Intel’s spending plan raises more worries

By Benjamin Pimentel
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SAN FRANCISCO (MarketWatch) — Intel Corp. took a hit Friday after a disappointing outlook for the first quarter, combined with higher spending plans, painted a picture of an industry leader in a tough bind.

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Intel’s booth at the Consumer Electronics Show in Las Vegas earlier this month. The chip maker showed off devices such as laptop/tablet “convertibles” that it hoped will boost the slumping PC business later this year.

Shares of Intel INTC, -0.03% shed 6.3% to close at $21.25, emerging as the worst performer on the Dow Jones Industrial Average. The stock had been on a sharp run of late, adding more than 17% over the last two months prior to the company’s fourth-quarter report on Thursday afternoon.

Those results beat Wall Street’s expectations — despite a sizable drop in earnings — but focus quickly turned to the company’s outlook, which came up short and sent a strong message that the shrinking personal computer market will continue to struggle in the coming year.

Another worrisome factor for investors was Intel’s announcement that it was planning to spend around $13 billion on capital expenditures, or capex, in the coming year as it plans to continue advancing to more sophisticated manufacturing technologies. That capex plan — about 18% above what the company spent last year — has some analysts worried that those enormous investments may not pay off in a shrinking PC market.

“Intel spooked investors by guiding capital expenditures to a somewhat massive $13 billion,” FBR Capital’s Craig Berger wrote in a note to clients. “Investors worry about stagnant or shrinking unit shipments while Intel simultaneously ramps capacity spending meaningfully.”

Wall Street has already cooled notably on the stock. At least half a dozen brokers have downgraded Intel since the beginning of September, according to data from Thomson Reuters, leaving only one-third of the broker base rating the stock as a buy.

Williams Financial analyst Cody Acree maintained a hold rating following the latest results, as he pointed to “the structural erosion of the health of the PC/notebook market that is not likely to improve anytime soon.” He portrayed Intel as being caught in a Catch-22 situation.

“This deterioration in Intel’s core business is likely to leave revenue relatively stagnant for the foreseeable future, while Intel is forced to spend heavily ... if it is to have any reasonable chance to reaccelerate growth in the out years.”

Intel can still bank on strengths in other arenas, including data centers, networking and emerging markets. But its business so dependent on the fate of PCs that the market slump has been negating some gains in other areas.

Driverless cars closer to reality

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Auto manufacturers such as Audi and Toyota are beginning to roll out advanced prototypes of vehicles that can drive themselves, adopting new technologies like self-parking, lane-departure correction and collision avoidance.

“Management has conceded that tablets are impacting PC sales with mobility becoming the top priority for consumers, even in emerging markets,” Charter Equity Research analyst Edward Snyder said in a note.

Intel has tried to rev up the PC market with ultrabook, a term coined by the company in reference to ultra-thin laptops that can compete with the Macbook Air. But Snyder noted that the new category “has largely gone ignored, despite the rollout of Windows 8.”

As a result, he added, “While sufficiently low expectations may set the stage for upside if an economic recovery materializes, we don’t believe investors have enough visibility into the company’s next big growth driver and consequently, won’t propel the stock higher near-term.”

Advanced Micro Devices AMD, +0.24% also saw its stock slide 10.2% to close at $2.46, hurt by Intel’s projection for continued weakness in the personal computer market.
