Why Intel Could Be Headed for $60 a Share

Description

Intel (NASDAQ: INTC) is still recovering from a monumental sell-off that happened back in April of this year. The stock was close to $60 until it released its first-quarter results, which sent the stock crashing, almost to a new 52-week low. The company's projection that revenue for the year would be $69 billion, or $2 billion lower than analysts had estimated, contributed to the drop.

While guidance was disappointing, especially since in 2018 Intel recorded revenue of $70.8 billion, it amounts to a decline of only around 2.5%. And yet, the company temporarily lost more than 25% of its valuation on the news. It was a significant overreaction by investors for what's still a very good stock to own today. After all, producing significant growth is one thing, but still producing strong growth numbers when your sales have hit $70 billion is no easy task.

That's why a recovery was always probable, and why shares have climbed to more than $50 twice since the crash. The reality is that the stock could be worth more, and trading in the $60 range is not out of the question.

Current price-to-earnings multiples are out of joint

Prior to 2019, Intel had normally traded close to, and even above, 15 times its earnings. If the stock were to reach a historical average price-to-earnings multiple of 15 now, it would be valued at around $64.50 a share, well above its price today.

However, investors might not be willing to pay a premium for a stock that's declining. But it's still one of the top chipmakers in the world and some are expecting it to overtake **Samsung** again as the "world's largest chipmaker" in 2019. This is because, despite minimal growth expected by Intel in chip sales, its Korean rival is expected to see a significant decline as a result of a struggling memory market.

Intel remains an important company in the tech world and there's clearly a strong demand for its products, so much so that it has created a shortage and caused headaches for the manufacturer. However, once those issues are sorted and with new chip products on the way like the Intel 10th Gen Ice Lake CPU, Intel could be poised for a much stronger year in 2020.

Even if we discount it a little to a P/E of 14, the stock still comes in right around $60. The negativity surrounding the company's soft forecast this year has unfortunately weighed the stock down, and a rally is definitely in order for the company.

Results have still been strong

Here's a quick rundown of how the company has done in its four most recent results:

Period	Revenue	Prior-Year Revenue	Change
Q2 2019	$16.51 billion	$16.96 billion	(2.7%)
Q1 2019	$16.06 billion	$16.07 billion	0%
Q4 2018	$18.66 billion	$17.05 billion	9.4%
Q3 2018	$19.16 billion	$16.15 billion	18.7%

Source: Morningstar.

Apart from the past two quarters, sales haven't been struggling that badly for Intel. While the company does expect to see some slowdown in the latter half of the year, that doesn't mean that Intel is doomed and that it isn't making ever effort to recover. Guidance can often change, and better-than-expected results next quarter could lead management to adjust its expectations upward. One way the company will likely see a boost in its sales: addressing the chip shortages and having enough supply to meet customer needs, and that may happen sooner rather than later.

The strong sales growth the company saw in the second half of 2018 should be proof that the company still knows how to grow, and the setback may prove to be temporary.

Key takeaway for investors

Intel has a lot going for it today, and investors shouldn't be deterred by one bad quarter, or even a couple soft ones. The business remains strong, with profit margins around 25%, results that many companies would envy. Intel has also been producing significant cash, with the company generating at least $6.9 billion in cash from its operating activities in three of the past four quarters. That helps make its dividend of 2.4% look very safe.

Intel continues to have an integral role in the world of computing, and it might be premature to assume that the company won't continue to grow. Intel's a solid, undervalued stock that could very well reach the $60 mark, especially now that the low forecast for the year is already factored into the current share price.

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