



HP Inc. (HPQ)

Updated June 11th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	3.4%	Market Cap:	\$35B
Fair Value Price:	\$31	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	06/28/24 ¹
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	07/03/24 ²
Dividend Yield:	3.1%	5 Year Price Target	\$36	Years Of Dividend Growth:	13
Dividend Risk Score:	C	Retirement Suitability Score:	D	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 second quarter (fiscal 2024) results on May 30. The company reported revenue of \$12.8 billion for the quarter, which beat the analyst consensus estimate, and which was down 1% from the previous year's quarter. This was slightly better than the revenue decline that HP experienced during the previous quarter, when revenues were down by 5% on a year-over-year basis.

Non-GAAP earnings-per-share totaled \$0.82 during the second quarter, which was ahead of the analyst consensus estimate. HP Inc. saw its operating margin improve over the last year. The company currently forecasts earnings-per-share in a range of \$0.78 to \$0.92 for the third quarter, which would mean a better result versus the most recent quarter at the midpoint of the guidance range. Earnings-per-share hit a new record level in fiscal 2022, but 2023 was a weaker year again. For the current year, HP forecasts earnings-per-share of around \$3.45.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	---	\$1.53	\$1.48	\$2.02	\$2.24	\$2.28	\$3.79	\$4.08	\$3.28	\$3.45	\$4.00
DPS	---	---	\$0.37	\$0.52	\$0.55	\$0.64	\$0.70	\$0.78	\$1.00	\$1.05	\$1.10	\$1.47
Shares³	---	---	1,712	1,650	1,570	1,490	1,360	1,140	1,040	1,000	980	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.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	8.3	12.0	11.3	8.0	7.9	8.2	6.9	7.9	10.4	9.0
Avg. Yld.	---	---	3.9%	3.0%	2.4%	3.6%	3.9%	2.5%	3.6%	4.0%	3.1%	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. Shares currently look slightly overvalued at current prices versus our 9x earnings multiple target, while the dividend yield is at a solid level of above 3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	24.2%	35.1%	27.2%	28.6%	30.7%	20.6%	24.5%	32.0%	31.9%	36.8%

