Tenaris SA (TS)

Updated March 11th, 2024, by Josh Arnold

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	5.0%	**Market Cap:**	$22 B
Fair Value Price:	$41	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	05/20/24
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date:**	05/22/24
Dividend Yield:	3.2%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 $13 billion in revenue this year, and currently has a market capitalization of $22 billion.

Tenaris posted fourth quarter results on February 21st, 2024, and results were better than expected on both the top and bottom lines. The company's earnings-per-share came to $1.92, which was 93 cents better than estimates. Revenue was off 5.5% year-over-year to $3.42 billion, which was $340 million ahead of expectations.

Sales were up 5% against Q3, boosted by a high level of shipments to the Middle East, as well as for offshore pipeline projects, in addition to the company's newly acquired Shawcor pipe coating business. These sources of strength offset ongoing weakness in pricing declines in the Americas.

EBITDA was $975 million, but was off year-over-year due to lower average selling prices in the Americas. Free cash flow was $669 million, which was reduced by capex payments of $167 million. During the quarter, the company also paid $161 million for Shawcor, which it acquired from Mattr. Finally, the company spent $235 million on dividends during the quarter, as well as $214 million in buybacks. Net cash was $3.4 billion at the end of the year. We see $4.05 in adjusted earnings-per-share for this year as 2023's level of earnings is unsustainable.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.28	$1.08	$0.15	$0.77	$1.48	$1.26	$0.22	$1.90	$4.43	$6.86	***$4.05***	***$4.26***
DPS	$0.90	$0.90	$0.90	$0.82	$0.82	$0.82	$0.14	$0.54	$0.90	$1.08	***$1.20***	***$1.20***
Shares[1]	590	590	590	590	590	590	592	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 1%. 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 peaked in 2023 given this development, and that it will be very difficult for Tenaris to grow from more normalized earnings for 2024.

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[1] Share count in millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.5	25.2	---	40.3	22.6	19.3	64.1	11.1	7.9	5.1	***9.4***	***10.0***
Avg. Yld.	2.1%	3.3%	3.4%	2.6%	2.5%	3.4%	1.0%	2.6%	2.6%	3.1%	***3.2%***	***2.8%***

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 10 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 9.4 times our earnings estimate of $4.05, 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 10 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 30% of earnings by 2029, with the annualized dividend at $1.20 per share currently. We note that Tenaris' unusual dividend policy is very difficult to forecast.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	40%	83%	600%	107%	55%	65%	64%	28%	20%	16%	***30%***	***28%***

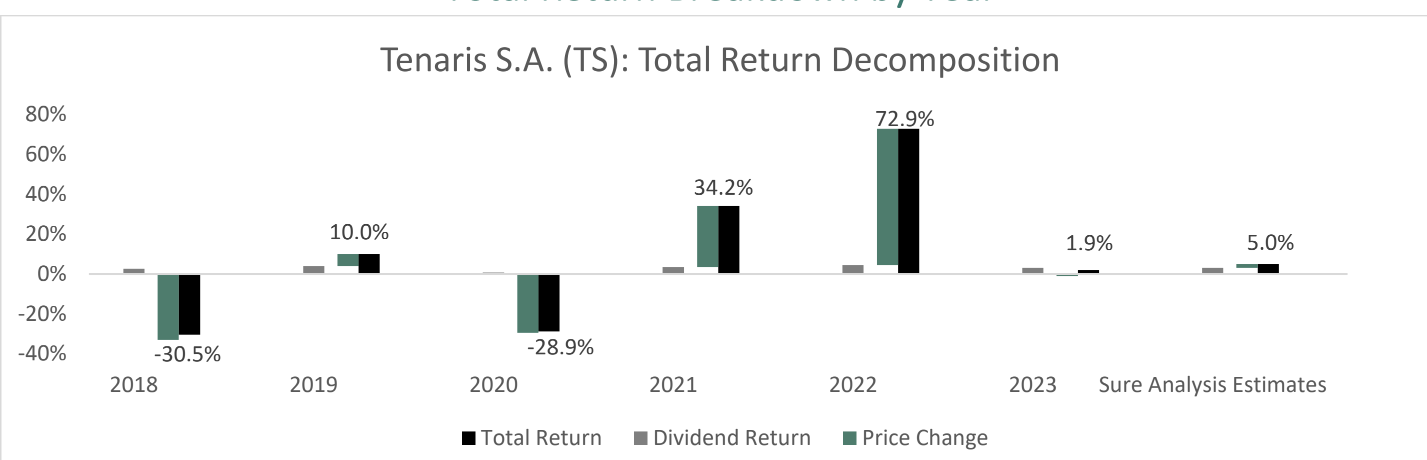
Tenaris recently boosted its dividend on bumper earnings. We see the dividend outlook as murky at the moment, and Tenaris' dividend policy is quite variable.

