Tenaris S.A (TS)

Updated September 4th, 2018 by Nick McCullum

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	7.3%	**Volatility Percentile:**	79.3%
Fair Value Price:	$25	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	71.4%
% Fair Value:	132%	**5 Year Valuation Multiple Estimate:**	-5.2%	**Valuation Percentile:**	18.0%
Dividend Yield:	2.5%	**5 Year Price Target**	$41	**Total Return Percentile:**	46.3%

Overview & Current Events

Tenaris S.A. is a global manufacturer of steel pipes and related services that is headquartered in Luxembourg City, Luxembourg. The company is a majority-owned subsidiary company of the Techint Group, which has similar interests in industrial, energy, engineering, and construction businesses. Despite operating in the steel industry, Tenaris has significant exposure to oil prices as the majority of its customers operate in the energy sector. Tenaris' common stock is traded on three international stock exchanges, but domestic investors can initiate an ownership position through American Depository Receipts that trade on the New York Stock Exchange with a market capitalization of US$19.4 billion.

In early August, Tenaris reported (8/1/18) financial results for the second quarter of fiscal 2018. In the quarter, revenue rose by 44% while operating income grew by 332% and net income grew by 127%. Sales rose in all segments except for Canada (which was due to seasonal effects) and the East Mediterranean, where lower shipments for offshore pipelines were expected following an exceptional performance in the first quarter of the fiscal year. EBITDA margins expanded from 16.1% last year to 20.3% this quarter (and 19.0% in the first quarter of fiscal 2018).

Through the first half of the fiscal year, performance was similarly strong. Tenaris saw sales increase by 52% through the first half of 2018. In addition, margins improved due to higher average selling prices despite lower shipment volumes. The markets reacted favorably to Tenaris' second quarter earnings release, and shares rose by 2.5% on the first trading day following the announcement before retracing their gains later in the month.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.98	$2.00	$1.90	$2.26	$2.88	$2.62	$2.28	$1.08	$0.15	$0.77	***$1.50***	***$2.45***
DPS	$0.76	$0.86	$0.68	$0.68	$0.76	$0.86	$0.90	$0.90	$0.90	$0.82	***$0.90***	***$1.25***
Shares	590.27	590.27	590.27	590.27	590.27	590.27	590.27	590.27	590.27	590.27	***590.27***	***590.27***

Tenaris's growth over the last decade has been far from linear, but this is largely due to the prolonged downturn in oil prices that began in 2014. Since the majority of Tenaris' customers operate within the energy sector, this reduces demand for its products and services and causes a decline in its aggregate sales.

Looking ahead, we believe that Tenaris is capable of delivering earnings-per-share of about $1.50 in fiscal 2018. Beyond that, a continued rebound in oil prices should allow the steel pipe manufacturer to grow its earnings by around 10% per year over the next 5 years. Applying a 10% annualized growth estimate to our 2018 earnings-per-share estimate of $1.50 gives a 2023 earnings-per-share estimate of $2.45.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.9	14.6	21.6	18.1	13.3	16.6	18.5	25.2	N/A	40.3	***21.9***	***16.8***
Avg. Yld.	1.7%	2.9%	1.7%	1.7%	2.0%	2.0%	2.1%	3.3%	3.4%	2.6%	***2.5%***	***3.0%***

Tenaris has traded at an average price-to-earnings ratio of 16.8 over the last decade if we exclude the years in which its price-to-earnings ratio was artificially elevated due to depressed earnings caused by the decline in oil prices. Using our

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.

2018 earnings-per-share estimate, the company is trading at a price-to-earnings ratio of 21.9 today. If the company's price-to-earnings ratio reverts to its long-term average over a period of 5 years, this will reduce its annualized returns by 5.2% per year during this time period.

For income investors, we note that the country of Luxembourg imposes a 15% withholding tax on Tenaris' dividend payments for international investors, which reduces its net yield to 2.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	35.0%	24.4%	20.6%	24.9%	26.3%	26.0%	24.2%	14.5%	8.1%	11.1%	***10.0%***	***20.0%***
Debt/A	42.4%	27.9%	26.6%	24.8%	27.9%	21.7%	22.4%	20.3%	18.5%	19.6%	***20.0%***	***20.0%***
Int. Cov.	13.7	12.3	48.3	74.1	63.9	32.3	N/A	63.6	N/A	N/A	***N/A***	***N/A***
Payout	25.5%	43.0%	35.8%	30.1%	26.4%	32.8%	39.5%	83.3%	600%	107%	***60.0%***	***51.0%***
Std. Dev.	68.7%	47.4%	29.8%	45.2%	28.7%	15.9%	27.1%	24.5%	31.2%	23.9%	***22.0%***	***22.0%***

