Cabot
TURNAROUND LETTER
Out-of-Favor Stocks with Real Value

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SAMPLE

Intel (INTC): Semiconductor Stocks Are Back in Fashion

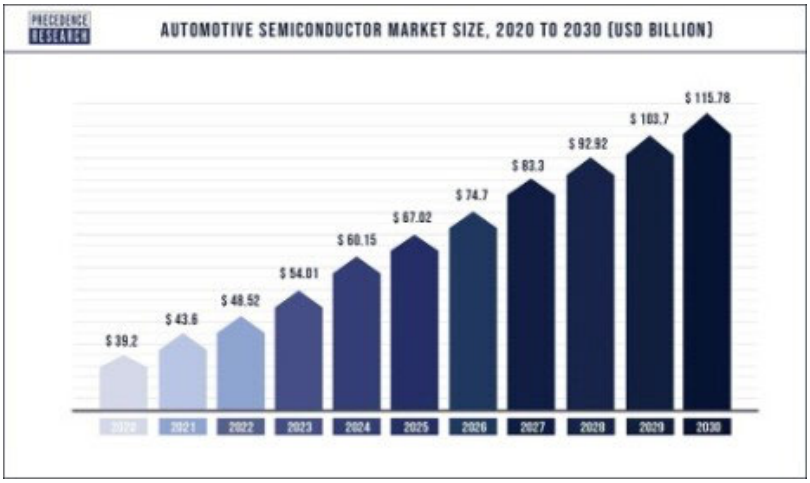
For much of the last two years, the white-hot semiconductor space was the industry group least likely to yield any meaningful turnaround candidates. But that dynamic changed following this summer's tech sector sell-off, which brought many of the previously high-flying chip stocks back to earth (or at least further away from the firmament).

As deep as the sell-off was for many of those names, it should come as no surprise that the broad chip stock correction was short-lived. After all, semiconductors are an integral component of every one of the key technologies involved in the artificial intelligence (AI) paradigm. And with the "digitization-of-everything" trend in full swing, it can truly be said that semiconductors make the world go 'round.

Indeed, semiconductors are an essential part of the AI infrastructure buildout since they provide the necessary processing power for AI-related tasks. And as a major industry group recently noted, the relationship between semiconductors and AI is a symbiotic one since (in its own words), "AI is driving the demand for more powerful semiconductors, while semiconductor technology advancements are enabling the development of more sophisticated AI applications."

Then there is the global push toward electrification (the so-called "electrification-of-everything"), which is providing an additional massive tailwind for companies that supply the semiconductors needed to power electric vehicles (EVs) and clean energy systems. These chips also help power sustainable energy grids, industrial automation and 5G and cloud infrastructure.

Further providing a boost for the sector in the foreseeable future are automotive applications: industry forecasts call for the automotive semiconductor industry to see revenues exceed $115 billion by the end of this decade—more than double last year's revenue total.

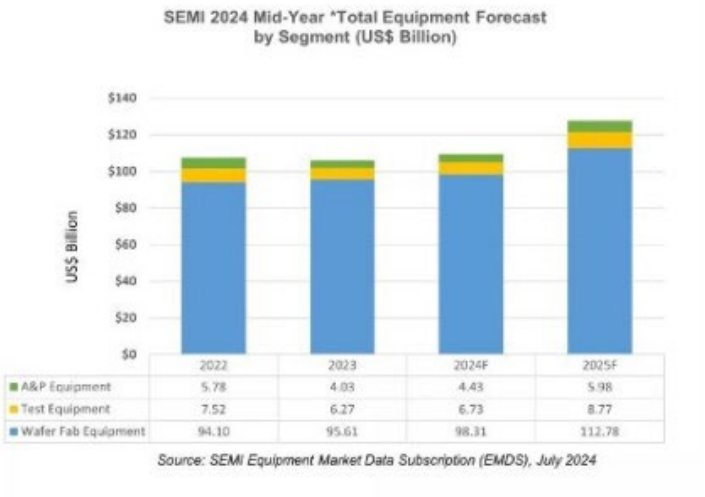


Yet another consideration is the reliance on semiconductors for the latest advances in healthcare technology. They serve as the central processing units (CPUs) used for data acquisition, analysis and transmission, and they're considered essential components in numerous medical devices.

