HP Inc. (HPQ)

Updated March 9th, 2023 by Jonathan Weber

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	7.8%	**Market Cap:**	$28B
Fair Value Price:	$30	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	06/13/23[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	07/05/23[2]
Dividend Yield:	3.8%	**5 Year Price Target**	$34	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 first quarter (fiscal 2023) results on February 28. The company reported revenue of $13.8 billion for the quarter, which missed the analyst consensus estimate, and which was down 19% from the previous year's quarter. Unlike during previous quarters, HP did not benefit from a demand recovery for tech equipment from consumers and corporations any longer, and an economic slowdown hurt consumer sentiment and thus spending.

Non-GAAP earnings-per-share totaled $0.75 during the first quarter, which was in line with the analyst consensus estimate. Earnings-per-share came in at the middle of management's previous guidance range. The company currently forecasts earnings-per-share in a range of $0.73 to $0.83 for the second quarter, which would mean a small improvement versus the most recent quarter at the midpoint of the guidance range. Earnings-per-share hit a new record level in fiscal 2022, but it looks like the current year will be weaker again.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	$1.53	$1.48	$2.02	$2.24	$2.28	$3.79	$4.08	***$3.30***	***$3.83***
DPS	---	---	---	$0.37	$0.52	$0.55	$0.64	$0.70	$0.78	$1.00	***$1.05***	***$1.41***
Shares[3]	---	---	---	1,712	1,650	1,570	1,490	1,360	1,140	1,040	***1,000***	***900***

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 more than 30% in its share count between 2016 and 2022.

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[1] Estimated date
[2] Estimated date
[3] 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	8.3	12.0	11.3	8.0	7.9	8.2	6.9	***8.5***	***9.0***
Avg. Yld.	---	---	---	3.9%	3.0%	2.4%	3.6%	3.9%	2.5%	3.6%	***3.8%***	***4.1%***

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. Share have performed weakly over the last year, which is why shares look slightly undervalued at current prices, even versus our undemanding 9x earnings multiple target.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	24.2%	35.1%	27.2%	28.6%	30.7%	20.6%	24.5%	***31.8%***	***36.7%***

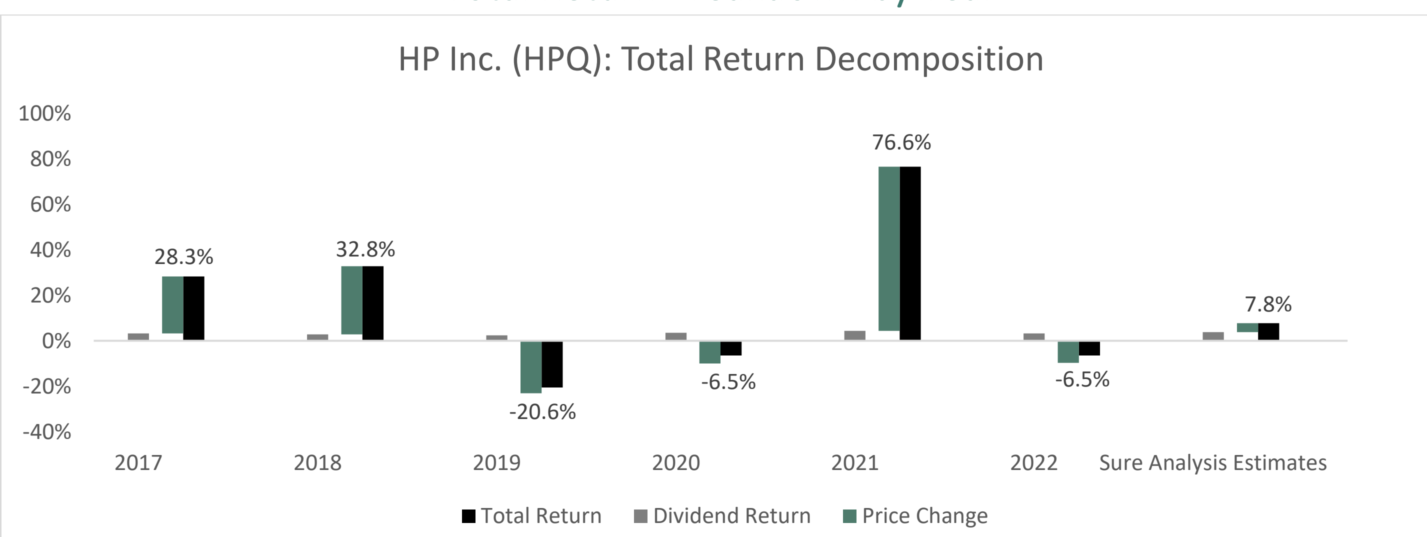
HP has grown its dividend repeatedly during the last couple of years, but there is no long-term data. The dividend looks quite safe today, as it is easily covered by both profits and cash flows. HP pays out a large amount of cash to its owners via share repurchases, which have been a major growth driver for its earnings-per-share in the past. HP decided to continue to raise its dividend during the pandemic, with dividend increases being announced in 2020 and 2021.

