Siemens AG (SIEGY)

Updated November 16th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	12.5%	**Volatility Percentile:**	33.9%
Fair Value Price:	$71	**5 Year Growth Estimate:**	4.5%	**Momentum Percentile:**	18.7%
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.0%	**Growth Percentile:**	28.2%
Dividend Yield:	4.0%	**5 Year Price Target**	$89	**Valuation Percentile:**	83.2%
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Total Return Percentile:**	75.4%

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$94 billion. All numbers in this report are in U.S. Dollars.

Siemens reported its fourth quarter (fiscal 2018) earnings results on October 19. The company recorded revenues of €22.6 billion (US$26.3 billion) during the fourth quarter, which represents an increase of 1.8% compared to the company's revenues during the previous year's quarter. Orders totaled $27.3 billion, in line with orders during Q4 2017. Revenues for all of 2018 were up 2% year over year, but orders rose at a solid pace of 8% compared to 2017. The solid order growth rate during the last year bodes well for Siemens' revenues during fiscal 2019. Siemens managed to generate earnings-per-share of €7.88 during fiscal 2018, which is equal to US$9.06, and which represents a growth rate of 2% compared to the earnings-per-share that were generated during fiscal 2017. As one ADR represents 0.5 shares of Siemens, earnings-per-ADR totaled $4.53 during fiscal 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.89	$3.09	$5.19	$3.67	$3.26	$3.91	$3.53	$3.60	$4.27	$4.53	***$4.73***	***$5.90***
DPS	$1.05	$1.12	$1.84	$1.93	$2.01	$2.05	$1.88	$1.91	$2.17	$2.30	***$2.48***	***$3.10***
Shares	1730	1740	1750	1710	1690	1690	1620	1620	1620	1620	***1610***	***1600***

Between 2009 and 2018 Siemens has recorded an earnings-per-share growth rate of 10.2% annually. This is a highly attractive growth rate for a large industrial company with a very long history such as Siemens. Due to the impact of the last financial crisis, Siemens' earnings-per-share were quite depressed during 2008 & 2009, which allowed for an above-average growth rate during the following years. During the last five years Siemens's earnings-per-share growth rate was substantially lower, at just 6.8%. Since 2007 (i.e. before the last financial crisis) Siemens has grown its earnings-per-share by a little bit above 4% a year, which seems like a reasonable estimate for the years to come.

Siemens' rising order backlog, the weakness of its peer General Electric, and the fact that Siemens is holding a solid position in growth markets such as manufacturing 4.0 will allow Siemens to grow its profits over the coming years. Siemens has launched a new share repurchase program that allows repurchases of up to €3 billion ($3.5 billion) through 2021, which will lead to further reduction in Siemens' share count, and which will thus have a (small) positive impact on Siemens' earnings-per-share growth over the coming years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	18.1	15.4	11.8	12.8	16.4	16.6	15.2	14.3	15.3	14.3	***12.3***	***15.0***
Avg. Yld.	3.1%	2.4%	3.0%	4.1%	3.8%	3.2%	3.5%	3.7%	3.3%	3.6%	***4.0 %***	***3.4%***

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Siemens has been trading at a mid-teens price to earnings ratio throughout most of the last decade. There were no large movements in the company's valuation in most of these years. Based on estimates for fiscal 2019 (the current fiscal year), shares trade at a relatively low valuation of just above 12 times earnings right now. This represents a discount compared to how shares were valued in the past, and a discount compared to our fair value estimate. We believe that Siemens' valuation should expand considerably over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	20.2%	19.4%	21.6%	20.4%	19.2%	20.8%	18.5%	18.8%	17.5%	17.9%	***18.0%***	***19.0%***
Debt/A	71.3%	71.7%	69.2%	71.0%	71.9%	70.0%	70.9%	72.3%	66.7%	65.5%	***64.0%***	***61.0%***
Payout	55.6%	36.2%	35.5%	52.6%	61.7%	52.4%	53.3%	53.1%	50.8%	50.8%	***52.4%***	***52.5%***
Std. Dev.	42.1%	25.9%	33.8%	22.8%	16.1%	18.2%	17.1%	21.1%	14.6%	18.4%	***18.0%***	***18.0%***

