

# Intel | Samsung

## Equity Research Report

CUIRS Global Equity Team  
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## Intel Corporation (INTC) | North America

# Acquisition and Mobileye IPO Accelerate IDM 2.0 Strategy

|              |              |
|--------------|--------------|
| Stock rating | Target Price |
| Over-weight  | US\$ 55.00   |

### Key Thesis

#### Acquisition of Tower Semiconductor accelerates Intel's foundry business roadmap.

Intel announced a definitive agreement to acquire Israeli-based Tower Semiconductor (TSEM) for US \$53/share worth for a total EV of ~US \$5.4bn in an all-cash transaction. The deal brings Tower's well-established customer base, 7 additional fabs, and specialty foundry expertise in analog mixed signal and RF solutions. **We see strategic value in Tower's acquisition** that allows Intel to gain leadership in the nearly \$100bn global foundry markets with Tower's strong existing partnerships and its broad range of specialty process technologies including RF, SiGe PA and CMOS.

#### Announced plan to take Mobileye in US in mid-2022 via initial public offering.

Intel announced its intention to publicly list shares in its Mobileye business unit, offering shares via IPO. Mobileye is Intel's business unit covering AV/ADAS solutions, which currently estimates with a valuation of nearly \$50bn. **We see this as a significantly positive catalyst** as the transaction can potentially yield strong revenue along with free cash flow to Mobileye that allows funding of the autonomous vehicle development and expanding market presence in automobile & EV markets, which will potentially provide an increasingly important revenue for Intel's growth.

#### IDM 2.0 strategy to support Intel's long-term growth and innovation.

Followed by the ambitious come-back plan announced in 2021 Mar and launching the 12th Gen Intel® Core™ processor series, Intel has delivered the best full-year revenue of US \$79.0bn in the company's history. In the latest Investor Meeting, Intel details plans including its Smart Capital strategy to regain shares in traditional markets and disrupt the high-growth emerging markets, which can act as tailwind to gross margin and therefore **we believe Intel's strategy development is on track.**

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### INTC (NASDAQ: INTC)

|                      |                    |
|----------------------|--------------------|
| <b>Stock Rating</b>  | <b>Over-weight</b> |
| <b>Target Price</b>  | <b>US\$ 55.00</b>  |
| Shr price (15/04/22) | US\$ 45.67         |
| Up/downside (%)      | 20.4%              |
| 52-Week Range        | US\$ 43.63 - 68.49 |
| Shares Out. (bn)     | 4.07               |
| Mkt Cap (US\$ bn)    | 212.76             |
| EV (US\$ bn)         | 222.45             |
| Free Float (%)       | 1.37%              |

### Fiscal year (31/12 End)

| (US\$ bn)        | 2021A       | 2022E       | 2023E       |
|------------------|-------------|-------------|-------------|
| <b>Revenue</b>   | <b>74.7</b> | <b>82.0</b> | <b>86.4</b> |
| YoY (%)          | 2%          | 10%         | 5%          |
| <b>GP</b>        | <b>41.8</b> | <b>46.7</b> | <b>51.0</b> |
| GPM (%)          | 56%         | 56%         | 59%         |
| <b>EBIT</b>      | <b>20.7</b> | <b>23.0</b> | <b>25.1</b> |
| OPM (%)          | 27%         | 28%         | 29%         |
| <b>PBT</b>       | <b>20.2</b> | <b>23.5</b> | <b>25.1</b> |
| NPM (%)          | 22.1%       | 22.4%       | 22.6%       |
| <b>Basic EPS</b> | <b>4.9</b>  | <b>4.2</b>  | <b>4.3</b>  |

## Intel Corporation (INTC) | North America

# Financials & Valuation

### Income Statement

**We model Intel's net income reached US\$ 19.54 bn in 2023E, with revenue reaching US\$ 86.40 bn in 2023E.** Intel's growth momentum, compared to other industry players, remains weak.

We project Intel's revenue by business units breakdown: client computing group, data center group, IoT group, non-volatile memory solutions group, programmable solutions group, and others, given Intel's IDM nature. **The revenue is mainly generated from the client computing group, with more than 50% contributions in 2021A.** But the percentage gradually declines in the coming three years as other segments such as the data center group and the non-volatile memory solutions group gain stimulus in growth. Among them, the non-volatile memory solutions group displays the highest growth rate of 20% (Exhibit 1).

