



3 US Cloud Computing Stocks for Every Equity Investor

Description

The cloud is a remote environment where computing power and data storage are hosted and software applications are served remotely via the internet. And while some investors might consider investing in cloud stocks risky because the technology is relatively new, there are three relatively stable cloud computing stocks worth a closer look.

Microsoft is transitioning its business from PCs to the cloud

Microsoft ([NASDAQ: MSFT](#)) is one of the most valuable companies in the world, with a market cap of over \$1 trillion (yes, with a “t”). The company, once best known for the operating system installed on personal computers, began transitioning to the cloud as PC sales slowed with the proliferation of mobile devices.

Today, Microsoft’s Azure unit is one of cloud computing’s largest Infrastructure as a Service (IaaS) offerings. For the year ended June 30, 2019, Azure’s revenue grew 64%. [According](#) to Microsoft, Azure has an “unlimited [Total Addressable Market].” It represents about a third of Microsoft’s revenue and contributes largely to the company’s 69% gross margin.

Microsoft boasts a low [debt-equity](#) ratio of 0.71 and has more than \$11 billion in cash. Its balance sheet is rock solid. It generates more than \$3.00 per share in free cash flow annually; more than 1.5 times its [dividend](#) payout. Microsoft has paid a quarterly dividend since 2003 and has grown it at a compound annual growth rate (CAGR) of 10.41%. The yield is approximately 1.3%.

Oracle’s current customers are its primary growth opportunity

Oracle ([NYSE: ORCL](#)) is the leading database software company in the world with a market cap of more than \$178 billion. Its more than 430,000 customers worldwide represent its biggest growth opportunity. Oracle is rapidly converting many of these “on-premise” (i.e., software is hosted locally, not delivered through the cloud) customers to a Software as a Service (SaaS) model, which translates into a three-fold revenue multiplier for Oracle.

This customer conversion helped Oracle generate a nearly [80%](#) gross margin in the year ended May 31, 2019 and gives it another great growth opportunity. Many of those customers run back-office business applications that are not Oracle products. As customers transition their Oracle applications to the cloud, Oracle also aids them in converting those other back-office applications, replacing them with Oracle products. If just a fraction of those customers switch to an Oracle product, Oracle stands to book an additional [\\$21 billion](#) in revenue.

Oracle’s debt-equity ratio is 2.31. Nevertheless, its debt is A1 rated by [Moody’s](#) and therefore investment grade (defined as Baa3 or better). Oracle had more than [\\$20 billion](#) in cash and equivalents at the end of its last fiscal year and generated more than [\\$53 billion](#) in free cash flow. Oracle has paid a dividend every quarter since 2009 and has grown it at a CAGR of nearly [17%](#). It yields approximately 1.7%.

Mixing on-premise computing with public and private cloud helps IBM deliver a hybrid solution

IBM ([NYSE: IBM](#)) is arguably America’s first tech company. Founded in 1911, IBM has survived more than 100 years by evolving as times and technology have changed. Today it is the leading provider in a [\\$1.2 trillion](#) hybrid cloud opportunity.

IBM is leveraging the technology obtained in its recent acquisition of Red Hat and expects it to create “double-digit revenue growth in 2020.” When IBM [reported earnings](#) for the year ended December 31, 2018, it posted a gross margin of 46.4%. IBM’s debt-equity ratio is 3.51, and like Oracle, its debt is rated A1 by Moody’s. IBM also has a solid balance sheet with more than \$12 billion in cash. IBM’s total current assets amount to more than \$49 billion. It generated more than \$8.37 per share in free cash flow last year. That is about 1.4 times the amount required to cover their annual dividend commitment. IBM has paid a dividend every quarter since [1913](#). Right now, the yield on IBM’s dividend is approximately 5% (try finding that in an A1-rated bond).

Stocks any equity investor can own

All three of these companies are profitable and have healthy gross margins. Each has a strategy to grow revenue and free cash flow. They all have solid balance sheets and plenty of cash on hand. They each have a history of growing their dividends and the yield on each of them rivals what fixed income (bond) investors might expect to earn on a seven to 10-year investment grade note.

CATEGORY

1. Investing
2. Tech Stocks

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1. Syndicated

TICKERS GLOBAL

1. NASDAQ:MSFT (Microsoft Corporation)
2. NYSE:IBM (International Business Machines Corporation)
3. NYSE:ORCL (Oracle)

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