

Intel shares fall despite bullish PC prediction

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(AP) -- Investors don't seem to totally buy Intel Corp.'s proclamation that slumping personal computer sales have "bottomed out."

The [chip maker](#) posted first-quarter profit Tuesday of \$647 million, or 11 cents per share, that sailed past Wall Street's estimates. Analysts polled by Thomson Reuters were expecting 3 cents per share. [Sales](#) of \$7.1 billion also beat forecasts, even though both sales and profit were way down over last year, 26 percent and 55 percent, respectively.

The problem was sketchy guidance, which stirred fears that the tech turnaround Intel sees might not happen as fast as some investors hope.

Intel's stock fell 77 cents, or 4.8 percent, to \$15.24 in morning trading Wednesday. The earnings results were released after the [stock market](#) closed Tuesday.

Intel is predicting that revenue will stay flat from the first to second quarter. That's roughly in line with the \$7.01 billion analysts were expecting for the April-June period. Some analysts said they were impressed with the prediction, considering the troubled state of the economy and the fact that the first and second quarters are typically the roughest for chip makers. Back-to-school and holidays are usually boom times.

"This is an unseasonably strong result that they're guiding to, and I think people need to use that as the backdrop," said Doug Freedman, an analyst with Broadpoint.AmTech.

But some investors seemed unnerved that Intel wouldn't give more specifics. Intel said it wouldn't give a detailed revenue forecast because it's still too hard to accurately predict results in this environment.

One unknown is whether people are buying significantly more PCs, or whether Intel is mainly benefiting from computer makers replenishing their chip inventories, which had been whittled to low levels to save cash.

"The strength of end demand is not clear," Intel's [chief financial officer](#), Stacy Smith, said in an interview.

In a broad sense, Intel's outlook was relatively upbeat, given the uncertainty about the length and depths of the recession. As the world's largest semiconductor company, Intel's results help gauge demand for personal computers, and are a proxy for the health of overall technology spending.

When times are good, consumers and businesses buy more PCs, which leads PC makers to buy more of Intel's chips. When times are tight, PC makers clamp down, and Intel's sales fall. This recession is bearing that out: Computer sales fell slightly in the fourth quarter of 2008, according to market tracker IDC, the worst performance since 2002.

Intel's CEO, Paul Otellini, said Tuesday that that trend appears to be reversing, and that Intel believes "PC sales bottomed out during the first quarter and that the industry is returning to normal seasonal patterns."

Intel's report was notable because Intel is first technology company to report earnings for the first three months of 2009.

Intel owns about 80 percent of the world's PC microprocessor market, and has been stealing share from smaller rival Advanced Micro Devices

Inc. with the Atom chip. Atom is Intel's first microprocessor for "netbooks," which are mini-laptops that do less than regular laptops, but are very popular because they also cost less.

In the first quarter, Atom sales were down 27 percent quarter-over-quarter to \$219 million. Intel attributes the decline to netbook makers working through existing inventory.

Intel's laptop-chip division had sales of \$2.9 billion, down from \$3.7 billion last year. The group that makes processors for desktop PCs and servers saw its sales fall to \$4 billion from \$5.4 billion.

Intel said its profits were helped by a tax rate that was much lower than expected - 1 percent instead of the 27 percent that was forecast. The lower rate increased earnings per share by about two cents.

For the second quarter, Intel predicted a gross profit margin in the "mid-40s" as a percentage of revenue. Gross margin measures how much money a company makes once the cost of making its products is stripped out. It's particularly important for chip makers, which have heavy manufacturing costs.

Intel's gross margin in the first quarter was 45.6 percent. That was down from 53.1 percent in the fourth quarter - a sign that [Intel](#) is running its factories at less than full capacity to account for soft demand.

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