Exhibit. 1 Revenue growth rate being relatively low

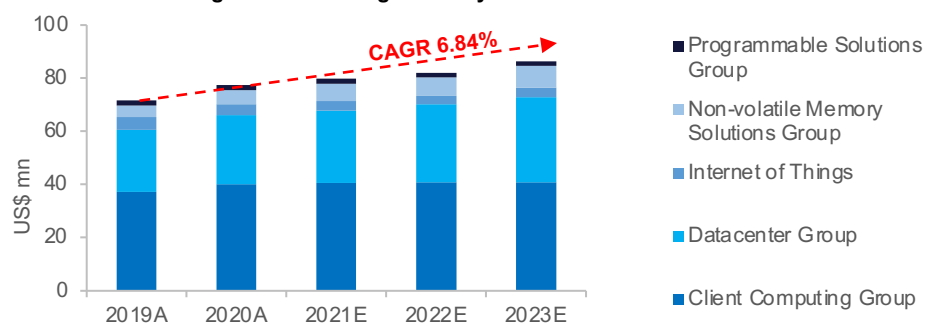


Exhibit. 2 Snapshot of Intel's key income statement output

| (US\$ mn)                         | 2020A           | 2021E           | 2022E           | 2023E           |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>Revenue</b>                    | <b>72,900.0</b> | <b>74,718.0</b> | <b>81,979.4</b> | <b>86,404.6</b> |
| YoY Growth (%)                    | 1%              | 2%              | 10%             | 5%              |
| <b>Gross Profit</b>               | <b>38645.0</b>  | <b>41820.0</b>  | <b>46728.3</b>  | <b>50978.7</b>  |
| YoY Growth (%)                    | -8%             | 8%              | 12%             | 9%              |
| <b>Operating Income (Loss)</b>    | <b>23,876.0</b> | <b>20,713.0</b> | <b>22,954.2</b> | <b>25,057.3</b> |
| YoY Growth (%)                    | 6%              | -13%            | 11%             | 9%              |
| <b>Pretax Income (Loss), GAAP</b> | <b>25,078.0</b> | <b>20,231.0</b> | <b>22,954.2</b> | <b>25,057.3</b> |
| <b>Net Income, GAAP</b>           | <b>20,899.0</b> | <b>22,356.0</b> | <b>18,363.4</b> | <b>19,544.7</b> |
| Net Margin (%)                    | 29%             | 30%             | 22%             | 23%             |
| <b>Basic EPS, GAAP</b>            | <b>4.98</b>     | <b>5.47</b>     | <b>4.17</b>     | <b>4.34</b>     |
| EPS Growth YoY (%)                | 4%              | 10%             | -24%            | 4%              |

### Relative Valuation (P/E) - TP at US\$ 55

For valuation, we utilize relative valuation to generate the target price for Intel. Given the fierce competition and relatively hesitant financial performance, we applied an Implied 22E P/E of 11.6x justified by the industry median of 16.0x and Q1 of 8.6x and historical implied 1-yr forwarding P/E plus 1sd range. **We assumed that the firm would trade at a lower P/E ratio than the industry average P/E ratio.** Out TP of US\$ 55.00, which we view as the justified valuation multiple is given the implied historical P/E ratio median being 12.4x and the minimum being 9.0x.

## Samsung | Asia Pacific

# Key Beneficiary of memory pricing upcycle and LT logic-memory integration trend;

|              |              |
|--------------|--------------|
| Stock rating | Target Price |
| Over-weight  | KRW 89,900   |

### Key Thesis for Samsung (hereby “SEC”)

#### Leading beneficiary of the LT logic memory-integration trend

Given SEC's technology leadership in both memory and chip foundry, SEC should benefit from the DRAM market growth drive by more and the diversified end-demand. In Jan 2022, Samsung published the results of their world's first in-memory computing based on MRAM in Nature, showcasing SEC's technology leadership and its effort to merge memory and system semiconductors for next-generation AI chips.

#### Expectation on a pricing upcycle for both DRAM and NAND.

Despite the high pricing volatility of DRAM and a downcycle in 4Q21, SEC should benefit from the anticipated memory market upcycle starting from 3Q22E-4Q22E driven by a carried-over undersupply and the recent Western Digital supply disruption.

#### Foundry growth strategy remains solid.

Management announced plans to build a USD 17 bn. chip plant in Texas by 2024 and reiterated its technological roadmap in 3D architecture with 3nm GAA. with the process expected to initiate in 2022 and enter ramp-up in 2023.

#### Organizational and management restructuring in Dec 2021 sharpening strategic focus and enhance synergies.

Management reconfirmed that its strategic focus on maintaining a healthy level of profitability in DRAM, given current high level of consolidation in the DRAM market. Operating profit should remain strong despite inflationary concerns.

#### Possible acquisition of semiconductor firms

There are potential acquisition actions with firms such as Netherlands-based NXP, Germany's Infineon Technologies, and STMicroelectronics of Switzerland to further consolidate market share and strengthen supply chain.

