



Seagate Technologies (STX)

Updated February 6th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	6.7%	Market Cap:	\$14.3B
Fair Value Price:	\$51	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	03/24/20
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	04/08/20
Dividend Yield:	4.8%	5 Year Price Target	\$62	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	3.2%

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 \$14.3 billion.

Seagate Technologies reported its second quarter (fiscal 2020) earnings results on February 4. The company generated revenues of \$2.7 billion during the quarter, which represents a decline of 0.4% compared to the prior year's quarter. Seagate Technologies slightly missed the consensus analyst estimate, as analysts expected a very small revenue increase. The vast majority of Seagate's revenues was generated by the HDD segment, whereas Enterprise Systems & Flash contributed just a small portion to the company's revenues. Seagate Technologies' revenues improved from the previous quarter, continuing a trend of positive quarter-to-quarter growth.

Seagate Technologies' earnings-per-share totaled \$1.35 during the second quarter, which was slightly ahead of what the analyst community had expected. Earnings-per-share nevertheless declined slightly versus the previous year's quarter, during which the company had earned \$1.41 on a per-share basis. Earnings-per-share did, however, improve on a quarter-to-quarter basis, as did Seagate Technologies' revenues, which shows that the bottom likely has been passed.

Seagate Technologies continued to generate strong cash flows during the second quarter, as operating cash flows totaled \$480 million, which allowed the company to return \$315 million to its owners via dividends and buybacks.

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	\$5.10	\$6.20
DPS	---	\$0.18	\$0.86	\$1.40	\$1.67	\$2.05	\$2.43	\$2.52	\$2.52	\$2.52	\$2.60	\$2.94
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 was a down year for the company, due to a generally weaker chip market. Things are improving on a quarter-to-quarter basis, though, and 2020 will likely be a more profitable year compared to fiscal 2019. 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, margins will thus not grow much in the future.

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 result in a positive sales 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	10.8	10.0
Avg. Yld.	---	1.3%	4.4%	4.2%	3.4%	3.5%	6.8%	6.4%	4.4%	5.3%	4.8%	4.7%

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-digit earnings multiple in 2012, but traded at a high-teens multiple in 2016. Today, shares are trading for 11 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%	51.0%	47.4%

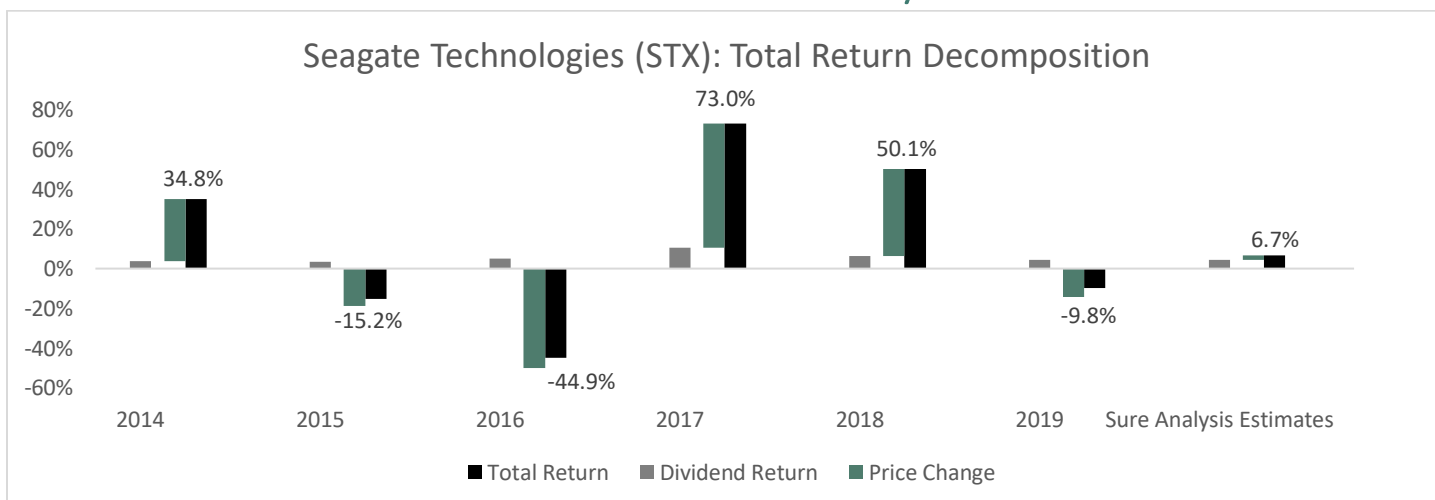
There is no dividend payout ratio for 2010, when Seagate Technologies did not make any dividend payments. Since then, the dividend payout ratio has moved in a very wide range of 13% to 108%. Right now the dividend looks well-covered, but the cyclical nature of Seagate Technologies' earnings means that 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 too bad, as the amount of data that is recorded and that needs to be stored continues to rise rapidly around the globe. The company's results will always be cyclical, though, and it will take a while for the company to get its profits back up to the record level set in 2012. Seagate Technologies' dividend yield is high, but the total return outlook is not overly strong, which is why we rate the stock a hold at current prices.

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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