



Hewlett Packard Enterprise Company (HPE)

Updated August 31st, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$13.65	5 Year CAGR Estimate:	8.0%	Market Cap:	\$17.7 B
Fair Value Price:	\$15.00	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	09/11/2022
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Dividend Payment Date:	10/07/2022
Dividend Yield:	3.5%	5 Year Price Target	\$17.39	Years Of Dividend Growth:	N/A
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

The Hewlett Packard Enterprise Company (commonly referred to as HPE) is an American multinational enterprise information technology company based in San Jose, California. The company is a business-focused organization with two divisions: Enterprise Group, which works in servers, storage, networking, consulting and support, and Financial Services. The \$17.7 billion company is a spin-off of the original Hewlett Packard company (NYSE:HPQ). The original HP Company has retained its personal computer and printing business, while the newly created Enterprise firm focuses on new technologies in the digital infrastructure.

On August 30th, 2022, HPE reported its Q3-2022 results for the period ending July 31st, 2022. For the quarter, revenues grew by just 0.8% year-over-year to \$6.95 billion. While the company's annualized revenue run-rate (ARR) rose to \$858 million, up 22% from the prior-year period, its core businesses' performance remained rather underwhelming. Specifically, "Compute" revenues were down 3% to \$3.0 billion from Q3-2021 while the "Storage" segment's revenues declined by 2% to \$1.2 billion. Financial Services revenue was \$817 million, also recording a 3% decline from the prior-year period. Non-GAAP EPS came in at \$0.48, one cent higher year-over-year, and within the previously provided outlook of \$0.44 to \$0.54 per share.

The company updated its prior guidance for the year ahead, estimating Q4-2022 GAAP diluted net EPS to be in the range of \$0.32 to \$0.40 and non-GAAP diluted net EPS to be in the range of \$0.52 to \$0.62. FY2022 GAAP diluted net EPS is expected to be between \$1.20 and \$1.28, and non-GAAP diluted net EPS to be between \$1.96 and \$2.04. This is lower from \$1.96 to \$2.10 previously, reflecting the unfavorable currency movements and constrained supply environment. We have utilized the midpoint of management's updated non-GAAP guidance in our estimates.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	\$1.14	\$0.91	\$1.36	\$1.84	\$0.21	\$1.25	\$0.78	(\$0.25)	\$2.62	\$2.00	\$2.32
DPS	---	---	---	---	\$0.22	\$0.26	\$0.38	\$0.45	\$0.48	\$0.48	\$0.48	\$0.58
Shares¹	---	1,804	1,804	1,804	1,715	1,646	1,529	1,353	1,294	1,309	1,305	1,200

The company's net income had been under pressure over the past few years, but EPS remained relatively stable amid massive buybacks. Management has seen share buybacks as a more efficient way to return capital to shareholders. Since the stock's valuation was constantly soft following the company's spinoff, it allowed for enormous stock repurchases. Since 2015, HPE has repurchased around 26% of its stock. As the company grows in Intelligence Cloud's ARRs, profitability and EPS growth should gradually rely less on its legacy segments and buybacks to grow. Between fiscal Q1 and Q3 of 2022, the company repurchased \$384 million worth of shares. However, due to the legacy divisions still weighing on the company's results lower, we retain our EPS growth estimate to 3% and our DPS growth estimate to 4%. We expect this growth to be powered by cost-cutting efficiencies, stock buybacks, and expanding gross margins. Gross margins were 34.5% in the most recent quarter, up 210 basis points sequentially, or stable year-over-year.

¹ Share count is 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	6.15	6.52	13.2	8.8	33.0	---	5.8	6.8	7.5
Avg. Yld.	---	---	---	---	---	3.4%	3.3%	2.8%	4.8%	3.2%	3.5%	3.4%

HPE's valuation multiple has hovered in the low single digits as its legacy products have been on a continuous decline, so its plan for the CaaS segment to be its sole method for turnaround holds significant risks. Therefore, it makes sense that the market has assigned a low P/E multiple, as the underlying financials have been undergoing several challenges. While the company's cloud division has been growing at a noteworthy rate, we maintain our target P/E of 7.5 due to the HPE's legacy divisions still accounting for more than half of total sales. Further, there are more attractive companies in the sector, especially when it comes to investing in the cloud, which has led to the humble attraction to HPE's shares.

