These 3 Unloved U.S. Tech Stocks Are Finally Recovering

Description

Several tech stocks have slumped over the past year amid concerns about the U.S.-China trade war, tariffs, and other macro headwinds. Sentiment about the markets recently improved in anticipation of the upcoming trade talks next month, but many unloved tech stocks remain well below their historic highs.

Let's take a look at three stocks that fit that description — **Infinera** (NASDAQ: INFN), **JD.com** (NASDAQ: JD), and **Seagate** (NASDAQ: STX) — and why they could rebound significantly over the next few quarters.

1. Infinera: an unloved optical systems maker

Infinera sells wave division multiplexing (WDM) systems, which enable service providers to boost the capacity of their networks without laying down additional fiber. That's why it was once considered an ideal play on the "super cycle" in-network upgrades, which support the growth of cloud and streaming services.

However, Infinera generated most of its revenue from long-haul WDM systems instead of shorter-range WDM systems for the metro and data center interconnect (DCI) markets. Many service providers prioritized those shorter-distance upgrades, causing Infinera's double-digit sales growth in the first half of 2018 to fade to the single digits.

Infinera subsequently acquired Coriant, an industry peer that focuses on shorter-range systems, to boost its revenue growth. Unfortunately, Infinera's initial expectations for Coriant were too lofty, and it slashed those forecasts last November. The bulls gave up, and Infinera's stock plunged from $12 last May to about $3 this July.

Yet Infinera gradually rebounded to about $5 after its revenue rose 47% annually in the secondquarter, representing an *acceleration* from its 46% growth in the first quarter. Its forecast for 60%-70%growth in the third quarter with a sequential expansion to its gross margin also indicated that it had turned a corner.

Infinera still isn't profitable, but it expects its synergies with Coriant to boost its free cash flow and non-GAAP profits to positive levels by the fourth quarter. Based on those forecasts, this stock looks dirt cheap at 0.7 times this year's sales.

2. JD.com: a retail giant in China

JD is China's biggest direct retailer and second-largest e-commerce player after **Alibaba**. The stock topped $50 last January, but its slowing growth, rising expenses, and a rape allegation against CEO Richard Liu caused it to revisit its IPO price of $19 by November. The trade war exacerbated that sell-off.

However, the rape allegation was dropped in December, and JD's subsequent earnings reports indicated that its business was stabilizing. Its revenue rose 23% annually in the second quarter, marking its strongest growth in three quarters, and it expects 20%-24% growth in the third quarter.

On the bottom line, JD's adjusted net income rose more than seven-fold annually as its gross margin expanded and it generated more higher-margin revenue from its logistics services for third-party sellers. Over the long term, JD plans to reduce its operating expenses by automating most of its logistics platform with warehouse robots, delivery drones, and autonomous delivery vehicles.

Image source: JD.com.

JD’s total number of annual active customers grew 2.4% to 321.3 million during the quarter. That marked a deceleration from previous quarters, but JD’s accelerating revenue growth also indicated that its existing customers were spending more money. Wall Street expects JD’s revenue and earnings to rise 17% and 34%, respectively, next year — which are robust growth rates for a stock that trades at 26 times forward earnings.

3. Seagate: a cyclical tech stock with a 5% yield

Seagate is the world’s second-largest maker of platter-based hard disk drives (HDD) after **Western Digital** (NASDAQ: WDC). The HDD market faces tough competition from flash memory-based solid state drives (SSD), which are smaller, faster, more power-efficient, and less prone to damage than platter-based drives.

Unlike Western Digital, which prepared for that disruption by acquiring flash memory (NAND) chipmaker SanDisk, Seagate still generates most of its revenue from HDDs. Seagate believes that the lower prices of HDDs, along with the constant demand for high-capacity drives from data center customers, will buoy its long-term growth.

Yet Seagate struggled with three headwinds in recent quarters: sluggish sales of PCs (exacerbated by **Intel** ‘s chip shortage), soft demand from enterprise customers, and cyclically lower prices of NAND chips reducing prices of SSDs. That’s why its revenue and gross margins declined annually over the past three quarters.

Seagate’s revenue fell 17% annually last quarter as its non-GAAP gross margin contracted from 32% to 27%. But for the first quarter, it expects its revenue to fall just 15% annually (at the midpoint) and for its non-GAAP gross margin to stayÂ flat sequentially. That forecast indicates that its cyclical declines are bottoming out.

Seagate won’t rally toward its historic highs in the high $60s anytime soon, but the stock trades at just 11 times forward earnings and pays a forward yield of 4.6%. That low valuation and high yield should set a firm floor under the stock.

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TICKERS GLOBAL

1. NASDAQ:INFN (Infinera Corporation)
2. NASDAQ:STX (Seagate Technology plc)
3. NASDAQ:WDC (Western Digital Corporation)

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