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RPT-UPDATE 6-Intel sets bright tone for earnings, tech rises

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(Repeats to add link to related story)

- * Upbeat Q3 view lifts oversold tech stocks
- * Europe not a factor in IT spending growth
- * Shares up 7.1 percent after hours
- * Acer, Lenovo, TSMC and Samsung shares jump in Asia (Adds share prices of major Asia tech firms, analyst comments)

By [Alexei Oreskovic](#) and [Alex Dobuzinskis](#)

SAN FRANCISCO, July 13 (Reuters) - Resilient demand for PCs and servers helped Intel Corp's (INTC.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) margin and revenue forecasts blast past Wall Street expectations, allaying fears of a technology spending slowdown and sending its shares up nearly 8 percent.

Intel's stellar results set an upbeat tone for the industry's earnings season, boosting stocks from Microsoft (MSFT.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) to Cisco (CSCO.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Standard & Poor's 500 stock index futures, suggesting a strong open for Wall Street on Wednesday.

The world's top chipmaker expects a record gross margin of 67 percent for the third quarter, give or take a couple percentage points. It foresees revenue of \$11.2 billion to \$12 billion, surpassing analysts' target of \$10.9 billion.

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Intel earnings graphic: link.reuters.com/gyz37m

For related story : [ID:nTOE66D02G]

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"Demand was stronger than many people anticipated. The Street was concerned corporate spending would be restrained with what's happened in Europe, and that wasn't the case," said John Massey, portfolio manager at SunAmerica Asset Management.

"The real thing that got the Street going was the gross margin guidance, which they raised. It shows a lot of confidence that the company has for the back half of the year. If the company was at all concerned about demand, you wouldn't have expected them to raise that number."

In Asia, investors chased shares of major technology companies following Intel's upbeat forecasts. Taiwan's Acer Inc (2353.TW: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), the world's No.2 PC vendor, shot up 6 percent while its Chinese rival Lenovo Group Ltd (0992.HK: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) gained 4.8 percent. Both stocks hit three-week highs.

Some investors worry that Europe's woes, coupled with the likelihood of decelerating growth in Asian markets such as China, will crimp IT spending just as companies begin to spend again after a two-year drought. But Intel executives said there are clear signs of renewed spending by corporations.

"Now that corporations have some breathing room in the economy and their budgets, you're starting to see those machines that were four or five years-old get refreshed," Intel CEO Paul Otellini said in a conference call with analysts.

Otelchini added channel inventory remained "lean", and the company is comfortable with rising internal inventories.

Gleacher & Co analyst Doug Freedman said new products in Intel's data center group, which makes chips for servers used by corporations, provided a big lift to Intel's top line.

"I'd expect that the enterprise market continues to be strong into the third quarter," CFO Stacy Smith told Reuters.

Shares in Intel rose 7.1 percent to \$22.50 in extended trade. Microsoft and Cisco rose about 2 percent after-hours. Intel's arch-foe, Advanced Micro Devices Inc (AMD.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), climbed 5 percent. And Texas Instruments TXN.N climbed 1.8 percent.

"This is really the first quarter we've seen the corporate buyer come in and participate," said money manager Patrick Becker Jr, principal with Becker Capital Management Inc.

"It lends some credence to the theory that maybe companies aren't hiring, but they are spending money on product enhancement through systems and software," said Becker, whose company manages \$2.2 billion in assets and holds 1.5 million shares of Intel.

INVENTORY CONCERNS?

Some analysts focused on the company's rising inventories, typically a warning sign of slowing demand in the chip sector. Pacific Crest Securities' Michael McConnell said Intel's 86 days of internal inventory was close to the 89 days the company held at the peak of its last business cycle.

Given the strong second-quarter demand Intel experienced, McConnell was not worried about elevated inventory levels. But he warned business conditions could shift rapidly.

"This really isn't a month-to-month market, it's a week-to-week market right now with all that's going on in the world," McConnell said.

In Asia, Intel's results led to more upbeat views for the months ahead.

"We have more confidence in the tech sector's recovery now," said Tom Tang, analyst at Masterlink Investment Advisory in Taipei.

"It looks like inventory is healthy and won't be a problem in the third quarter."

Apart from Acer and Lenovo, top contract chipmaker Taiwan Semiconductor Manufacturing Co Ltd (TSMC) (2330.TW: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#))(TSM.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) also rose 1.7 percent, and South Korea's Samsung Electronics Co Ltd (005930.KS: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), the world's largest maker of memory chips and displays, jumped 3.4 percent.

Some analysts said the tech rebound was driven in part by over-selling, as investors reacted to second-half uncertainty.

Shares of Intel have slid alongside those of other chipmakers in recent months, as investors fret about a potential build-up in inventories industrywide as well as concerns about the effect of the European debt crisis.

Analysts had estimated Intel was trading at 10-11 times 2010 earnings, below the historical average of past years.

"It's reminding the market that basically stocks are too cheap," said Nick Kalivas, analyst at MF Global. "The fact that they are raising capital spending is confirming this idea that capacity is tight and there's some pretty good momentum," he added. "It's going to be a data point that causes people to flip from probably extreme pessimism to extreme optimism."

The company has high hopes for the launch of its Sandy Bridge processor later this year. Smith said Intel expects to move up more of its capital expenditures into this year from 2011, to prepare for that ramp-up.

Intel posted net income of \$2.9 billion, or 51 cents a share, versus a net loss of \$398 million, or 7 cents a share, in the second quarter of 2009, when Intel's results included a \$1.4 billion fine by the European Commission. Analysts had expected earnings of 43 cents per share in the second quarter.

Revenue in the quarter ended June 26 was \$10.8 billion, above the \$10.25 billion expected, according to Thomson Reuters I/B/E/S. And its gross profit margin in the second quarter was 67 percent, exceeding the 64 percent expected by analysts.

"In a quarter where people expected relatively strong performance, they beat that pretty handily and set a good forecast," said Charter Equity Research analyst Edward Snyder. "They seem unaffected by the negativity that's impacting equities." (Editing by [Edwin Chan](#) and [Valerie Lee](#))

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