

Investment ideas. Stocks.

International Business Machines Corporation (IBM US) is one of the oldest integrated technology corporations serving clients globally. It is one of the world's largest producers and providers of hardware and software systems, as well as IT and consulting services.

Company	IBM
Ticker	IBM US
Capitalization, \$ million	138,833
EV, \$ million	198,267
Dividend yield	4.1%
Entry level, \$	153.82
Current price, \$	156.76
Result	2%

Source: Bloomberg

Key investment attractiveness factors

- 1) **Good finance performance for Q4 2019.** Revenue amounted to \$21.8 billion exceeding the previous year's figure by 0.1%. Net profit was \$3.67 billion, as compared to \$1.95 billion in the previous year, and EPS was \$4.71 non-GAAP and \$4.11 GAAP, accordingly. The company's annual net income in 2019 was \$9.43 billion, as compared to \$8.73 billion in 2018.

Acquisition deal with Red Hat in summer affected the results. Nonetheless, the company decreased its debt by \$10 billion by the end of reporting period. Its free cash flow is at \$6 billion, which is a very good level for this indicator. Take-Two shares drop was completely offset the next day. By the way, in the case of McDonald's, its CEO Steve Easterbrook being fired because he had a consensual relationship with a subordinate had a similar effect. MCD stock dropped almost 3% momentarily, but then returned to previous levels as soon as a day later.

Not willing to risk the day before publication of reporting (in anticipation of an unpleasant surprise), I sold a half of the lot securing profit at about 4.5%. An excellent result for an incomplete trading session!

- 2) **Fairly good dividends and undervaluation for P/E.** IBM offers dividends at \$1.62 per share, which gives dividend yield at 4,1%. This is a comparatively good level. Additionally, worthy of note is the company's being undervalued with reference to P/E multiplier: this ratio for IBM is the lowest in the sector, which is a good reason to assume that the company's stock price may grow ahead of the rest of the market.

Risks. Global economy slowing down, possible resumption of trade war with China, and tight competition in the market.

Financial highlights, \$ million	2019	2020P*	2021P*	Change, %
Revenue	77,147	79,052	80,455	2%
Gross profit	36,488	38,978	40,112	3%
EBITDA	15,954	18,483	19,552	6%
Net profit	10,093	11,944	12,739	7%
EPS	11.31	13.37	14.17	6%
<i>Gross margin</i>	47%	49%	50%	1%
<i>EBITDA margin</i>	21%	23%	24%	1%
<i>Net margin</i>	13%	15%	16%	1%
Debt burden, \$ million	2018	2019	2020P*	Change, %
Gross debt	39,551	68,158	68,158	0%
Cash	11,997	8,868	8,868	0%
Net debt	27,554	59,290	59,290	0%
Net debt/EBITDA	1.7	3.2	3.0	-5%
Benchmarking against similar companies	Country	P/S	EV/EBITDA	P/E
INTEL	USA	4.1	8.2	15.2
ACCENTURE	Ireland	3.1	15.3	28.6
SAMSUNG	South Korea	1.4	8.8	20.8
NEC	Japan	0.4	6.7	15.7
MICROSOFT	USA	10.5	18.3	34.1
ORACLE	USA	4.7	12.0	17.4
Weighted average		4.0	11.5	22.0
IBM	USA	1.8	10.7	11.6
Discount/(premium)		129%	7%	89%

*P – Projection

Source: Bloomberg

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