

**May 2021. Investment ideas. Stocks.**

**Harmonic Inc. (HLIT US)** is a U.S. technology company from networking equipment sector. Harmonic Inc. designs, manufactures, and markets digital and fiber optic systems enabling cable, satellite, and wireless operators to deliver video, Internet, telephony, and high-speed data services. Purchase to the “Aggressive” portfolio at \$8.01. Portfolio share 3%. The idea has been assigned HIGH RISK status.

Company	HARMONIC
Ticker	HLIT US
Sector	Network equipment
Capitalization, \$ million	820
EV, \$ million	887
Dividend yield	-
Entry level, \$	8.01
Current price, \$	7.08
Result	-11.6%

*Source: Bloomberg*

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**Key investment attractiveness factors.**

1) **Good Q1 2021 results.** Harmonic presented its financial statements for the 1<sup>st</sup> quarter of 2021 yesterday. Its year-on-year revenue increased by 42%, quarter’s EBITDA amounting to 9.1 million as compared to \$7 million loss a year earlier. Adjusted net profit was \$4.5 million, compared to \$9.8 million loss in the previous year. We assess Harmonic’s performance as strong. In line with our expectations, it exceeded market’s expectations substantially, especially for net profit.

2) **Strong operating results: number of orders grew significantly as shown by quarter’s results.** CableOS was deployed with 53 new business segment customers, 96% more than in the preceding year.

Harmonic's CableOS deployments now serve about 3 million cable modems, up 127% year-on-year. This trend may continue in future periods according to our expectations.

**3) Substantial undervaluation by P/S.** Harmonic is a small market cap company and, therefore, in our view, benchmarking by such multipliers as EV/EBITDA or P/E would not be too representative and might impair the final score. The company went profitable rather recently, so benchmarking by P/S would make more sense. We see a substantial growth potential with Harmonic here. The discount compared to benchmarks with reference to forward multiplier is about 113% in 2021.

**Risks.** First, high trading volatility for this stock. According to Bloomberg, 12-month beta index is about 1.5x. This means, in case of abrupt movements in the market, this stock is as likely to rise high as to plunge sensibly. Second, it is overbought with reference to EV/EBITDA and P/E multipliers. This is a secondary factor though, as we wrote earlier.

Financial highlights, \$ million	2019	2020	2021P*	Change, %
Revenue	403	379	458	21%
Gross profit	224	196	240	-
EBITDA	47	15	46	203%
Net profit	6	-16	23	-241%
EPS	0.06	-0.17	0.21	-227%
<i>Gross margin</i>	<i>56%</i>	<i>52%</i>	<i>52%</i>	<i>1%</i>
<i>EBITDA margin</i>	<i>12%</i>	<i>4%</i>	<i>10%</i>	<i>6%</i>
<i>Net margin</i>	<i>1%</i>	<i>-4%</i>	<i>5%</i>	<i>9%</i>

Source: Bloomberg

Debt burden, \$ million	2019	2020	2021P*	Change, %
Gross debt	173	175	168	-4%
Cash	93	99		2%
Net debt	80	76	67	-12%
Net debt/EBITDA	1.7	5.1		-71%

Source: Bloomberg

Benchmarking against similar companies, 2021P*	Country	P/S	P/BV	P/E
CISCO SYSTEMS	USA	4.4	10.9	15.8
ERICSSON	Sweden	1.6	9.4	19.2
CORNING	USA	2.7	11.3	20.4
MOTOROLA	USA	4.0	15.0	21.4
NOKIA	Finland	1.0	7.6	17.7
ARISTA	USA	8.8	19.8	29.3
F5 NETWORKS	USA	4.2	12.1	17.1
<b>Weighted average</b>		<b>3.8</b>	<b>12.3</b>	<b>20.1</b>
<b>HARMONIC</b>	<b>USA</b>	<b>1.8</b>	<b>19.5</b>	<b>36.2</b>
<i>Discount/(premium)</i>		<i>113%</i>	<i>-37%</i>	<i>-44%</i>

\* P = Projection

Source: Bloomberg

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