Stock Pitch – Sohaib Ali

Stock: Hewlett-Packard Enterprise (NYSE: HPE)

Business Overview: HPE is a global technology company that offers a wide range of products and services designed specifically for businesses, focusing on hybrid IT, edge computing, and cloud solutions. Founded in 2015 as a spin-off from Hewlett-Packard, HPE is dedicated to helping organizations accelerate digital transformation through innovative solutions and a broad portfolio that includes servers, storage, networking, and software. The company adopts a subscription-based, as-a-service model to provide flexibility and scalability for its customers, positioning itself as a leader in the rapidly changing technological landscape. With a strong focus on sustainability and operational efficiency, HPE serves a wide range of industries, helping organizations optimize their IT infrastructure and improve overall effectiveness.

Thesis: HPE is significantly undervalued, trading at a discount to peers and historical multiples. The undervaluation is a function of a market that has yet to give HPE credit for its successful pivot to an edge-to-cloud solutions leader, with a particular focus on the high-growth AI infrastructure space. Several factors underpin this thesis:

1. **Strong Growth in Key Areas**: Hewlett-Packard Enterprise (HPE) has seen significant revenue growth in its core segments. In the fourth quarter of the fiscal year 2024, revenue in servers grew by 32%, and revenue in hybrid cloud services grew by 18%. Additionally, the annualized revenue run rate (ARR) of GreenLake, HPE's cloud computing service, increased by 49%, indicating strong demand for its cloud services.
2. **AI-Driven Momentum:** HPE is well-positioned to capitalize on the growing demand for AI infrastructure. The company's AI systems revenue increased by 16% sequentially in Q4 2024, and its AI systems backlog reached $3.5 billion. HPE's innovative technologies, such as liquid cooling for data centers, are gaining traction, as evidenced by a $1 billion deal with X (formerly Twitter) for AI server infrastructure.
3. **Overreaction to Juniper Fallout:** HPE's stock price may be depressed from the market's disappointment at the failure to acquire Juniper Networks. The market usually reacts negatively to failed deals. Still, in this case, it is a possible opportunity for investors willing to take a long-term view and ignore near-term market volatility. The underlying strategic rationale for HPE's long-term direction remains strong, and the company can continue with its organic growth plans. The temporary downturn in the market thus provides an attractive entry point for long-term investors.
4. **Recurring Revenue Model:** HPE is successfully transitioning to a recurring revenue model through its GreenLake platform. This provides a more predictable and stable revenue stream, reducing the company's reliance on traditional hardware sales. GreenLake's customer base expanded by 34.5% year-over-year in Q4 2024, reaching 39,000 customers.
5. **Undervalued Compared to Peers:** HPE's stock trades at a forward 12-month price-to-earnings (P/E) ratio significantly lower than the industry average, which suggests that it is undervalued compared to its peers. A fair value calculation using Peter Lynch's formula suggests a potential upside of over 190%.

Financial Highlights/Metrics:

Valuation Metrics and Upside Potential

Valuation Model	Intrinsic Value (USD)	Current Market Price (USD)	Upside Potential (%)	Metric Value	Sector Median
DCF (Growth Exit 5Y)	26.12	**16.07**	62.5	N/A	N/A
DCF (Growth Exit 10Y)	28.22	**16.07**	75.6	N/A	N/A
DCF (EBITDA Exit 5Y)	34.54	**16.07**	114.9	N/A	N/A
DCF (EBITDA Exit 10Y)	36.03	**16.07**	124.2	N/A	N/A
P/E Ratio	N/A	**16.07**	N/A	7.5	27.8
EV/EBITDA	N/A	**16.07**	N/A	5.2	17.8