

ANNEX BULLETIN

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Updated 10/11/10, 6:00PM HST

Analysis of Top Global IT Companies' Market & Business Performances

Move over Microsoft, Apple Takes the Pole

Microsoft No Longer Market Cap King; Apple, IBM, Oracle, Intel, Accenture Gain; HP, Dell, Cisco Drop in Rankings

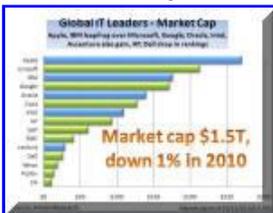
Top IT Companies' Market Cap Drops 1% Even As Their Earnings Surge 39%, Revenues Rise 10%, Equity Up 16%

HAIKU, Maui, Oct 11 – Move over Microsoft, Apple takes the pole. The IT industry has a new market cap king and the crown that goes with it. Since the start of the year, Apple's share prices have risen over 40%, while Microsoft's dropped 21%. IBM, Oracle, Intel and Accenture also gained, while HP, Cisco and Dell dropped a notch in the rankings.



A year ago, we noted that a ["Rally of Hope over Fact"](#)

was under way in the stock market. Earnings were down but the company



valuations rose anyway. This trend continued through to the end of 2009 (see [Rally of Hope over Fact Continues](#)).

Nine months later, the situation is reversed. Net profits of the top 15 IT companies we follow have surged 39%, but their market caps dropped 1% since the start of the year. Which

suggests that the investors are not hopeful that their strong business performances can be sustained in the future.

MARKET Rankings of Top IT Companies

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[IBM Delivers...](#) - Analysis of IBM's fourth quarter business results

[Big Blue Poised for Growth Again](#) - "State of the Union"-type analysis of IBM performance

[Rally of Hope over Fact Continues](#) - Analysis of Top IT Cos 2009

Apple, EMC, Oracle and Accenture, in that order, have been the strongest stock market performers so far this year. SAP and IBM also rose in the single digits. As for the rest of the top IT industry leaders, their stock market valuations have all declined at varying rates. Which means that nine out of the top 15 IT companies are stock market laggards.



It is not very often that you find companies like HP, Microsoft, Yahoo or Google in the cellar of any industry rankings. Yet that's exactly where they placed so far this year in terms of the market cap change. Google seems to be staging a private little rally of its own in the last month or so, and is moving up the ladder. The other three laggards, however, seem to be firmly anchored at the bottom of the leaders' pile.



The price/earnings (P/E) ratio rankings also show that the investors regard Microsoft, HP, Intel and IBM as the "old guard." The four industry giants are holding up the rear relative to other competitors. Considering that the "Four Musketeers" still make oodles of billions of dollars in net profits, that hardly seems justified or fair. But "all's fair in love and war," as they say. And stock market trades on emotions just as if it were love and war.

IBM Stock Still Undervalued?

A year ago, we also noted that IBM stock, for example, was undervalued relative to its peers. Big Blue shares were trading at under \$120 at the time. We said they should be worth at least \$137 (see "[Rally of Hope over Fact](#)", Oct 2009). Well, IBM closed at \$139.66 today. Yet it still looks undervalued relative to the IT industry market cap leaders. Apple, Google and Oracle are trading at P/E ratios of 22-23. IBM's is 13 (see the table below).

IBM vs. Peers	Market Cap	Trailing P/E
Apple	\$269.83	22.23
Microsoft	\$212.79	11.70
IBM	\$176.15	13.20
Google	\$171.73	23.40
Oracle	\$140.00	22.23
Cisco	\$127.81	16.92
Intel	\$108.91	11.71
HP	\$93.43	11.47

performances

[Broken Windows, Broken Promises](#) - "State of the Union" - type analysis of current PC/Windows quality

[A Shrinking Giant](#) - Analysis of HP's fourth fiscal quarter business results

[IBM Stock Takes a Beating](#) (Analysis of IBM's third quarter business results)

[Obama's "Don Quixote" Swings and Misses](#) (Analysis of DoJ's latest antitrust investigation of IBM)

[Triple Trouble Hits Armonk](#) (Analysis of insider trading charges against a senior IBM executive)

[A Rally of Hope over Fact](#) - Analysis of Top 18 IT companies' performances

[Tempest in a Tea Pot](#) (Analysis of latest IT services industry M&A's)

[Less Than Meets the Eye](#) - Analysis of HP's 3QFY09 results

[Big Blue Blows Lid Off Forecasts](#) - Analysis of IBM's 2Q09 results

[Apple, Google Lead Comeback](#) - Analysis of Top IT Cos' stock & business performances

