Siemens AG (SIEGY)

Updated February 19th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$94B
Fair Value Price:	$58	**5 Year Growth Estimate:**	4.5%	**Ex-Dividend Date:**	02/05/21
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	02/12/21
Dividend Yield:	3.7%	**5 Year Price Target**	$72	**Years Of Dividend Growth:**	6
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	2.6%

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$96 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$94 billion. Siemens reports its results in €, but all numbers in this report are in U.S. Dollars unless specified otherwise.

Siemens AG reported its first quarter (fiscal 2020) earnings results on February 5. The company generated revenues of €20.3 billion, which is equal to ~$22 billion, and which was 1% more than the company's revenues during the previous year's quarter. Siemens orders did not grow during the most recent quarter, as order intake totaled €24.8 billion, which was ahead of its revenues, but which represents a decline of 2% versus the orders that Siemens took in during the previous year's first quarter. Siemens' book-to-bill ratio was still well above 1 during the quarter, at 1.22, which made its backlog growth further. This is a positive for two reasons. First, the company would be able to generate a solid amount of revenues in case a recession leads to a big temporary hit to its order inflow, and second, Siemens should be able to grow its revenues during coming quarters as long as there is no recession or downturn. Siemens' total order backlog stood at €149 billion at the end of the quarter (equal to ~$165 billion), which represents a new all-time record.

Siemens' earnings-per-ADR totaled €0.67 during the first quarter, which is equal to $0.73, and which represents growth of 6% versus the earnings-per-ADR from the previous year's quarter. Siemens' management reiterated its guidance for growing revenues, growing margins, and growing earnings-per-ADR for the current fiscal year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.09	$5.19	$3.67	$3.26	$3.91	$3.53	$3.60	$4.27	$4.53	$3.81	***$4.15***	***$5.17***
DPS	$1.12	$1.84	$1.93	$2.01	$2.05	$1.88	$1.91	$2.17	$2.30	$2.17	***$2.15***	***$2.74***
Shares[1]	1740	1750	1710	1690	1690	1620	1620	1620	1620	1610	***1610***	***1570***

Between 2009 and 2019, Siemens recorded an earnings-per-share growth rate of 9% 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 couple of years Siemens's earnings-per-share growth rate was substantially lower, as earnings-per-share grew by just 7% a year between 2013 and 2018. The above table is in USD, which has strengthened over the years, which hurts the comparison for companies that report their results in €.

During 2019 Siemens' profits have declined, but this was due to the Osram spin-off. Adjusted for that, Siemens earnings have risen by 15%, according to management. Siemens' strong 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, we believe. A recent buyback program could provide additional tailwinds.

[1] In Millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.4	11.8	12.8	16.4	16.6	15.2	14.3	15.3	14.3	13.6	***14.0***	***14.0***
Avg. Yld.	2.4%	3.0%	4.1%	3.8%	3.2%	3.5%	3.7%	3.3%	3.6%	4.2%	***3.7%***	***3.8%***

Siemens' shares have been valued at a mid-teens 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. With share prices declining slightly since our last update, we believe that they are fairly valued right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	36.2%	35.5%	52.6%	61.7%	52.4%	53.3%	53.1%	50.8%	50.8%	57.0%	***51.8%***	***53.1%***

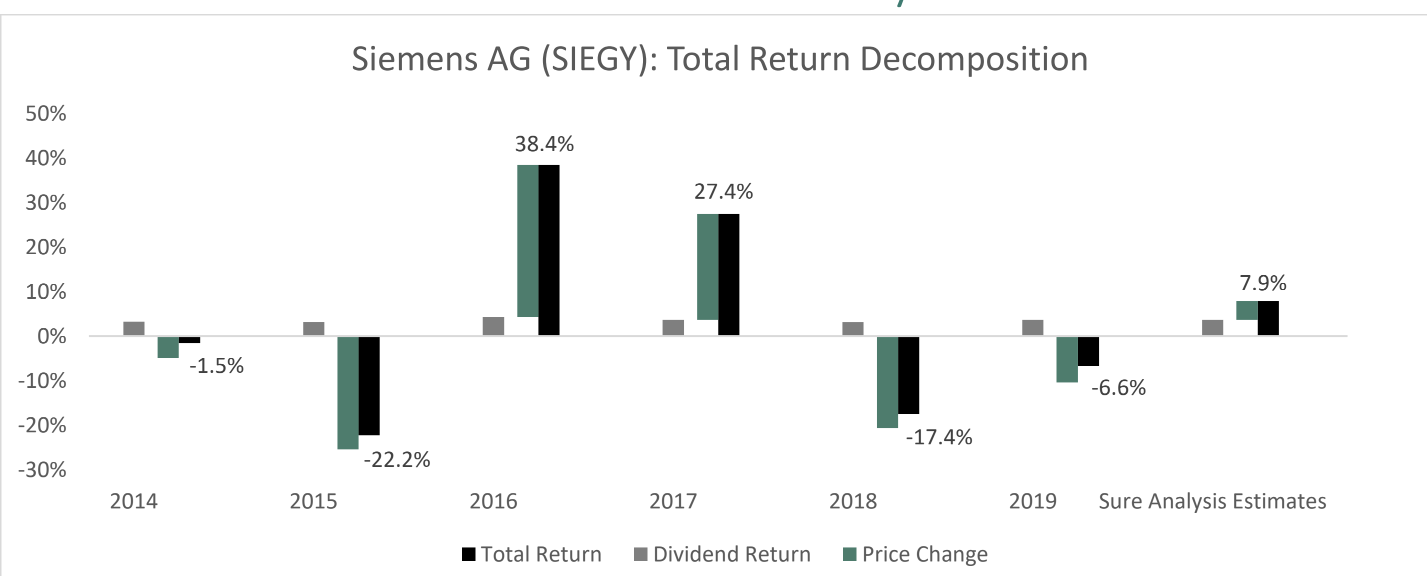
Siemens' dividend payout ratio has been around 50% throughout the majority of the last decade, but during the financial crisis there were large swings in the company's payout ratio. The company was not forced to cut its payout during the last financial crisis. We believe that Siemens' dividend is relatively safe going forward.

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

As a large and diversified industrial company, Siemens is not operating a high-growth business; its long-term growth rate over a whole economic cycle is therefore not very high. The company is, due to its large backlog and strong order intake, relatively resilient versus minor recessions and short-term economic headwinds, though, and it profits from the weakness of its peer GE. Siemens' shares offer solid total returns, which is why we rate it a hold at current prices.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	103838	93748	101296	100475	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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	139	140	142	140	138	133	135	144	160	161
Cash & Equivalents	14885	19224	16934	14062	12401	10168	11204	11896	9866	12859
Acc. Receivable	21171	18691	17776	17185	17450	15908	15650	18518	17477	18643
Inventories	20702	20371	20567	21657	22795	20894	21667	14153	15428	15247
Goodwill & Int.	30545	28249	27367	27972	30957	28351	35155	35789	45750	44709
Total Liab. ($B)	99	100	98	99	99	93	96	104	108	106
Accounts Payable	11125	10763	10427	10376	10254	9636	8747	9033	11493	12452
Long-Term Debt	28774	27133	24366	26527	27425	26380	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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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.	1740	1750	1710	1690	1690	1620	1620	1620	1620	1610
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.