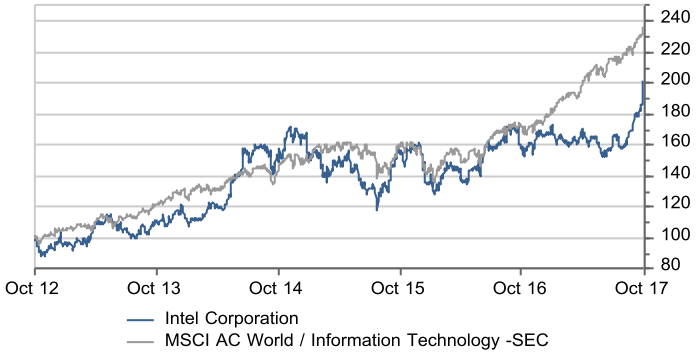
Intel Corp

Isin / FactSet Code	**US4581401001 / INTC-US**	Market cap (in EUR mn)	**178 587**	52-week high	**45.19**	Rating	**BUY**
Sector	**Information Technology**	Market cap (in local curr. mn)	**207 652**	52-week low	**33.23**	12-month target price	**48.00**
Industry	**Semiconductors & Semiconductor Equipment**	Local currency	**USD**	YTD return%	**22.33**	Last price (30/10/17)	**44.37**
Benchmark	**MSCI AC World / Information Technology -SEC**	Free-float	**100%**	12-month return%	**27.72**	Potential upside	**8%**

Investment Case:

- Intel has been shifting its focus from the mature PC segment (CCG) towards the faster growing data centre (DCG), memory and IoT segments. We expect DCG to be a key driver of Intel's medium-term EPS growth, considering its leadership position and increasing demand from the cloud and big data end-markets. The launch of products with higher selling prices such as the next generation Skylake (Xeon) and Broadwell processors should aid margin growth.
- Its acquisition of Mobileye (announced on 13 March) should allow Intel to take a leading share in the nascent autonomous driving market by positioning itself as a provider of end-to-end solutions.
- The Altera acquisition (completed in 4Q15) has strengthened Intel's position in the servers and communications end-markets. We expect PC margins to improve gradually, driven by the growing adoption of its high-end processors (Skylake) and ongoing restructuring efforts.
- Given Intel's solid execution and growth opportunities in the DCG, IoT and memory segments, we increase our target price to USD 48.00 (from USD 42.00), valuing it at FY18E P/E of 14.8x.

Five-year Performance vs. Benchmark (rebased to 100)



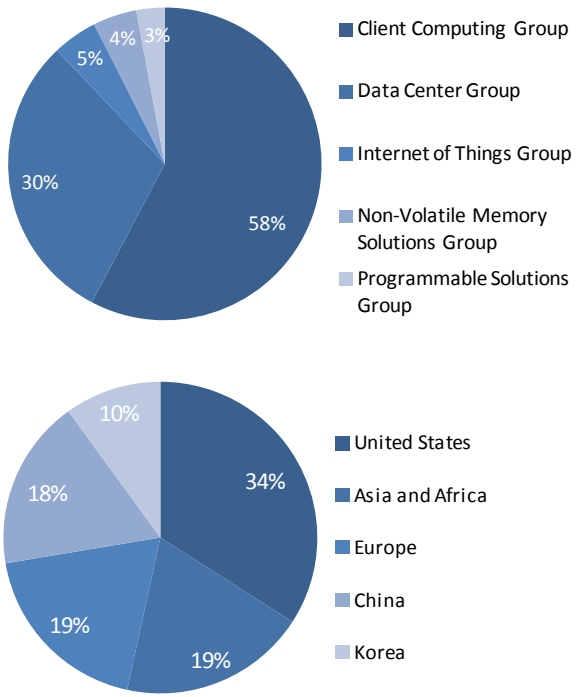
Sources: SGPB, FactSet

Company Description:

Intel is the world's largest integrated designer and manufacturer of semiconductors. It designs and manufactures microprocessors and chipsets for PCs, notebooks and data centre servers. It also manufactures embedded chips for the Internet of Things (IoT) end-market, as well as non-volatile memory products.

