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INTEL CORP. (INTC; 21.10)*

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Chip behemoth Intel has reported some good news recently. More precisely, the company announced March-period earnings per share of $0.56 on revenues of about $12.85 billion. These figures were markedly above our estimates and the stock reacted favorably following the announcement. The company benefited from solid results from enterprise customers (client and server products), healthy emerging markets comparisons, and the new Sandy Bridge rollout. Client personal computer sales increased double digits compared to the prior quarter, while servers slipped only modestly, both better than we had expected. Results were buoyed by a strong rebound in the corporate sector in the United States and the consumer segment in emerging markets. What's more, average selling prices trended higher for the sixth consecutive quarter (up 5%-7%), thanks largely to healthy client demand for Sandy Bridge and an emphasis on 3-tier products. Also worth noting, Intel increased its 2011 capital spending guidance from $9.0 billion to $10.2 billion, due to higher expected production at one of its fabrication plants.

The outlook for the June quarter is quite positive as well. Management believes that revenues will be $12.8 billion (plus or minus $500 million) during the interim. Although the midpoint represents a slight decrease from the March period, it is considerably above our $11.9 billion expectation. Additionally, the gross margin will probably be about 61%, slight narrower than the March period's 62%. All things considered, we consider this view as a positive, given that the June period is seasonally slow for the company.

As a result of the recent news, we have bolstered our full-year 2011 revenues forecast from $49.79 billion to $52.05 billion. In addition, we now look for share net of $2.20, $0.15 higher than our prior estimate. We believe that the company will continue to benefit from a strengthening domestic economy, which should ignite demand on both the consumer and corporate sides of the ledger.

The company has been augmenting its exposure to the mobile and tablet markets through acquisitions and new business wins, which represents a solid growth area, in our view. Moreover, we believe that acquisitions will continue to be a significant part of the equation moving forward. Intel recently purchased McAfee, a maker of security software, and Infineon's wireless unit. Though these purchases have pared the company's cash level to an extent, we think that Intel still has a very strong balance sheet, putting it in a position to make further acquisitions down the road. Competition in emerging markets may heat up, particularly in the tablet segment, but we feel this is a strong avenue for growth. Furthermore, Intel plans to ramp up to a .22-micron manufacturing process in December, at least a year ahead of its competition. This ought to give it an edge, with reduced manufacturing expenses and rising operating profits.

We recommend these shares as a core 3- to 5-year holding for investors seeking technology exposure. Despite the recent run-up in price, they continue to offer alluring capital gains potential for the pull to 2014-2016. The stock's Price Stability is very favorable compared to its semiconductor peer group.

A.H.

* The earnings estimates presented herein supersede the figures found in the Summary & Index included in Issue 9 of The Value Line Investment Survey, dated 4-22-11.

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