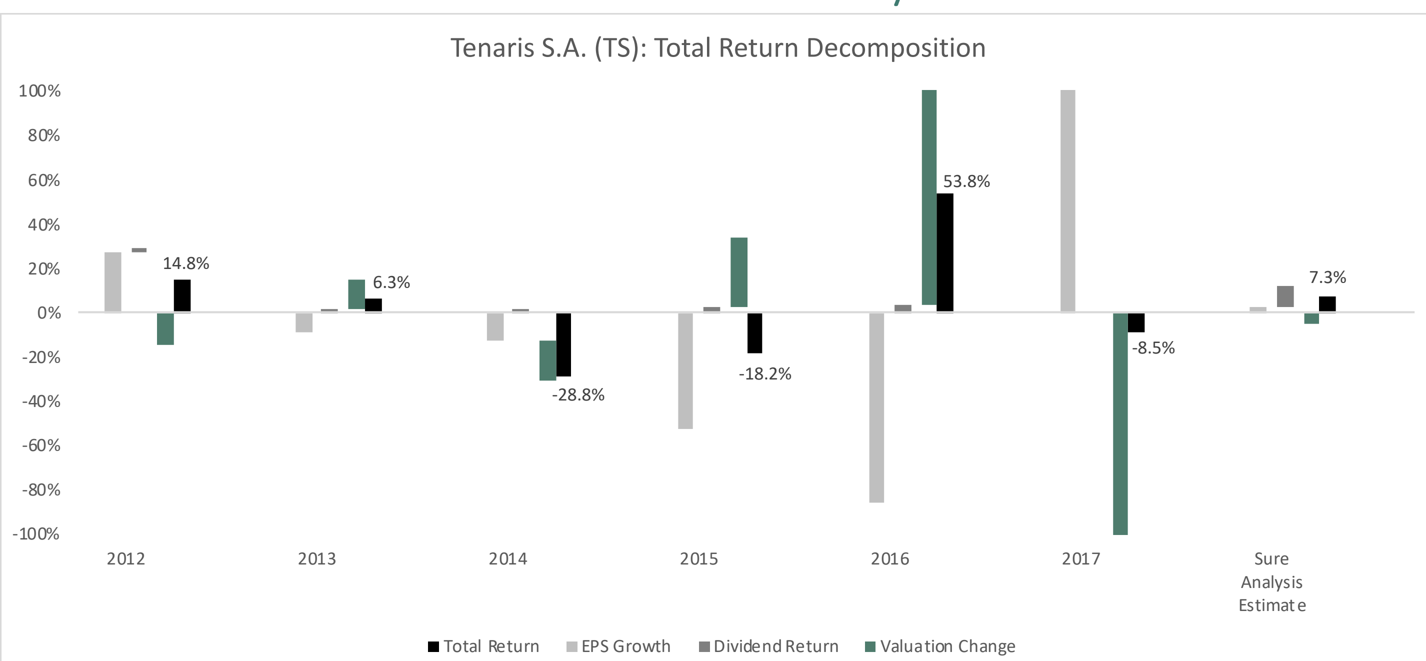
Tenaris has a very sound balance sheet that is comprised only 6% of 'debt' in the traditional sense – borrowings from banks and other financial institutions. The remainder of the company's total liabilities are trade payables, deferred tax liabilities, and other operating liabilities. Because of this, Tenaris' interest coverage is usually superb, which should allow the company to take full advantage of the rebound in the energy sector moving forward.

Qualitatively, Tenaris' most compelling competitive advantage is its entrenched position in a technical segment of the energy sector that relies tremendously on strong customer-supplier relationships. As a large company with global operations, Tenaris' services are unlikely to be replaced by newer, smaller industry disruptors.

Final Thoughts & Recommendation

On the surface, Tenaris may be an unorthodox way to gain exposure to the continued rebound of the energy sector. With that said, the company is only priced to deliver mid-to-high single-digit total returns at its current prices. Other domestic investment opportunities – such as Exxon Mobil (XOM) or Chevron Corporation (CVX) – give the same exposure to rising oil prices and have higher expected total returns without the tax complications of investing in international securities. Because of this, Tenaris fails to earn a buy recommendation at current prices.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.