



Seagate Technologies (STX)

Updated August 25th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	8.0%	Volatility Percentile:	91.6%
Fair Value Price:	\$44	5 Year Growth Estimate:	3.8%	Momentum Percentile:	36.3%
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.2%	Growth Percentile:	26.4%
Dividend Yield:	5.4%	5 Year Price Target	\$53	Valuation Percentile:	37.1%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	36.5%

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 \$12.6 billion.

Seagate Technologies reported its fourth quarter (fiscal 2019) earnings results on August 3. The company generated revenues of \$2.37 billion during the quarter, which represents a decline of 16.5% compared to the prior year's quarter. Seagate Technologies slightly beat the consensus analyst estimate, an even steeper revenue decline was expected. The vast majority of Seagate's revenues was generated by the HDD segment, which grossed revenues of \$2.2 billion, whereas Enterprise Systems, Flash and other revenues came in at just \$170 million. Total capacity shipped was down from the prior year's level, but up compared to the third quarter.

Seagate Technologies' earnings-per-share totaled \$0.86 during the fourth quarter, which was slightly ahead of what the analyst community had expected. Earnings-per-share nevertheless declined substantially versus the previous year's fourth quarter, during which the company had earned \$1.62 on a per-share basis. This represents a decline of roughly 50% in Seagate Technologies' earnings-per-share year over year.

Seagate Technologies continued to generate strong cash flows during the fourth quarter, as operating cash flows totaled \$450 million, while free cash flows came in at \$300 million during the quarter.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.14	\$1.24	\$6.75	\$5.31	\$5.04	\$4.57	\$2.26	\$4.12	\$5.52	\$4.82	\$4.43	\$5.34
DPS	---	\$0.18	\$0.86	\$1.40	\$1.67	\$2.05	\$2.43	\$2.52	\$2.52	\$2.52	\$2.52	\$2.80
Shares¹	470	425	396	359	327	315	299	292	287	278	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.

Following Seagate Technologies' strong earnings growth in calendar year 2018, 2019 has been a down year for the company, due to a weaker chip market. Although things are looking up on a quarter-to-quarter basis, 2020 will likely be even less profitable, as the beginning of 2019 had still been very strong. In the past, Seagate Technologies has lowered its operating expenses in order to grow its profits. It is, however, 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 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. Tailwinds such as the IoT provide a positive growth outlook.

¹ In Millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	5.2	11.4	2.9	6.3	9.9	12.9	15.8	9.6	10.1	10.0	10.6	10.0
Avg. Yld.	---	1.3%	4.4%	4.2%	3.4%	3.5%	6.8%	6.4%	4.4%	5.3%	5.4%	5.2%

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 ten and a half times our forecast for 2020's net profits, which represents a small premium versus our fair value estimate, which we see at a price to earnings multiple of 10.0.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	14.5%	12.7%	26.4%	33.1%	44.9%	108%	61.2%	45.7%	52.1%	56.7%	52.4%

