



HP Inc. (HPQ)

Updated September 1st, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	10.8%	Market Cap:	\$35 B
Fair Value Price:	\$36	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	09/07/21
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.4%	Dividend Payment Date:	10/06/21
Dividend Yield:	2.7%	5 Year Price Target	\$44	Years Of Dividend Growth:	10
Dividend Risk Score:	C	Retirement Suitability Score:	C	Last Dividend Increase:	10.0%

Overview & Current Events

Hewlett-Packard's story goes back to 1935 with two men in a one-car garage making a huge impact on electronic test equipment, computing, data storage, networking, software and services that has lasted for more than eight decades. On November 1st, 2015, Hewlett-Packard spun off Hewlett Packard Enterprise Company (HPE) – which was its enterprise technology infrastructure, software and services business – and changed its name to HP Inc. (HPQ). Today HP Inc. has centered its business activities around two main segments: its product portfolio of printers, and its range of so-called personal systems, which includes computers and mobile devices.

HP reported its third quarter (fiscal 2021) results on August 26. The company reported revenue of \$15.3 billion for the quarter, which slightly missed the analyst consensus estimate, but which was still up 7% from the previous year's quarter. The coronavirus crisis did not have an impact during the quarter any longer, unlike during parts of 2020, during which HP had to report declining revenues as customers chose to spend less on new equipment.

Non-GAAP earnings-per-share totaled \$1.00 per share during the quarter, which beat the analyst consensus estimate easily. Earnings-per-share were up by a massive 104% versus the prior year's quarter. The company currently forecasts earnings-per-share in a range of \$0.82 to \$0.88 for the fourth quarter, which would result in another sizeable year-over-year growth versus the same quarter during fiscal 2020. HP's consumer business has been strong in recent quarters, and with corporate customers increasing their spending again, it looks like 2021 will be a quite successful year for HP, especially since its cost-reduction efforts have led to improving margins. It is forecasted that earnings-per-share will hit a new record level this year, with management's earnings-per-share guidance range being \$3.56 to \$3.62.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	---	---	\$1.53	\$1.48	\$2.02	\$2.24	\$2.28	\$3.59	\$4.37
DPS	---	---	---	---	---	\$0.37	\$0.52	\$0.55	\$0.64	\$0.70	\$0.78	\$1.04
Shares¹	---	---	---	---	---	1,712	1,650	1,570	1,490	1,360	1,300	1,150

HP Inc. does not have a long history as a standalone company, as it was created just a few years ago. HP grew its earnings-per-share meaningfully between 2016 and 2020, while also ramping up its dividend payments during that time.

During the last couple of years HP's earnings-per-share rose thanks to a combination of growing net earnings and a declining share count, although the huge growth rate from 2017 to 2019 likely will not be replicated forever, as some one-time items such as tax law changes impacted results positively. HP is a leader in the printing and personal computing markets, but these are areas that face challenges as consumers continue to shift to mobile devices. The adoption of 3D printing could help, as HP is already entrenched in this industry, but so far the majority of profits are generated by traditional printers and printing products. Even without any meaningful business growth, corporations can still generate growth on a per-share basis using shareholder return programs. Through a rapid pace of share repurchases, HP has a good chance of growing its earnings-per-share meaningfully going forward, showcased by the reduction of around 20% in its share count between 2016 and 2020.

¹ In Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	---	8.3	12.0	11.3	8.0	7.9	8.1	10.0
Avg. Yld.	---	---	---	---	---	3.9%	3.0%	2.4%	3.6%	3.9%	2.7%	2.4%

The combined entity known as Hewlett-Packard used to trade hands at a low- to mid-teens earnings multiple. Since the split, something closer to 10 times earnings has been more typical for HP Inc., as investors are still waiting to see whether the legacy business can continue to evolve. We believe this is a reasonable multiple, given the combination of an unknown growth trajectory coupled with a solid operating business. Shares look undervalued at the current price, which should result in some total return tailwinds going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	24.2%	35.1%	27.2%	28.6%	30.7%	21.7%	23.9%