Safety, Quality, Competitive Advantage, & Recession Resiliency

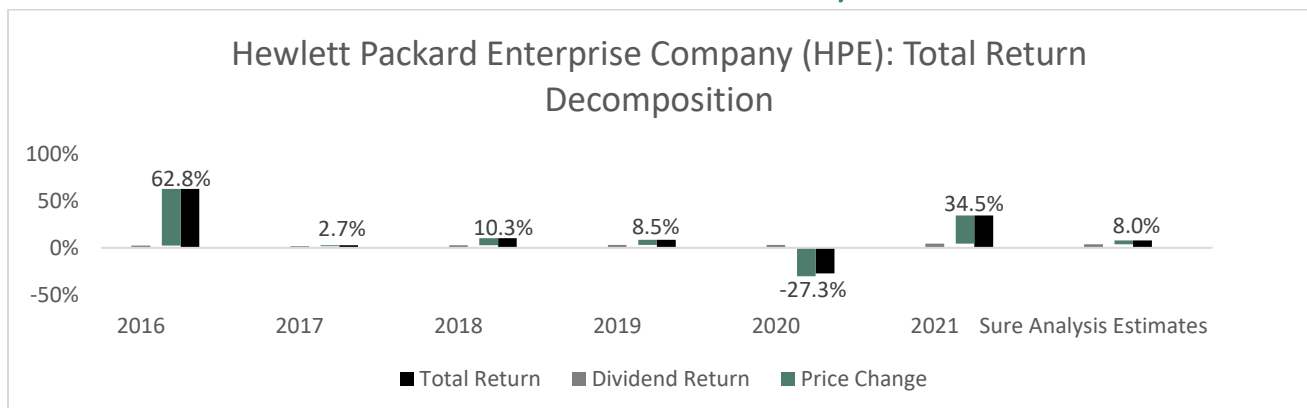
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	124%	30%	58%	---	18%	24%	25%

HPE's payout ratio remains safe, below 25%, based on the company's FY-2022 guidance. We consider the dividend to be reliable, as the company should prioritize suspending its stock repurchases when it comes to reducing capital returns. However, we find the overall company to be lacking resiliency, as its B2B model is subject to market cyclicality, and the company's non-cloud segments have been suffering as of lately. Corporate spending being reduced upon a potential recession should further harm HPE's bottom as its net margins are already pressured. We like the company's short-term success in digital infrastructure so far. However, the sector is brutally competitive with easy market entry and better-positioned players such as Microsoft Corporation (MSFT) and Amazon.com Inc. (AMZN) through AWS. Hopefully, HPE's computer servers segment will continue to be a staple in the cloud industry, giving management enough time to use these cash flows to catch up to the market with its cloud ventures, before earnings eventually decline. Overall, we see the company's future as speculative. HPE has to achieve both revenue revitalization and cost-management before investors' confidence improves.

Final Thoughts & Recommendation

HPE has a well-covered dividend and low valuation, but EPS has been primarily sustained through share buybacks in the past. HPE's growing cloud segment appears promising, but the sector holds several risks and is brutally competitive, making future success uncertain. Nevertheless, we project annualized returns of 8.0% in the medium-term, powered by HPE's dividend, our estimated growth rates, and a valuation tailwind. HPE earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	---	61042	57371	55123	31077	30280	28871	30852	29135	27780
Gross Profit	---	16899	15741	15637	10064	9773	8669	9231	9493	9376
Gross Margin	---	27.7%	27.4%	28.4%	32.4%	32.3%	30.0%	29.9%	32.6%	33.8%
SG&A Exp.	---	8678	8601	8717	5142	5380	5069	5016	4936	4929
D&A Exp.	---	4858	4396	4144	3947	3775	3051	2576	2535	2597
Operating Profit	---	4460	3956	3817	3017	2724	1786	900	2825	2179
Operating Margin	---	7.3%	6.9%	6.9%	9.7%	9.0%	6.2%	2.9%	9.7%	7.8%
Net Profit	---	(14761)	2051	1648	2461	3161	344	1908	1049	3427
Net Margin	---	-24.2%	3.6%	3.0%	7.9%	10.4%	1.2%	6.2%	3.6%	12.3%
Free Cash Flow	---	3765	6242	3291	317	1776	(1802)	8	1141	3369
Income Tax	---	447	820	596	(705)	623	(164)	(1744)	504	160

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	68775	65071	79916	79629	61406	55493	51803	54015	57700
Cash & Equivalents	---	2182	2319	9842	12987	9579	4880	3753	4233	3996
Accounts Receivable	---	12628	11397	10169	6410	6270	6474	6323	7180	3979
Inventories	---	2078	1884	2198	1720	2315	2447	2387	2674	4511
Goodwill & Int. Ass.	---	28882	28017	29191	16765	18558	18326	19434	19120	19330
Total Liabilities	---	30400	27899	45998	48111	37901	34219	34654	37919	37680
Accounts Payable	---	4335	4889	5828	4945	6072	6092	5595	5383	7004
Long-Term Debt	---	1675	1379	15794	15693	14032	12141	13820	15941	13450
Shareholder's Equity	---	37988	36776	33535	31448	23466	21239	17098	16049	19970
LTD/E Ratio	---	0.04	0.04	0.47	0.50	0.60	0.57	0.81	0.99	0.67

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	2.5%	3.4%	4.0%	0.5%	3.3%	2.0%	-0.6%	6.1%
Return on Equity	---	---	4.4%	7.0%	9.7%	1.3%	8.5%	5.5%	-1.9%	19.0%
ROIC	---	---	4.2%	5.6%	6.5%	0.8%	5.4%	3.3%	-1.0%	10.5%
Shares Out.	---	1,804	1,804	1,804	1,715	1,646	1,529	1,353	1,292	1330
Revenue/Share	32.66	31.42	30.19	16.94	17.41	17.25	19.87	21.33	20.85	20.89
FCF/Share	2.01	3.42	1.80	0.17	1.02	(1.08)	0.01	0.84	(0.11)	2.53

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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