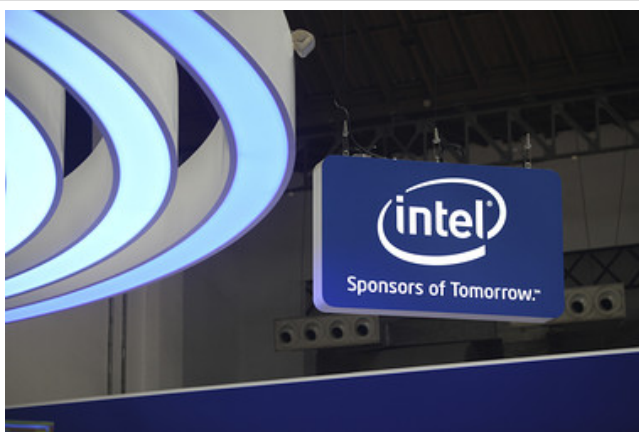


Intel outlook in question as PC sales fall

By [Dan Gallagher](#)

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SAN FRANCISCO (MarketWatch) — Intel Corp. is expected to report another drop in earnings and revenue on Wednesday, while some analysts are hoping the chip maker will also scale back its outlook given the slowing PC market.



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Intel Corp. is expected to report another quarter of lower sales and earnings on Wednesday afternoon.

Intel [INTC, -0.03%](#) will report results for the second quarter after the closing bell on Wednesday, along with its forecast for the rest of the year. Intel's shares were down a fraction to \$24.22 on Wednesday morning, ahead of the report.

That forecast may turn out to be the first real test of new CEO Brian Krzanich, who was named to the post on May 2. Investors will be looking for signs of the new chief's thinking about the fast-changing mobile computing market that has put the company's historic PC chip business under pressure, as consumers and businesses flock to tablets and smartphones and put off the purchase of new desktop and laptop devices.

A big worry right now is that Intel's current forecast for 2013 depends on some level of improvement in PC sales in the second half of the year — a prospect that many analysts find doubtful.

"We don't believe hybrid PC form factors will be a panacea for stagnating demand in legacy markets, and progress in mobile is probably several quarters away from making a material impact to consolidated results," Ed Snyder of Charter Equity wrote to clients on Tuesday.



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Intel CEO Brian Krzanich

For the second quarter, analysts expect Intel to report earnings per share of 39 cents on \$12.9 billion in revenue, according to consensus forecasts from FactSet. The company earned 54 cents per share on \$13.5 billion in revenue for the same period last year.

Snyder, who rates the stock as market perform, added that investors may be "eager to hear management's strategic vision for reviving revenue growth on Wednesday's call, but we don't expect anything monumental to surface." This will be the first call for Krzanich since taking the CEO job.

Sales of PCs fell 11.4% in the second quarter, and a record

13.9% in the first quarter, [according to data from IDC Corp.](#)

Device makers have been pushing out new products such as touch-enabled laptops, ultrabooks and laptop-tablet hybrid devices that run on the new Windows 8 operating system from Microsoft Corp. [MSFT, -0.37%](#) but those new devices have not sparked strong sales in the sector.

In the last quarterly report, [Intel maintained its revenue forecast](#) that called for a “low single-digit percentage increase” for the full 2013 fiscal year. The company launched its Haswell line of processors in the second quarter, and said on its last call that it believes the resulting new PC devices — along with a stronger economy — “leads to a return to growth in the second half of this year.”

But if second-quarter revenues come in line with the company’s guidance, it will have to see sales pick up more in the second half of the year to hit its target. Most analysts covering Intel have become skeptical of the company’s prospects in the core PC business; only 35% of the brokers covering the stock currently hold buy ratings, according to Thomson Reuters.

“We believe Intel’s guidance for seasonal growth in [the second half of] 2013 is at risk given continued softness in PC demand and its expectation of a normal seasonal [second half],” wrote Christopher Danley of J.P. Morgan in a report on Friday.

Danley noted that a similar discrepancy took place last year, forcing Intel to lower its outlook “multiple times” in the second half of last year. He rates Intel’s shares as neutral.

“Although we agree that macro conditions have improved, we do not expect Haswell to drive improvement in PC demand as there has not been a processor launch that has driven PC demand for well over a decade,” he wrote.

Two other closely watched metrics will be gross margin and capital expenditures, or capex. Intel projected gross margins of 58% for the second quarter, but expects the number to rebound to 60% for the full year. It cut \$1 billion from its capex plan last quarter and now expects to spend about \$12 billion for the year.

Dell vote too close to call

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David Benoit has new developments in the Dell buyout vote, including the possibility that it could be called off.

Kevin Cassidy of Stifel Nicolaus views Intel’s high level of capex spending “as necessary for expanding its lead in manufacturing process technology.” He rates the stock as a buy, on the view that margins will improve as fab facilities become more fully utilized.

“A Samsung tablet win and third party benchmarks tell us that Intel can start to take market share in the lower-cost and energy-efficient mobile markets,” Cassidy wrote.

But many believe Intel will be better off if it formally reduces expectations to give it more breathing room in a fast-changing market. Stacy Rasgon of Bernstein believes having a new CEO might afford Intel the opportunity to “reset the bar” on guidance, especially given that Wall Street’s current target for 2013 is implying flat revenue growth for the company.

“Continued bullishness into year-end would, in our view, represent a highly shortable event,” Rasgon wrote to clients

on Tuesday, maintaining an underperform rating on the stock.



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