Seagate Technologies (STX)

Updated February 10th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$110	**5 Year CAGR Estimate:**	1.7%	**Market Cap:**	$24 B
Fair Value Price:	$90	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/21/22
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	04/04/22
Dividend Yield:	2.6%	**5 Year Price Target**	$104	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.5%

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.

Seagate Technologies reported its second quarter (fiscal 2022) earnings results on January 27. The company generated revenues of $3.1 billion during the quarter, which represents an increase of 19% compared to the prior year's quarter. Seagate Technologies met the consensus analyst estimate, unlike during the previous quarter, when Seagate outperformed expectations. Seagate's year-over-year growth also declined sequentially, although still coming in at a relatively attractive high-teens rate during the second quarter.

Seagate Technologies' earnings-per-share totaled $2.41 during the second quarter, which was ahead of what the analyst community had expected. Earnings-per-share improved versus the previous year's quarter, during which the company had earned $1.29 on a per-share basis. Earnings-per-share did improve on a quarter-to-quarter basis as well. Seagate Technologies continued to generate solid cash flows, as operating cash flows totaled $520 million, while free cash flows totaled $430 million. This allows the company to keep buying back shares, which should help increase its earnings-per-share growth going forward, thanks to a declining share count. Management is forecasting that the current quarter, Q3 2022, will see revenues coming in at $2.9 billion, which would be below the level seen in Q1 and Q2. This deceleration was expected by the analyst community, however, and didn't come as a surprise to the market.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$6.75	$5.31	$5.04	$4.57	$2.26	$4.12	$5.52	$4.82	$4.95	$5.64	***$9.00***	***$10.43***
DPS	$0.86	$1.40	$1.67	$2.05	$2.43	$2.52	$2.52	$2.52	$2.60	$2.68	***$2.80***	***$3.17***
Shares[1]	396	359	327	315	299	292	287	278	260	233	***220***	***200***

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 in the past.

Following Seagate Technologies' strong earnings growth in calendar year 2018, 2019 was a down year for the company, due to generally weaker chip and memory markets. Things started to improve during the last couple of quarters, though, and 2020 was a more profitable year. 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 long-term sales growth outlook, and analysts are currently forecasting a meaningful improvement for the current fiscal year, which should be stronger than fiscal 2021.

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[1] In Millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	2.9	6.3	9.9	12.9	15.8	9.6	10.1	10.0	9.7	15.6	***12.2***	***10.0***
Avg. Yld.	4.4%	4.2%	3.4%	3.5%	6.8%	6.4%	4.4%	5.3%	5.4%	3.0%	***2.6%***	***3.0%***

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 roughly 12 times our forecast for 2022's net profits, which is above our fair earnings multiple estimate. We therefore believe that multiple contraction will impact total returns negatively.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	12.7%	26.4%	33.1%	44.9%	108%	61.2%	45.7%	52.1%	52.1%	47.5%	***31.1%***	***30.4%***

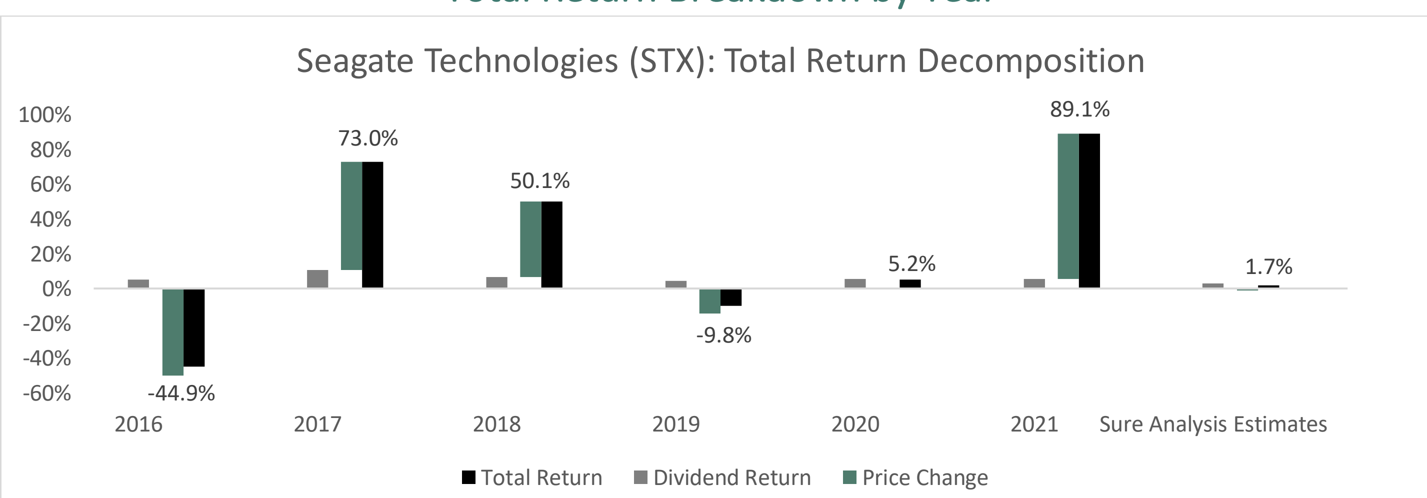
There was no dividend payout ratio for 2010, when Seagate Technologies did not make any dividend payments. Since then, the dividend payout ratio has moved in a very wide range of as low as 13% to more than 100%. Right now the dividend looks well-covered, but the cyclicality of Seagate Technologies' earnings means that the dividend is still not extremely safe. Another dividend cut, such as the one during the financial crisis, cannot be ruled out.

