

Intel Stock Rises on Prediction of 2014 Sales Gain

Associated Press

SAN FRANCISCO (AP) — Intel Corp.'s stock rallied Monday after two analysts predicted the computer chip maker will snap out of its recent sales slump next year as more businesses buy desktop and laptop machines powered by Intel's processors.

THE SPARK: Piper Jaffray analysts Auguste Gus Richard and Jennifer Baxter upgraded Intel's stock on the expectation that Intel's revenue will rise by 5 percent next year. Although that would be a modest gain, it would reverse two consecutive years of declining revenue, assuming analysts' forecasts for the rest of 2013 pan out.

The slump has been driven by a shift away from personal computers running on Intel's processors to smartphones and tablets that largely rely on other types of chips. The trend also has hurt leading PC makers Hewlett-Packard Co. and Dell Inc. and Microsoft Corp., the maker of the Windows operating system used in most desktop and laptop machines.

Richard and Baxter based their thesis on the assumption that many companies and government agencies will decide to buy new PCs to replace machines currently running on Windows XP by early next year. The reason: Microsoft plans to stop providing technical support to Windows XP in April, more than 12 years after that version of the operating system was released. That will provide a prod to buy or upgrade to PCs able to run on Windows 7 and Windows 8.

Somewhere between 150 million to 250 million PCs are likely to be upgraded, according to Richard and Baxter.

After a slow start, Intel also has been making modest inroads in the tablet market with a chip called "Bay Trail." By next year, Richard and Baxter expect Bay Trail to give Intel a 10 to 15 percent share of the tablet market, which would translate into 24 million to 36 million devices.

Propelled by those key factors, Intel's revenue next year should rise to \$54.2 billion from a projected \$52.9 billion this year, according to Richard and Baxter. The analysts raised their price target on Intel's stock to \$22 from \$20 while upgrading their recommendation to "neutral" from "underweight."

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Richard and Baxter still have serious reservations about Intel's prospects, reasoning the company's "near-term positives are offset by longer-term negatives." PC sales are likely to remain lackluster as mobile devices become even more popular, the analysts wrote, and Intel struggles to make a bigger dent in the tablet market. Investors are also wary of Intel's big spending on research and development, a concern that Richard and Baxter believe will hold back the company's stock price.

THE BIG PICTURE: Intel, which is based in Santa Clara, Calif., has been intensifying its focus and investments in the mobile device market in an effort to revive its revenue growth and boost its earnings. As part of that effort, Intel changed CEOs in May. Brian Krzanich, who has spent his entire career at Intel, replaced Paul Otellini, who had been Intel's CEO for eight years before his surprise decision to step down.

Krzanich is expected to elaborate on his vision for Intel when he meets with analysts during an all-day session scheduled for Nov. 21.

THE ANALYSIS: Despite the challenges facing Intel, Richard and Baxter believe the company could bounce back. "We believe there are several bold steps that Intel could take to significantly enhance its longer-term prospects," the analysts wrote. They think Intel should consider buying Synopsys Inc., a Mountain View, Calif., company that makes software for chip development. It would be an expensive acquisition, given that Synopsys has a market value of about \$5.6 billion.

Intel spokesman Chris Kraeuter declined to comment on the analysts' ideas or financial projections.

SHARE ACTION: Intel's stock climbed 48 cents, or 2 percent, to \$22.40 in Monday's early afternoon trading. The shares have ranged from a low of \$19.23 and high of \$26.65 during the past 52 weeks.

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