Tenaris SA (TS)

Updated August 11th, 2023, by Josh Arnold

Key Metrics

Current Price:	$34	**5 Year CAGR Estimate:**	10.0%	**Market Cap:**	$20 B
Fair Value Price:	$78	**5 Year Growth Estimate:**	-8.0%	**Ex-Dividend Date:**	11/22/23[1]
% Fair Value:	44%	**5 Year Valuation Multiple Estimate:**	18.1%	**Dividend Payment Date:**	11/25/23
Dividend Yield:	2.0%	**5 Year Price Target**	$51	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

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 could produce about $14.5 billion in revenue this year, and currently has a market capitalization of $20 billion.

Tenaris posted second quarter earnings on August 2nd, 2023, and results were quite strong once again, following a great Q1 report. Earnings-per-share came to 95 cents, while revenue soared 46% year-over-year to $4.08 billion. Sales were nearly a record for the company in Q2, as offshore sales and shipments to US onshore customers drove the topline strength. There was offsetting weakness from lower pricing, as well as lower pipeline sales in Argentina.

SG&A costs were $529 million, or 13.0% of sales. These were up from $497 million and 11.8%, respectively, in the first quarter of this year, but was down from 14.7% of sales in the year-ago period. Higher labor costs were the driver, as well as the slight reduction in sales from Q1.

The company posted operating cash flows of $1.3 billion, up from $921 billion in Q1, and up sharply from $428 million in last year's Q2. The number for Q2 included a working capital reduction of $294 million.

Capex was $165 million, so free cash flow was impressive at $1.2 billion. After paying $401 million in dividends, the company's net cash position was $2.3 billion at the end of Q2, up from $1.7 billion in the March quarter.

The company guided for weaker sales and margins in the second half, and we've left our estimate at $6.00 per share.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.62	$2.28	$1.08	$0.15	$0.77	$1.48	$1.26	$0.22	$1.90	$4.43	***$6.00***	***$3.95***
DPS	$0.86	$0.90	$0.90	$0.90	$0.82	$0.82	$0.82	$0.14	$0.54	$0.90	***$0.68***	***$0.68***
Shares[2]	590	590	590	590	590	590	590	592	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 -8%. 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 will peak in 2023 given this development, and that it will be very difficult for Tenaris to grow from this year's very high earnings base.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.6	18.5	25.2	---	40.3	22.6	19.3	64.1	11.1	7.9	***5.7***	***13.0***
Avg. Yld.	2.0%	2.1%	3.3%	3.4%	2.6%	2.5%	3.4%	1.0%	2.6%	2.6%	***2.0%***	***1.3%***

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 13 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 5.7 times our earnings estimate of $6.00, 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 13 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 under 20% of earnings by 2028, with the annualized dividend at $0.68 per share currently. We note that Tenaris' unusual dividend policy is very difficult to forecast.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33%	40%	83%	600%	107%	55%	65%	64%	28%	20%	***11%***	***17%***

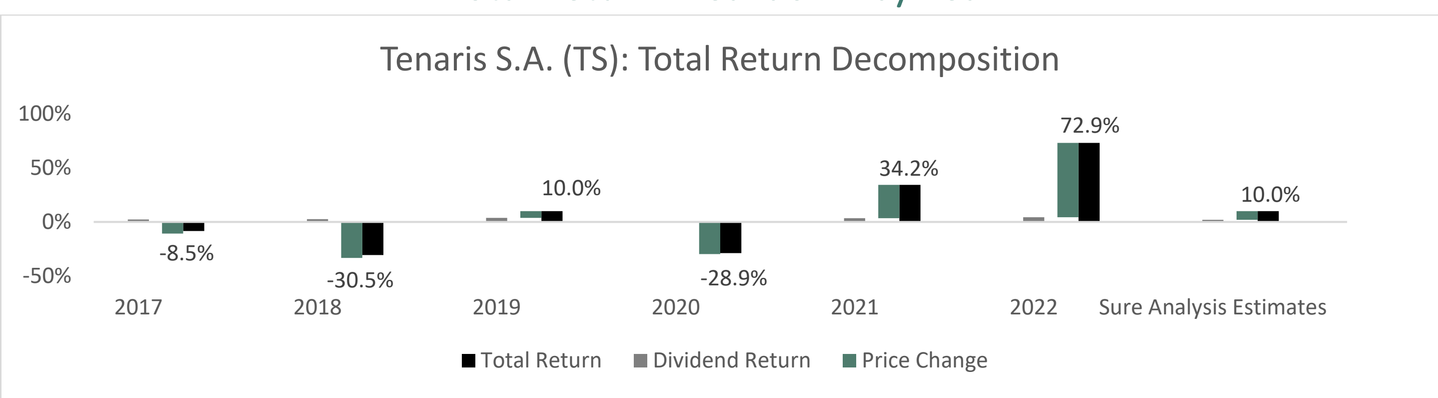
Tenaris recently boosted its dividend on bumper earnings. We see the dividend outlook as murky at the moment, and Tenaris' dividend policy is quite variable.