Then there's the global memory market, which experts predict will double this year as cloud computing adoption increases and hard drives decline, providing chip makers with yet another significant tailwind going forward. Moreover, the memory chip market is expected to grow even more explosively next year, with revenues forecast to reach record highs.

And after contracting nearly 10% in 2023, the overall global semiconductor industry is expected to grow in the mid-teens percent for 2024, according to S&P Global. Revenue for the top 10 chip producers is expected to grow 24% by the first quarter of 2025, with the processor segment expected to see the fastest growth, while AI applications for graphics processors are also expected to be key demand drivers next year.

In support of this trend, the industry organization SEMI reports that global sales of total semiconductor manufacturing equipment by original equipment manufacturers (OEMs) are expected to set a new industry record this year, reaching $109 billion and growing 3% year over year, with the manufacturing equipment growth forecast to increase by an even more impressive 17% in 2025.



A final consideration is the possibility that, following the post-pandemic chip market glut, a semiconductor shortage may be on the horizon. According to S&P Global, key companies in the automotive and semiconductor industries have expressed concerns about a potential semiconductor shortage in the second half of 2025 or 2026. S&P Global writes:

"A significant number of investments are being funneled into the development and expansion of fabrication facilities capable of producing advanced nodes, such as 5 nm or 3 nm, and even smaller process technologies. This shift is driven by the demand for higher performance and energy-efficient chips, particularly in sectors such as consumer electronics, datacenters and high-performance computing.

"This has led to a relative underinvestment in mature process nodes, which are still crucial for industries including automotive, industrial and some consumer electronics. These mature nodes are essential for producing chips that do not require the high performance of advanced nodes but are critical for their reliability and cost-effectiveness."

Globally speaking, chip fabrication capacity is still a problem for many semiconductor companies—especially for mature process nodes ranging from 90 nm to 180 nm.

And owing to an increase in new EV launches in Europe next year, automotive chip inventory levels are projected to be conspicuously low by the end of this year. "Additionally," says S&P Global, "demand from other industries is rebounding, as evidenced by recent market data. This resurgence in demand could exacerbate the supply constraints for automotive chips."

All told, and in light of the favorable industry trends mentioned here, let's turn our attention to some of the attractive turnaround plays among the semis. These include stocks with both early-stage and mid-cycle turnaround potential.

Lam Research (LRCX) is a major provider of the equipment used by manufacturers of memory chips—including advanced dynamic random-access memory (DRAM) and NAND flash chips—but also has strong exposure to the white-hot artificial intelligence trend.

Lam's CFO, Doug Bettinger, recently told reporters that his company "has a large set of new customers in China that do not appear to be fading away any time soon, despite investor concerns over the region." He further stated, "This spending is not going to go away. When we talk to this set of customers, they all have roadmaps that go years into the future. They will provide demand for our products for years."

Wall Street analysts further believe NAND spending will strengthen next year, despite memory makers shifting capex dollars to DRAM. For 2025, Lam sees AI driving strong demand for GPUs and high-bandwidth memory, with other machine learning trends expected to drive demand for low-power DRAM and NAND. Analysts also see the company's revenue increasing 18% both this year and next.

Lattice Semiconductor (LSCC) specializes in making programmable chip devices for several key industries, but the auto space is where a big portion of its growth has come lately. The company's field programmable gate arrays (FPGAs) are used by automakers for video bridging, control systems and entertainment and infotainment systems. The story here is that FGPAs afford its customers tremendous flexibility in being able to custom design how they're used after buying them (which also quickly fills any gaps that might be caused by future supply-chain disruptions).

Beyond the auto sector, Lattice has seen strong demand for its products across several of its other end markets, including 5G network infrastructure and data centers. Additionally, software represents a growing portion of the firm's sales and investment as it allows customers to adopt Lattice products and get to market faster.

On the financial front, the company just reaffirmed its Q3 guidance, which calls for modest sequential sales growth following three quarters of double-digit sequential revenue declines, prompting a major Wall Street institution to upgrade the shares.

Microchip Technology (MCHP)—not to be confused with Micron Technology (see below)—specializes in microcontrollers and microprocessors for a variety of major industries. Like many of its peers, it suffered from a negative earnings reaction this summer, but the reaction was overdone in my estimation, and while a bottom hasn't yet been decisively established, I suspect it soon will be.