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 $4+ 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 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. 2023 will be a weaker year versus record year fiscal 2022, however. Due to solid but not great forecasted returns, we rate the stock a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	112298	56651	51463	48238	52056	58472	58756	56639	63487	62983
Gross Profit	25918	11220	9939	8998	9578	10669	11170	10437	13417	12335
Gross Margin	23.1%	19.8%	19.3%	18.7%	18.4%	18.2%	19.0%	18.4%	21.1%	19.6%
SG&A Exp.	13267	5361	4719	3833	4532	5099	5368	5120	5704	5264
D&A Exp.	4611	4334	4061	332	354	528	744	789	785	780
Operating Profit	8143	4432	3927	4412	3902	3424	3001	3727	5652	5249
Op. Margin	7.3%	7.8%	7.6%	9.1%	7.5%	5.9%	5.1%	6.6%	8.9%	8.3%
Net Profit	5113	5013	4554	2496	2526	5327	3152	2844	6503	3203
Net Margin	4.6%	8.8%	8.8%	5.2%	4.9%	9.1%	5.4%	5.0%	10.2%	5.1%
Free Cash Flow	8409	8480	3423	2819	3275	3982	3983	3736	5827	3672
Income Tax	1397	939	(186)	1095	750	(2314)	(629)	387	1008	1238

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	105676	103206	106882	28987	32913	34622	33467	34681	38610	38587
Cash & Equivalents	12163	15133	7584	6288	6997	5166	4537	4864	4299	3145
Acc. Receivable	15876	13832	4825	4114	4414	5113	6031	5381	5511	4546
Inventories	6046	6415	4288	4484	5786	6062	5734	5963	7930	7595
Goodwill & Int.	34293	33267	5680	5622	5625	6421	7033	6920	7587	10474
Total Liabilities	78020	76079	78731	32876	36321	35261	34660	36909	40260	41505
Accounts Payable	14019	15903	10194	11103	13279	14816	14793	14704	16075	15284
Long-Term Debt	22587	19525	8871	6813	7819	5987	5137	6217	7492	11014
Total Equity	27269	26731	27768	(3889)	(3408)	(639)	(1193)	(2228)	(1650)	(2918)
LTD/E Ratio	0.83	0.73	0.32	(1.75)	(2.29)	(9.37)	(4.31)	(2.79)	(4.54)	(3.77)

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.8%	4.8%	4.3%	3.7%	8.2%	15.8%	9.3%	8.3%	17.7%	8.3%
Return on Equity	20.6%	18.6%	16.7%	20.9%						
ROIC	10.1%	10.3%	10.9%	12.5%	68.9%	109.2%	67.8%	71.7%	132.3%	46.0%
Shares Out.	---	---	---	1,712	1,650	1,570	1,490	1,360	1,140	1,040
Revenue/Share	57.59	29.63	28.03	27.68	30.59	35.78	38.55	39.89	52.04	59.98
CF/Share	4.31	4.44	1.86	1.62	1.92	2.44	2.61	2.63	4.78	3.50