Seagate Technologies (STX)

Updated July 30th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$55	**5 Year CAGR Estimate:**	9.6%	**Volatility Percentile:**	96.8%
Fair Value Price:	$60	**5 Year Growth Estimate:**	3.8%	**Momentum Percentile:**	98.0%
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.2%	**Valuation Percentile:**	79.3%
Dividend Yield:	4.6%	**5 Year Price Target**	$73	**Total Return Percentile:**	69.9%

Overview & Current Events

Seagate Technologies is a technology company that offers data storage products and data storage solutions to its customers. 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 $16 billion.

Seagate reported its fourth quarter earnings results on July 30. The company earned $1.62 during Q4, an increase of 149% year over year. Revenues grew at a substantially lower pace. Seagate's top line of $2.8 billion was up 18% year over year. During fiscal 2018 Seagate was able to grow its earnings per share by 57%, despite the fact that revenues grew by only 4% during the last year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	$3.14	$1.24	$6.75	$5.31	$5.04	$4.57	$2.26	$4.12	$5.52	***$5.74***	***$6.92***
DPS	$0.27	---	$0.18	$0.86	$1.40	$1.67	$2.05	$2.43	$2.52	$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 was, in contrast to many other companies, not driven by lower taxes primarily. 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. 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	5.2	11.4	2.9	6.3	9.9	12.9	15.8	9.6	10.1	***9.9***	***10.5***
Avg. Yld.	3.2%	---	1.3%	4.4%	4.2%	3.4%	3.5%	6.8%	6.4%	4.4%	***4.6%***	***4.2%***

Seagate Technologies' valuation has been very volatile over the last several years. Right now shares are trading just below 10 times earnings, which is a small discount to what we deem fair value.

Seagate's shares yield 4.6%, which is a relatively high yield in absolute terms. There has been no meaningful dividend growth in the last couple of years though, thus Seagate is not a good dividend growth investment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	19.9%	38.8%	23.3%	46.3%	42.6%	40.6%	38.7%	31.9%	34.2%	36.1%	***37.0%***	***38.0%***
Debt/A	78.0%	66.9%	73.2%	65.4%	62.1%	70.2%	69.3%	80.6%	85.2%	82.3%	***82.0%***	***80.0%***
Int. Cov.	-	10.4	3.8	13.4	9.9	9.4	10.8	2.5	4.9	5.5	***5.7***	***6.0***
Payout	-	-	14.5%	12.7%	26.4%	33.1%	44.9%	108%	61.2%	45.7%	***43.9%***	***43.8%***
Std. Dev.	71.9%	45.2%	73.6%	61.5%	33.8%	30.5%	28.3%	63.4%	38.3%	38.0%	***37.0%***	***34.0%***

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, and at the same the company holds $3.1 billion in cash. In other words, its net debt is just $1.7 billion. Seagate Technologies could reduce its net debt to zero in a relatively short period of time, as it produced free cash flows of roughly $1.7 billion during fiscal 2018.

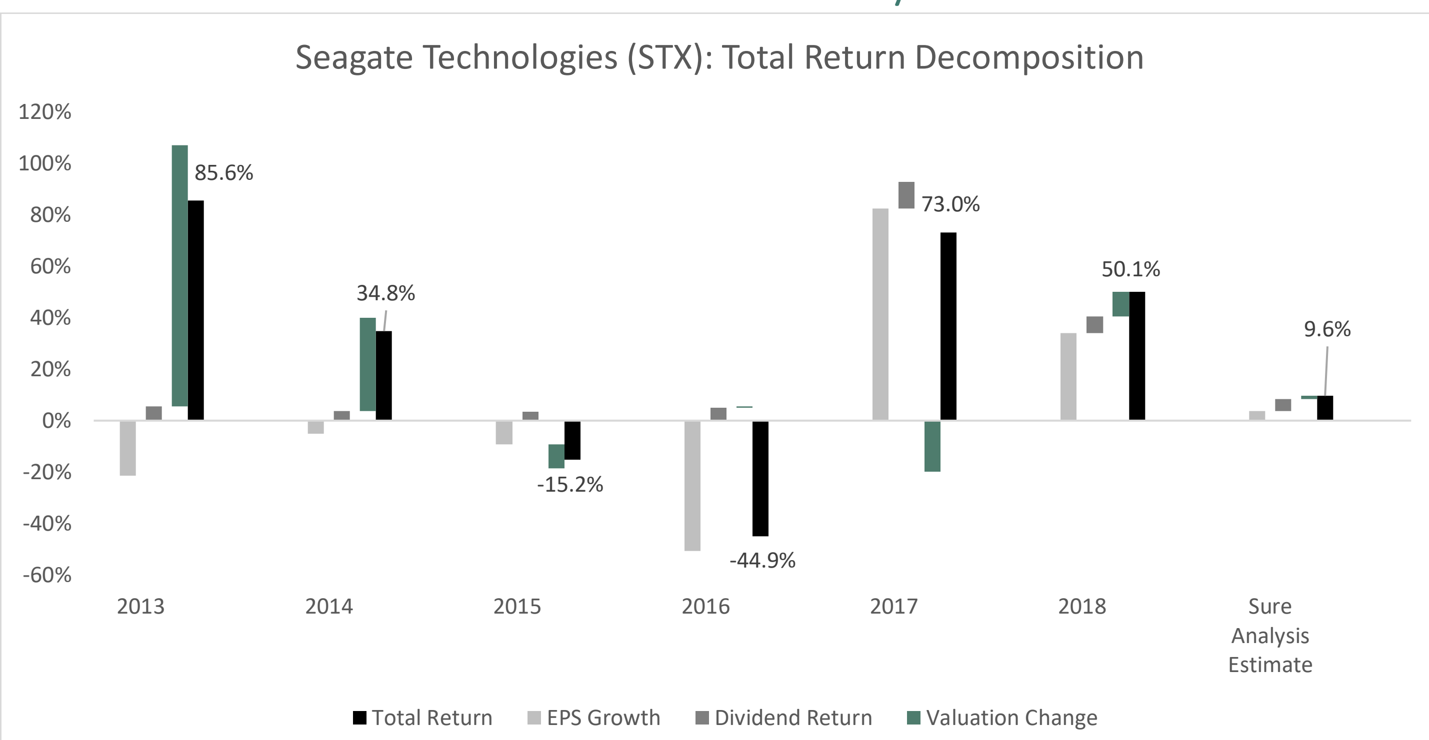
Seagate Technologies is one of the biggest data storage companies and therefore is a major player in this relatively narrow, focused industry. The industry has, due to consolidation over the last few years, turned into an oligopoly, which is beneficial for margins and which limits competitive threats.

Demand for storage products is relatively cyclical, as customers 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 recessions will be less impactful.

Final Thoughts & Recommendation

Seagate Technologies belongs to the market leaders in the storage industry. The company produced excellent earnings growth during fiscal 2018, but cost cutting will not be possible at this pace going forward, which is why we believe that the earnings growth rate will come down substantially. Shares should offer solid returns going forward. Seagate looks like a hold or a potential buy for income investors at current prices.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.