Siemens AG (SIEGY)

Updated May 26th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$83	**5 Year CAGR Estimate:**	3.2%	**Market Cap:**	$132B
Fair Value Price:	$67	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/05/22[1]
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.3%	**Dividend Payment Date:**	02/12/22[2]
Dividend Yield:	2.5%	**5 Year Price Target**	$85	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	N/A

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 2021) earnings results on May 7. The company generated revenues of €14.7 billion, which is equal to ~$18 billion, and was 6% more than the previous year's quarter on an adjusted basis. Siemens' orders did grow by 11% during the most recent quarter on a comparable, currency-adjusted basis, which was an attractive order intake pace. The fact that Siemens was able to grow its order intake despite the pandemic still being active in many countries showcases the company's resilience, especially when compared to other industrial companies.

Siemens' earnings-per-ADR totaled €1.41 during the second quarter, which is equal to $1.69, which was up by a strong 200%+ year over year, although it should be noted that the previous year's quarter was a very weak one from a profits standpoint. Following a down year in 2020, Siemens is on track to generate stronger results this year, aided by the expected recovery from the pandemic for many of the company's end markets. Management expects that revenues will grow by around 10% this year, and the company's forecast also includes a net income estimate of €5.7-6.2 billion, which would equate to earnings-per-ADR of roughly $4.45, which would represent a major improvement versus 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$5.19	$3.67	$3.26	$3.91	$3.53	$3.60	$4.27	$4.53	$3.81	$3.00	***$4.45***	***$5.68***
DPS	$1.84	$1.93	$2.01	$2.05	$1.88	$1.91	$2.17	$2.30	$2.17	$2.15	***$2.11***	***$2.57***
Shares[3]	1750	1710	1690	1690	1620	1620	1620	1620	1610	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

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.8	12.8	16.4	16.6	15.2	14.3	15.3	14.3	13.6	23.3	***18.7***	***15.0***
Avg. Yld.	3.0%	4.1%	3.8%	3.2%	3.5%	3.7%	3.3%	3.6%	4.2%	3.1%	***2.5%***	***3.0%***

Siemens' shares have been valued at a mid-teens price-to-earnings multiple throughout the majority of the last decade. Industrial businesses can be 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, except for pandemic-impacted 2020. Shares are trading above our fair value estimate right now, based on our earnings estimate for the current year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	35.5%	52.6%	61.7%	52.4%	53.3%	53.1%	50.8%	50.8%	57.0%	71.6%	***47.4%***	***45.2%***

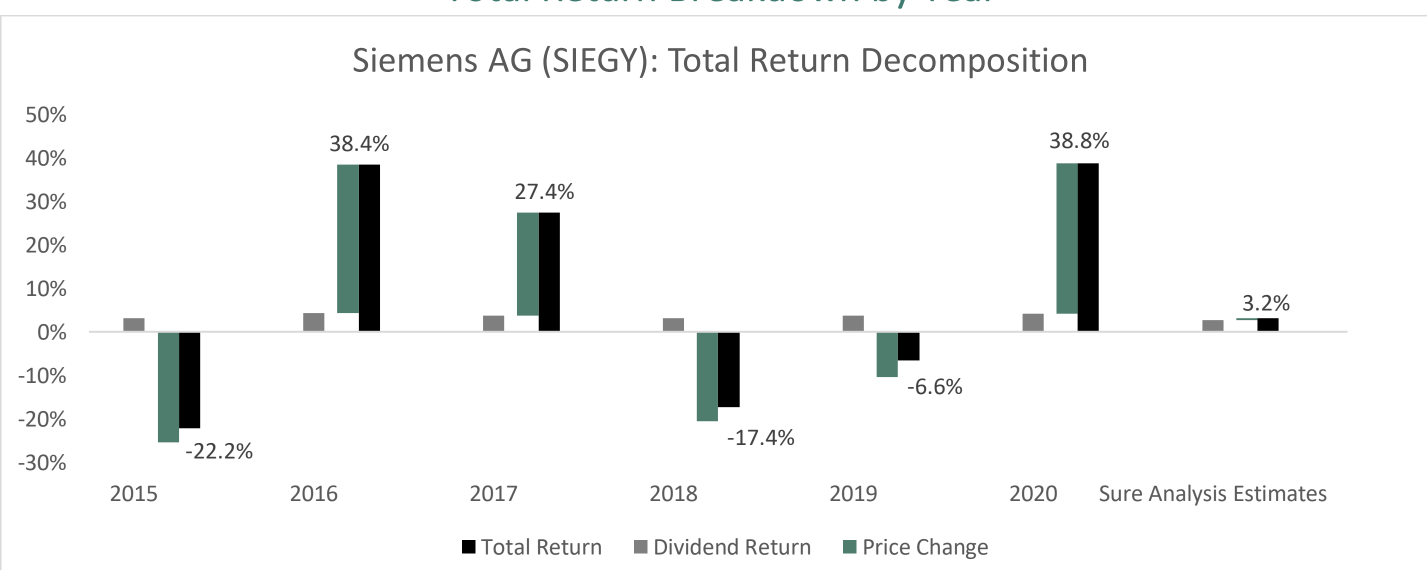
Siemens' dividend payout ratio has been around 50% throughout the majority of the last decade, but during the financial crisis there were large swings in the company's payout ratio. The company was not forced to cut its payout during the last financial crisis. We believe that Siemens' dividend remains 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 solid order intake, relatively resilient relative to other industrial companies. 2020 was a down year for Siemens, but the company remained profitable easily, and it looks like 2021 will be a stronger year. Due to an above-average valuation, future returns do not look especially promising, which is why we rate the stock a sell right now.

