HP shares plunge on Wall Street

August 19 2011, by Germain Moyon

This picture taken in 2010 shows computer maker Hewlett-Packard headquarters in Diegem. Hewlett-Packard shares plunged 20 percent on Wall Street on Friday after the world's top personal computer maker announced a strategic shakeup that includes spinning off its PC business.

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Shares in the Palo Alto, California-based company were down 20.43 percent at $23.48 in early afternoon trading, wiping more than $12 billion off the firm's market capitalization.

HP announced Thursday it was exploring a spinoff of its PC unit, or Personal Systems Group (PSG), and buying British enterprise software company Autonomy for $10.24 billion as it refocuses on software and technology solutions.

In a further move away from the consumer space, HP said that it was stopping production of its TouchPad tablet computer, its rival to Apple's iPad that was introduced just seven weeks ago, and phones based on the webOS mobile operating system acquired from Palm last year for $1.2 billion.

Deutsche Bank analysts said the HP moves raised "red flags" and recommended that investors sell the stock.

"We believe this strategic evaluation has the potential to be extremely disruptive to the normal course of business," Deutsche Bank said.

"In aggregate, we question the timing of parallel strategic actions (acquisition and PC spinoff) in the midst of a meaningful deterioration in HP's core operations and lowered guidance," it said.

Shaw Wu of Sterne, Agee & Leach expressed concern that HP "may be stretched thin trying to do too many things at the same time including its purchase of Autonomy, shutdown of its webOS hardware operation, not to mention dealing with the uncertainty around its PC business."

Credit Suisse said HP's moves were "fundamentally" the correct strategy but warned that "it's going to be expensive."

Gregori Volokhine of Meeschaert Capital Markets said a number of HP's past acquisitions have been "disastrous" and noted that the company is essentially jettisoning Palm's webOS platform less than 18 months after buying it.

"They want to become a direct competitor of SAP, IBM and Oracle," Volokhine said of HP's strategic shift. "Those are big players."

Credit rating agency Standard & Poor's said meanwhile that it was placing HP's 'A' corporate credit rating and 'A-1' short-term rating on CreditWatch with negative implications.

"The Personal Systems Group is HP's largest unit from a revenue perspective and has the lowest margin of HP's business segments," Standard & Poor's credit analyst Lucy Patricola said.

"Although the separation of this unit could be incrementally positive to Standard & Poor's evaluation of HP's overall business profile, the financial impact could potentially be significant, depending on the structure of any transaction and on the resulting HP capital structure," Patricola said.

Moody's Investors Service changed the long-term and short-term ratings outlook of HP to negative from stable.

"The negative outlook reflects a level of performance uncertainty stemming from HP's significant strategic announcements," Moody's said.

"HP will be financing a large transaction and considering strategic options for its traditional PC business during what could be a period of considerable economic volatility," it said.

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