Part of the reason for Microchip's negative earnings reaction were tough comparisons to the year-ago quarter, but the comparisons look to become more favorable starting in Q3 and beyond. What's more, many analysts see what looks like a revenue trough for the company in Q2 and see notable sales growth from here.

Micron Technology (MU) is a leader in innovative digital memory chips and storage solutions—both of which are heavily used in the white-hot fields of electric and autonomous vehicle (EV and AV) manufacturing. Along with continued strength from cloud computing and data center markets (the current demand drivers), Micron believes AVs will be one of its top demand drivers in the years ahead as self-driving cars gradually become an everyday reality.

The firm also expects "accelerating AI-driven opportunities" for memory and storage across multiple market segments—particularly in the industrial sector, which Micron said is showing promise. The top brass further emphasized that overall chip market supply and demand fundamentals are improving, and it sees record chip industry revenue in 2025 as AI proliferates. For next year, the Wall Street consensus predicts top- and bottom-line growth of 63% and 630%(!), respectively, as Micron's leading-edge product pipeline continues filling the needs of the secular digitization trend.

RECOMMENDATIONS

Purchase Recommendation: Intel (INTC)

2200 Mission College Blvd.
Santa Clara, CA 95052
Web Site: www.intel.com

Symbol: INTC
Market Cap: $90 Billion
Category: Large Cap
Business: Semiconductors
Revenues (2024e): $52.4 Billion
Earnings (2024e): $1.1 Billion
9/24/24 Price: $22.60
52-Week Range: $18.50-$51.30
Dividend Yield: N/A
Price target: $37

Background:

Now that the dust has settled from this summer's semiconductor group decline, it's time we take a closer look at a stock we've been discussing in the last few weeks as an attractive longer-term turnaround candidate, namely **Intel (INTC)**.

The chip giant is regarded as one of the world's largest semiconductor chip manufacturers by revenue, and for the first time in years, it can now be regarded as something of a value play.

The Santa Clara-based company is known for its processors for the personal computer (PC) and enterprise server markets, while its Client Computing Group segment supplies PC processors and its Data Center Group segment serves enterprise customers, including cloud services providers. The remainder of Intel's offering comprises internet-of-things (IoT) products for industrial and healthcare markets, programmable semiconductors, memory and storage products, and more recently, technology for autonomous driving applications.

Analysis:

Intel first showed up on our radar when its stock fell hard in early August after second-quarter earnings disappointed Wall Street's expectations on both the top and bottom lines. The company ended up losing a quarter of its market cap after weak guidance, and a slew of analyst rating downgrades followed as sentiment dramatically weakened. On top of it all, Intel announced it would lay off around 15% of its staff, and it suspended the dividend.

The earnings-induced crash was accompanied by the highest single-day trading volume seen since the crash in early 2020 which suggested a capitulation moment on the part of the sellers. Moreover, around that time there was some very concentrated purchasing of long-dated call options on Intel in the wake of its crash, suggesting the "smart money" crowd was beginning to accumulate a new long position in the stock.

Intel has a number of potential turnaround catalysts going forward. Along with a recent $3 billion award it received under the Chips Act, the company is building foundries in several U.S. states, which will help advance its already sizable investments in the AI chip market.

Most recently, Intel announced a partnership with Amazon Web Services (AWS) to produce custom AI chips for AWS on 18A, Intel's most advanced process node—and a key part of its strategy to compete with other chip manufacturers.

The partnership is being touted as a major move to help customers power any workload while accelerating the performance of AI applications.

Intel will also produce a custom Xeon 6 chip on Intel 3 (a leading-edge process node from Intel Foundry that is designed to be a long-term solution for foundry customers). This is aimed at expanding the existing partnership between the two companies under which Intel produces Xeon Scalable processors for AWS.

Additionally, Intel earned nearly $20 billion in awards from the White House to subsidize its manufacturing capabilities. This is based on the U.S. government's need for an alternative to **Taiwan Semiconductor (TSMC)** in the event China decides to take over Taiwan and thereby reduce U.S. dependence on microchips from overseas. As a major Wall Street analyst recently noted, this puts Intel in a position to take market share away from TSMC by providing faster lead times compared to many of its overseas competitors, due to Intel's domestic production and shipping capabilities.

