



Seagate Technologies (STX)

Updated May 30th, 2018 by Jonathan Weber

Key Metrics

Current Price: \$57	5 Year CAGR Estimate: 7.8%	Quality Percentile: N/A
Fair Value Price: \$56	5 Year Growth Estimate: 3.8%	Momentum Percentile: N/A
% Fair Value: 102%	5 Year Valuation Multiple Estimate: -0.4%	Total Return Percentile: N/A
Dividend Yield: 4.4%	5 Year Price Target \$67	Valuation Percentile:

Overview & Current Events

Seagate Technologies is a tech company that offers data storage products and data storage solutions to its customers, among others its portfolio includes hard disk drives, solid state hybrid drives, solid state drives, storage subsystems and computing solutions. Seagate Technologies was founded in 1978, is headquartered in Dublin, Ireland, and is currently valued at \$17 billion.

Seagate Technologies' most recent quarterly results (fiscal Q3) were announced on May 1st. the company reported earnings-per-share of \$1.46, a 33% increase from \$1.10 in the previous year's quarter. Revenues totaled \$2.8 billion, which means a 5% increase year-over-year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.63	---	\$3.14	\$1.24	\$6.75	\$5.31	\$5.04	\$4.57	\$2.26	\$4.12	\$5.32	\$6.40
DPS	\$0.42	\$0.27	---	\$0.18	\$0.86	\$1.40	\$1.67	\$2.05	\$2.43	\$2.52	\$2.52	\$2.80

Seagate Technologies' profitability varied widely over the last decade. From a small net loss during the last financial crisis up to record profits in 2012 – the company's overall performance has been relatively inconsistent.

Seagate Technologies' strong earnings growth in 2018 (through the first 3 fiscal quarters of the current year the company grew its operating profits by 32%) was, in contrast to many other companies, not driven by lower taxes. Due to being domiciled in Ireland Seagate Technologies already had been paying a low tax rate of just less than 10% even before recent tax legislation changes in the US. Revenue growth (single digits in 2018) was not a major factor either, but the company lowered its expenses drastically. Partially this was due to one-time expenses during the prior year (e.g. restructuring charges), but lower operating expenses (product development: -20%; SG&A: -10%) were the main factor for increasing operating profits. It is unclear whether the company can continue to lower its R&D and sales expenses without hurting revenue growth in the long run, thus it seems prudent to assume that operating expenses will not decline at that pace in the future.

Seagate Technologies benefits from strong demand growth for storage products. Over the last five years demand for Nearline HDDs (an intermediate type of data storage that makes up roughly half of Seagate Technologies' HDD sales) rose by 35% annually. With tailwinds such as the IoT, big data, automotive driving, cloud computing, industry 4.0, etc. leading to rapid increases in the amount of data that needs to be stored the whole storage industry should benefit from continually strong demand for its products.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	8.9	---	5.2	11.4	2.9	6.3	9.9	12.9	15.8	9.6	10.7	10.5
Avg. Yld.	1.8%	3.2%	---	1.3%	4.4%	4.2%	3.4%	3.5%	6.8%	6.4%	4.4%	4.2%

Seagate Technologies' valuation has seen big ups and downs through the last 10 years. More recently, when earnings growth stabilized a bit and demand for storage products grew, its valuation expanded a bit. Shares are currently trading at a small premium to the historic average, valuation changes could therefore be a (very small) headwind going forward.

Due to the strong share price increase Seagate Technologies has seen over the last year its dividend yield has come down, but is still relatively attractive.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	31.7%	19.9%	38.8%	23.3%	46.3%	42.6%	40.6%	38.7%	31.9%	34.2%	35.0%	35.0%
Debt/A	54.6%	78.0%	66.9%	73.2%	65.4%	62.1%	70.2%	69.3%	80.6%	85.2%	85.0%	80.0%
Int. Cov.	-	-	10.4	3.8	13.4	9.9	9.4	10.8	2.5	4.9	5.5	6.0
Payout	16.0%	-	-	14.5%	12.7%	26.4%	33.1%	44.9%	108%	61.2%	47.4%	43.8%
Std. Dev.	57.5%	71.9%	45.2%	73.6%	61.5%	33.8%	30.5%	28.3%	63.4%	38.3%	35.0%	32.0%

Seagate Technologies has high liabilities relative to the assets the company possesses, but not all of those liabilities are interest-bearing long-term debt. The company has \$4.8 billion in interest bearing debt (including current portion), and at the same the company holds \$2.9 billion in cash – its net debt of \$1.9 billion is not high relative to its market capitalization of \$17 billion. Seagate Technologies could reduce its net debt to zero in a relatively short period of time, as it produces free cash flows of roughly \$1.5 billion a year.

Seagate Technologies is one of the biggest data storage companies (Western Digital, with a market cap of \$26 billion is the largest) and therefore is a major player in this relatively narrow, focused industry. The industry has, due to consolidation over the last few years, turned into an oligopoly, which is beneficial for margins and which limits competitive threats.

Demand for storage products is relatively cyclical, as customers (especially commercial customers) tend to lower their capital expenditures during economic downturns, pushing investments into the future. Seagate Technologies was not able to remain profitable during the last financial crisis, although less severe (and shorter) recessions have a much smaller impact on Seagate Technologies' profitability.

Final Thoughts & Recommendation

Seagate Technologies is one of the market leaders in the (somewhat cyclical) storage sector. Tailwinds that will lead to strong demand growth for storage products are a positive, but Seagate Technologies' growth over the last decade was not very convincing. Primarily due to a relatively high dividend yield shares of the company could still be able to produce high-single digits total returns going forward. Seagate Technologies is a hold at current prices.

Total Return Breakdown by Year

