Seagate Technologies (STX)

Updated November 2nd, 2018 by Jonathan Weber

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	15.7%	**Volatility Percentile:**	96.8%
Fair Value Price:	$61	**5 Year Growth Estimate:**	3.8%	**Momentum Percentile:**	82.6%
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.1%	**Growth Percentile:**	19.5%
Dividend Yield:	5.8%	**5 Year Price Target**	$73	**Valuation Percentile:**	91.5%
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Total Return Percentile:**	88.8%

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 $12.3 billion.

Seagate Technologies reported its first quarter earnings results on November 2. The company was able to produce revenues of $3 billion, an increase of 14% compared to the previous year's quarter. This was the highest quarterly revenue that Seagate Technologies has reported over the last two years, and more than what the analyst community had expected. Seagate Technologies earned $1.70 per share during Q1, an increase of 77% year over year. Management has stated that demand trends were slightly unfavorable during Q1 compared to Q4. A slow-down of the earnings growth rate is to be expected. Seagate Technologies announced a new $2.3 billion buyback program in November. This brings Seagate Technologies' total buyback authorization to $3 billion, or 25% of its current market capitalization.

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***
Shares	493	470	425	396	359	327	315	299	292	287	***270***	***235***

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 calendar year 2018 is, 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. Lower operating expenses were a key factor for earnings growth during recent quarters. 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 more expense cutting will be harder to achieve.

Over the coming years Seagate Technologies should continue to benefit from 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, and cloud computing leading to rapid increases in the amount of data that needs to be stored, the whole storage industry should benefit ongoing growth in demand for these 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	***7.8***	***10.5***
Avg. Yld.	3.2%	---	1.3%	4.4%	4.2%	3.4%	3.5%	6.8%	6.4%	4.4%	***5.8%***	***4.2%***

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Seagate Technologies trades at slightly less than eight times this year's earnings. This is a low valuation on an absolute basis, and it is also a low valuation relative to how Seagate Technologies' shares were valued in the past. We see considerable multiple expansion potential towards a low double digits price to earnings multiple 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	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%***

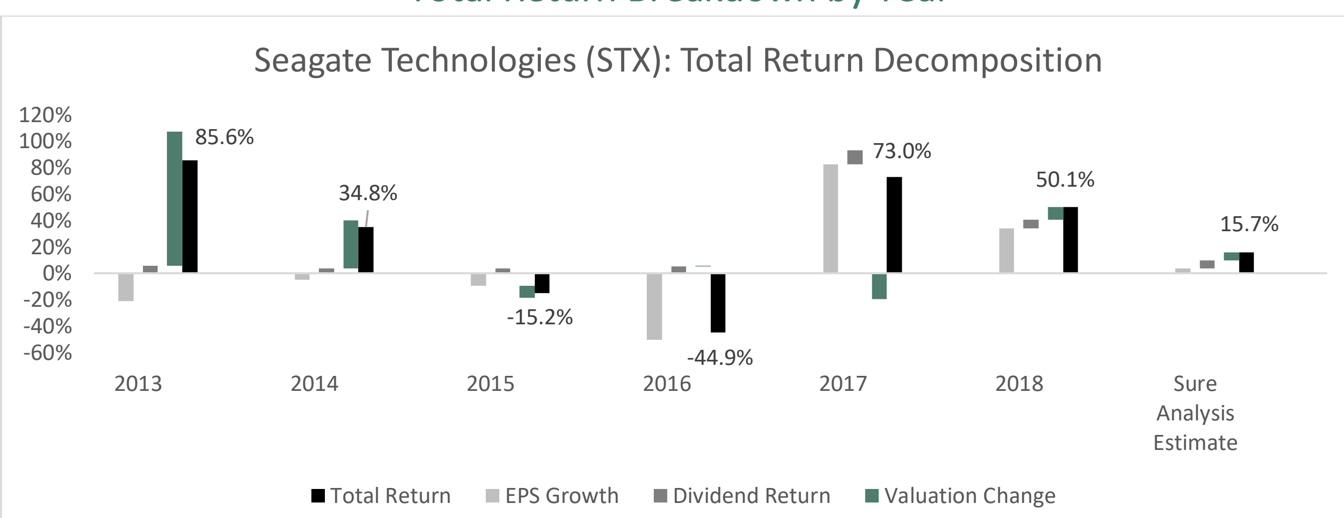
Seagate Technologies has high liabilities relative to the assets the company possesses, but not all of those liabilities are interest-bearing long-term debt. The company has $4.8 billion in interest-bearing debt, but at the same time the company holds $1.9 billion in cash. Its net debt is thus just $2.9 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 $1.6 billion a year at the current pace.

