

Sector: Information Technology B & Telecommunications

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Introduction

The Information Technology B and Telecommunications sector deals with companies that are involved in making electronic equipment and components, manufacturers of semi-conductors and equipment for semi-conductors, technology hardware storage, and communications equipment.

Industry Analysis

- New technology is always wanted and needed.
- Consumers like the next best thing, so many of these companies like to put money into their research and development.
- 5G is a large new market for many people and the next best thing internet service.
- The Internet of things (IoT) and virtual reality are two new ideas that are sure to take off.
- Virtual Reality also needs lots of working and moving pieces. One company that is leading in the way in making hardware for virtual reality is micron technologies (MU).
- A merger between live streaming services and cable could something to watch for when it comes to communications equipment.
- This would mean an uptrend in data need/usage for phone companies and more devices to be sold that have this capability.
- Voice Interface is one thing that many companies are still trying to integrate into their products.
- A few of the negative drivers are the security issues people worry about and finding top talent.
- Security is always a concern whenever anyone talks about new technology.
- Finding top talent to create these new innovations is hard too.

Financial Analysis

Ratios for Information technology

P/E ratio estimated to go down from last year as a whole. EPS (ttm) is currently 4.74 and EPS growth (ttm) is 114.73%. ROE is 28.87% while ROI is 16.73%.

Information technology is outperforming the S&P 500, 8.35% compared to 4.23%

Ratios for telecommunications

P/E is estimated to be the same as last year. EPS is 10.68 and EPS growth is 38.04%.

ROE is 17.32% while ROI is 8.90%. Telecommunications is underperforming the S&P 500, -2.51% compared to 4.23%

Macroeconomic factors

SWOT

- Strengths- Fiber optic cables and good sales teams have proven has strengths of the best companies in these sectors. Being able to sell consulting services and having lots of talent available for jobs have also helped companies succeed in these sectors
- Weaknesses- Bad sales teams along with slow service can really hurt companies in these sectors. Having many different types of issues can make it hard to have a concrete answer for everything that comes up in this industry as well.
- Opportunities- New technologies are always great opportunities. Customers also rely on having the next best thing making it easier to sell these new technologies once they come out.
- Threats- Big competitors with the best R&D make it hard to come up with the newest technology first. Slow times in the economy can really hurt these companies too.

Outlook

Information Technology B

- Concerns about slowing global growth appear to be affecting sentiment toward the tech sector, while a trade dispute with China continues to weigh on the group.
- Trade concerns may delay some needed capital spending.
- Consumer confidence remains elevated despite slipping in the most recent readings, according to the Conference Board, showing little impact from tariff concerns, but likely dipping due to the recently concluded government shutdown.
- NFIB (January) – capital spending plans remain elevated
 - 43 percent reported spending on new equipment (up 1 point)
- IT Sector balance sheets: high cash positions, low leverage (debt) ---> M&A opportunities
- Increase in dividend payments and share buybacks
- Positive forces: increased spending on capital expenditures (technology upgrades)
- Negative forces: Global competition is rising (especially from areas with lower wages), Increased regulation (increases costs in tech sector), and trade disputes (could result in higher costs for manufacturers and prices for consumers; inflation)

Telecommunications –

- Everybody is using telecommunications daily, which is good, but is creating a LOT of competition in the space
- New technology – 5G
 - Allows for movies to be downloaded in seconds
 - Could impact the rest of the sector
 - The number of devices able to be supported within a square kilometer is estimated to move from about 2,000 with 4G to about 1 million with 5G
 - Costs will increase with the roll out of this new technology
- Concerning factor – some of the largest cap companies are getting attention from the government (ATT)(monopolization)
- Positive forces: increasing wireless demand
- Negative forces: Regulatory, increasing expenses (5G), Slowing revenue growth (majority of the market has been tapped)
- Value Stocks: KEYS (5G test gear), GLW (\$1 billion optical fiber wiring contract with VZ), VZ (Straight Path Wireless Acquisition), CCI, SBAC

Stock Recommendations

- Ichor Holdings (ICHR) - HOLD
- Zebra Technologies (ZBRA) - HOLD
- Bingo Wireless (WIFI) - HOLD
- T-Mobile (TMUS) - HOLD
- Square (SQ) - HOLD