McMURTRY INVESTMENT REPORT™
Investment Advice for Everyone

Technology
Stock Fundamentals and Outlook
February 5, 2022

		B	C		
	Recent Price	**EV/EBITDA FWD**	**EBITDA % Growth 2022/2021**	**B/C – PEG EBITDA**	
MSFT	305.94	22,62	20.34	1.11	
AAPL	172.39	21.88	9.16	2.28	
AMAT	135.57	13.44	16.13	0.82	
PAYX	119.91	21.78	16.82	1.29	
V	228.39	24.39	20.26	1.20	
QCOM	179.47	11.69	32.43	0.36	
GIB.A	111.47	11.25	4.71	2.39	
OTEX	56.72	11.42	-1.37	n/a	
SHOP	1118.24	27.59	4.62	5.97	
CSU	2169.54	21.46	12.53	1.71	
KEYS	166.21	18.85	5.96	3.16	
GOOGL	2865.86	14.50	14.44	1.00	
FB	237.09	9.818	-4.76	n/a	
AMZN	3152.79	18.63	16.06	1.16	
ORCL	82.11	12.86	4.22	3.05	
IBM	137.15	10.05	9.87	1.02	

After the recent onslaught of corporate quarterly earnings reports, I have created this table to highlight the best tech companies going forward from a valuation perspective. While most of these companies have already reported, there are several that have not yet reported including Applied Materials, Keysight, Shopify and Constellation Software. Unless something happens that is totally unexpected, the EBITDA projections for these four companies have already been revised and are up to date.

While not technically part of the technology sector, I am including both Facebook (Meta) and Google as they really are computer companies.

Best companies from a projected growth in EBITDA in 2022

Reviewing the above table, you can clearly see that strong growth is expected for Microsoft, Applied Materials, Paychex, Visa, Qualcomm, Amazon and Google

Weak players include CGI, Open Text, Shopify, Keysight, Facebook(Meta) and Oracle.

Cheapest and most expensive companies from an EV/EBITDA -FWD basis

The cheapest companies include Qualcomm, CGI, Open Text, Facebook (Meta), Oracle and IBM.

The most expensive companies include Microsoft, Apple, Paychex, Visa, Shopify, Constellation Software, Keysight and Amazon.

Best Value relative to projected EBITDA Growth

I have used EBITDA as opposed to earnings as this better reflects exactly what is going on for all the companies in the table.

The two semiconductor companies on the list- Qualcomm and Applied Materials are the cheapest relative to growth amongst all the companies on the list. One of the reasons for this is that these companies are far more cyclical than the others and consequently always carry a lower valuation.

The best value companies relative to growth are Applied Materials, Qualcomm, Microsoft, Paychex, Visa, Google, Amazon and IBM.

What is surprising to me is that IBM finally made it onto this list. Its projected growth has recently improved significantly.

Recommendation

I am maintaining the following companies in my model portfolios:

Microsoft, Apple, Applied Materials, Paychex, Visa, Qualcomm, Google and Amazon.

I am deleting the following companies from my model portfolios based on poor projected growth relative to current valuation:

Facebook (Meta), Keysight, CGI, Open Text and Oracle.

The tech industry continues to face a lot of headwinds including higher interest rates and inflation, declining PE multiples, declining growth rates in revenues, earnings and cash flows. This is exactly why individual stock selection is much more important today than it used to be over the last many years. Simply buying an industry benchmark ETF will not work as it has in the past.

I still have two industry ETF's in my model portfolios – the XSD US semiconductor one and the HACK cybersecurity one as well.

I will continue to review the outlook for IBM but will not be adding it as this time. While Apple is not cheap, it remains a core holding with its very strong balance sheet and growing participation in the 5G rollout.