Seagate Technologies (STX)

Updated July 25th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	4.8%	**Market Cap:**	$16B
Fair Value Price:	$71	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	09/20/22
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.6%	**Dividend Payment Date:**	10/05/22
Dividend Yield:	3.6%	**5 Year Price Target**	$82	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 fourth quarter (fiscal 2022) earnings results on July 21. The company generated revenues of $2.6 billion during the quarter, which represents a decline of 13% compared to the prior year's quarter. Seagate Technologies missed the consensus analyst estimate, unlike during the previous quarters, when Seagate mostly outperformed expectations. Seagate's year-over-year performance also declined sequentially, as year-over-year growth had still been positive in the previous quarter.

Seagate Technologies' earnings-per-share totaled $1.59 during the fourth quarter, which was below what the analyst community had expected. Earnings-per-share declined by around 20% versus the previous year's quarter, during which the company had earned $2.00 on a per-share basis. Seagate Technologies also saw its cash flow generation decline compared to the previous year's period and on a sequential basis, but cash flow during fiscal 2022, overall, remained healthy, at $1.7 billion. This allowed the company to buy back shares at a meaningful pace, which made its share count decline by 7% year over year. Management is forecasting that the current quarter, Q1 2023, will see revenues coming in at a midpoint of $2.5 billion, which would be below the level seen in the most recent quarter. Analysts are predicting that this revenue deceleration will result in somewhat lower earnings-per-share this year, relative to 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$5.31	$5.04	$4.57	$2.26	$4.12	$5.52	$4.82	$4.95	$5.64	$8.18	***$7.10***	***$8.23***
DPS	$1.40	$1.67	$2.05	$2.43	$2.52	$2.52	$2.52	$2.60	$2.68	$2.80	***$2.80***	***$3.17***
Shares[1]	359	327	315	299	292	287	278	260	233	217	***210***	***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. Analysts are currently forecasting a profit decline for fiscal 2023, but profits will nevertheless remain above pre-pandemic levels.

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[1] In Millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	6.3	9.9	12.9	15.8	9.6	10.1	10.0	9.7	15.6	8.7	***10.8***	***10.0***
Avg. Yld.	4.2%	3.4%	3.5%	6.8%	6.4%	4.4%	5.3%	5.4%	3.0%	3.9%	***3.6%***	***3.8%***

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 a little less than 11 times our forecast for 2023's net profits, which is ahead of our fair earnings multiple estimate. We therefore believe that multiple compression will be a small headwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	26.4%	33.1%	44.9%	108%	61.2%	45.7%	52.1%	52.1%	47.5%	34.2%	***39.4%***	***38.5%***