[Revenues, Earnings Drop](#) - Analysis of Accenture's 3QFY09 business results

[IBM Wins the "Gold"](#) - Analysis of IT Services Octathlon 2009 results

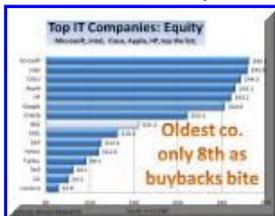
Avg Top 8 IT	\$162.58	16.61
IBM	\$176.15	13.20
IBM @ Top 8 P/E ratio		\$175.71
IBM Current (10/11/10)		\$139.66

So there is still upside room for the Big Blue shares to rise. But do not necessarily expect that to happen at a time when the IT leaders' rally seems to be running out of steam. A decline in the Market Cap/Equity ratio, or the "Fluff Ratio," as we dubbed it in 1998 (see "[Dell: King of Fluff](#)", Nov 1998), is another indication which points in that direction.



At the end of 2009, the Fluff Ratio for the top 15 IT industry leaders stood at 4.6. Now, it is down to 4.0. Partly, that's because the higher earnings that Wall Street was predicted have resulted in increased equities, which are up 16% since the start of the year. But also, by scaling down their expectations about the future, the investors are removing excess "fluff" from the market.

Meanwhile, the industry's oldest company - IBM - is only eighth in terms of equity. Even a relative upstart - Google - has now surpassed it. And not just surpassed it.



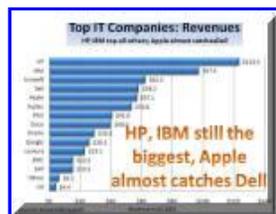
More like left it in the dust. In fact, all top six IT leaders have equities in excess of \$40 billion vs. only \$21 billion for Big Blue. Such as is the price of aggressive stock buybacks that IBM has engaged in for the last 15 years.

Basically, Big Blue is giving its wealth away almost as fast as it is making money. So forget the old-fashioned way of squirreling money away, or reinvesting it more aggressively in one's own business.

BUSINESS Rankings of Annex Top IT Companies

The pecking order at the top of the IT industry's revenue picture is still pretty much the same, except that Apple is now nipping at the heels of Dell and is likely to surpass it by the end of the year (also see "[Apple, Google Lead Comeback](#)", July 2009). HP and IBM were the first IT companies to surpass the century revenue mark, and then drop back a little (right chart).

Microsoft, Dell and Apple are now neck-and-neck in No. 3-5 positions in the industry, well back of HP and IBM. Fujitsu is No. 6. And so on...



As for net earnings, IBM and Apple are

[Suddenly, All Lines Point South](#) - Analysis of HP's 2009 business results

[Back on Growth Track](#) - Analysis of IBM Global Services 2008 results

[Sometimes Less Is More and Down Is Up](#) - Analysis of IBM's 1Q business results

[IBM's Holistic Approach](#) - Treating businesses like living organisms - secret of success

[IBM Tries to Pull Down, HP Up](#) - Big Blue stock up sharply after CFO remarks at investor conf

[Hurd's First Stumble](#) - HP's 1Q09 revenues, earnings disappoint Wall Street

[Two Thumbs Up for Big Blue](#) - Analysis of IBM 4Q08 business results

[Big Blue: All Heart](#) - IBM creating new jobs in American Heartland

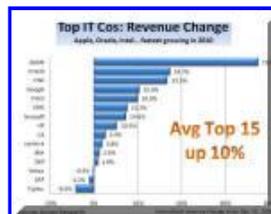
[When You Catch a Tiger by the Tail...](#) - An editorial about greed & success

[Squeezing the Consumer Dry](#) (Greed fueled both bankers & oilmen's try to squeeze blood out of stone - consumer)

[The Year of Living Dangerously](#) - Analysis of global investment trends

closing the gap on Microsoft (left chart). Intel, HP, Cisco, Google and Oracle are all bunched up in the \$6 billion to \$10 billion range. Fujitsu, the sixth largest company in terms of revenues is dead last when it comes to profitability.

Apple, Oracle and Intel are the fastest growing companies among the top 15, surging by 75%, 35% and 34%v respectively. Google, Cisco, EMC, Microsoft and HP also reported double-digit revenue growth.



Apple's net earnings are also the fastest growing in the industry, up 153%, although that may not be apparent from the chart on the left. That's because Yahoo and Intel are ostensibly No. 1 and No. 2 in this respect, but only because their 2009 profits were so dismal. Apple, on the other hand, had a good year in 2009, and a great one so far this year.

[Click here](#) for detailed tables and charts (Annex clients only)

Happy bargain hunting!

Bob Djurdjevic

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