Analysts Went All In On These Computer Stocks, Save Your Spot

The data is undeniable regarding the state of affairs overtaking the computer and electronics industry, with trends that suggest nothing but a sure slowdown to continue; at least, that is where the sentiment is.

Within the latest ISM manufacturing PMI report, the computer and electronics industry expressed reductions in customer orders as most are trying to work down their inventories and

prepare for the possibility of a hard landing.

Luckily for investors, those willing to go against the grain, the next step is a bottoming, making the following stocks in the sector worthy additions to your ‘potential buy’ watchlist.

Mercury Systems

Having declined more than 35% from recent highs this year, shares of **Mercury Systems (NASDAQ: MRCY)** are offering investors the Wall Street definition of a bear market discount. While bears will try to influence bulls, saying there must be a reason for the decline, the broader market has a different opinion.

The computer industry peer group will show an average price-to-earnings ratio of 9.7x and a next twelve months earnings per share growth of 10.2%—time to see how Mercury stacks up against these metrics.

Analysts are projecting an EPS jump of 96.4% for the next twelve months; that is not a typo. Why would a stock sell off this aggressively if the overall expectation is a near doubling in the primary metric that typically drives stock prices?

The press release showcasing the company’s financials over the past year obviously could have sat better with some investors. However, those who cannot see past their shadows have just opened the way for those who focus on the long term.

While revenues and net income declined over the year, management is pointing to a bright future, starting with a $102.1 million increase in backlog of orders. So, while the current environment shows slowdowns, the inventory shrinkage can only last so long before these rebounds in orders begin to expand.

This dynamic and reasonably predictable future is the driver

behind analyst consensus price targets of $41.7 a share, implying a near 10% upside from today's prices.

Considering that the earnings are set to double in 2024, analysts may capitulate and deliver a price target boost soon. However, it would be too late by then as the news could send the stock away from today's discounts.

Logitech

Recall that the industry was set to grow earnings at an average of 10.2% for next year. **Logitech International (NASDAQ: LOGI)** brings another premium expectation of 30.4%, riding on recent momentum after bottoming towards the end of 2022.

Moreover, markets are willing to overpay for the expected earnings growth, as an 18.0x P/E ratio would place Logitech stock at a near 90% premium to the average sector valuation.

Some value investors may complain that this only makes the stock more expensive relative to peers. At the same time, they would be correct in this case; nobody ever paid a premium for a good product or service and regretted it later.

Instead, the opposite is always the case: people – and investors – try to find the cheapest product – or stock – and end up paying an even higher price in headaches or losses.

While the company reported a contraction in revenues and earnings, a common theme in the industry, cash flows from operations rose by $275 million compared to a year ago.

It is important to note that the cash flow situation improved as the company worked down its excess inventory, which included some discounts. At the same time, the general accounting items appeared to have suffered.

What good is cash flow if the company reports contractions

everywhere else? Patience is the crucial difference. While general net income and earnings per share may take a little bit to recover, cash flows are being used to cushion bearish symptoms.

With these funds, management repurchased up to 6 million shares during the year, the strongest factor holding up the stock lately despite industry-wide slowdowns. Insiders thought the stock to be cheap enough to buy, so don’t be stubborn.

ZoomInfo Technologies

How do you like your stock? Double upside? Coming right up. With an analyst consensus upside of 83.3%, **ZoomInfo Technologies (NASDAQ: ZI)** brings another premium to the peer group, and for good reason.

By now, it is no secret that most companies in the sector have revenue contractions, not ZoomInfo; this company reported net sales increases of 16% over the past year, making a nice change.

Despite being the clear outlier in the space, the stock has yet to show signs of recovery.

This is not necessarily a bad thing since management has used the prolonged compression in the stock price to initiate a $500 million share repurchase program, which represents nearly 8% of the company’s market capitalization, a not-so-subtle sign that the fair value of the stock should be – much – higher.

Regarding current valuations, ZoomInfo does not fall too far behind Logitech, as its P/E ratio stands at 17.5x for an 81% premium over the sector average.

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