALTR last year.

While I remain confident in Intel's ability to remain profitable and pay its dividend, I continue to believe that revenue growth will remain a challenge. PCs still account for the lion's share of revenue and that market is in decline—and tablets are even worse. Data center business is growing and highly profitable, but there's no market share left to gain and markets and processor architectures are fragmenting—maintaining its dominance is not a foregone conclusion. The rest of the business is too small to matter: yes, it offers significant potential growth; but diversification has never been this company's strength.

INTC's fundamental valuation is consistent with the average of its large-cap technology peers. I reiterate my Hold recommendation due to a less-than-attractive valuation amid the lack of confidence in growth.

—Dan K. Scovel
Semiconductor Analyst

LEGEND

		Grade	
+++	exceeded the high-end of the range		
++	above consensus, within the high-end of the range	A	all +++
+	slightly above consensus	B	all +
o	met consensus	C	all o/+
-	slightly below consensus	D	mixed -/o/+
- -	missed consensus, within the low-end of the range	E	all o/-
- - -	missed the low-end of the range	F	all -

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