How much is Yahoo worth? The case for buying

January 4 2012, By BERNARD CONDON , AP Business Writer

(AP) -- It's losing business to Google and Facebook. Its stock has gone nowhere since 2008. It just announced its fourth CEO in five years. It's enough to make investors replace the exclamation point in the logo with a question mark.

Yahoo?

Puzzlingly, some Wall Street analysts suggested Wednesday that it's a good time to buy stock in the company, a 1990s Internet darling that is watching its advertising revenue eaten away by competitors.

It may seem counterintuitive, but it's not illogical. The bulls on Yahoo argue that the stock has been beaten down so much, there's value to be had even if it keeps losing ground.

And rumors have circulated for weeks that Yahoo could sell its operations in Asia for $17 billion, or $14 a share. Yahoo Inc. stock closed Wednesday at $15.78, which means the market is putting a value of less than $2 on the guts of the company.

Far too low, says Jordan Rohan, an analyst at Stifel Nicolaus, who thinks Yahoo stock should be priced at $21 or more.

"The U.S. business is quite profitable," he says.

Yahoo announced that Scott Thompson, an executive at eBay and president of its PayPal online payment service, would take over as CEO, replacing Carol Bartz, who was fired in September.

Yahoo stock fell 51 cents, or 3 percent, on the news, and analysts questioned whether Thompson could do what Bartz couldn't in two and a half years - turn the company around.

"He has no experience as a CEO," says Laura Martin, a stock analyst at Needham & Co. "This is a negative for us."

Yet even she thinks you should buy Yahoo stock.

Yahoo has the No. 2 search engine in the U.S. behind Google and more than 280 million users of its Yahoo Mail. It also has some of the Internet's best-known brands, including Yahoo News, Yahoo Finance and Yahoo Sports.

Rohan of Stifel Nicolaus notes that the business outside of Asia generates about $1.5 billion in operating profit each year. Even if that part of the business is valued at only half of what it is at Yahoo's rivals, that's $7 per share.

Add that to the $14 for the Asia piece of the business, and you get $21. A rise to that price would hand investors a 33 percent gain.

Since Yahoo fired its last CEO, the chatter on Wall Street has been that the company might sell itself, whole or in parts, to a buyout firm that would take it private. Then reports surfaced that it was negotiating with its partners in Asia to sell its operations there, which include a stake in e-commerce giant Alibaba Group of China.

That got analysts excited, but not investors. The stock has barely budged.

In a conference call with analysts Wednesday, Yahoo said it planned to stay public. That threw cold water on the idea that it would sell itself in one piece. As for part-by-part, though, Yahoo was more coy. It said it was conducting a strategic review.

Investors unsure about the Yahoo's future may want to consult Yahoo Answers, a site where visitors post questions and get answers from other readers. One user last year asked "how a bad company can be a good stock."

The top-rated answer: Investors sometimes overreact on grim news by selling with abandon.

Is that what's happened to Yahoo?

Bulls like Needham's Martin think so, though even she's worried. She notes that competition is too fierce in the Internet business, where successful companies frequently get crushed, not to mention ones already flagging.

"MySpace went to zero," she says. "AOL used to have a market cap of $200 billion."

But sometimes it pays to hold your nose and buy. Martin is also telling investors to buy AOL. One reason is that the stock has lost nearly half its value in two years.

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Citation: How much is Yahoo worth? The case for buying (2012, January 4) retrieved 11 May 2024 from https://phys.org/news/2012-01-yahoo-worth-case.html

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