Seagate Technologies is one of the largest data storage companies. It therefore is a major player in this relatively narrow, focused industry. Due to consolidation over the last few years, the industry has 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. Seagate Technologies nevertheless is not a recession-resilient stock at all.

Final Thoughts & Recommendation

Seagate Technologies is a key player in a relatively narrow market. Demand for storage products has grown at a very fast pace over the last couple of years, and there are favorable long term trends such as cloud computing and the IoT. Demand could, according to management, decline slightly in the near term, though. Through cost-cutting and a very large share repurchase program Seagate Technologies should nevertheless be able to produce earnings growth going forward. The total return outlook is positive, which is why shares are a buy for those seeking exposure to this industry.

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.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	9805	11395	10971	14939	14351	13724	13739	11160	10771	11184
Gross Profit	1410	3204	2146	4684	3940	3846	3809	2615	3174	3364
Gross Margin	14.4%	28.1%	19.6%	31.4%	27.5%	28.0%	27.7%	23.4%	29.5%	30.1%
SG&A Exp.	537	437	445	528	635	722	857	635	606	562
D&A Exp.	931	780	754	814	873	879	841	815	749	598
Operating Profit	-135	1863	824	3112	2093	1800	1470	620	1232	1723
Operating Margin	-1.4%	16.3%	7.5%	20.8%	14.6%	13.1%	10.7%	5.6%	11.4%	15.4%
Net Profit	-3125	1609	511	2862	1838	1570	1742	248	772	1182
Net Margin	-32%	14.1%	4.7%	19.2%	12.8%	11.4%	12.7%	2.2%	7.2%	10.6%
Free Cash Flow	190	1293	421	2626	2261	1999	1903	1093	1482	1747
Income Tax	311	-40	68	20	-7	-14	228	26	43	236

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	7087	8247	9225	10106	9243	9492	9845	8213	9268	9410
Cash & Equivalents	1427	2263	2677	1707	1708	2634	2479	1125	2539	1853
Accounts Receivable	1033	1400	1495	2319	1670	1729	1735	1318	1199	1184
Inventories	587	757	872	909	854	985	993	868	982	1053
Goodwill & Int. Ass.	73		32	969	881	896	1244	1685	1519	1425
Total Liabilities	5533	5523	6762	6609	5737	6660	6827	6620	7904	7745
Accounts Payable	1573	1780	2063	2286	1690	1549	1540	1517	1626	1728
Long-Term Debt	2697	2502	3512	2863	2777	3920	4155	4091	5021	4819
Shareholder's Equity	1554	2724	2463	3497	3495	2832	3018	1593	1364	1665
D/E Ratio	1.74	0.92	1.43	0.82	0.79	1.38	1.38	2.57	3.68	2.89

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	21.0%	5.8%	29.6%	19.0%	16.8%	18.0%	2.7%	8.8%	12.7%
Return on Equity	N/A	75.2%	19.7%	96.0%	52.6%	49.6%	59.6%	10.8%	52.2%	78.0%
ROIC	N/A	34.0%	9.1%	46.4%	29.1%	24.1%	25.0%	3.9%	12.8%	18.4%
Shares Out.	493	470	425	396	359	327	315	299	292	287
Revenue/Share	20.09	22.17	23.49	33.88	37.57	39.55	41.51	36.95	36.02	38.30
FCF/Share	0.39	2.52	0.90	5.95	5.92	5.76	5.75	3.62	4.96	5.98

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