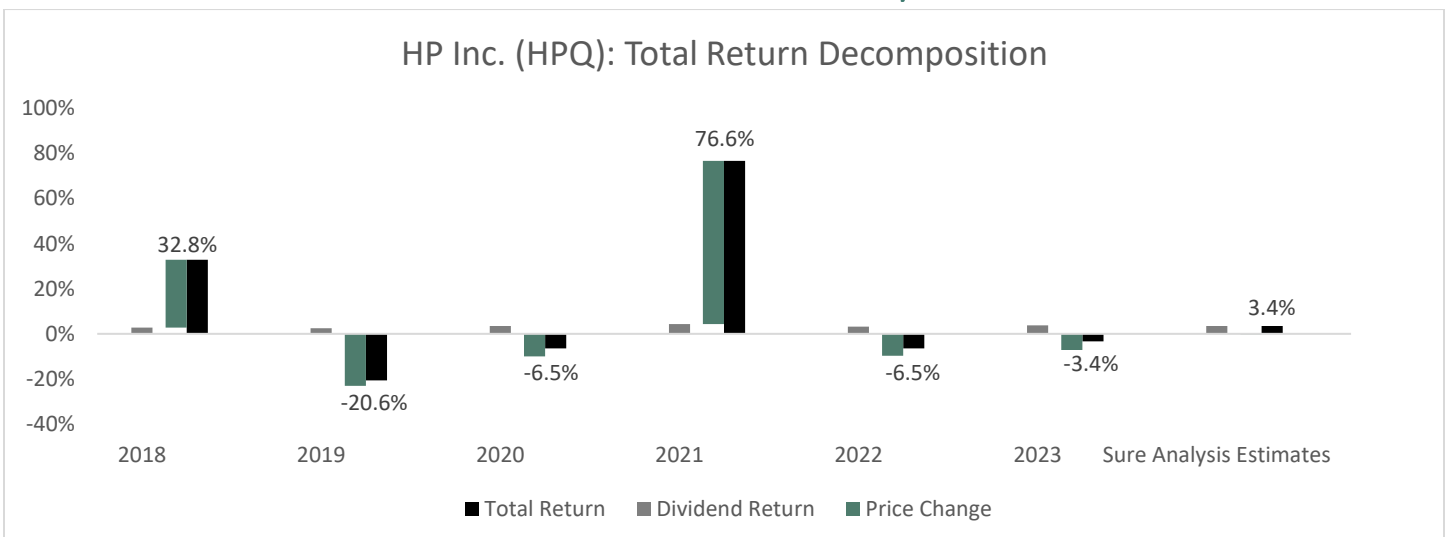
HP has grown its dividend repeatedly during the last several years, but there is no long-term data. The dividend looks quite safe today, as it is easily covered by both profits and cash flows. HP pays out a large amount of cash to its owners via share repurchases, which have been a major growth driver 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 slightly ahead of fair value. 2023 was a weaker year compared to record year 2022, but some profit growth is expected for the current year. Due to reasonable 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	56,651	51,463	48,238	52,056	58,472	58,756	56,638	63,460	62,910	53,718
Gross Profit	11,220	9,939	8,998	9,578	10,669	11,170	10,421	13,407	12,263	11,508
Gross Margin	19.8%	19.3%	18.7%	18.4%	18.2%	19.0%	18.4%	21.1%	19.5%	21.4%
SG&A Exp.	5,361	4,719	3,833	4,532	5,099	5,368	4,901	5,727	5,264	5,357
D&A Exp.	4,334	4,061	332	354	528	744	789	785	780	850
Operating Profit	4,432	3,927	4,412	3,902	3,424	3,001	3,931	5,678	5,117	4,223
Op. Margin	7.8%	7.6%	9.1%	7.5%	5.9%	5.1%	6.9%	8.9%	8.1%	7.9%
Net Profit	5,013	4,554	2,496	2,526	5,327	3,152	2,815	6,541	3,132	3,263
Net Margin	8.8%	8.8%	5.2%	4.9%	9.1%	5.4%	5.0%	10.3%	5.0%	6.1%
Free Cash Flow	8,480	3,423	2,819	3,275	3,982	3,983	3,736	5,827	3,672	2,962
Income Tax	939	(186)	1,095	750	(2,314)	(629)	396	1,027	1,192	(326)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	103206	106882	28,987	32,913	34,622	33,467	34,681	38,605	38,494	37,004
Cash & Equivalents	15,133	7,584	6,288	6,997	5,166	4,537	4,864	4,299	3,145	3,107
Acc. Receivable	13,832	4,825	4,114	4,414	5,113	6,031	5,381	5,536	4,546	4,237
Inventories	6,415	4,288	4,484	5,786	6,062	5,734	5,963	7,930	7,614	6,862
Goodwill & Int.	33,267	5,680	5,622	5,625	6,421	7,033	6,920	7,587	10,474	10,184
Total Liabilities	76,079	78,731	32,876	36,321	35,261	34,660	36,909	40,249	41,519	38,073
Accounts Payable	15,903	10,194	11,103	13,279	14,816	14,793	14,704	16,075	15,303	14,046
Long-Term Debt	19,525	8,871	6,813	7,819	5,987	5,137	6,217	7,492	11,014	9,484
Total Equity	26,731	27,768	(3,889)	(3,408)	(639)	(1,193)	(2,228)	(1,644)	(3,025)	(1,069)
LTD/E Ratio	0.73	0.32	(1.75)	(2.29)	(9.37)	(4.31)	(2.79)	(4.56)	(3.64)	(8.87)

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.8%	4.3%	3.7%	8.2%	15.8%	9.3%	8.3%	17.9%	8.1%	8.6%
Return on Equity	18.3%	16.5%	20.6%							
ROIC	10.3%	10.9%	12.5%	68.9%	109.2%	67.8%	71.0%	133.0%	45.3%	39.8%
Shares Out.	---	---	1,712	1,650	1,570	1,490	1,360	1,140	1,040	1,000
Revenue/Share	29.63	28.03	27.68	30.59	35.78	38.55	39.89	52.02	59.91	53.72
CF/Share	4.44	1.86	1.62	1.92	2.44	2.61	2.63	4.78	3.50	2.96

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