

Intel Analysts See Mobileye IPO Rush as a Bad Omen: ECM Watch

By Drew Singer & Ryan Vlastelica / Bloomberg News / October 19, 2022

The decision by Intel Corp. to push ahead with the initial public offering of its self-driving technology unit at a much lower valuation than originally envisaged may presage more trouble ahead for the market, analysts said.

Intel was the worst performer in the Philadelphia Stock Exchange Semiconductor Index and the second biggest weight on the S&P 500 Index Tuesday, falling 2.1% after the company set terms for the highly anticipated IPO of Mobileye Global Inc.

Most other firms in the IPO pipeline have been trying to wait out this year's market turbulence, hoping for calmer times as soon as the first quarter of 2023. But a major offering opting to break from that approach and launch now reveals fears that future market conditions will instead get worse, analysts said.

"Going ahead with the IPO now at (what sounds like) any price they can get suggests Intel still believes doing it now is better than waiting," Bernstein analyst Stacy Rasgon wrote in a note.

Spokespeople for Intel did not respond to a request seeking comment. Mobileye's IPO terms target a valuation of about \$16 billion, compared with prior expectations that reportedly reached \$50 billion in 2021 and \$30 billion just a month ago. Intel paid \$15 billion for the unit in 2017.

"There is no benefit going to market right now unless you think things will get worse," said Rohan Kumar, a portfolio manager at Hood River Capital.

In addition to fears of even more challenging times to come, Intel may also need the cash to push ahead with its expansion plans.

"The lower price likely points to the fact that Intel still sees these levels as an attractive time to do the transaction given unknowns ahead and the need to use proceeds towards foundry expansion efforts/improving the balance sheet," CFRA analyst Angelo Zino wrote in a note. "Intel will keep majority ownership, but we question investor appetite."

Zino is one of at least 20 analysts with a hold or equivalent rating on Intel, according to data compiled by Bloomberg, compared with 12 buys and 13 sells. Other analysts agreed that Intel's aggressiveness signals negative sentiment for the IPO market in the months to come.

"Investors should approach with caution and extra due diligence this and any new issues being sold to them in this environment," said Jim Osman, founder of research firm The Edge Consulting Group. "There is a desperation trade about it."

Intel has lost about half its value this year, a steeper plunge than the 44% drop in the semiconductor index. The decline has threatened to take its market capitalization below \$100 billion for the first time since 2012.

But at the same time, the doldrums plaguing the IPO market might actually position investors for strong returns over a longer span, Hood River's Kumar added.

"For investors with a long enough time horizon, this could be a pretty attractive valuation," he said.

Intel reports third-quarter results after the market close on Wednesday. Results have consistently been a negative catalyst, with the stock declining following its reports in each of the past nine quarters, according to data compiled by Bloomberg.

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