Will Intel slash outlook and jobs?

Analyst speculates chip giant could cut forecast again, reduce workforce

By Benjamin Pimentel, MarketWatch
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SAN FRANCISCO (MarketWatch) -- Shares of Intel Corp. rebounded to close higher Friday after an analyst with Friedman, Billings, Ramsey & Co. speculated that the chip giant could reduce its revenue outlook again and drastically slash jobs. Intel gained 4.1% to close at $13.29 after analyst Craig Berger said his recent checks indicate that the chipmaker could cut its workforce by as much as 10% amid mounting uncertainty in the tech market and the broader economy.

An Intel spokesman said the company has no comment.

In a related development, a Needham & Co. analyst also warned that semiconductor sales could decline by 16% year-over-year in 2009, citing "ongoing market turmoil."

Berger said Intel could also reduce its fourth-quarter sales target once again, especially after Advanced Micro Devices Inc. also cut its revenue outlook. Read story on AMD.

"Ultimately, we think the reduction in workforce could be to 6% to 7% [5,000 to 6,000 employees]," Berger said in a research note. "Also, we expect Intel to announce there will be no annual 'Focal' raises this year, and that its employee bonus payments, largely based on firm profitability metrics, will be down very meaningfully this year and in 2009."

Berger said these moves could help the Santa Clara, Calif.-based company save as much as $1 billion a year and add about 13 cents to its annual earnings per share.

The speculation comes about three weeks after Intel cut its sales forecast by roughly $1 billion to around $9 billion. The company cited a "significantly weaker-than-expected demand in all geographies and market segments" and a personal computer supply chain that is "aggressively reducing component inventories."

Intel is the world's No. 1 maker of personal computer microprocessors.
Berger said the credit crisis has had a severe impact on Intel's sales, particularly in Asia, a critical technology market, saying, "Asian distributors are depleting chip inventories below sustainable levels in order to hoard cash, as many Asian banks are not actively lending right now."

However, analyst John Dryden of Charter Equity Research said he didn't see Intel cutting its outlook again, but could "report a worse-than-expected quarter" next month. He said he expects Intel to report revenue "at the low-end of the preannouncement" or down 14% quarter-to-quarter.

"If management doesn't observe the order declines slowing by early-January, then the company will have to cut fixed expenses, in our opinion," he also said. But Dryden also added that he would not expect job cuts of more than 5% or 4,000 positions "in any initial round of cuts."

Analyst Rob Enderle of the Enderle Group said he thinks Intel will "resist cutting jobs for awhile, but cutting forecast is very likely and, eventually, they will have to cut overhead, including jobs, as well."

"I'm not expecting another staffing announcement until after the end of the year though," he added. "Typically firms try not to do these late in the fourth quarter to protect the employees, and it really makes the company look bad."

Meanwhile, a research note by Needham & Co. analyst N. Quinn Bolton projecting a 16% decline in chip sales in 2009 underscored the bleak state of the industry.

"Industry conditions have further deteriorated over the past month. We believe worsening macroeconomic conditions have further impacted consumer demand. Tight credit continues to impact the financial stability of smaller supply chain partners.

Bolton said he expects chip stocks to remain depressed through the first quarter of 2009 before sentiment improves in the second quarter."

Investors and analysts expect to get a clearer picture of chip demand next week when Texas Instruments Inc. issues a mid-quarter update on Monday. ■

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