Revenue by Key Segments & Geographies: FY16

(FY ending December)



Sources: SGPB, FactSet

Recent Developments Analysis:

- Intel reported solid 3Q17 revenues of USD 16.1 bn (+6% YoY excluding McAfee) driven by a 15% growth in data-centric revenues (DCG, Memory, Altera and IoT). Non-GAAP gross margin of 63.9% (down 90 bps), was above guidance of 63%. Non-GAAP operating margin was up 250 bps to 34.8%, driven by a reduction in operating expenses (opex 29.6% of sales in 3Q17, down ~260 bps). Consequently, non-GAAP EPS was up 26% to USD 1.01. Revenue growth was driven by the memory (+37%), IoT (+23%) and DCG (+7%) segments, while CCG revenues remained flat.
- The management increased its FY17 revenue guidance to USD 62.0 bn (vs. USD 61.3 bn previously), driven by good momentum in the PC and memory segments. It also increased its FY17 EPS guidance to USD 3.25 (from USD 3.00). It expects the DCG segment to have a high-single digit growth in FY17 and margin improvement in the memory segment from 4Q17.
- Management expects to consistently achieve an opex/sales ratio of 30% by FY20. Revenues and margins from the DCG segment should improve in the near term driven by the production ramp-up of the high-margin next generation Skylake Xeon scalable server processors (launched in July 2017).

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Intel Corp

DESCRIPTION			VALUATION					GROWTH				PROFITABILITY			BALANCE SHEET		
FactSet Code	Company	Cap (mn€)	EV/EBITDA (e)		P/E (e)		Div. Yield	Sales Growth		EPS Growth		EBITDA Margin	Net Margin	ROE	Net Debt/ EBITDA		Net Debt/ Equity
			FY1x	FY2x	FY1x	FY2x	FY1%	FY1%	FY2%	FY1%	FY2%	FY1%	FY1%	FY1%	FY0x	FY1x	FY0x
005930-KR	**Samsung Electronics Co., Ltd.**	279 175	4.2	3.3	9.2	7.8	1.2	19.7	10.3	nm	18.4	32.1	17.1	19.6	-1.5	-0.9	-0.39
NVDA-US	**NVIDIA Corporation**	105 185	38.4	32.7	56.0	50.1	0.3	29.6	12.8	41.6	11.8	34.1	25.7	30.7	-1.8	-1.6	-0.69
TXN-US	**Texas Instruments Incorporated**	81 792	13.7	13.0	22.1	21.2	2.2	11.8	4.0	25.0	4.3	46.5	29.6	39.2	0.0	0.0	0.01
AMD-US	**Advanced Micro Devices, Inc.**	8 867	33.4	19.2	83.6	31.2	0.0	22.7	12.4	nm	nm	6.1	2.7	24.1	-0.5	1.3	0.41
		Average:	**22.4**	**17.0**	**42.7**	**27.6**	**0.9**	**21.0**	**9.9**	**33.3**	**11.5**	**29.7**	**18.8**	**28.4**	**-0.9**	**-0.3**	**-0.17**
INTC-US	**Intel Corporation**	178 587	8.4	7.9	13.7	13.7	2.6	4.4	2.7	18.9	0.2	42.9	25.3	21.3	0.4	0.6	0.12

na=Not available,nm=Not meaningful

Financial terms detailed in glossary

Sources: SGPB, FactSet

Risks To Our Investment Case:

- Intel derives over 50% of its revenues from the PC segment. A prolonged and significant downturn in the global PC demand, due to cannibalisation from mobiles/tablets, could lead to consensus earnings downgrades.
- The Mobileye acquisition could stress Intel's balance sheet and possibly lead to a reduction in the magnitude of its share repurchases, thereby partially offsetting the EPS accretion potential from the transaction.
- Revenue growth in Intel's most profitable segment (DCG) could be impacted by: (1) loss of market share in server microprocessors, due to competitive new offerings from peers (ARM and Advanced Micro Devices) and (2) a weaker-than-expected demand for enterprise servers, due to a cut in overall IT spends on global macro-weakness.
- Inability to drive a profitable growth in the non-volatile flash memory and mobile segments could be a significant headwind to Intel's earnings in the medium term.
- Significant strengthening of USD may adversely impact reported earnings growth.

Business Quality Review:

- Intel is a technology and market leader in the global PC and data centre server segments, which allows it to command premium pricing over competitors.
- Intel has consistently maintained its technology leadership and improved its margins and product performance by transitioning to smaller manufacturing nodes.
- Introduction of new chipsets such as the Nervana neural processor and Movidius Myriad should allow Intel to expand its presence in the Artificial Intelligence space in the medium term.

