



## Which of These 2 Semiconductor Stocks Is a Better Buy?

### Description

After a wild run during the pandemic, global semiconductor stocks have widely underperformed equity markets this year. Long-term-oriented contrarian investors may wish to buy the dips in semiconductor stocks right now, because the sector may never be this cheap again once the global economic outlook starts improving after the 2022 gloom.

**VanEck Vectors Semiconductor ETF**, one of the largest industry [exchange-traded funds](#) with over US\$6.3 billion in assets under management, is down nearly 40% year to date. Industry giant **Intel** ([NASDAQ:INTC](#)) stock trades at multi-year lows with a low price-to-earnings (P/E) multiple of just six times its historical earnings, despite a substantial 10.7% jump during Friday's trading session.

Investors are tempted to scoop up Intel stock as a promising [value](#) play and lock in a juicy 5% dividend yield. However, another industry giant, **Broadcom** ([NASDAQ:AVGO](#)), which has been reporting record revenue and expanding profit margins so far this year, is a compelling value and growth play that touts a 3.5% dividend that has grown at rates above 30% per annum over the past five years.

### Should you buy Intel stock today?

Down 43% year to date, Intel stock retains huge recovery potential should management get its strategic plans right over the next two to three short years. Its market leadership position, latest cost-cutting plans, government support for "Made in America" semiconductor chips, and recent partnerships with **Brookfield Infrastructure Partners** to build new semiconductor foundries make a good recovery case for INTC stock.

The company retains its strong leadership position in the global personal computer (PC) market, even though smaller challengers, including **Advanced Micro Devices**, have given it severe headaches over the past three years. Although the PC market faces near-term headwinds, Intel's management is preparing for a potential recession. The company's latest cost-reduction plans attracted investors' attention.

In Thursday's third-quarter earnings report, Intel announced plans to cut its 2023 annual operating

expenses by about US\$3 billion. Annual costs may fall by US\$8-US\$10 billion by the end of 2025.

It's highly likely that cost rationalizations may include staff retrenchments. Intel had more than 121,100 employees going into 2022, and the median employee received about US\$104,400 in total compensation in 2021. The median employee was a program manager — a non-tech position based in Malaysia.

The cost-reduction plan, if successful, could significantly reverse the company's current wave of declining earnings, shrinking operating margins, and dwindling free cash flow. Intel's third-quarter revenue declined 20% year over year to US\$15.5 billion. The company guides for a 14-16% decline in annual sales this year, while year-to-date operating earnings are down 76%.

Intel stock trades for 12 times the company's expected 2023 earnings per share. A new investment today will lock in a juicy 5% dividend yield on a semiconductor stock that may significantly recover and grow earnings and cash flow after a near-term recession.

## Should you buy Broadcom stock over Intel?

Broadcom is a leading semiconductor and infrastructure stock that has been churning out record revenue and earnings so far in 2022. The company is expanding its profit margins, harvesting massive billions in free cash flow, aggressively repurchasing its shares, and growing its dividends at breakneck speed, yet AVGO trades at low forward earnings multiples and is almost as cheap as struggling Intel stock. Broadcom stock is a no-brainer buy at today's cheap valuation.

Given Broadcom's market capitalization of US\$191.5 billion at the time of writing, AVGO is only 60% larger than Intel (which boasts a US\$119.4 billion market cap). Intel expects to generate between US\$2 billion and US\$4 billion in free cash flow in 2022, while Broadcom generated more than US\$4 billion in free cash in each of the most recent two quarters.

Intel expects to generate what Broadcom can generate in just three months in 12 months. Cash flow is king in any business, and more so during tough economic times. AVGO stock should rank higher than INTC stock on any investor's buying priorities.

While Intel is agonizing over shrinking market demand, Broadcom's quarterly revenue-growth rates above 20% year over year are being driven by "robust demand across cloud, service providers and enterprise," the company's chief executive officer Hock Tan said in an earnings release last month.

Interestingly, AVGO stock trades cheaper than Intel stock on a forward-looking basis right now. AVGO's forward P/E of 11.7 is lower than INTC stock's forward P/E of 12.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. NASDAQ:AVGO (Broadcom Limited)
2. NASDAQ:INTC (Intel Corporation)

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