Even more intriguing was the latest overture from semiconductor giant **Qualcomm (QCOM)** which, according to a September 20 *Wall Street Journal* report, has approached Intel about a takeover. While such a deal is said to be "far from certain" and likely to attract close regulatory scrutiny from an antitrust perspective, Qualcomm is said to be interested in buying Intel's design business in an effort to improve its product line.

Moreover, Bloomberg has reported that Intel is interested in possibly splitting its foundry business or potentially shuttering certain factory projects as part of its turnaround plans. According to Seeking Alpha, "A split or sale of Intel's chip foundry unit would mark a major U-turn for CEO Pat Gelsinger, who thought the division would restore the company's standing among chipmakers."

But even if the deal with Qualcomm isn't approved by regulators, Intel has plenty of catalysts to power a turnaround, not the least of which is the ongoing AI boom. The deal with Amazon's AWS is also widely regarded by industry experts to be of greater significance than a Qualcomm deal, with some analysts projecting a realistic return to ~$10 billion in annual profits in the foreseeable future.

The consensus view on Wall Street is that Intel's top and bottom lines bottom out in Q3 and gradually recover from here, with triple-digit earnings growth projected for 2025. It's an intriguing early-stage turnaround play. **BUY**

Other Ratings Changes:

Our position in [redacted] continues to perform well, breaking out on robust trading volume in recent days while exceeding our conservative 90 a share target.

In company news (and partly accounting for the stock's recent strength), Alibaba released over 100 open-source AI models as its Cloud unit's annual flagship event, Apsara, got underway. The company also unveiled a new text-to-video tool based on its AI models.

According to a CNBC report, "The open-source models are based on the company's large language model, or LLM, Qwen 2.5, and are designed for use in areas including, automobiles, gaming and science research. The LLMs also have more advanced capabilities in math and coding."

After taking a one-quarter profit last week, the stock was changed from a Buy to a Hold. **HOLD**

I'm downgrading shares of [redacted] from a Hold to Sell. The stock was originally recommended by a former chief analyst last October, and shares have since been cut in half from last October's peak at 3 (current price 1.55). The shares look dead right now, and while a turnaround is always possible down the line, I don't see it happening any time in the foreseeable future. Accordingly, I'm cutting the dead weight from the portfolio as we're nearly finished with our cleanup operation. **SELL**

I've also decided to place [redacted] on a Sell. The stock was originally recommended by a predecessor last August, and while it went on to double in share price by February, it was allowed to remain in the portfolio for some reason during the long retracement that followed. The stock continues to sink, shows no sign of reviving anytime soon and frankly is at risk of being delisted on the Nasdaq. **SELL**

Performance

The following tables show the performance of all our currently active recommendations, plus recently closed out recommendations. You can find more details by visiting our website at cabotwealth.com.

The chief analyst of the *Cabot Turnaround Letter* does not yet personally hold shares of every company on the Current Recommendations List, but that will change over time subject to the following guidelines. The chief analyst may purchase securities discussed in the "Purchase Recommendation" section or sell securities discussed in the "Sell Recommendation" section but not before the fourth day after the recommendation has been emailed to subscribers. However, the chief analyst may currently hold and may purchase or sell securities mentioned in other parts of the *Cabot Turnaround Letter* at any time.

Recommendation	Symbol	Rec. Issue	Buy Issue	Current Price	Total Return	Current Yield	Rating and Target
[redacted]							

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Most Recent Closed-Out Recommendations

Recommendation	Symbol	Category	Buy Issue	Price At Buy	Sell Issue	Price At Sell	Total Return[3]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Notes to ratings:
1. Based on market capitalization on the Recommendation date.
2. Total return includes price changes and dividends, with adjustments as necessary for stock splits and mergers.
* Indicates mid-month change in Recommendation rating. For Sells, price and returns are as-of the Sell date.
** BNT return includes spin-off value in BAM shares.
*** GE total return includes spin-off value of GEHC shares at January 6, 2023 closing price to reflect our sale.
**** Indicates a partial sell.

The next *Cabot Turnaround Letter* will be published on October 30, 2024.

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