International Business Machines Corp

AI-Driven Software Momentum Supports Further Re-rating

25 May 2026

Company Overview

International Business Machines Corp. (IBM) provides a wide range of services, software, and hardware solutions across multiple industry verticals. IBM is making a push into hybrid cloud, as well as newer technologies such as artificial intelligence, machine learning, quantum computing and others. Its segments include Software, Consulting, Infrastructure and Financing.

Investment Overview

IBM's Software growth continues to be led by Red Hat. Software (Hybrid Platform Solutions and Transaction Processing) rose 14% y/y in 4Q25 to USD9.0bn, driven by Red Hat's sustained double-digit growth since its 3Q19 acquisition. Red Hat enables hybrid-cloud application build and deployment, and Mordor Intelligence expect the hybrid-cloud market at USD312bn by 2030 (13% CAGR). Consensus sees IBM's Software segment growing at a 10.7% CAGR over FY26F-28F.

Watsonx remains central to IBM's enterprise AI push. IBM launched Granite 4.0, a small-language-model suite with 70% lower memory use and 2× faster inference, and expanded partnerships with Anthropic and Groq. Its GenAI book of business reached USD9.5bn, while the USD6.4bn HashiCorp acquisition added automation synergies. Management expects Software to grow by double-digits in FY26F, led by AI innovation and M&A.

M&As deepen IBM's AI-led Software strategy. IBM agreed to acquire Confluent for USD11bn, with closing expected by mid-2026. Confluent strengthens IBM's hybrid-cloud and AI stack and expands its open-source ecosystem amid rising GenAI-driven demand for real-time streaming data. Management sees Confluent adding several ppts to Software growth in FY26F, with cost and revenue synergies largely realised by FY27F.

BUY with a revised TP of USD365 (prev. USD350). Based on 29x (prev. 28x) 12-month forward blended net profit of USD12.0bn (prev. USD11.7bn) following a three-month roll-forward. The 29× forward P/E implies a 20% premium to peers' 24×, justified by stronger earnings growth (FY26F-28F CAGR: 10% vs peers' 8%) and IBM's focus on hybrid-cloud, AI and Software-led expansion, underpinned by acquisitions including HashiCorp and the pending Confluent deal.

Risks

1) weaker IT spending amid macro uncertainty (notably in financial and public sectors), (2) slower services growth pressuring revenue, (3) rising competition weighing on margins, and (4) a gradual decline in mainframe demand.

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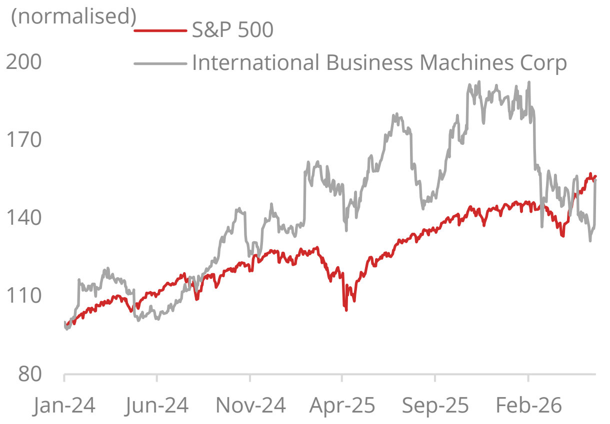
Key Financial Data

Bloomberg Ticker	IBM US
Sector	Information Technology
Share Price (USD)	252.97
DBS Rating	BUY
12-mth Target Price (USD)	365.0
Market Cap (USDb)	237.8
Volume (m shares)	25.6
Free float (%)	99.1
Dividend yield (%)	2.7
Net Debt to Equity (%)	153.3
Fwd. P/E (x)	20.4
P/Book (x)	7.2
ROE (%)	35.9

Closing Price as of 21 May 2026
Source: Bloomberg, DBS

Indexed Share price vs Composite Index Performance



Source: Bloomberg

Financial Summary

FY Mar (USDmn)	FY2023(A)	FY2024(A)	FY2025(A)	FY2026(F)	FY2027(F)
Sales	61,860	62,753	67,535	71,415	74,603
% y/y	*2.2*	*1.4*	*7.6*	*5.7*	*4.5*
Gross Profit	34,932	36,275	40,184	42,788	45,129
% y/y	*4.7*	*3.8*	*10.8*	*6.5*	*5.5*
EBITDA	15,450	15,928	19,151	20,846	21,978
% y/y	*4.8*	*3.1*	*20.2*	*8.8*	*5.4*
Net Profit	8,870	9,684	10,993	11,888	12,879
% y/y	*6.5*	*9.2*	*13.5*	*8.1*	*8.3*
FCF	11,209	12,748	14,736	15,869	16,996
% y/y	*20.6*	*13.7*	*15.6*	*7.7*	*7.4*
CAPEX	1,489	1,128	1,617	1,663	1,829
% y/y	*(20.0)*	*(24.2)*	*43.4*	*2.8*	*11.3*
EBITDA Margin (%)	25.0	25.4	28.4	29.2	29.5
Net Margin (%)	14.3	15.4	16.3	16.6	17.3
ROA (%)	6.8	7.1	7.6	7.6	7.8
ROE (%)	39.7	38.7	36.6	34.1	31.6
Tax Rate (%)	14.0	13.6	13.5	15.2	15.3

Source: Visible Alpha

Valuation Metrics

FY Mar	FY2023(A)	FY2024(A)	FY2025(A)	FY2026(F)	FY2027(F)
P/E (x)	26.1	24.2	21.5	20.2	18.8
P/B (x)	10.4	8.7	7.4	6.6	5.5
Dividend Yield (%)	2.6	2.6	2.6	2.7	2.7
EV/EBITDA (x)	19.2	18.6	15.5	14.2	13.5
FCF Yield (%)	4.8	5.4	6.1	6.5	7.0
Dividend Per Share (DPS)	6.6	6.7	6.7	6.7	6.8

Source: Visible Alpha

Credit & Cashflow Metrics

FY Mar	FY2023(A)	FY2024(A)	FY2025(A)	FY2026(F)	FY2027(F)
Debt / Equity (%)	265.0	213.2	197.3	186.6	151.6
Net Debt / Equity (x)	2.1	1.6	1.5	1.4	1.0
Debt / Assets (%)	44.3	42.6	42.5	42.3	40.2
Net Debt / Assets (x)	0.3	0.3	0.3	0.3	0.3
EBITDA / Int Exp (%)	9.6	9.3	9.9	10.8	11.7
ST Debt / Total Debt (x)	0.1	0.1	0.1	0.1	0.1
Debt / EBITDA (x)	3.9	3.7	3.4	3.3	3.1
[Cash + CFO] / ST Debt (%)	3.8	4.8	3.8	3.6	4.5
Receivables Days	86.4	86.7	95.3	88.8	88.7
Days Payable	24.4	23.5	25.7	24.9	24.8
Inventory Days	6.9	7.5	6.6	7.9	7.7

Source: Visible Alpha

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1	29 Jul'25	263.2	280.0	HOLD
2	14 Jan'26	303.2	350.0	BUY
3	10 Feb'26	296.3	365.0	BUY

Source: DBS
Analyst: Sachin Mittal

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**Share price appreciation + dividends*

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