CUSP managers buy Corning Inc. and rebalance technology

By Tristan Houk

I analyzed three companies in the Information Technology sector during March 2023. I proposed buying Corning Inc. (GLW), decreasing our position in Fabrinet and increasing the CUSP Fund investment in Adobe Inc. The CUSP portfolio managers agreed with my recommendations. My rationale follows.

Corning Inc. is involved in the design and manufacturing of glass for many applications. Its business is divided into six segments: display technologies, optical communications, specialty materials, environmental technologies, life sciences and all other, which includes the auto glass and Hemlock Semiconductor Group businesses. Corning Inc.'s largest segments are its Optical Communications segment, responsible for creating fiber optic communication, and its Display Technologies, responsible for creating glass substrates for display panels. The company had a market capitalization of approximately $30 billion at the time of analysis and traded at a price-to-earnings ratio of 22 and a forward P/E of 16. In addition to the attractive valuation, the company was able to grow its core sales by 5% and produce a core gross margin of 36%. CUSP Fund managers found these metrics to be attractive for a company with such varied vectors of growth.

Another large factor driving CUSP managers' decision to purchase Corning Inc. are the macroeconomic and political factors impacting the broader technology hardware sector. These impacts include reduced demand from the wind down of pandemic-fueled technology spending, foreign exchange rates being hit due to a strengthening U.S. dollar and the CHIPS Act restricting China's access to American advanced semiconductor equipment. The view of CUSP managers is that Corning Inc. overcomes most of the impact of these concerns. The firm has product applications that aren't blocked by the CHIPS Act and has segments that are sheltered from poor macroeconomic conditions thanks to subsidies related to the BEADS program. On the negative side, the company does have significant overseas operations that impacted the company's profits by $616 million in 2022.

The decision to invest also stems from bullish outlooks given by analysts and company management. Management warned that disruptions would continue in the first quarter due to pandemic-related lockdowns and other measures happening in China. Despite this hiccup, management has reiterated that the company has pricing power in much of its portfolio and gave a core EPS estimate in the range of $0.35 to $0.42. Industry consensus has been that macroeconomic conditions will result in depressed sales and profit margins in the first half of 2023, but growth trajectory will resume in the second half of the year. With the long-time horizon CUSP managers take when assessing possible investments, the short-term headwinds the company is facing present an opportunity to buy a great company for a good valuation.

Considering the addition of GLW to the portfolio, CUSP managers decided to rebalance some technology holdings. CUSP managers decided that it would be appropriate to reduce exposure to Fabrinet due to its weak market power but maintain a position because of the company's strong financial performance. CUSP managers also thought it best to increase the position in Adobe Inc. due to its non-cyclical nature and strong financial performance. All changes were undertaken in March 2023.