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Intel Debt Issuance

Intel issued $6 bln of senior notes. $3 bln matures in 5 years (2017) and rate at 1.35%, $1.5 bln 10 years at 2.7%, and $750 mln 20 years at 4% and $750 mln 30 years at 4.25%. The co. will use proceeds for general operational usage and repurchase shares. The cost of debt is much cheaper than cost of equity, so they will have a better corporate cost of capital by locking in the low rates. Intel has a strong, healthy balance sheet with minimal leverage and ample cashflow to service the debt. The book runners, BOFA and JP Morgan, took a 0.375% cut, or $22.5 mln and the co. is issuing slightly under par, around 99.50%.

I personally wouldn't touch these securities since they are low yielding. What is an annual 1.35% for a 5 year hold? Also, there is no material appreciation for maturity, so YTW, as it is not a callable bond, is same as YTM. We wonder where rich individuals place their capital? If they put it in the bank where they receive less than 1% interest, on a real term basis, they are losing value. We wouldn't expect them to keep in a single bank, more than what is guaranteed by the FDIC. So if they have about 10 bank accounts, they could hand the cash with a certain sense of assurance for about $2.5MM, or 250k each bank. So the remaining cash, we imagine they would place in fixed income funds, which are generating at least 5%, with the possibility for appreciation, although the trade has nearly run its course, relative to the discounted prices last year when Europe's problems came to the forefront.

However, many investors are still willing to invest in these bonds, since they are yielding slightly higher spread (1.3%) versus comparable 5 Year Treasuries (0.6%), or a 0.7% spread, which is the premium for the Intel bond. Of course, there is entailed risk since it is a corporate entity and Treasuries are considered risk free. Individual investors are better off holding monthly distribution funds, where payments are received monthly. Let's assume a 6% annual distribution, or a monthly 0.5%. If the investor holds the bond for 3 months, they might be able to obtain a 1.5% return on a par investment, and keep the cash in a bank for the remainder of the year and still generate the same returns, if the exit is also at par.

Look at the paltry returns the Treasury securities are creating for the investors. All for conserving capital?

Date	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	20 yr	30 yr
12/03/12	0.13	0.10	0.14	0.18	0.25	0.34	0.63	1.05	1.63	2.37	2.80

It doesn't seem rational to be content with measly returns, for the sake of principal preservation. Could this be the differentiator between mediocre investors and Graham Doddville class investors? Would the elite investors be content with 1% returns in the name of principal preservation, or would they aggressively pursue multi-baggers? We think they would be in the latter group.