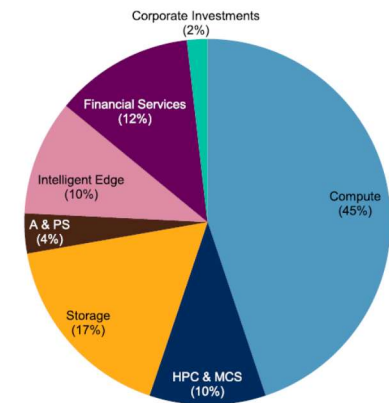


Company (Ticker) (S&P / Moody's / Fitch)	Major Issues / Risks	Major Developments	Credit Outlook
<p>Hewlett Packard Enterprise (HPE) (BBB/Baa2/BBB+) Hewlett Packard Enterprise (HPE) is an off-shoot of Hewlett-Packard Corporation. The company designs and sells servers, storage, and networking equipment, and provides technology services to help its large enterprise customers put together and deploy IT systems. HPE is a global company with almost two-thirds of its revenue coming from outside the US. HPE has seven business segments: Compute, HPC & MSC, Storage, Advisory & professional services, Intelligent Edge, Financial Services, and corporate investments. The Compute segment (45% of revenue) provides servers and related solutions. HPC & MSC segment (10%) offer high-performance compute, mission-critical systems, and edge compute solutions. Storage (17%) offers storage and related solutions. Advisory and professional services segment (4%), provides consultancy services. The Intelligent Edge (10%) provides enterprise networking and security products and services for campus and branch environments. The Financial Services (10%) provides financing solutions (leasing, financing) to customers. Corporate Investments focuses on research and development project.</p> <p>HPEs current long term strategy is focused on leveraging its edge-to-cloud platform-as-a-Service model to help enterprises digitally transform their business models. At the same time HPE is evolving its own capabilities to meet the changing needs of the clients and strengthen its position in the competitive landscape. It is in this context that the company continues to pursue strategic acquisitions, the most recent being the acquisition of SD-WAN Leader Silver Peak in August 2020.</p> <p>In recent quarters HPE has been pursuing a tactical strategy to the business challenges arising from the COVID-19 pandemic. HPE's is focused on controlling costs and prioritising expenditure that will drive growth and support efficiency. HPE will therefore prioritize investments and realign resources to areas of growth to save \$800 million p.a. as of 2022. The company has also implemented temporary base salary adjustments or unpaid leave for certain employees, hiring and salary freezes and suspended purchases under their share repurchase program.</p>	<p>Strengths/ Opportunities</p> <ul style="list-style-type: none"> • Large Global Brand • HPE is a leader in several of the IT enterprise markets within which it operates • Generally acceptable debt levels • High cash generation which is the primary source of HPE's liquidity • Many businesses are pursuing digital transformation to modernize their business. • COVID-19 has heightened customers' awareness of the need for HPEs key services. • Recent acquisition of SD-WAN Leader Silver Peak could improve HPE's competitive position in the intelligent edge segment <p>Weaknesses /Threats</p> <ul style="list-style-type: none"> • HPE operates in competitive markets, with larger technology companies such as: Dell Technologies Inc. and Cisco Systems Inc. • Competitive pricing pressures has constrained revenue growth. • COVID-19 has reduced business activity, causing companies to cut or delay enterprise IT spending • Legal & regulatory - US\$6M Fine levied by the US Securities and Exchange commission for violations of anti-fraud, reporting and disclosure controls provisions (2015 to 2016) of the federal securities laws could pose a reputational risk. 	<p>Credit Ratings – In April 2020, Fitch affirmed HPE's BBB+ rating with a stable outlook. S&P and Moody's conducted reviews of HPE in September 2020 but offered no rating actions. There is a general consensus that while HPE is being adversely impacted by the pandemic, the company maintains solid market positions and strong liquidity that will support business recovery.