Dividend Policy:

- Intel offers a healthy FY17E dividend yield of 3.1%, higher than its peer group average of 1.9%. Its DPS has grown at an average annual rate of ~6.0% in 2011–16.
- Intel repurchased shares worth USD 1.1 bn and has ~USD 13.3 bn remaining as part of its existing repurchase programme.

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Financial Terms And Acronyms

BV (Book Value): is the total value of net assets of a company.

BV/S (Book Value Per Share): is the total value of the net assets of a company divided by the total number of outstanding shares.

C/I (Cost Income Ratio): is used for valuing banks. It shows a company's costs in relation to its income.

CAGR (Compound Annual Growth Rate): is a term used for the geometric progression ratio that provides a constant rate of return over a specific time period.

CAPEX (Capital Expenditure): is the fund used by the company to acquire or upgrade the physical assets such as property, industrial buildings or equipment. The most capital intensive industries include oil, telecom and utilities.

CAR (Capital Adequacy Ratio): is a measure of a bank's capital. It is expressed as a percentage of a bank's risk-weighted credit exposures.

CET I (Common Equity Tier I Ratio) : is a measure of the bank's common equity capital as a percentage of risk-weighted assets. It is generally compared to a defined benchmark stipulated by the regulatory authority to determine whether a bank is sufficiently capitalised.

COMBINED RATIO: It represents the total of acquisition and administrative expenses, and claims and insurance benefits incurred, divided by net premiums earned.

DIVIDEND PER SHARE (DPS): Dividend per share or DPS (total dividend paid out divided by the total number of shares) expressed as a percentage of current stock price.

EBIT (Earnings Before Interest and Taxes): profit before taking into account interest payments and income taxes.

EBIT Margin: Ratio that expresses EBIT as a percentage of total sales (EBIT/Sales*100)

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): profit before taking into account interest payments, income taxes and non-cash operating expenses (depreciation and amortisation).

EPS (Earnings Per Share): is the division of total net profit by the number of shares.

EQUITY is the difference between the value of the assets and the cost of the liabilities.

EV (Enterprise Value) is a measure of a company's value, often used as an alternative to straightforward market capitalisation. It is calculated as (market cap + debt + minority interest + preferred shares) − total cash − cash equivalents.

FCF (Free Cash Flow): represents the difference between operating cash flow and capital expenditures.

FFO (Funds from Operations): measures a REIT's operating performance. It is net income plus gains (minus losses) from property sale and purchase. FFO per share is often used in place of earnings per share when analysing REITs.

FY0: Realised year, **FY1**: Current unrealised year, **FY2**: next year, **FY17E:** Fiscal year 2017 estimation

GOODWILL: is an intangible asset that arises as a result of the acquisition of one company by another company for a premium value.

GROSS INCOME: gross profit calculated as a company's total sales minus its cost of goods sold (COGS) that corresponds to labour and production costs.

GROSS MARGIN: expresses gross income as a percentage of total sales.

LIKE FOR LIKE (LFL) GROWTH: is a measure of growth in sales, adjusted for new or divested businesses.

Loan-to-deposit (L/D) ratio: Loans/Deposits. This helps in assessing a bank's liquidity, lending capacity and balance sheet quality.

LTV (Loan-To-Value Ratio): is a financial term used to express the ratio of a loan to the value of an asset purchased.

NAV (Net Asset Value): is similar to book value and is also called per investment unit. NAV is the marked-to-market value of the company's property investments less liabilities.

ND (Net Debt): is calculated as a company's total debt minus cash and other similar liquid assets.

NET MARGIN: is a financial ratio which measures the profitability of the net income of a company.

NI (Net Income or Bottom Line): represents a company's total earnings (or profit) which is calculated by adjusting revenues for the costs, depreciation, interest, taxes and other expenses.

NIM: Net Interest Margin

NON-PERFORMING LOANS (NPL) RATIO: NPLs/Loans. This indicates the percentage of the loans that are non-performing or are in stressed segments.

OPERATING MARGIN: See definition of EBIT Margin.

ORGANIC GROWTH: is the growth rate that a company can achieve by increasing its output and enhancing sales, excluding any profits or growth from takeovers or M&A activities.

