Siemens AG (SIEGY)

Updated May 23rd, 2020 by Jonathan Weber

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$81B
Fair Value Price:	$53	**5 Year Growth Estimate:**	4.5%	**Ex-Dividend Date:**	02/05/21[1]
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date:**	02/12/21[2]
Dividend Yield:	4.2%	**5 Year Price Target**	$66	**Years Of Dividend Growth:**	6
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**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. 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. Siemens reports its results in €, but all numbers in this report are in U.S. Dollars unless noted otherwise.

Siemens AG reported its second quarter (fiscal 2020) earnings results on May 8. The company generated revenues of €14 billion, which is equal to ~$16 billion, and which was 0.2% less than the previous year's quarter on an adjusted basis. Siemens is planning the spin-off of its Energy business, the revenues of which were already excluded in the report. Siemens orders did not grow during the most recent quarter, but Siemens' book-to-bill ratio was still at 1.06, which made its backlog grow further, adjusted for the planned separation of its Energy business, which is no longer consolidated in Siemens' results. The fact that the book to bill ratio remained above 1 during the quarter shows that demand for Siemens' products remained resilient, although management indicated that Q3 would be worse.

Siemens' earnings-per-ADR totaled €0.40 during the second quarter, which is equal to $0.44, which was down more than 60% versus the previous year's quarter. Siemens' management withdrew its guidance for 2020. We forecast a meaningful one-time hit to Siemens' profits from the coronavirus crisis, primarily during the current quarter. We do also believe that Siemens will eventually recover, which is why we calculate fair value with an earnings power figure of $3.80.

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	***$2.50***	***$4.74***
DPS	$1.12	$1.84	$1.93	$2.01	$2.05	$1.88	$1.91	$2.17	$2.30	$2.17	***$2.15***	***$2.62***
Shares[3]	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. During 2009 Siemens' earnings were artificially low due to the impact of the last financial crisis, which allowed for above-average growth during the years of the following recovery. 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%. 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. Siemens does, as one of just a few German companies, regularly engage in buybacks. In the near term, the coronavirus will hurt profitability due to factory shutdowns that will primarily occur during the current quarter, but due to its strong order backlog and leading market position Siemens should be able to recover quickly.

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[1] Estimated date
[2] Estimated date
[3] 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	15.4	11.8	12.8	16.4	16.6	15.2	14.3	15.3	14.3	13.6	***13.4***	***14.0***
Avg. Yld.	2.4%	3.0%	4.1%	3.8%	3.2%	3.5%	3.7%	3.3%	3.6%	4.2%	***4.2%***	***3.9%***

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. Shares are trading slightly below our fair value estimate right now, based on our earnings power estimate for the current year.

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%	***56.6%***	***55.2%***

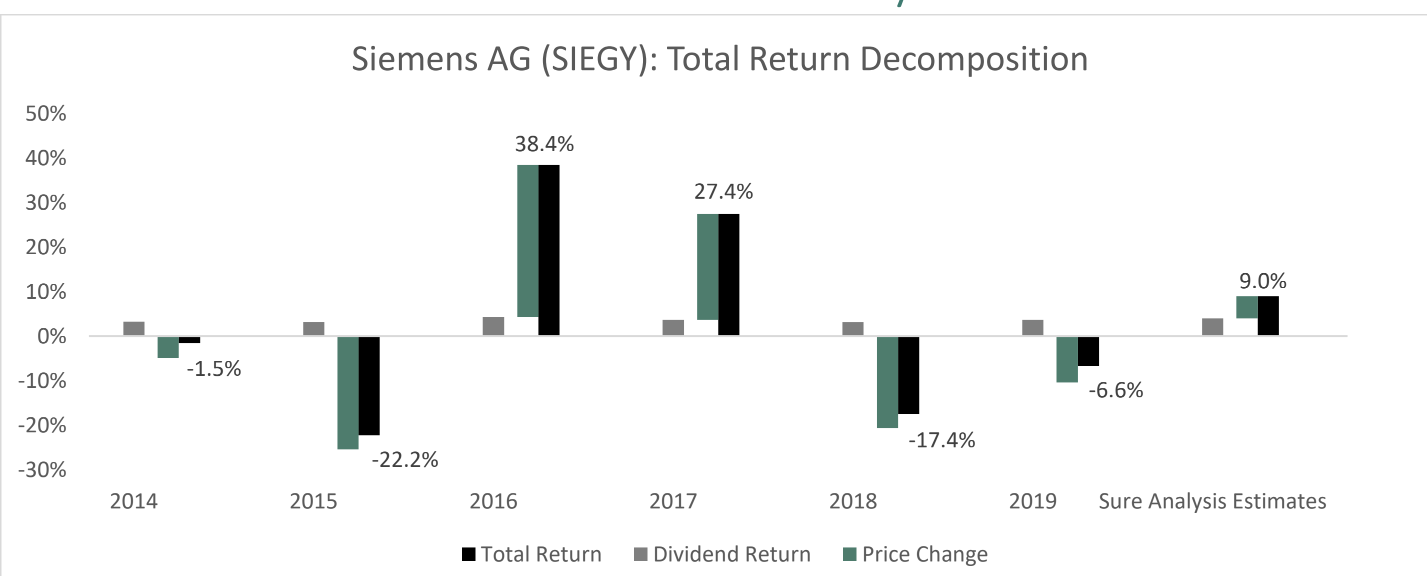
Siemens' dividend payout ratio has been around 50% throughout the majority of the last decade, but during the financial crisis there were large swings in the company's payout ratio. The company was not forced to cut its payout during the last financial crisis. We believe that Siemens' dividend remains 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. This helps in times when order intake slows down, which is expected for the remainder of the current year, due to the impact that the coronavirus has on the globe's economy, although lockdown-induced production stops still hurt.

Final Thoughts & Recommendation

As a large and diversified industrial company, Siemens is not operating a high-growth business. The company is, due to its large backlog and strong order intake, relatively resilient relative to other industrial companies, though. 2020 will be a down year for Siemens, but the company should remain profitable easily, and we forecast attractive returns over the coming years, which is why we rate the stock a hold at the current price.

Total Return Breakdown by Year



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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.