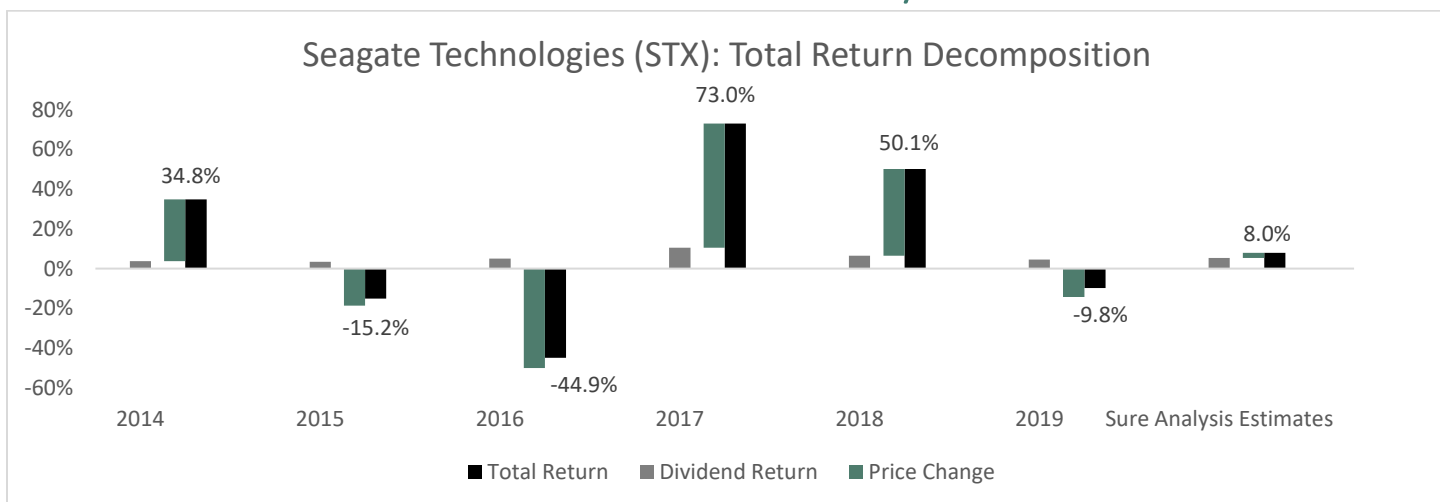
There is no dividend payout ratio for 2010, when Seagate Technologies did not make any dividend payments. Since then the dividend payout ratio has moved in a very wide range of 13% to 108%. Right now the dividend looks well-covered, but the cyclical nature of Seagate Technologies' earnings means that 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, and prices for Seagate Technologies' products can be cyclical as well, which is why profits have been quite volatile in the past. Seagate Technologies' business will, in all likelihood, always be cyclical, which is why investors should assume that share prices can be quite volatile when they invest in this company.

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 2020 will likely not be an overly strong year for the company. Seagate Technologies' dividend yield is quite high, and the total return outlook is okay, but due to shares trading above fair value, we rate the stock a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	11395	10971	14939	14351	13724	13739	11160	10771	11184	10390
Gross Profit	3204	2146	4684	3940	3846	3809	2615	3174	3364	2932
Gross Margin	28.1%	19.6%	31.4%	27.5%	28.0%	27.7%	23.4%	29.5%	30.1%	28.2%
SG&A Exp.	437	445	528	635	722	857	635	606	562	453
D&A Exp.	780	754	814	873	879	841	815	749	598	541
Operating Profit	1863	824	3112	2093	1800	1470	620	1232	1723	1465
Operating Margin	16.3%	7.5%	20.8%	14.6%	13.1%	10.7%	5.6%	11.4%	15.4%	14.1%
Net Profit	1609	511	2862	1838	1570	1742	248	772	1182	2012
Net Margin	14.1%	4.7%	19.2%	12.8%	11.4%	12.7%	2.2%	7.2%	10.6%	19.4%
Free Cash Flow	1293	421	2626	2261	1999	1903	1093	1482	1747	1159
Income Tax	-40	68	20	-7	-14	228	26	43	236	-640

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	8247	9225	10106	9243	9492	9845	8213	9268	9410	8885
Cash & Equivalents	2263	2677	1707	1708	2634	2479	1125	2539	1853	2220
Accounts Receivable	1400	1495	2319	1670	1729	1735	1318	1199	1184	989
Inventories	757	872	909	854	985	993	868	982	1053	970
Goodwill & Int. Ass.		32	969	881	896	1244	1685	1519	1425	1348
Total Liabilities	5523	6762	6609	5737	6660	6827	6620	7904	7745	6723
Accounts Payable	1780	2063	2286	1690	1549	1540	1517	1626	1728	1420
Long-Term Debt	2502	3512	2863	2777	3920	4155	4091	5021	4819	4253
Shareholder's Equity	2724	2463	3497	3495	2832	3018	1593	1364	1665	2162
D/E Ratio	0.92	1.43	0.82	0.79	1.38	1.38	2.57	3.68	2.89	1.97

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	21.0%	5.8%	29.6%	19.0%	16.8%	18.0%	2.7%	8.8%	12.7%	22.0%
Return on Equity	75.2%	19.7%	96.0%	52.6%	49.6%	59.6%	10.8%	52.2%	78.0%	105%
ROIC	34.0%	9.1%	46.4%	29.1%	24.1%	25.0%	3.9%	12.8%	18.4%	31.2%
Shares Out.	470	425	396	359	327	315	299	292	287	278
Revenue/Share	22.17	23.49	33.88	37.57	39.55	41.51	36.95	36.02	38.30	36.46
FCF/Share	2.52	0.90	5.95	5.92	5.76	5.75	3.62	4.96	5.98	4.07

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

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