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	93748	101296	100475	96348	96666	86852	88461	91472	98854	97989
Gross Profit	27183	30597	28463	26414	27628	25087	26456	27645	29596	29253
Gross Margin	29.0%	30.2%	28.3%	27.4%	28.6%	28.9%	29.9%	30.2%	29.9%	29.9%
SG&A Exp.	13137	14171	14336	14258	13829	13101	12961	13644	15405	15057
D&A Exp.	5087	3630	3658	3678	3240	2927	3070	3545	4070	3942
Operating Profit	9853	10701	8554	6568	8291	6672	7932	7973	7038	7550
Op. Margin	10.5%	10.6%	8.5%	6.8%	8.6%	7.7%	9.0%	8.7%	7.1%	7.7%
Net Profit	5299	7993	5389	5620	7292	8362	6053	6580	6913	5838
Net Margin	5.7%	7.9%	5.4%	5.8%	7.5%	9.6%	6.8%	7.2%	7.0%	6.0%
Free Cash Flow	10051	8028	6381	7257	7175	5414	6082	5266	6932	6596
Income Tax	2327	2985	2589	2144	2733	2146	2230	2371	2445	2112

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	140112	141581	139769	137552	133081	135416	143515	160350	161419	164386
Cash & Equivalents	19224	16934	14062	12401	10168	11204	11896	9866	12859	13557
Acc. Receivable	18691	17776	17185	17450	15908	15650	18518	17477	19268	18521
Inventories	20371	20567	21657	22795	20894	21667	14153	15428	15247	15193
Goodwill & Int.	28249	27367	27972	30957	28351	35155	35789	45750	44709	43720
Total Liab. ($B)	100466	97907	99196	98926	93093	95972	104251	107785	105589	108606
Accounts Payable	10763	10427	10376	10254	9636	8747	9033	11493	12452	12483
Long-Term Debt	27133	24366	26528	27425	26382	33209	34741	37826	37263	39763
Total Equity	38624	42823	39839	37933	39278	38790	38586	50871	52841	52654
D/E Ratio	0.70	0.57	0.67	0.72	0.67	0.86	0.90	0.74	0.71	0.76

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.8%	5.7%	3.8%	4.1%	5.4%	6.2%	4.3%	4.3%	4.3%	3.6%
Return on Equity	13.6%	19.6%	13.0%	14.5%	18.9%	21.4%	15.6%	14.7%	13.3%	11.1%
ROIC	7.8%	11.9%	8.0%	8.4%	11.0%	12.0%	8.3%	8.0%	7.5%	6.2%
Shares Out.	1760	1750	1710	1690	1690	1620	1620	1620	1620	1610
Revenue/Share	53.42	57.38	56.81	56.53	56.73	52.14	53.95	55.16	59.67	59.87
FCF/Share	5.73	4.55	3.61	4.26	4.21	3.25	3.71	3.18	4.18	4.03

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