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Are the Tech Titans Now Value Stocks?

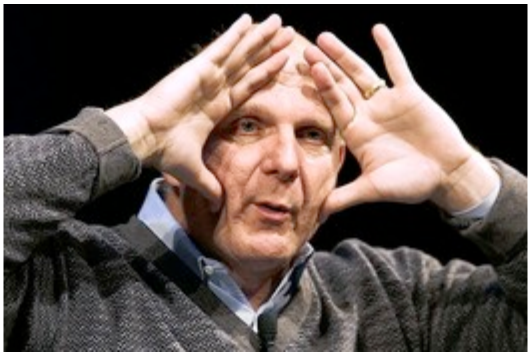
By DAVE KANSAS

As investors slobber over LinkedIn's scorching IPO, once-popular Google and its huge tech cousins limp along, unloved and underappreciated.

Google's IPO, way back in 2004, had even more ballyhoo than the LinkedIn fest. From its initial price of $85, the shares soared to nearly $750 by fall 2007. Since then, Google has struggled, and its stock performance looks more like other ambling tech giants.

The biggest technology companies have something else in common: They have become cheap compared with the rest of the market. The tech titans might even represent one of the best value plays today.

Investors have had little love for Google, Microsoft, Intel and Cisco Systems, even as cash piles up on balance sheets and executives try to get Wall Street's attention. IBM and Oracle have done better, but they also aren't terribly expensive by historical or current standards. Apple is, well, Apple; it stands apart.



Reuters

Microsoft CEO Steve Ballmer: generating gobs of cash but little love.

Intel has been barking for attention incessantly. It reported strong earnings, promised 20% profit growth and launched a share-repurchase program. Investors sneered.

In April, the company boosted its dividend, and the shares finally jumped, hitting nearly $24 this past week, a tidy 20% gain since the announcement.

In return, Goldman Sachs slapped a rare "sell" rating on the stock.

Intel, like Microsoft, is tightly tied to the personal-computer market. And analysts fret that the entire world will start using tablets and smartphones overnight, eviscerating the WinTel duopoly.

Yes, the iPad is exceedingly cool, so much so that it can be tempting to overlook the conservative nature of corporate technology, the meat of the WinTel business. Chief technology officers aren't likely to hitch their companies' future to an entirely new concept, like a tablet.

Now Intel trades at about 10 times trailing earnings with a robust dividend yield of 3.1%. Microsoft is even cheaper, trading at 9.9 times trailing earnings, and its dividend yield is 2.6%. By comparison, the Standard & Poor's 500-stock index trades at about 17 times trailing earnings, with a dividend yield of about 1.9%. These are numbers that could nearly entice the notably technophobic Warren Buffett.

Microsoft, like Intel and Google, generates gobs of cash. According to Morgan Stanley, Microsoft more than doubled its cash to $50.2 billion from the end of 2009 to the end of 2010. Over the same period it returned about $25 billion to shareholders through dividends and buybacks.

Of course, sitting on a huge cash hoard can make companies do curious things, such as spend more than $8 billion to buy Skype. But even that deal won't dent Microsoft's ability to keep generating cash and rewarding shareholders.

Backers of Google probably hate to find their darling stock grouped with the other tech titans. They would rather be in the Apple conversation.

Google has fallen into such ponderous company because its shares have skidded to $524 from a January high of $639, even as the broader market has risen. Like Microsoft, Intel and Cisco, it generates gobs of cash. Like Apple, it pays no dividend. And it doesn't have a share-repurchase program.

The company recently raised even more money by issuing bonds for the first time. By going to the bond market, rather than issuing shares, Google is implying that it believes its own stock is cheap, even though it trades at a multiple above the market at 19 times trailing earnings. It may need to dangle some of its cash before investors in order for others to see it as cheap.

Cisco probably is the toughest to love. Chairman and CEO John Chambers, once considered a strong manager, seems to have lost his mojo. The stock has bled, hitting an ominous $16.53 Friday—about half its price four years ago. At the height of the Internet era, the company was valued at $500 billion. Today: $92 billion.

But Cisco already has taken plenty of hits. It trades at 13 times trailing earnings and even pays a dividend. Investment bank Sterne Agee tallied up the value of Cisco's various businesses and found it is worth $27 or $28 a share. In other words, Cisco is a reasonable value investment at these prices.

Bank of America Merrill Lynch recently argued that big tech has gotten cheap enough to offer "an opportunity to acquire the S&P 500's best large-cap growth businesses at value prices." Seems so.

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