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 struggling to replicate outstanding 2023 results moving forward. With 10% total return prospects, we rate Tenaris as a buy, and note that investors are taking on inherent oil price risk by owning shares. The valuation is low today, but we see that as the result of what should be a long-term peak in earnings in 2023. We see -8% growth, an 18.1% tailwind from the valuation, and 2% yield driving total returns.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Tenaris SA (TS)

Updated August 11th, 2023, by Josh Arnold

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	10,597	10,141	6,903	4,294	5,289	7,659	7,294	5,147	6,521	11,763
Gross Profit	4,140	4,001	2,155	1,128	1,603	2,379	2,187	1,059	1,910	4,675
Gross Margin	39.1%	39.5%	31.2%	26.3%	30.3%	31.1%	30.0%	20.6%	29.3%	39.7%
SG&A Exp.	1,483	1,478	1,151	853	994	1,190	1,167	913	1,005	1,396
D&A Exp.	610	616	659	662	609	664	540	679	595	608
Operating Profit	2,203	2,093	569	(54)	340	878	839	(33)	766	2,977
Op. Margin	20.8%	20.6%	8.2%	-1.3%	6.4%	11.5%	11.5%	-0.6%	11.7%	25.3%
Net Profit	1,551	1,159	(80)	55	545	876	743	(634)	1,100	2,553
Net Margin	14.6%	11.4%	-1.2%	1.3%	10.3%	11.4%	10.2%	-12.3%	16.9%	21.7%
Free Cash Flow	1,635	902	1,094	100	(580)	261	1,178	1,326	(103)	770
Income Tax	628	580	234	17	(17)	229	202	23	189	617

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	15,931	16,511	14,887	14,003	14,398	14,251	14,843	13,716	14,449	17,550
Cash & Equivalents	615	418	287	400	330	428	1,554	585	318	1,092
Acc. Receivable	1,983	1,963	1,135	955	1,214	1,737	1,348	968	1,299	2,494
Inventories	2,703	2,780	1,843	1,564	2,368	2,524	2,266	1,637	2,673	3,987
Goodwill & Int.	3,067	2,758	2,143	1,863	1,661	1,466	1,562	1,429	1,372	1,333
Total Liabilities	3,461	3,704	3,021	2,590	2,817	2,376	2,657	2,270	2,344	3,516
Accounts Payable	835	832	504	557	751	694	556	462	845	1,179
Long-Term Debt	929	998	971	840	966	539	822	619	331	729
Total Equity	12,290	12,654	11,713	11,287	11,482	11,783	11,989	11,263	11,961	13,906
LTD/E Ratio	0.08	0.08	0.08	0.07	0.08	0.05	0.07	0.06	0.03	0.05

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.7%	7.1%	-0.5%	0.4%	3.8%	6.1%	5.1%	-4.4%	7.8%	16.0%
Return on Equity	13.1%	9.3%	-0.7%	0.5%	4.8%	7.5%	6.2%	-5.5%	9.5%	19.7%
ROIC	11.6%	8.5%	-0.6%	0.4%	4.4%	7.0%	5.8%	-5.1%	9.0%	18.8%
Shares Out.	590	590	590	590	590	590	590	592	592	590
Revenue/Share	17.95	17.18	11.69	7.27	8.96	12.97	12.36	8.72	11.05	19.93
FCF/Share	2.77	1.53	1.85	0.17	(0.98)	0.44	2.00	2.25	(0.17)	1.30

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