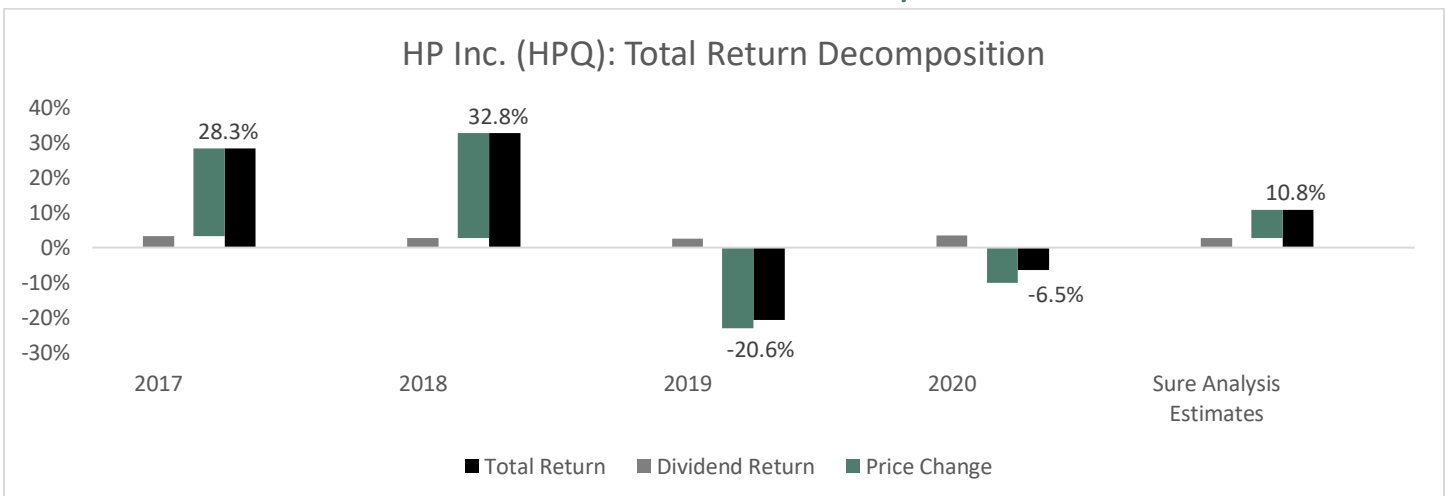
HP has grown its dividend repeatedly during the last couple of years, but there is no long-term data. The dividend looks quite safe today, as it is easily covered by both profits and cash flows. HP pays out a large amount of cash to its owners via share repurchases, which have been a major growth drivers for its earnings-per-share in the past. Share repurchases have been scaled back during the coronavirus crisis, but HP chose to still increase its dividend by 10% in November 2020.

HP enjoys competitive advantages as a leader in its two legacy businesses. The long-term viability of these markets is unknown to some extent, but for now HP owns a \$3+ billion annual underlying profit machine. HP could be a major beneficiary of consolidation in the industry, and thanks to its strong balance sheet and ample cash flows, it could easily become an acquirer of competing businesses. Things can change quickly in technology, so it makes sense for HP to have the resources available to buy its way into the next trend if there is a strategic fit.

Final Thoughts & Recommendation

There is a possibility that HP's legacy business may ultimately decline, but for the moment the company's profit generation is very solid. In addition, HP has ways to grow, both organically as well as via M&A. HP's shares are trading at an inexpensive valuation, and 2021 looks like it should be a strong year for the company. The coronavirus crisis will not impact HP going forward, and thanks to strong forecasted returns, we rate the stock a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	127245	120357	112298	56651	51463	48238	52056	58472	58756	56639
Gross Profit	29827	27972	25918	11220	9939	8998	9578	10669	11170	10437
Gross Margin	23.4%	23.2%	23.1%	19.8%	19.3%	18.7%	18.4%	18.2%	19.0%	18.4%
SG&A Exp.	13577	13500	13267	5361	4719	3833	4532	5099	5368	4906
D&A Exp.	4984	5095	4611	4334	4061	332	354	528	744	789
Operating Profit	11389	9289	8143	4432	3927	4412	3902	3424	3001	3940
Op. Margin	9.0%	7.7%	7.3%	7.8%	7.6%	9.1%	7.5%	5.9%	5.1%	7.0%
Net Profit	7074	(12650)	5113	5013	4554	2496	2526	5327	3152	2844
Net Margin	5.6%	-10.5%	4.6%	8.8%	8.8%	5.2%	4.9%	9.1%	5.4%	5.0%
Free Cash Flow	8100	6865	8409	8480	3423	2819	3275	3982	3983	3736
Income Tax	1908	717	1397	939	(186)	1095	750	(2314)	(629)	387

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	129517	108768	105676	103206	106882	28987	32913	34622	33467	34681
Cash & Equivalents	8043	11301	12163	15133	7584	6288	6997	5166	4537	4864
Acc. Receivable	18224	16407	15876	13832	4825	4114	4414	5113	6031	5381
Inventories	7490	6317	6046	6415	4288	4484	5786	6062	5734	5963
Goodwill & Int.	55449	35584	34293	33267	5680	5622	5625	6421	7033	6380
Total Liabilities	90513	85935	78020	76079	78731	32876	36321	35261	34660	36909
Accounts Payable	14750	13350	14019	15903	10194	11103	13279	14816	14793	14704
Long-Term Debt	30634	28436	22587	19525	8871	6813	7819	5987	5137	6217
Total Equity	38625	22436	27269	26731	27768	(3889)	(3408)	(639)	(1193)	(2228)
D/E Ratio	0.79	1.27	0.83	0.73	0.32	(1.75)	(2.29)	(9.37)	(4.31)	(2.79)

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.6%	-10.6%	4.8%	4.8%	4.3%	3.7%	8.2%	15.8%	9.3%	8.3%
Return on Equity	17.9%	-41.4%	20.6%	18.6%	16.7%	20.9%				
ROIC	10.7%	-20.9%	10.1%	10.3%	10.9%	12.5%	68.9%	109.2%	67.8%	71.7%
Shares Out.	---	---	---	---	---	1,712	1,650	1,570	1,490	1,360
Revenue/Share	59.80	60.97	57.59	29.63	28.03	27.68	30.59	35.78	38.55	39.89
CF/Share	3.81	3.48	4.31	4.44	1.86	1.62	1.92	2.44	2.61	2.63

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