Tenaris SA (TS)

Updated March 8th, 2021 by Josh Arnold

Key Metrics

Current Price:	$23	**5 Year CAGR Estimate:**	9.8%	**Market Cap:**	$13.5 B
Fair Value Price:	$26	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	05/24/21
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Dividend Payment Date:**	05/26/21
Dividend Yield:	2.2%	**5 Year Price Target**	$34	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	N/A

Overview & Current Events

Tenaris SA is a global manufacturer of steel pipes and related services that is headquartered in Luxembourg and is a majority-owned subsidiary of the Techint Group. Tenaris has significant exposure to oil prices as the majority of its customers operate in the energy sector. Its common stock is traded on three international stock exchanges, but U.S. investors can initiate a stake in the business through ADR shares. The company produces about $5.3 billion in annual revenue under normal conditions and currently has a market capitalization of $13.5 billion.

Tenaris reported fourth quarter and full year earnings on February 24th, 2021 with results beating expectations on the top and bottom lines. Sales rose 12% in Q4 against Q3, as the recovery in drilling activity in the Americas, as well as favorable mix in the Middle East drove gains. EBITDA nearly doubled against the third quarter as higher volumes helped leverage down operating costs in Q4. A lower tax rate helped drive better net earnings as well.

Tenaris generated cash flow from operations of $139 million, including a $38 million improvement in working capital. Net cash remained at $1.1 billion at the end of Q4.

We see $0.50 in earnings-per-share for this year as the company continues to work through its recovery, and we are using earnings power of $1.50 per share for fair value calculations.

Tenaris proposed a dividend of $0.28 per share for its first of its two semi-annual dividend payments for 2021. We estimate total dividends will be $0.50 per share for 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.26	$2.88	$2.62	$2.28	$1.08	$0.15	$0.77	$1.48	$1.26	$0.22	***$0.50***	***$2.00***
DPS	$0.68	$0.76	$0.86	$0.90	$0.90	$0.90	$0.82	$0.82	$0.82	$0.14	***$0.50***	***$0.50***
Shares[1]	590	590	590	590	590	590	590	590	590	592	***592***	***592***

Tenaris' growth over the last decade has been far from constant, but this is largely due to the prolonged downturn in oil prices that began in 2014. Since the majority of Tenaris' customers operate within the energy sector, this reduces demand for its products and services and causes a decline in its aggregate sales.

Last year saw a strong rebound in Tenaris' earnings capacity. However, oil prices remain a key risk for Tenaris; much lower oil and gas prices significantly impaired the company's ability to produce earnings in 2020. Tenaris is beholden to capital expenditures of oil and gas producers, which generally decline when oil prices remain low for long periods of time. Our estimate of intermediate-term growth is 6%. The sharp recovery in energy prices, specifically for oil, have driven strong demand recovery for Tenaris as its customers invest more heavily in their own operations. We think the recovery in earnings is accelerating given this development. Given this, we use an earnings power estimate of $1.50 per share for our valuation and fair value calculations.

[1] Share count in millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	18.1	13.3	16.6	18.5	25.2	---	40.3	22.6	19.3	64.1	***15.3***	***17.0***
Avg. Yld.	1.7%	2.0%	2.0%	2.1%	3.3%	3.4%	2.6%	2.5%	3.4%	1.0%	***2.2%***	***1.5%***

Tenaris has traded at an average price-to-earnings ratio (P/E) of ~17 over the last decade, if we exclude the years in which its P/E ratio was artificially elevated due to depressed earnings caused by the decline in oil prices. We use 17 times earnings power as our estimate of fair value given that Tenaris appears to be on the way to recovery. Today, shares trade for 15.3 times our earnings power estimate, which means we expect a positive impact from the valuation if the multiple were to revert to our fair value P/E estimate of 17 over time. Shares have risen massively since our last update, but a higher earnings power estimate has kept the valuation in check.

For income investors, we note that the country of Luxembourg imposes a 15% withholding tax on Tenaris' dividend payments. We expect the payout to fall back to ~25% of normalized earnings by 2026, or $0.50 at current estimates. We note that Tenaris' unusual dividend policy is very difficult to forecast.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30%	26%	33%	40%	83%	600%	107%	55%	65%	64%	***33%***	***25%***

