3 Top High-Yield Tech Stocks to Watch

## Description

Technology stocks. Not exactly an investment sector that appears on most *income* investors' list of must-have additions. After all, technology is about the future, and research to sow the seeds for later growth costs money. Thus, doling out dividends to shareholders isn't exactly a priority for most tech outfits.



The thing about tech, though, is that it eventually matures and becomes just another ordinary part of the economy. As innovation is a tech segment slows down, businesses can afford to start returning cash to investors. They aren't plentiful, but even in this industry, there are a few companies paying high yields. Three of them worth a look are **IBM** (NYSE: IBM), **Seagate Technology** (NASDAQ: STX), and **Broadcom** (NASDAQ: AVGO).

# 1. IBM: one of the oldest kids on the block

IBM has been around for more than a hundred years, and the world has long since moved on from the company's personal computer dominance of the 1980s. In fact, while IBM continues to manufacture computing hardware, that business has been highly commoditized. A couple of years ago, a transformation got underway at Big Blue to back out of legacy segments and double-down on the newer cloud- and software-based services instead.

But why the cloud, or computing power and software services provided via a remote data center? IBM contends that most organizations around the globe are still early in their digital evolution, and migrating operations to various cloud platforms is at the heart of the change. "Cloud and cognitive software" is now IBM's leading segment, representing 29% of total revenue and providing gross profit margin of 76% (versus total average gross profit margin of 46%) through the first half of 2019.

It's about to get even bigger, as the Red Hat cloud technologist acquisition was just completed in July 2019. Red Hat's revenues grew 15% during its 2019 fiscal year, so the $34 billion takeover could help pull IBM out of the slow slide its been in since 2013.

In the meantime, this old tech stock is trading on the cheap. Shares are valued at just 9.9 times trailing

12-month free cash flow (basic profits after operating and capital expenditures are paid), and its dividend is yielding 4.6% — an income stream easily covered by the company's $12.7 billion in free cash generated over the last year. It may not be the sexiest name in technology, but IBM should be on income investors' radar.

## 2. Seagate Technology: old memory storage spinning off big dollars

Seagate is a manufacturer of hard disk drive (HDD) digital memory storage. HDD is older — and less expensive — storage technology compared with solid-state drives (SSD), which are smaller, faster, but ultimately more costly. HDD has its advantages. It has a longer life span, tolerates being rewritten with information better, and is well suited for mass storage.

Seagate has taken some flack for sticking to its HDD roots, but the digital memory industry downturn that started in the second half of 2018 hasn't hit this hardware provider nearly as hard as some of its peers. While many, like **Western Digital** and **Micron**, have been dinged big time on their bottom lines, Seagate reported just a mild 7% and 13% decline in revenue and earnings per share, respectively, during its recently completed 2019 fiscal year.



But why would investors want to buy a stock with declining financial results? Well, digital memory is a cyclical business. Every few years, there is an inevitable slowdown to allow for end customers to work through supply. Seagate sees the most recent downturn coming to an end soon, as PC makers and data center customers are showing signs of ramping up production again. The HDD maker also recently launched a 16-terabyte drive, and a 20-terabyte drive is coming in 2020. According to tech researcher IDC, global digital data creation is expected to increase more than five times by 2025, creating a lot of new demand for storage.

Thus, Seagate thinks a value option for mass storage will have a use for quite some time. The stock trades for 13.0 times 12-month free cash flow and pays a 4.9% annual dividend. Even in lean times (like in the last year), Seagate can service that payout and then some. This is a high-yield stock that deserves some love.

## 3. Broadcom: a chip giant betting on software

Broadcom has undergone numerous changes in the last few years. Singapore-based Avago purchased San Jose, California-based Broadcom back in 2016. Then the newly formed semiconductor and electronics hardware leader redomiciled back to the U.S. in 2018 after its attempted purchase of **Qualcomm** (NASDAQ: QCOM) was blocked by the Trump administration over national security concerns.

Since then, Broadcom has been upping its game in the world of software in an attempt to create amore unified supplier of enterprise-level networking equipment and services. First was the acquisitionof CA Technologies — a leading provider of IT management software — for $18.9 billion last year.More recently, Broadcom agreed to buy the enterprise cybersecurity segment of **Symantec** (NASDAQ: SYMC) for another $10.7 billion, further strengthening its know-how in big business-grade hardware and infrastructure management.

All of this wheeling and dealing has seriously run up the amount of debt on Broadcom's books. A lot is riding on the chipmaking powerhouse being able to squeeze cost savings out of its acquisitions to boost profits and pay down those liabilities. Management is confident it can do so and that resulting growth from being able to cross-sell products to customers will help reignite organic revenues (core sales excluding growth from acquiring CA Technologies and Symantec).

In the meantime, shares trade for just 12.3 times trailing free cash flow, and investors get treated to a 3.9% dividend yield — a payment that eats up just under half of free cash. That makes this tech giant worthy of being a core holding for those looking for dividend income.

**CATEGORY**

1. Investing
2. Tech Stocks



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**TICKERS GLOBAL**

1. NASDAQ:AVGO (Broadcom Limited)
2. NASDAQ:QCOM (QUALCOMM Incorporated)
3. NASDAQ:STX (Seagate Technology plc)
4. NYSE:IBM (International Business Machines Corporation)

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