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### Samsung (5930. KR)

|                      |                    |
|----------------------|--------------------|
| <b>Stock Rating</b>  | <b>Over-weight</b> |
| <b>Target Price</b>  | <b>KRW 89,900</b>  |
| Shr price (15/04/22) | KRW 66,600         |
| Up/downside (%)      | 34.9%              |
| 52-Week Range        | KRW 68,300-86,200  |
| Shares Out. (mn)     | 5,970              |
| Mkt Cap (KRW tn)     | 415.5              |
| EV (KRW tn)          | 318.5              |
| Free Float (%)       | 82.7%              |

### Fiscal year (31/12 End)

| (KRW tn)         | 2021A        | 2022E        | 2023E        |
|------------------|--------------|--------------|--------------|
| <b>Revenue</b>   | <b>279.6</b> | <b>315.1</b> | <b>368.4</b> |
| YoY (%)          | 18%          | 13%          | 17%          |
| <b>GP</b>        | <b>113.2</b> | <b>127.5</b> | <b>149.2</b> |
| GPM (%)          | 41%          | 41%          | 41%          |
| <b>EBIT</b>      | <b>51.6</b>  | <b>58.2</b>  | <b>68.1</b>  |
| OPM (%)          | 19%          | 19%          | 19%          |
| <b>PBT</b>       | <b>53.4</b>  | <b>59.8</b>  | <b>69.7</b>  |
| NPM (%)          | 14%          | 14%          | 14%          |
| <b>Basic EPS</b> | <b>5,777</b> | <b>6,506</b> | <b>7,596</b> |

## Samsung | Asia Pacific

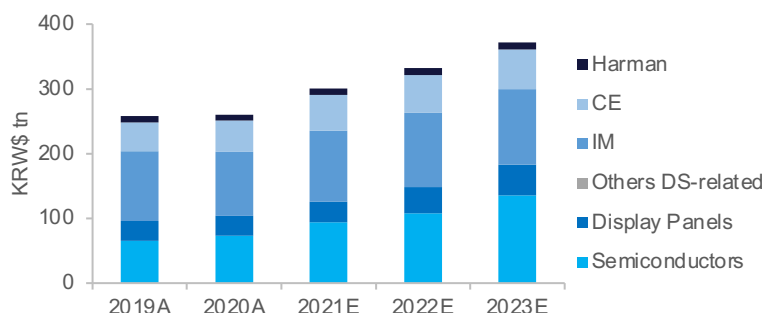
# Financials & Valuation

### Income Statement

We model SEC's net income reached KR₩ 52 tn in 2023E, with revenue reaching KR₩ 368.4 tn in 2023E. **SEC's growth momentum compared to other IDM players remains strong, with higher than 10% YoY growth.**

We project SEC's revenue by business units breakdown: Device Solutions (DS), IT & Mobile Communications (IM), Consumer Electronics (CE), and Harman. We further separated the DS sector into the semiconductor, display panels, and others. The revenue contribution is diversified. In particular, IM and semiconductor manufacturing have the highest percentage breakdown, with 39.07% and 33.67% in 2021E respectively. In 2021E-2023E, we assumed that the semiconductor segment attains the largest growth momentum, 19.84% CAGR growth.

**Exhibit. 4 Revenue streams reflect diversification**



**Exhibit. 5 Snapshot of SEC's key income statement output**

| (KR₩ tn)                          | 2020A          | 2021E          | 2022E          | 2023E          |
|-----------------------------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>                    | <b>236.8</b>   | <b>279.6</b>   | <b>315.1</b>   | <b>368.4</b>   |
| YoY Growth (%)                    | 3%             | 18%            | 13%            | 17%            |
| <b>Gross Profit</b>               | <b>92.3</b>    | <b>113.2</b>   | <b>127.5</b>   | <b>149.2</b>   |
| YoY Growth (%)                    | 11%            | 23%            | 13%            | 17%            |
| <b>Operating Income (Loss)</b>    | <b>36.0</b>    | <b>51.6</b>    | <b>58.2</b>    | <b>68.1</b>    |
| YoY Growth (%)                    | 30%            | 43%            | 13%            | 17%            |
| <b>Pretax Income (Loss), GAAP</b> | <b>36.3</b>    | <b>53.4</b>    | <b>59.8</b>    | <b>69.7</b>    |
| <b>Net Income, GAAP</b>           | <b>26.1</b>    | <b>39.2</b>    | <b>44.2</b>    | <b>51.6</b>    |
| Net Margin (%)                    | 11%            | 14%            | 14%            | 14%            |
| <b>Basic EPS, GAAP</b>            | <b>3840.91</b> | <b>5777.25</b> | <b>6506.08</b> | <b>7595.63</b> |
| EPS Growth YoY (%)                | 21%            | 50%            | 13%            | 17%            |

### Relative Valuation - TP at KR₩ 89,900

For valuation, we utilize relative valuation to generate the target price for SEC. Given the relatively strong financial performance compared to its IDM peers, we applied an Implied 22E P/E of 14x justified by Intel's Implied 22E P/E of 14x. For EV/EBITDA, we referenced the 1st quartile of Samsung's peers' 22E EV/EBITDA multiple of 4.5x, reflecting a discount to semiconductors pure play due to SEC's exposure towards other lower-margins segments such as consumer electronics and display panels. We derive the TP of KR₩ 89,900 by the average implied TP by both the P/E and EV/EBITDA methods.

**For the full version of the report including financial forecast, valuation, company and industry summary, please comment on our LinkedIn post with your email address.**

**We are happy to share CUIRS insight with you!**