</p> <p>Profitability – For the nine months ended July 2020, HPE incurred a net loss of US\$479MM, compared to the US\$569MM in profits generated in the corresponding period of 2019. The decline in profits, largely reflects lower revenues as expenses declined YoY.</p> <p>Revenue – For the nine months ended July 2020, revenues declined by \$2.1BN (9.8%) YoY, reflecting a fallout in revenues from the Compute, Storage, Financial Services and Intelligent Edge segments which experienced a variety of challenges resulting from COVID-19 related restrictions which caused reduced business activity, supply chain disruptions, manufacturing constraints and delays in the delivery of solutions to clients.</p> <p>Leverage – As at July 2020, HPE had total debt outstanding of US\$20.5BN, \$4BN of which represented borrowing to fund the early redemption of \$3BN of bonds in August. As a result, Total debt/EBITDA was 7.46x as at July. This is expected to normalize as the debt is paid. It is anticipated that HPE will continue to take a proactive approach to the funding of its maturities.</p> <p>Liquidity & Cash Flow – HPE's primary source of liquidity is the cash generated from its operations. HPE has used cash to finance capital expenditure, acquisitions, repay debt and repurchase stocks. Consequently, cash, cash equivalents and restricted cash stood at \$4.1BN as at end FY2019. As at July 2020, the balance increased to \$8.9BN, reflecting the receipt of proceeds from debt issuance.</p>	<p>Stable</p> <p>Fitch anticipates that HPE's profit will contract for FY2020 as the restraint on business activity and enterprise IT spending among existing and prospective clients will cause a decline in revenues. The impact of interim measures to contain costs will be outweighed by the expenditure associated with restructuring which is expected to commence during the year.</p> <p>HPE expected to generate positive net profits in 2021 if the virus is brought under control and HPE is relieved of COVID-19 related costs and clients reboot spending decisions and solution acceptance which were delayed. The heightened awareness, brought about by the pandemic, of the need to accelerate digital transformation plans is expected to drive increased activity in the subsectors in which HPE operates. It is also anticipated that HPE will start reaping the benefits from the Silver Peak acquisition in 2021, which is expected to drive growth in the company's intelligent edge segment. However, if the pandemic induced weakness in the business environment persists, HPE's financial performance will remain under pressure in 2021 and the issuer could face the possibility of a downgrade.</p> <p>The company's prospects over the medium to long term are largely positive given its sustained focus on improving competitiveness to better withstand pricing pressures and reduce the attrition of its margins. The realization of savings from its restructuring programs and ongoing cost-optimization plan should also support the bottom line. This will also enable HPE to pursue its strategic initiatives without taking on too much debt, thereby maintaining its conservative funding policy which S&P deems as credit positive.</p> <p>Recommendation: clients may take a position in this credit provided that it aligns with their risk profile and portfolio objectives.</p>

HPE Segment Revenues In 12 Months Ended July 31, 2020

Financial Highlights						
	Q1-Q3 2020	Q1-Q3 2019	FY 2019	FY 2018	FY2017	FY 2016
Revenue (US\$MM)	19,774	21,920	29,135	30,852	28,871	30,280
Revenue Growth (%)	-9.8	-4.3	-5.6	6.9	-4.7	-2.6
EBITDA (US\$MM)	3,219	3,745	3,809	4,313	3,615	7,678
EBITDA Margin (%)	16.3	17.1	13.1	14.0	12.5	25.4
Pre-Tax Profit Margin (%)	-2.9	3.8	5.3	0.9	0.9	12.7
Net Profit Margin (%)	-2.4	2.6	3.6	6.2	1.2	10.4
EBITDA/INT (x)	45.3	53.5	21.5	15.7	11.1	27.0
Debt/EBITDA (x)	n/a	n/a	3.6	2.8	3.9	2.0
Total Debt to Capital (%)	55.9	41.9	44.6	36.3	37.4	33.2

Source: Bloomberg, SIJL estimates



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