Hewlett-Packard - STRONG BUY

Excellent results again

Hewlett-Packard presented excellent Q4 2013 results. The quarterly results are the fourth out of the past five financial statements that beat consensus. This supports confidence in the management’s turnaround of the company. We see the case as intact and with a quant score of 7.0, we repeat our STRONG BUY recommendation.

Revenue much better than expected

Revenue for Q4 was USD 29.1bn – USD 1.3bn above consensus, corresponding to a decline (y/y) of 1.5%. It is notably revenue in HP’s hardware divisions (Printer, PC and server) which surprises to the upside. The reason behind is that HP has won market share.

EBIT for the quarter of USD 2.614bn was less positive, corresponding to a decline (y/y) of 16%. Growing price pressure coupled with a less favourable sales mix and revenue decline are the main reasons. HP guides that earnings will stabilise in 2014 and grow again in 2015.

Strong cash flow and debt reduction

The free cash flow for the quarter was USD 2bn and USD 9.1bn for the full year. HP has during 2013 used its strong liquidity to pay back a total of USD 5.7bn. This is reflected in the leverage which has declined by 0.4x to 1.4x.

Results confirm our case

In our view, the case is proceeding as expected. HP continues to present pleasant surprises, which strengthens our confidence that Meg Whitman’s turnaround of the company is effective. At the same time, debt is tumbling down and so is the leverage. With a Quant score of 7.0, we restate our STRONG BUY recommendation.

Bond information

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<thead>
<tr>
<th>Quant score</th>
<th>ISIN</th>
<th>US428236BV43</th>
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<tbody>
<tr>
<td>Rating</td>
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<td>Yield to worst</td>
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<td>Price</td>
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<td>Min. Piece</td>
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This company was selected on the basis of Jyske Quant (V). Jyske Quant (v) is a model that rates corporate bonds based on a string of factors. In that way, the model comes up with a total score that indicates whether the bond is currently a good investment or not relative to the market.

This is a complex product
Overview

Company profile
With annual sales of USD 123bn Hewlett-Packard (HP) is one of the world’s largest technology companies. HP offers a string of hardware, software and IT services solutions including: PCs, printers, servers, data storage systems, infrastructure software and outsourcing. HP is the world’s largest company in the PC market with a market share of 16.7% (Q4 2012) and is either No. 1 or No. 2 in its other markets.

Revenue by segment

Debt maturity profile and capital structure

Adjusted net debt and leverage*

Covenants
- Ranking: senior debt (unsecured)
- Make whole clause applying from the time of issue of 40 bp
- Raising of new debt: no limitations
- Etc.

Investment case
- Quant score of 7.0 and an attractive yield.
- Budding signs of improvement strengthen our confidence that CEO Meg Whitman’s turnaround plan will be successful
- HP is currently reducing its debt significantly to strengthen its credit profile and ensure its credit rating, which we consider positive for the bond.
- Diversified business with large parts of earnings and sales from stable business areas
- HP has a solid liquidity position

Price triggers
- Strong results increasing confidence further that HP is on the right track
- Sustaining improvement of HP’s profitability
- Return to organic growth in sales
- Stabilisation of rating outlook (currently Negative)
- HP continues winning market share

Risk factors
- HP can take up new debt that will be ranked higher than the bond
- HP may be acquired through an LBO, which will raise the risk of the bonds considerably
- Meg Whitman does not succeed in getting HP back on track
- The sale of divisions or debt-financed acquisitions
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Jyske Bank’s corporate bond recommendations - current breakdown

Breakdown of recommendations, corporate bonds (number)

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Number</th>
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<tr>
<td>STRONG BUY</td>
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<td>BUY</td>
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Source: Jyske Bank
Financial models
Jyske Bank models the expected development of the analysed company’s income statement and balance sheet. A number of key figures for the company is calculated on the basis of these models, and the key figures are compared with those of comparable companies and the company’s past performance. From this we infer the spread at which the bonds will trade for the period ahead. The recommendation and the price target are moreover adjusted for the expected news flow and the market sentiment based on knowledge of the industry and company-specific circumstances. Jyske Bank’s recommendations take into account the expected development in the corporate-bond market, the various sectors and company-specific circumstances.

Risk
Investment in this corporate bond is associated with risk. The risk can be measured directly via the spread at which the bond trades relative to a ‘risk free’ investment with the same maturity. The spread reflects the probability of default, the recovery rate, and the liquidity of the corporate bond. Movements in the credit market, the sector and/or news flows, etc. regarding the company may affect the price of the bond. See the front page of the research report for our view of the risk associated with the corporate bond. The risk on the corporate bond is stated as Very Low, Low, Medium, High or Very High and is relative to the high-yield market for corporate bonds. The risk factors stated and/or calculations of sensitivities in the research report are not to be considered all-encompassing.

If the corporate bond is denominated in a currency other than the investor’s base currency, the investor accepts an FX risk.

Update of the research report
The planned update of the report will be prepared immediately upon the release of the company’s financial statements. In addition, there may be prepared research reports on special themes specifically for the company or research reports where the company is part of the special theme. These research reports are published on an ad-hoc basis.

See the front page for the initial date of publication of the report.

The prices stated are the latest prices quoted by Jyske Bank before the publication of the research report, unless otherwise stated.

Recommendation concepts
Our recommendations are based on market developments and an assessment of the expected return within the next twelve months. A BUY recommendation or a Strong BUY recommendation is based on expectations that investment in the bond will generate a return above that of the general corporate-bond market. On the other hand, a SELL recommendation implies that we expect investment in the bond to generate a return below that of the general corporate-bond market.

Since our recommendations are relative and risk-adjusted, it is possible to compare our recommendations across sectors and risk categories. In addition, the potential is stated in absolute terms via our return target.

The future and historical returns estimated in the research report are stated as returns before costs and tax-related circumstances since returns after costs and tax-related circumstances depend on a number of factors relating to individual customer relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors. It is not certain that the bond will yield the stated expected future return/s. The stated expected future returns exclusively express our best assessment.
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