# Siemens AG (SIEGY)

*Updated February 3rd, 2019 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $55 | **5 Year CAGR Estimate:** | 13.0% | **Volatility Percentile:** | 27.9% |
| **Fair Value Price:** | $69 | **5 Year Growth Estimate:** | 4.5% | **Momentum Percentile:** | 17.5% |
| **% Fair Value:** | 80% | **5 Year Valuation Multiple Estimate:** | 4.6% | **Growth Percentile:** | 30.8% |
| **Dividend Yield:** | 3.9% | **5 Year Price Target** | $86 | **Valuation Percentile:** | 83.6% |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | B | **Total Return Percentile:** | 75.3% |

## 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. Siemens is headquartered in Munich, Germany. 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$89 billion. All numbers in this report are in U.S. Dollars unless specified otherwise.

Siemens AG reported its first quarter (fiscal 2019) earnings results on January 30. The company generated revenues of €20.1 billion, which is equal to $23 billion, and which was 1% more than the company's revenues during the previous year's first quarter. Siemens continued the trend of growing its orders at an attractive pace, as order intake totaled €25.2 billion ($28.7 billion), which was 12% more than the order intake during the first quarter of fiscal 2018. Siemens' book-to-bill ratio rose to 1.25. This means that Siemens' backlog continues to grow, which is a positive due to two reasons. First, the company would be able to maintain revenues in case a recession leads to temporarily lower order inflow, and second, Siemens should be able to grow its revenues during coming quarters in the event there is no recession or downturn. Siemens' total backlog stood at €137 billion at the end of the first quarter (equal to $156 billion), which represents a new all-time record. This shows that underlying demand for Siemens' offerings is quite strong. Siemens' earnings-per-share totaled €1.26 during the first quarter, which is equal to $1.44. This represents a decline of roughly 50% versus the previous year's Q1 earnings-per-share, but the decline is primarily based on one-time items, such as restructuring expenses, one-time gains during Q1 of 2018 on asset sales, and tax rate changes. Adjusted for these items, earnings-per-share would have been relatively on par with those from the prior year's quarter.

## 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 | ***$4.60*** | ***$5.73*** |
| **DPS** | $1.05 | $1.12 | $1.84 | $1.93 | $2.01 | $2.05 | $1.88 | $1.91 | $2.17 | $2.30 | ***$2.17*** | ***$3.10*** |
| **Shares** | 1730 | 1740 | 1750 | 1710 | 1690 | 1690 | 1620 | 1620 | 1620 | 1620 | ***1610*** | ***1570*** |

Between 2009 and 2018 Siemens 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 (albeit small) positive impact on Siemens' earnings-per-share growth over the coming years.

*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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## 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 | ***12.0*** | ***15.0*** |
| **Avg. Yld.** | 3.1% | 2.4% | 3.0% | 4.1% | 3.8% | 3.2% | 3.5% | 3.7% | 3.3% | 3.6% | ***3.9%*** | ***3.4%*** |

Siemens' shares have been valued at a mid-single digits price to earnings multiple throughout the majority of the last decade. Industrial businesses can be quite cyclical, and their stock prices and valuations tend to be cyclical as well, but surprisingly there are no large outliers in Siemens' valuation throughout the last decade. Shares trade below the median earnings multiple right now, which could result in significant valuation expansion tailwinds.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 55.6% | 36.2% | 35.5% | 52.6% | 61.7% | 52.4% | 53.3% | 53.1% | 50.8% | 50.8% | ***47.2%*** | ***54.1%*** |

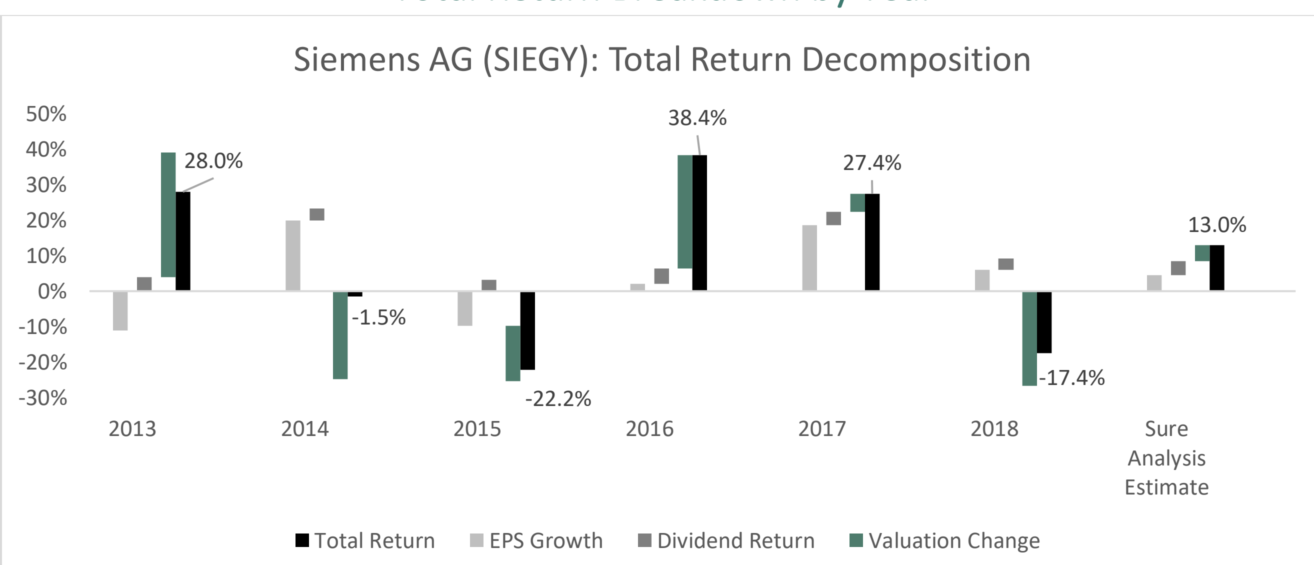
Siemens' dividend payout ratio has been around 50% throughout the majority of the last couple of years, but during and shortly after the financial crisis there were larger swings in the company's payout ratio. Between 2008 and 2010 Siemens kept the dividend at a constant level (in €), but the company was not forced to cut its payout during the last financial crisis. Siemens' business can be a bit cyclical, but we believe that the dividend is relatively safe nevertheless.

