Tenaris SA (TS)

Updated February 24th, 2022, by Josh Arnold

Key Metrics

Current Price:	$21	**5 Year CAGR Estimate:**	14.8%	**Market Cap:**	$14.5 B
Fair Value Price:	$39	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	05/25/22[1]
% Fair Value:	54%	**5 Year Valuation Multiple Estimate:**	13.2%	**Dividend Payment Date:**	06/05/22
Dividend Yield:	2.7%	**5 Year Price Target**	$39	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	286%

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 $9.2 billion in annual revenue under normal conditions and currently has a market capitalization of $14.5 billion.

Tenaris reported fourth quarter and full-year earnings on February 16th, 2022, and results were very impressive. Tenaris showed massive growth year-over-year, handily beating estimates on the top and bottom lines. Revenue was $2.06 billion in Q4, up 82% year-over-year and beating estimates by $50 million. The company reported 63 cents in adjusted earnings-per-share, 17 cents better than expected. Sales of tubular products and services rose 19% sequentially and 82% year-over-year. Volumes were up 7% sequentially and 52% year-over-year, while average selling prices were up 11% sequentially and 20% year-over-year. Tenaris saw higher volumes and better pricing power in all its operating regions globally, as rising drilling activity and declining inventory levels helped drive revenue higher.

Operating income from tubular products and services came to $245 million in Q4, which was up from just $3 million a year ago. Operating margin was higher due to an 11% increase in average selling prices while the cost of sales rose 9% due to higher raw materials and energy costs. The company achieved lower SG&A costs through sales leverage, which helped offset higher input costs.

Our initial estimate for this year is $2.30 in earnings-per-share, and we believe 2022 earnings may mark a long-term top given the confluence of positive factors driving this year's estimate.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.88	$2.62	$2.28	$1.08	$0.15	$0.77	$1.48	$1.26	$0.22	$1.90	***$2.30***	***$2.30***
DPS	$0.76	$0.86	$0.90	$0.90	$0.90	$0.82	$0.82	$0.82	$0.14	$0.54	***$0.56***	***$0.56***
Shares[2]	590	590	590	590	590	590	590	590	592	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 0%. 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

[1] Estimated date

[2] 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.

recovery in earnings is accelerating into 2022 given this development, but that it may be difficult for Tenaris to grow from this year's very high earnings base.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.3	16.6	18.5	25.2	---	40.3	22.6	19.3	64.1	11.1	***9.1***	***17.0***
Avg. Yld.	2.0%	2.0%	2.1%	3.3%	3.4%	2.6%	2.5%	3.4%	1.0%	2.6%	***2.7%***	***1.4%***

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 well on the way to recovery. Today, shares trade for just 9.1 times our earnings estimate of $2.30, which means we expect a hugely 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 remain at 24% of earnings by 2027, with the annual dividend at 56 cents per share. We note that Tenaris' unusual dividend policy is very difficult to forecast.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	26%	33%	40%	83%	600%	107%	55%	65%	64%	28%	***24%***	***24%***

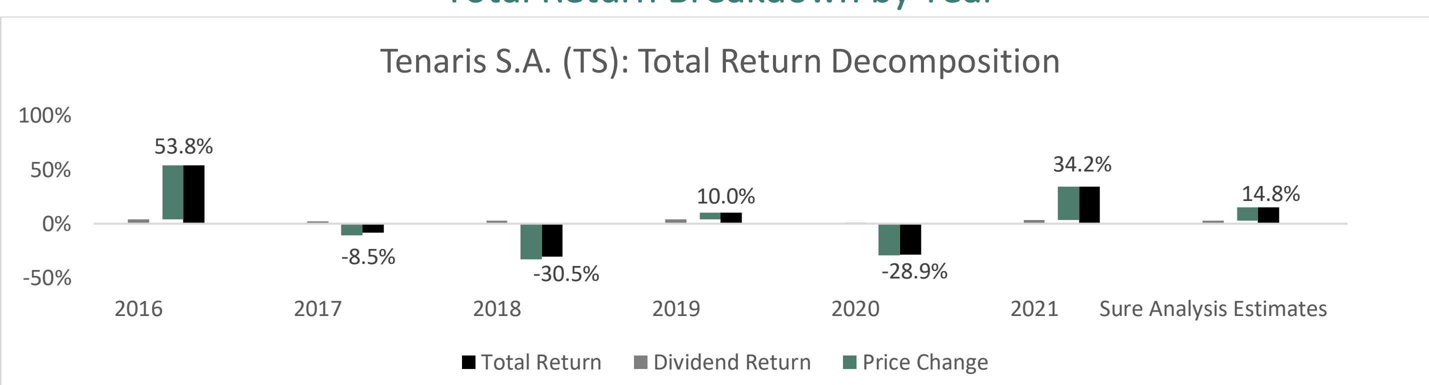
Tenaris recently boosted its dividend on bumper earnings. We see the dividend outlook as murky at the moment, and Tenaris' dividend policy is quite variable.

