Siemens AG (SIEGY)

Updated September 3rd, 2018 by Nick McCullum

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	9.7%	**Volatility Percentile:**	34.5%
Fair Value Price:	$67	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	28.7%
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	1.1%	**Valuation Percentile:**	70.4%
Dividend Yield:	3.6%	**5 Year Price Target**	$86	**Total Return Percentile:**	35.6%

Overview & Current Events

Siemens AG is a German industrial conglomerate that operates in the following business units: Energy, Healthcare, Industry, and Infrastructure & Cities. Siemens was founded in 1847 and today employs more than 372,000 people worldwide while generating more than US$90 billion of annual revenue. American investors can purchase Siemens stock through American Depository Receipts that trade over-the-counter under the ticker SIEGY with a current market capitalization of US$102 billion.

In early August, Siemens reported (8/2/18) financial results for the third quarter of fiscal 2018. Excluding currency translations and divestitures, Siemens generated 21% order growth while revenue was even with the prior-year period. On a reported basis, orders grew 16% while revenue fell by 4%. On the bottom line, basic earnings-per-share fell by 18.6% due to a substantially higher income tax rate compared to the third quarter of 2017. The company also reaffirmed its guidance for the full year of fiscal 2018 (of which just one quarter remains for the German industrial conglomerate). Siemens continues to expect basic earnings-per-share in the range of €7.70 to €8.00, which is equivalent to a guidance band of US$8.75 to US$9.09 at prevailing exchange rates. The company also wrote, "*we confirm our expectation of modest growth in revenue, net of effects from currency translation and portfolio transactions, and continue to anticipate that orders will exceed revenue for a book-to-bill ratio above 1 for the full fiscal year.*"

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.34	$1.89	$3.09	$5.19	$3.67	$3.26	$3.91	$3.53	$3.60	$4.27	***$4.46***	***$5.70***
DPS	$1.17	$1.05	$1.12	$1.84	$1.93	$2.01	$2.05	$1.88	$1.91	$2.17	***$2.27***	***$2.90***
Shares	1723.1	1732.9	1739.7	1748.5	1712.5	1686.0	1686.9	1617.2	1616.6	1624.4	***1625.0***	***1550.0***

Siemens growth over the last decade has been remarkable, but this is partially due to depressed earnings in 2008 caused by the 2007-2009 financial crisis. From 2007 to 2017, the company compounded its adjusted earnings-per-share at a rate of 4.1% per year. Given Siemens current industrial backlog (more on that later), we believe the company is capable of growing slightly faster moving forward. We expect the company to generate earnings-per-ADR of approximately $4.46 in fiscal 2018 (in-line with the midpoint of its financial guidance), which should be followed by 5% annualized growth thereafter.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	N/A	18.1	15.4	11.8	12.8	16.4	16.6	15.2	14.3	15.3	***14.2***	***15.0***
Avg. Yld.	1.9%	3.1%	2.4%	3.0%	4.1%	3.8%	3.2%	3.5%	3.7%	3.3%	***3.6%***	***3.4%***

As mentioned, Siemens reaffirmed its 2018 financial guidance with the release of its last quarterly earnings report. The company continues to expect earnings-per-share between US$8.75 and US$9.09. Given the two-for-one nature of Siemens' American Depository Receipts, this is equivalent to earnings-per-ADR of US$4.46. Using this estimate, Siemens is trading at a price-to-earnings ratio of 14.2. The company has traded at an average price-to-earnings ratio of 15.0 over the last decade (excluding 2008, when earnings were artificially low). If the company's valuation reverts to 15 times earnings over the next 5 years, this will boost annualized returns by 1.1% during this holding period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	23.7%	20.2%	19.4%	21.6%	20.4%	19.2%	20.8%	18.5%	18.8%	17.5%	***18.0%***	***18.0%***
Debt/A	71.0%	71.3%	71.7%	69.2%	71.0%	71.9%	70.0%	70.9%	72.3%	66.7%	***70.0%***	***70.0%***
Payout	87.3%	55.6%	36.2%	35.5%	52.6%	61.7%	52.4%	53.3%	53.1%	50.8%	-	-
Std. Dev.	54.7%	42.1%	25.9%	33.8%	22.8%	16.1%	18.2%	17.1%	21.1%	14.6%	-	-