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. This has resulted in a large backlog of uncompleted business over time. Siemens industrial backlog alone is sufficient to provide roughly one and a half years' 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 not a high-growth company, but this industrial giant is relatively stable compared to some of its more cyclical peers. Through a combination of a below-average valuation, an above-average dividend yield, and a mid-single-digits earnings-per-share growth rate Siemens could provide compelling returns. We rate shares a buy at the current price.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 103838 | 93748 | 101B | 100B | 96348 | 96666 | 86852 | 88461 | 91472 | 98854 |
| Gross Profit | 28056 | 27183 | 30597 | 28463 | 26414 | 27628 | 25087 | 26456 | 27645 | 29596 |
| Gross Margin | 27.0% | 29.0% | 30.2% | 28.3% | 27.4% | 28.6% | 28.9% | 29.9% | 30.2% | 29.9% |
| SG&A Exp. | 14761 | 13137 | 14171 | 14336 | 14258 | 13829 | 13101 | 12961 | 13644 | 15405 |
| D&A Exp. | 3889 | 5087 | 3630 | 3658 | 3678 | 3240 | 2927 | 3070 | 3545 | 4070 |
| Operating Profit | 8754 | 9853 | 10701 | 8554 | 6568 | 8291 | 6672 | 7932 | 7973 | 7038 |
| Op. Margin | 8.4% | 10.5% | 10.6% | 8.5% | 6.8% | 8.6% | 7.7% | 9.0% | 8.7% | 7.1% |
| Net Profit | 3105 | 5299 | 7993 | 5389 | 5620 | 7292 | 8362 | 6053 | 6580 | 6913 |
| Net Margin | 3.0% | 5.7% | 7.9% | 5.4% | 5.8% | 7.5% | 9.6% | 6.8% | 7.2% | 7.0% |
| Free Cash Flow | 4932 | 10051 | 8028 | 6381 | 7257 | 7175 | 5414 | 6082 | 5266 | 6932 |
| Income Tax | 1943 | 2327 | 2985 | 2589 | 2144 | 2733 | 2146 | 2230 | 2371 | 2445 |

## Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets ($B) | 139.09 | 140.11 | 141.58 | 139.77 | 137.55 | 133.08 | 135.42 | 143.52 | 160.35 | 161.42 |
| Cash & Equivalents | 14885 | 19224 | 16934 | 14062 | 12401 | 10168 | 11204 | 11896 | 9866 | 12859 |
| Acc. Receivable | 21171 | 18691 | 17776 | 17185 | 17450 | 15908 | 15650 | 18518 | 17477 | 18643 |
| Inventories | 20702 | 20371 | 20567 | 21657 | 22795 | 20894 | 21667 | 14153 | 15428 | 15247 |
| Goodwill & Int. | 30545 | 28249 | 27367 | 27972 | 30957 | 28351 | 35155 | 35789 | 45750 | 44709 |
| Total Liab. ($B) | 99.10 | 100.47 | 97.91 | 99.20 | 98.93 | 93.09 | 95.97 | 104.25 | 107.78 | 105.59 |
| Accounts Payable | 11125 | 10763 | 10427 | 10376 | 10254 | 9636 | 8747 | 9033 | 11493 | 12452 |
| Long-Term Debt | 28774 | 27133 | 24366 | 26527 | 27424 | 26379 | 33210 | 34741 | 37827 | 37263 |
| Total Equity | 39042 | 38624 | 42823 | 39839 | 37933 | 39278 | 38790 | 38586 | 50871 | 52841 |
| D/E Ratio | 0.74 | 0.70 | 0.57 | 0.67 | 0.72 | 0.67 | 0.86 | 0.90 | 0.74 | 0.71 |

## Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 2.3% | 3.8% | 5.7% | 3.8% | 4.1% | 5.4% | 6.2% | 4.3% | 4.3% | 4.3% |
| Return on Equity | 8.1% | 13.6% | 19.6% | 13.0% | 14.5% | 18.9% | 21.4% | 15.6% | 14.7% | 13.3% |
| ROIC | 4.8% | 7.8% | 11.9% | 8.0% | 8.4% | 11.0% | 12.0% | 8.3% | 8.0% | 7.5% |
| Shares Out. | 1730 | 1740 | 1750 | 1710 | 1690 | 1690 | 1620 | 1620 | 1620 | 1620 |
| Revenue/Share | 59.56 | 53.42 | 57.38 | 56.81 | 56.53 | 56.73 | 52.14 | 53.95 | 55.16 | 59.67 |
| FCF/Share | 2.83 | 5.73 | 4.55 | 3.61 | 4.26 | 4.21 | 3.25 | 3.71 | 3.18 | 4.18 |

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