P/E or PER (Price Earnings Ratio): reflects the trading price of a share in relation to the expected earnings.

P/BV (Price To Book Value): expresses the share price with regard to the accounting value of the company.

PAYOUT RATIO: is the proportion of earnings paid out as dividends to shareholders and typically expressed as a percentage.

PROFIT WARNING: is the announcement made by the company before its earnings release indicating the investors that its earnings would not meet the analysts' expectations.

RWA (Risk Weighted Assets): is a measure of the bank's assets, weighted according to their risk. It involves the risk weighting of both on and off-balance-sheet exposures.

REVENUE GROWTH: Illustrates the growth of sales over a given period.

ROA (Return on assets): a financial ratio that is calculated as net income divided by total assets and shows how profitable a company is relative to its total assets.

ROC (Return on invested capital): a profitability ratio which is calculated as net income minus dividends divided by total invested capital.

ROE (Return On Equity): The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by disclosing how much profit a company generates with the money shareholders have invested.

TBV (Tangible Book Value): is the book value excluding intangible assets.

TBV/S (Tangible Book Value Per Share): allows to estimate the accounting value of a company by measuring its stockholders' equity per share. Formula: Re-valued Net Assets/Total Shares of Company.

WACC (Weighted Average Cost of Capital): also referred to as the firm's cost of capital, it is the rate that a company is expected to pay on an average to all its security holders to finance its assets.

WORKING CAPITAL: is the difference between a company's current assets and current liabilities and shows whether the company has sufficient short-term assets to cover its short-term debts.

Appendix

Investment Rating Definitions:

Buy Stock that is expected to outperform its MSCI sector index over a 12-month investment horizon.

Neutral Stock that is expected to perform in line with its MSCI sector index over a 12-month investment horizon.

Sell Stock that is expected to underperform its MSCI sector index over a 12-month investment horizon.

Restricted Covered stock that is not rated or assigned a target price as the Societe Generale group has a capital market transaction with that company.

Termination Stock is subject to be deleted from the SGPB recommended universe and will no longer be followed. In this case, a coverage termination alert is issued.

Recommended Universe Principle:

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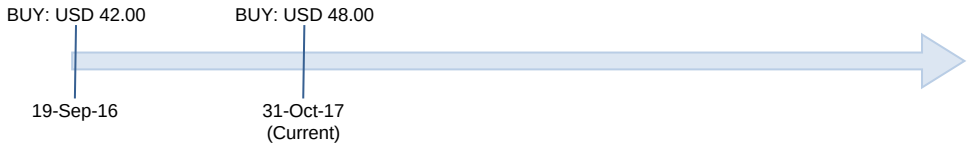
Product Risk Rating:

The product category of single equity, stock, share is rated at '4'.

In order to draw the attention of potential investors to the risk linked to each investment solution, Societe Generale Private Banking has ranked each product according to its own specific risk scale from the lowest risk (class 0) to the highest risk (class 4). The risk classification in 5 levels, is a Societe Generale Private Banking internal risk indicator. These internal indicators are based on the Value at Risk 95% 1 year (VaR). The VaR corresponds to the maximum amount that the portfolio being considered could lose in normal market conditions over a given period with a given probability (past performances and simulations of performance shall not be considered as a reliable indicator of future performance). If the VaR 95% 1 year is y%, this means that there is a 95% probability that the portfolio will not lose more than y% of its value in one year.

Risk Levels	Losses
0 - Lowest Risk	There is a 95% probability that the product will not depreciate in value in one year.
1 - Low Risk	There is a 95% probability that the product will not lose more than 5% of its value in one year.
2 - Medium Risk	There is a 95% probability that the product will not lose more than 15% of its value in one year.
3 - High Risk	There is a 95% probability that the product will not lose more than 30% of its value in one year.
4 - Highest Risk	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

1Y Target Price:



Equity Note Timeline: First disseminated: 29-Jun-16 | Last updated: 4pm Paris time, 31-Oct-17

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Risk Classification:

R0: Lowest Risk
R1: Low Risk
R2: Medium Risk
R3: High Risk
R4: Highest Risk

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Societe Generale S.A.
Share Capital: EUR 1,009,641,917.50 at 31 December 2016
Registered under # 552 120 222

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