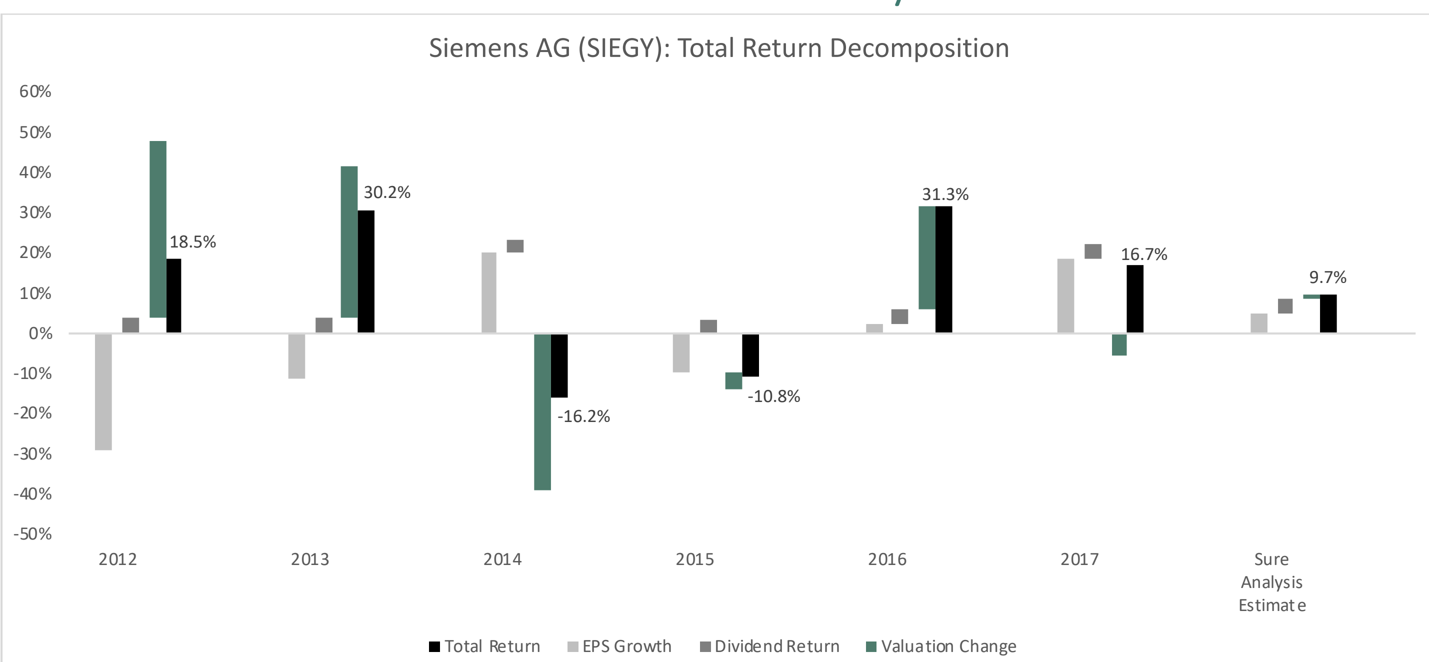
Siemens quality metrics have remained relatively stable over time. The company generally maintains a debt-to-assets ratio of around 70% while simultaneously distributing between 50% and 60% of its earnings as dividend payments to shareholders. We note that the company's stock price volatility is rather high compared to many other companies in our investment universe, particularly those outside of the industrial sector.

Qualitatively, one of Siemens' most interesting competitive advantages is its robust industrial backlog. The company typically books more business than it is capable of completing at any given time, which causes it to operate with a *book-to-bill ratio* (new contracts divided by total revenue) above 1.0. This has resulted in a large backlog of uncompleted business over time. More specifically, Siemens had a backlog of €132 billion – or approximately US$150 billion – at the end of the most recent reporting period. Siemens industrial backlog alone is sufficient to provide nearly *six quarter worth of revenue* with any new business bookings.

Final Thoughts & Recommendation

Siemens is a high-quality industrial conglomerate that is trading slightly below its long-term average valuation multiple. The company appears positioned to deliver high-single-digit returns at current prices if global economic expansion continues and Siemens continues to win new business. Because of this, Siemens earns a buy recommendation from Sure Dividend at current prices, although we caution that better buying opportunities may emerge if a global economic recession occurs and Siemens' stock price falls accordingly.

Total Return Breakdown by Year



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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.