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 14.8% total return prospects, we rate Tenaris as a buy, but note that investors are taking on inherent oil price risk by owning shares. The valuation is low today and in our view, doesn't reflect outstanding earnings potential for 2022.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	10,834	10,597	10,141	6,903	4,294	5,289	7,659	7,294	5,147	6,521
Gross Profit	4,197	4,140	4,001	2,155	1,128	1,603	2,379	2,187	1,059	1,910
Gross Margin	38.7%	39.1%	39.5%	31.2%	26.3%	30.3%	31.1%	30.0%	20.6%	29.3%
SG&A Exp.	1,412	1,483	1,478	1,151	853	994	1,190	1,167	913	1,005
D&A Exp.	568	610	616	659	662	609	664	540	679	595
Operating Profit	2,376	2,203	2,093	569	(54)	340	878	839	(33)	766
Op. Margin	21.9%	20.8%	20.6%	8.2%	-1.3%	6.4%	11.5%	11.5%	-0.6%	11.7%
Net Profit	1,699	1,551	1,159	(80)	55	545	876	743	(634)	1,100
Net Margin	15.7%	14.6%	11.4%	-1.2%	1.3%	10.3%	11.4%	10.2%	-12.3%	16.9%
Free Cash Flow	1,074	1,635	902	1,094	100	(580)	261	1,178	1,326	(103)
Income Tax	542	628	580	234	17	(17)	229	202	23	189

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	15,960	15,931	16,511	14,887	14,003	14,398	14,251	14,843	13,716	14,449
Cash & Equivalents	828	615	418	287	400	330	428	1,554	585	318
Acc. Receivable	2,071	1,983	1,963	1,135	955	1,214	1,737	1,348	968	1,299
Inventories	2,986	2,703	2,780	1,843	1,564	2,368	2,524	2,266	1,637	2,673
Goodwill & Int.	3,200	3,067	2,758	2,143	1,863	1,661	1,466	1,562	1,429	1,372
Total Liabilities	4,460	3,461	3,704	3,021	2,590	2,817	2,376	2,657	2,270	2,344
Accounts Payable	883	835	832	504	557	751	694	556	462	845
Long-Term Debt	1,742	929	998	971	840	966	539	822	619	331
Total Equity	11,328	12,290	12,654	11,713	11,287	11,482	11,783	11,989	11,263	11,961
LTD/E Ratio	0.15	0.08	0.08	0.08	0.07	0.08	0.05	0.07	0.06	0.03

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.0%	9.7%	7.1%	-0.5%	0.4%	3.8%	6.1%	5.1%	-4.4%	7.8%
Return on Equity	15.6%	13.1%	9.3%	-0.7%	0.5%	4.8%	7.5%	6.2%	-5.5%	9.5%
ROIC	13.4%	11.6%	8.5%	-0.6%	0.4%	4.4%	7.0%	5.8%	-5.1%	9.0%
Shares Out.	590	590	590	590	590	590	590	590	592	592
Revenue/Share	18.35	17.95	17.18	11.69	7.27	8.96	12.97	12.36	8.72	11.05
FCF/Share	1.82	2.77	1.53	1.85	0.17	(0.98)	0.44	2.00	2.25	(0.17)

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