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 has been beneficial for margins, and which limits competitive threats. Demand for storage products, and especially the prices for Seagate's products can be cyclical, 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, although it should be noted that Seagate has weathered the coronavirus crisis well.

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, however, although profits are more dependent on memory pricing rather than broad GDP growth. Seagate Technologies' dividend yield is solid, but the total return outlook is not compelling. We thus rate Seagate Technologies a sell for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	14939	14351	13724	13739	11160	10771	11184	10390	10509	10681
Gross Profit	4684	3940	3846	3809	2615	3174	3364	2932	2842	2917
Gross Margin	31.4%	27.5%	28.0%	27.7%	23.4%	29.5%	30.1%	28.2%	27.0%	27.3%
SG&A Exp.	528	635	722	857	635	606	562	453	473	502
D&A Exp.	814	873	879	841	815	749	598	541	379	397
Operating Profit	3112	2093	1800	1470	620	1232	1723	1465	1382	1500
Operating Margin	20.8%	14.6%	13.1%	10.7%	5.6%	11.4%	15.4%	14.1%	13.2%	14.0%
Net Profit	2862	1838	1570	1742	248	772	1182	2012	1004	1314
Net Margin	19.2%	12.8%	11.4%	12.7%	2.2%	7.2%	10.6%	19.4%	9.6%	12.3%
Free Cash Flow	2626	2261	1999	1903	1093	1482	1747	1159	1129	1128
Income Tax	20	(7)	(14)	228	26	43	236	(640)	28	34

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	10106	9243	9492	9845	8213	9268	9410	8885	8930	8675
Cash & Equivalents	1707	1708	2634	2479	1125	2539	1853	2220	1722	1209
Accounts Receivable	2319	1670	1729	1735	1318	1199	1184	989	1115	1158
Inventories	909	854	985	993	868	982	1053	970	1142	1204
Goodwill & Int. Ass.	969	881	896	1244	1685	1519	1425	1348	1295	1266
Total Liabilities	6609	5737	6660	6827	6620	7904	7745	6723	7143	8044
Accounts Payable	2286	1690	1549	1540	1517	1626	1728	1420	1808	1725
Long-Term Debt	2863	2777	3920	4155	4091	5021	4819	4253	4175	5139
Shareholder's Equity	3497	3495	2832	3018	1593	1364	1665	2162	1787	631
LTD/E Ratio	0.82	0.79	1.38	1.38	2.57	3.68	2.89	1.97	2.34	8.14

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	29.6%	19.0%	16.8%	18.0%	2.7%	8.8%	12.7%	22.0%	11.3%	14.9%
Return on Equity	96.0%	52.6%	49.6%	59.6%	10.8%	52.2%	78.0%	105.1%	50.8%	108.7%
ROIC	46.4%	29.1%	24.1%	25.0%	3.9%	12.8%	18.4%	31.2%	16.2%	22.4%
Shares Out.	396	359	327	315	299	292	287	278	260	233
Revenue/Share	33.88	37.57	39.55	41.51	36.95	36.02	38.30	36.46	39.66	43.60
FCF/Share	5.95	5.92	5.76	5.75	3.62	4.96	5.98	4.07	4.26	4.60

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