



# Tenaris SA (TS)

Updated November 22<sup>nd</sup>, 2021, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$21	<b>5 Year CAGR Estimate:</b>	11.1%	<b>Market Cap:</b>	\$12.7 B
<b>Fair Value Price:</b>	\$25	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	11/22/21
<b>% Fair Value:</b>	85%	<b>5 Year Valuation Multiple Estimate:</b>	3.3%	<b>Dividend Payment Date:</b>	11/24/21
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$33	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	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 \$6.4 billion in annual revenue under normal conditions and currently has a market capitalization of \$12.7 billion.

Tenaris reported third quarter earnings on November 4<sup>th</sup>, 2021, and results were quite strong against expectations, and the year-ago period. Total revenue was \$1.75 billion, up 73% year-over-year, which was heavily impacted by the pandemic. Total earnings-per-share came to 56 cents, which was more than double what had been expected.

Sales in Q3 rose by 15% sequentially, which was led by North and South America, even as sales in the Middle East and Europe remain quite weak by comparison. EBITDA margin was in excess of 20% of revenue given an increase in average selling prices, which occurred without a commensurate increase in the cost of sales. This was despite higher raw materials and energy costs.

Cash provided by operating activities was \$53 million, as capital expenditures came to \$74 million. Free cash flow was slightly negative and net cash declined to \$830 million, down slightly from \$854 million in the previous quarter. We've boosted our estimate of earnings-per-share to \$1.45 for this year, and Tenaris reported a semi-annual dividend of 26 cents per share; we've updated our estimate of the dividend accordingly.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$2.26	\$2.88	\$2.62	\$2.28	\$1.08	\$0.15	\$0.77	\$1.48	\$1.26	\$0.22	<b>\$1.45</b>	<b>\$1.94</b>
<b>DPS</b>	\$0.68	\$0.76	\$0.86	\$0.90	\$0.90	\$0.90	\$0.82	\$0.82	\$0.82	\$0.14	<b>\$0.52</b>	<b>\$0.52</b>
<b>Shares<sup>1</sup></b>	590	590	590	590	590	590	590	590	590	592	<b>592</b>	<b>592</b>

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, but that it will peak once the recovery is in full swing.

<sup>1</sup> Share count 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	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	<b>14.5</b>	<b>17.0</b>
Avg. Yld.	1.7%	2.0%	2.0%	2.1%	3.3%	3.4%	2.6%	2.5%	3.4%	1.0%	<b>2.5%</b>	<b>1.6%</b>

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 as our estimate of fair value given that Tenaris appears to be on the way to recovery. Today, shares trade for 14.5 times our earnings estimate of \$1.45, 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.

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 ~27% of earnings by 2026, or \$0.52 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%	<b>36%</b>	<b>27%</b>

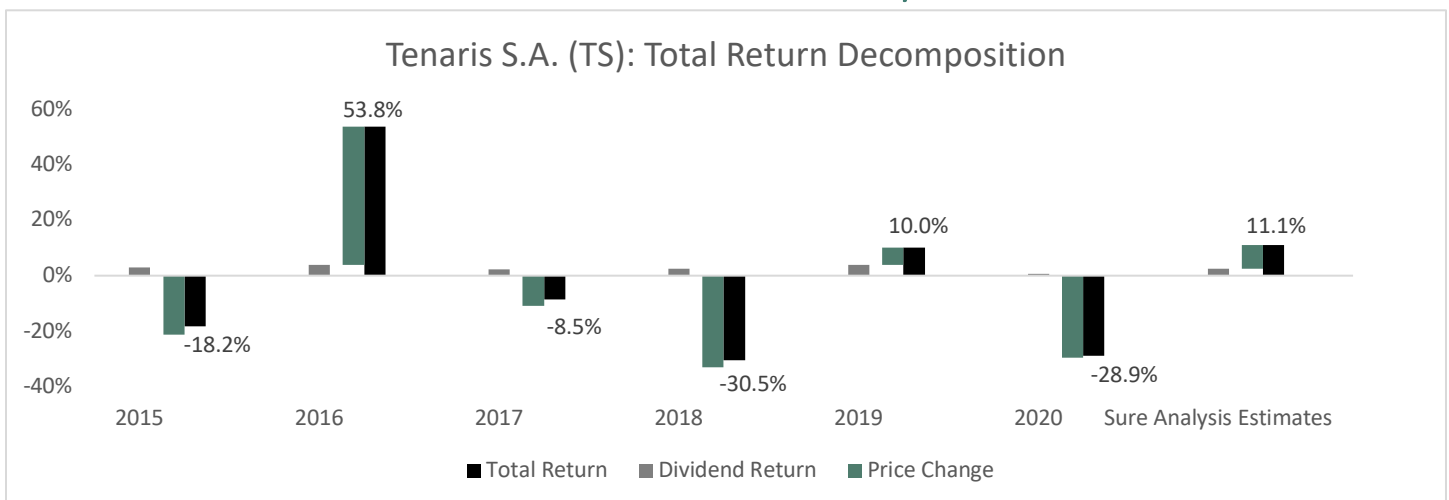
Tenaris has reinstated its payout, albeit at a relatively low level. We see the dividend outlook as murky at the moment, and Tenaris' dividend policy is quite variable.

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 11.1% total return prospects, we rate Tenaris as a buy, but note that investors are taking on inherent oil price risk by owning shares.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	14864	15960	15931	16511	14887	14003	14398	14251	14843	13,716
<b>Cash &amp; Equivalents</b>	824	828	615	418	287	400	330	428	1554	585
<b>Acc. Receivable</b>	1912	2077	2005	2003	1216	1026	1241	1779	1348	968
<b>Inventories</b>	2806	2986	2703	2780	1843	1564	2368	2524	2266	1,637
<b>Goodwill &amp; Int.</b>	3376	3200	3067	2758	2143	1863	1661	1466	1562	1,429
<b>Total Liabilities</b>	3691	4460	3461	3704	3021	2590	2817	2376	2657	2,270
<b>Accounts Payable</b>	902	883	835	832	504	557	751	694	556	462
<b>Long-Term Debt</b>	931	1742	929	998	971	840	966	539	822	619
<b>Total Equity</b>	10506	11328	12290	12654	11713	11287	11482	11783	11989	11,263
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	9.1%	11.0%	9.7%	7.1%	-0.5%	0.4%	3.8%	6.1%	5.1%	-4.4%
<b>Return on Equity</b>	13.0%	15.6%	13.1%	9.3%	-0.7%	0.5%	4.8%	7.5%	6.2%	-5.5%
<b>ROIC</b>	11.1%	13.4%	11.6%	8.5%	-0.6%	0.4%	4.4%	7.0%	5.8%	-5.1%
<b>Shares Out.</b>	590	590	590	590	590	590	590	590	590	592
<b>Revenue/Share</b>	16.89	18.35	17.95	17.18	11.69	7.27	8.96	12.97	12.36	8.72
<b>FCF/Share</b>	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.

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