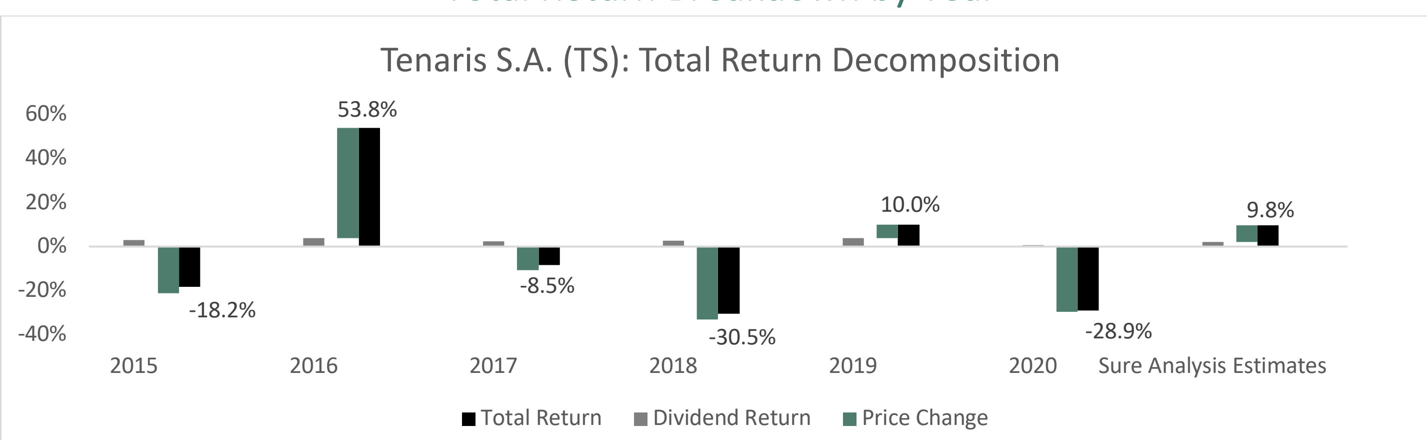
Tenaris has reinstated its payout, albeit at a relatively low level. We see the dividend outlook as murky at the moment but look for greater clarity in the next couple of quarters.

Qualitatively, Tenaris' most compelling competitive advantage is its entrenched position in a technical segment of the energy sector that relies tremendously on strong customer-supplier relationships. As a large company with global operations, Tenaris' services are unlikely to be replaced by newer, smaller industry disruptors. Its leverage to the oil and gas markets has been both a blessing and a curse in recent years. Tenaris is not susceptible to recessions so much as oil prices, so investors should focus on the latter, not the former, when assessing safety.

Final Thoughts & Recommendation

We see Tenaris as having the pieces in place to continue to recover, and some of that progress is being seen in results already. With greatly improved total return prospects, we see Tenaris as a hold, up from our prior rating of sell, but note that investors are taking on inherent oil price risk by owning shares.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	9972	10834	10597	10141	6903	4294	5289	7659	7294	5,147
Gross Profit	3699	4197	4140	4001	2155	1128	1603	2379	2187	933
Gross Margin	37.1%	38.7%	39.1%	39.5%	31.2%	26.3%	30.3%	31.1%	30.0%	18.1%
SG&A Exp.	1431	1412	1483	1478	1151	853	994	1190	1167	913
D&A Exp.	554	568	610	616	659	662	609	664	540	679
Operating Profit	1842	2354	2181	2083	560	-64	330	867	827	(46)
Op. Margin	18.5%	21.7%	20.6%	20.5%	8.1%	-1.5%	6.2%	11.3%	11.3%	-0.9%
Net Profit	1332	1699	1551	1159	-80	55	545	876	743	(634)
Net Margin	13.4%	15.7%	14.6%	11.4%	-1.2%	1.3%	10.3%	11.4%	10.2%	-12.3%
Free Cash Flow	427	1074	1635	902	1094	100	-575	267	1180	1,326
Income Tax	475	542	628	580	234	17	-17	229	202	23

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	14864	15960	15931	16511	14887	14003	14398	14251	14843	13,716
Cash & Equivalents	824	828	615	418	287	400	330	428	1554	585
Acc. Receivable	1912	2077	2005	2003	1216	1026	1241	1779	1348	968
Inventories	2806	2986	2703	2780	1843	1564	2368	2524	2266	1,637
Goodwill & Int.	3376	3200	3067	2758	2143	1863	1661	1466	1562	1,429
Total Liabilities	3691	4460	3461	3704	3021	2590	2817	2376	2657	2,270
Accounts Payable	902	883	835	832	504	557	751	694	556	462
Long-Term Debt	931	1742	929	998	971	840	966	539	822	619
Total Equity	10506	11328	12290	12654	11713	11287	11482	11783	11989	11,263
D/E Ratio	0.09	0.15	0.08	0.08	0.08	0.07	0.08	0.05	0.07	0.06

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.1%	11.0%	9.7%	7.1%	-0.5%	0.4%	3.8%	6.1%	5.1%	-4.4%
Return on Equity	13.0%	15.6%	13.1%	9.3%	-0.7%	0.5%	4.8%	7.5%	6.2%	-5.5%
ROIC	11.1%	13.4%	11.6%	8.5%	-0.6%	0.4%	4.4%	7.0%	5.8%	-5.1%
Shares Out.	590	590	590	590	590	590	590	590	590	592
Revenue/Share	16.89	18.35	17.95	17.18	11.69	7.27	8.96	12.97	12.36	8.72
FCF/Share	0.72	1.82	2.77	1.53	1.85	0.17	-0.97	0.45	2.00	2.25

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