MarketWatch

Intel shares rally on chip giant's first-quarter results

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SAN FRANCISCO (MarketWatch) -- Shares of Intel Corp. rose sharply Wednesday, after the technology giant reported a big jump in first-quarter earnings on robust sales of personal computer and server chips.

The shares, part of the Dow Jones Industrial Average, were up 3.3% to $23.52.

"Intel's competitive positioning is the strongest it has been in a long time," Auriga USA analyst Daniel Berenbaum said in a note.

Compared to the last quarter -- when Santa Clara, Calif.-based Intel INTC, -0.03% also posted strong results, but with some analysts raising concerns about a peak in margins -- the company's momentum now appears to be strengthening, analysts say.

"Margins are not collapsing, and appear to be headed higher," said BMO Capital analyst Ambrish Srivastava. "And boy, it is nice to not ask for a multiple expansion on a stock for it to work. Intel delivered very strong results for the first quarter with guidance slightly better than seasonal."

Intel's report also appeared to be good news for the overall semiconductor market, as some analysts have also warned about excessive supply.

But as Charter Equity Research analyst Edward Snyder noted in a brief issued late Tuesday: "No inventory problems and none in sight; record year ahead. As we suggested in our preview, sell-side calls of double-ordering, excess inventory and a peak to the semiconductor cycle were premature and generally baseless as witnessed by Intel's report."

However, J.P. Morgan analyst Christopher Danely warned of "signs of a peak," saying in a note, "We are also concerned that inventory was built during the first quarter as Intel indicated that supply chain inventories recently returned to 'healthy' levels and are no longer lean, which adds risk if PC demand returns to normal, seasonal patterns."

Intel reported a profit of $2.4 billion, or 43 cents a share, compared with $629 million, or 11 cents, earned in the year-earlier first quarter. Revenue was $10.3 billion, up from nearly $7.15 billion in the same quarter the previous year.

Analysts had expected Intel to report earnings of 38 cents a share on revenue of $9.8 billion, according to a consensus survey compiled by Thomson Reuters.

Broad gains on the top line

The company reported strong sales of products for desktops, notebooks and netbooks, as well as for servers, workstations and data storage devices. Revenue in the PC Client group -- the company's largest business unit -- jumped 43% to $7.67 billion compared with the same quarter last year.

Intel also reported that revenue from its data center group, which covers chips for servers and workstations, fell 8% on a sequential basis but soared 48% compared with the 2009 first quarter to $1.87 billion.

The company's momentum in the corporate arena is bound to continue in light of an expected uptick in tech spending.

For the current quarter, Intel said it expects revenue of $10.2 billion, plus or minus $400 million. Analysts had been looking for the chip giant to post second-quarter revenue of $9.8 billion, Thomson Reuters consensus data show.

"Intel's years of product development and cost cutting are paying off now," said Thomas Weisel Partners analyst Kevin Cassidy.

"Positive trends of corporate spending combined with what was characterized by management as healthy supply-chain inventory should allow Intel to prove June quarter as conservative," he told clients in a note.

In a call with analysts, Intel Chief Executive Paul Otellini said, "A year ago at this time, the industry was in the midst of a sharp correction with many expecting it to continue for an extended period. But we saw signals of it bottoming then, and now a year later the industry is nearly fully recovered."