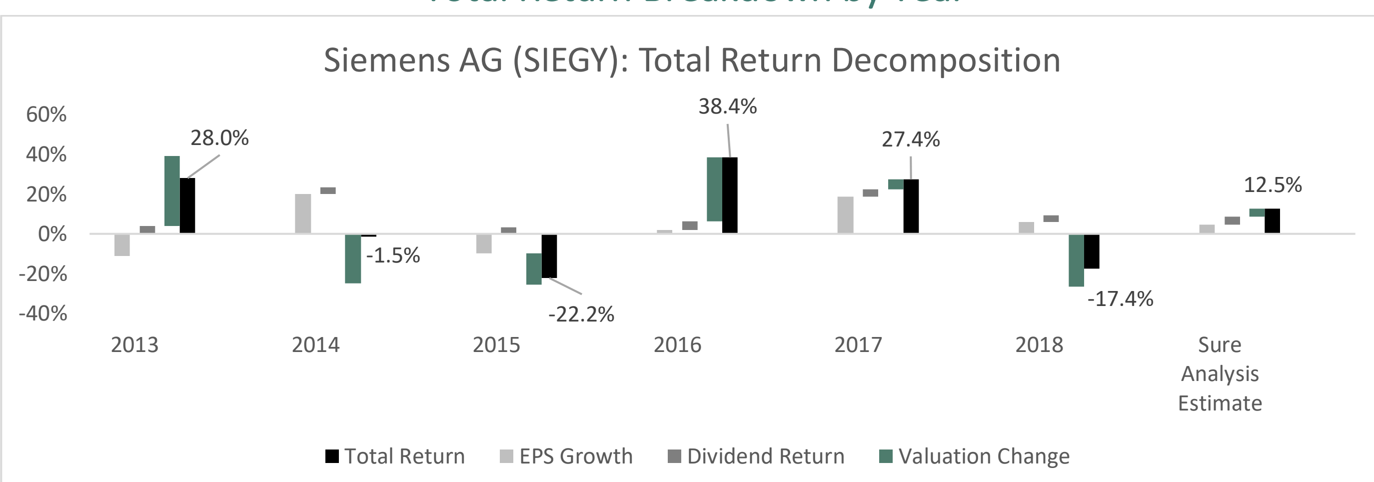
Siemens quality metrics have remained relatively stable over time. The company maintains a debt-to-assets ratio of around 70% while simultaneously distributing between 50% and 60% of its earnings as dividend payments to shareholders. Siemens can access debt markets in Europe easily, where interest rates continue to be very low. The company's debt levels are thus not problematic at all.

One of Siemens' most important 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. During fiscal 2018 this ratio stood at 1.1, or 110%. This has resulted in a large backlog of uncompleted business over time. Siemens had a backlog of more than $150 billion at the end of fiscal 2018. Siemens industrial backlog alone is sufficient to provide nearly *six quarter worth of revenue* without any new business bookings. Because of this, the company would be able to withstand a minor recession easily.

Final Thoughts & Recommendation

Siemens is one of the largest industrial companies in the world. Over complete economic cycles, its historical earnings-per-share growth has not been overly strong, but we believe that Siemens will nevertheless be able to produce compelling total returns throughout the next couple of years, through a combination of dividends and share price gains. For investors that seek exposure to a global industrial giant, Siemens earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue ($B)	116.12	103.84	93.75	101.30	100.47	96.35	96.67	86.85	88.46	91.68
Gross Profit	31600	28056	27183	30597	28463	26414	27628	25087	26456	27629
Gross Margin	27.2%	27.0%	29.0%	30.2%	28.3%	27.4%	28.6%	28.9%	29.9%	30.1%
SG&A Exp.	20402	14761	13137	14171	14336	14258	13829	13101	12961	13495
D&A Exp.	4825	3889	5087	3630	3658	3678	3240	2927	3070	3545
Operating Profit	3933	8754	9853	10701	8554	6568	8291	6672	7932	8107
Op. Margin	3.4%	8.4%	10.5%	10.6%	8.5%	6.8%	8.6%	7.7%	9.0%	8.8%
Net Profit	8597	3105	5299	7993	5389	5620	7292	8362	6053	6674
Net Margin	7.4%	3.0%	5.7%	7.9%	5.4%	5.8%	7.5%	9.6%	6.8%	7.3%
Free Cash Flow	7363	4932	10051	8028	6381	7257	7175	5414	6082	5266
Income Tax	1524	1943	2327	2985	2589	2144	2733	2146	2230	2406

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	133.13	139.09	140.11	141.58	139.77	137.55	133.08	135.42	141.04	157.63
Cash & Equivalents	9714	14885	19224	16934	14062	12401	10168	11204	11896	9866
Acc. Receivable	22246	21171	18691	17776	17185	17450	15908	15650	16020	17956
Inventories	20448	20702	20371	20567	20244	20997	19160	19413	20373	23493
Goodwill & Int.	30183	30545	28249	27367	27972	30957	28351	35155	35789	45750
Total Liab. ($B)	94.54	99.10	100.47	97.91	99.20	98.93	93.09	95.97	101.98	105.18
Accounts Payable	12486	11125	10763	10427	10376	10254	9636	8747	9029	11492
Long-Term Debt	22660	28774	27133	24366	26527	27424	26379	33210	34588	37827
Total Equity	37733	39042	38624	42823	39839	37933	39278	38790	38381	50762
D/E Ratio	0.07	0.02	0.04	0.06	0.04	0.04	0.05	0.06	0.04	0.04

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	6.5%	2.3%	3.8%	5.7%	3.8%	4.1%	5.4%	6.2%	4.4%	4.5%
Return on Equity	21.7%	8.1%	13.6%	19.6%	13.0%	14.5%	18.9%	21.4%	15.7%	15.0%
ROIC	13.7%	4.8%	7.8%	11.9%	8.0%	8.4%	11.0%	12.0%	8.3%	8.1%
Shares Out.	1730	1740	1750	1710	1690	1690	1620	1620	1620	1620
Revenue/Share	64.78	59.56	53.42	57.38	56.81	56.53	56.73	52.14	53.95	55.28
FCF/Share	4.11	2.83	5.73	4.55	3.61	4.26	4.21	3.25	3.71	3.18

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.