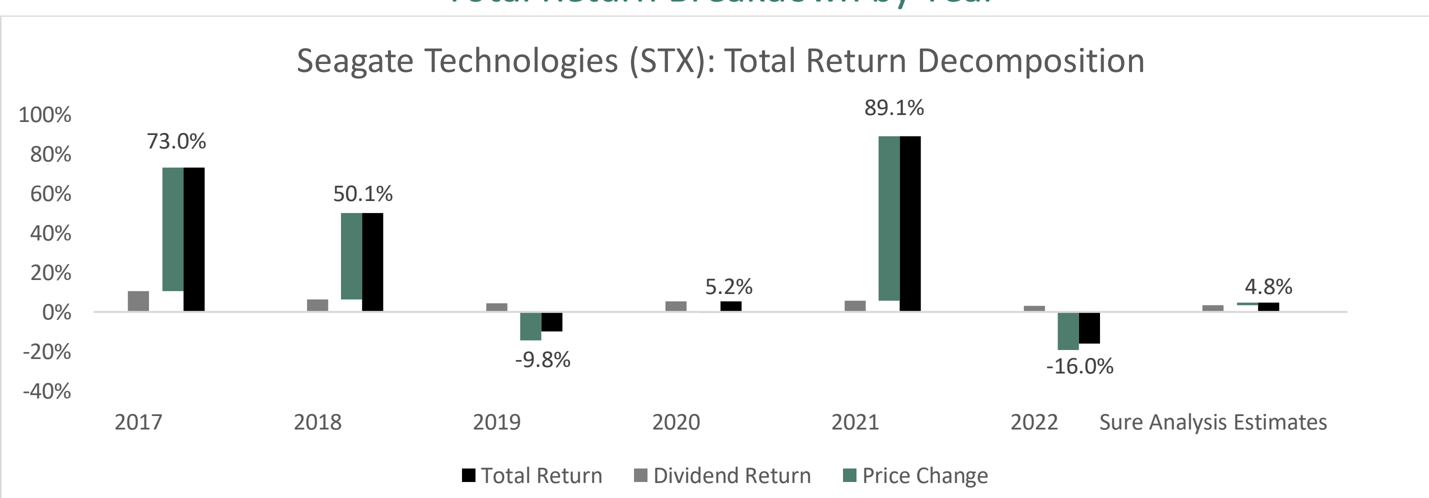
There was no dividend payout ratio for 2010, when Seagate Technologies did not make any dividend payments. Since then, the dividend payout ratio has moved in a very wide range of as low as 13% to more than 100%. Right now, the dividend looks well-covered, but the cyclicality of Seagate Technologies' 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, and the total return outlook is mediocre. We thus rate Seagate Technologies a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	14,351	13,724	13,739	11,160	10,771	11,184	10,390	10,509	10,681	11,661
Gross Profit	3,940	3,846	3,809	2,615	3,174	3,364	2,932	2,842	2,917	3,469
Gross Margin	27.5%	28.0%	27.7%	23.4%	29.5%	30.1%	28.2%	27.0%	27.3%	29.7%
SG&A Exp.	635	722	857	635	606	562	453	473	502	559
D&A Exp.	873	879	841	815	749	598	541	379	397	451
Operating Profit	2,093	1,800	1,470	620	1,232	1,723	1,465	1,382	1,500	1,958
Operating Margin	14.6%	13.1%	10.7%	5.6%	11.4%	15.4%	14.1%	13.2%	14.0%	16.8%
Net Profit	1,838	1,570	1,742	248	772	1,182	2,012	1,004	1,314	1,649
Net Margin	12.8%	11.4%	12.7%	2.2%	7.2%	10.6%	19.4%	9.6%	12.3%	14.1%
Free Cash Flow	2,261	1,999	1,903	1,093	1,482	1,747	1,159	1,129	1,128	1,276
Income Tax	(7)	(14)	228	26	43	236	(640)	28	34	30

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9,243	9,492	9,845	8,213	9,268	9,410	8,885	8,930	8,675	8,944
Cash & Equivalents	1,708	2,634	2,479	1,125	2,539	1,853	2,220	1,722	1,209	615
Accounts Receivable	1,670	1,729	1,735	1,318	1,199	1,184	989	1,115	1,158	1,532
Inventories	854	985	993	868	982	1,053	970	1,142	1,204	1,565
Goodwill & Int. Ass.	881	896	1,244	1,685	1,519	1,425	1,348	1,295	1,266	1,246
Total Liabilities	5,737	6,660	6,827	6,620	7,904	7,745	6,723	7,143	8,044	8,835
Accounts Payable	1,690	1,549	1,540	1,517	1,626	1,728	1,420	1,808	1,725	2,058
Long-Term Debt	2,777	3,920	4,155	4,091	5,021	4,819	4,253	4,175	5,139	5,646
Shareholder's Equity	3,495	2,832	3,018	1,593	1,364	1,665	2,162	1,787	631	109
LTD/E Ratio	0.79	1.38	1.38	2.57	3.68	2.89	1.97	2.34	8.14	51.80

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	19.0%	16.8%	18.0%	2.7%	8.8%	12.7%	22.0%	11.3%	14.9%	18.7%
Return on Equity	52.6%	49.6%	59.6%	10.8%	52.2%	78.0%	105.1%	50.8%	108.7%	445.7%
ROIC	29.1%	24.1%	25.0%	3.9%	12.8%	18.4%	31.2%	16.2%	22.4%	28.6%
Shares Out.	359	327	315	299	292	287	278	260	233	217
Revenue/Share	37.57	39.55	41.51	36.95	36.02	38.30	36.46	39.66	43.60	52.06
FCF/Share	5.92	5.76	5.75	3.62	4.96	5.98	4.07	4.26	4.60	5.70

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

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