Seagate Technologies (STX)

Updated May 15th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	10.7%	**Volatility Percentile:**	94.8%
Fair Value Price:	$48	**5 Year Growth Estimate:**	3.8%	**Momentum Percentile:**	16.5%
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Growth Percentile:**	22.6%
Dividend Yield:	5.7%	**5 Year Price Target**	$58	**Valuation Percentile:**	62.8%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	59.7%

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 $12.4 billion.

Seagate Technologies reported its third quarter (fiscal 2019) earnings results on April 30. The company generated revenues of $2.31 billion during the quarter, which represents a decline of 17.5% compared to the prior year's quarter. Seagate Technologies slightly missed the consensus analyst estimate, a steep revenue decline was expected. The vast majority of Seagate's revenues was generated by the HDD segment, which grossed revenues of $2.1 billion, whereas Enterprise Systems, Flash and other revenues came in at $0.2 billion. Total capacity shipped was down from the prior year's level, but up from the low point during the second quarter of the current fiscal year.

Seagate Technologies' earnings-per-share totaled $0.83 during the third quarter, which was easily ahead of what the analyst community had expected, by roughly 15%. Earnings-per-share nevertheless declined substantially versus the previous year's third quarter, during which the company had earned $1.46 on a per-share basis. This represents a decline of more than 40% in Seagate Technologies' earnings-per-share year over year.

Seagate Technologies returned nearly $500 million to its owners during the third quarter, via stock buybacks that totaled $300 million, and dividend payments that totaled $175 million.

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	***$4.78***	***$5.76***
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 quite inconsistent.

Seagate Technologies' strong earnings growth in calendar year 2018 was driven by strong operating results, and not tax reform, which is the case with many other companies. Due to being domiciled in Ireland, Seagate Technologies already pays a low tax rate of 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. We believe that it is prudent to assume that more expense cutting will be harder to achieve moving forward.

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 entire storage industry should benefit from ongoing growth in demand for these products.

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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	***9.4***	***10.0***
Avg. Yld.	3.2%	---	1.3%	4.4%	4.2%	3.4%	3.5%	6.8%	6.4%	4.4%	***5.7%***	***4.9%***

Seagate Technologies has been valued at a price to earnings multiple that has moved in a very wide range. The company's shares were valued at a low-single digits earnings multiple in 2012, but traded at a high-teens multiple in 2016. Today, shares are trading for nine and a half times our forecast for 2019's net profits, which represents a small discount versus our fair value estimate, which we see at a price to earnings multiple of 10.0.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	14.5%	12.7%	26.4%	33.1%	44.9%	108%	61.2%	45.7%	***52.7%***	***48.6%***

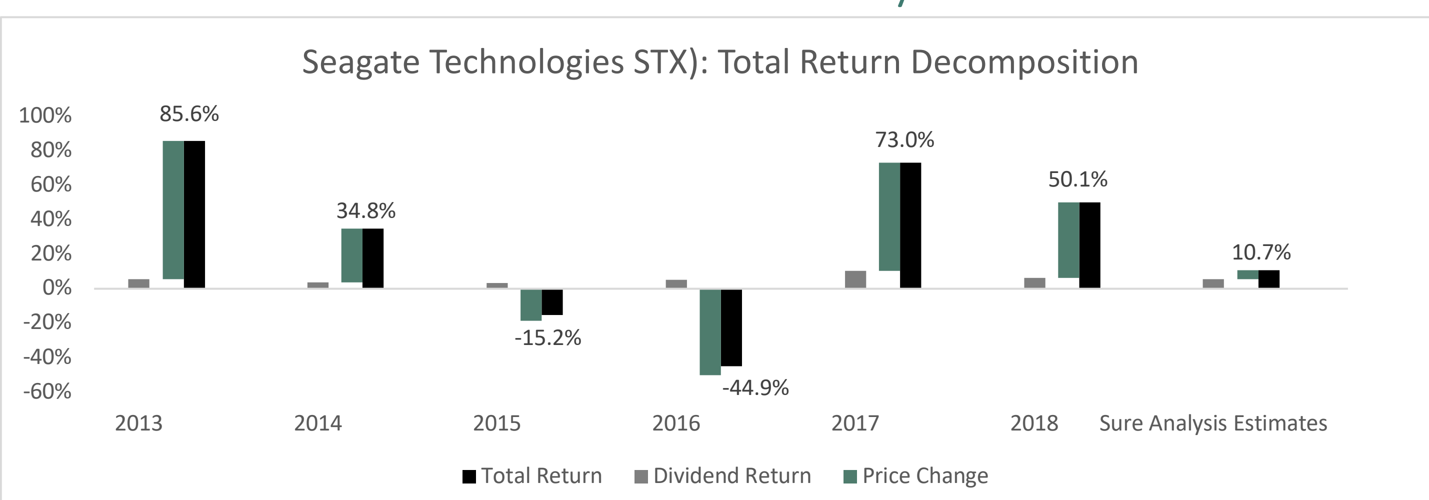
There is no dividend payout ratio for 2009, when Seagate Technologies was not profitable, and for 2010, when the company did not make any dividend payments. Since then the dividend payout ratio has moved between 13% and 108%. Right now the dividend looks well-covered, but the cyclicality of Seagate Technologies' earnings means that the dividend is not overly safe. Another dividend cut, such as the one during the financial crisis, is possible.

Seagate Technologies is one of the largest data storage companies in the world. 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 cyclical, as customers tend to lower their capital expenditures during economic downturns, pushing investments into the future. Seagate Technologies' business will, therefore, always be cyclical as well, especially as factors such as pricing for HDDs and inventory levels can increase the cyclicality of Seagate's results further.

Final Thoughts & Recommendation

The long-term outlook for Seagate Technologies is not bad, as the amount of data that is recorded and needs to be stored continues to rise around the globe. Results will always be cyclical, though, and right now the company is subject to a downturn in demand. Seagate Technologies' dividend yield is quite high, and the total return outlook is attractive, which is why we rate the stock a buy for those that do not mind the cyclicality.

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.