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 5% total return prospects, we rate Tenaris as a hold, 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 1% growth, a 1.3% tailwind from the valuation, and 3.2% yield driving total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	10,141	6,903	4,294	5,289	7,659	7,294	5,147	6,521	11,763	14,869
Gross Profit	4,001	2,155	1,128	1,603	2,379	2,187	1,059	1,910	4,675	6,200
Gross Margin	39.5%	31.2%	26.3%	30.3%	31.1%	30.0%	20.6%	29.3%	39.7%	41.7%
SG&A Exp.	1,478	1,151	853	994	1,190	1,167	913	1,005	1,396	1,624
D&A Exp.	616	659	662	609	664	540	679	595	608	549
Operating Profit	2,093	569	(54)	340	878	839	(33)	766	2,977	4,274
Op. Margin	20.6%	8.2%	-1.3%	6.4%	11.5%	11.5%	-0.6%	11.7%	25.3%	28.7%
Net Profit	1,159	(80)	55	545	876	743	(634)	1,100	2,553	3,918
Net Margin	11.4%	-1.2%	1.3%	10.3%	11.4%	10.2%	-12.3%	16.9%	21.7%	26.4%
Free Cash Flow	902	1,094	100	(580)	261	1,178	1,326	(103)	770	3,776
Income Tax	580	234	17	(17)	229	202	23	189	617	675

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	16,511	14,887	14,003	14,398	14,251	14,843	13,716	14,449	17,550	21,082
Cash & Equivalents	418	287	400	330	428	1,554	585	318	1,092	1,638
Acc. Receivable	1,963	1,135	955	1,214	1,737	1,348	968	1,299	2,494	2,481
Inventories	2,780	1,843	1,564	2,368	2,524	2,266	1,637	2,673	3,987	3,921
Goodwill & Int.	2,758	2,143	1,863	1,661	1,466	1,562	1,429	1,372	1,333	1,377
Total Liabilities	3,704	3,021	2,590	2,817	2,376	2,657	2,270	2,344	3,516	4,051
Accounts Payable	832	504	557	751	694	556	462	845	1,179	1,108
Long-Term Debt	998	971	840	966	539	822	619	331	729	583
Total Equity	12,654	11,713	11,287	11,482	11,783	11,989	11,263	11,961	13,906	16,843
LTD/E Ratio	0.08	0.08	0.07	0.08	0.05	0.07	0.06	0.03	0.05	0.03

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.1%	-0.5%	0.4%	3.8%	6.1%	5.1%	-4.4%	7.8%	16.0%	20.3%
Return on Equity	9.3%	-0.7%	0.5%	4.8%	7.5%	6.2%	-5.5%	9.5%	19.7%	25.2%
ROIC	8.5%	-0.6%	0.4%	4.4%	7.0%	5.8%	-5.1%	9.0%	18.8%	24.2%
Shares Out.	590	590	590	590	590	590	592	592	590	590
Revenue/Share	17.18	11.69	7.27	8.96	12.97	12.36	8.72	11.05	19.93	25.23
FCF/Share	1.53	1.85	0.17	(0.98)	0.44	2.00	2.25	(0.17)	1.30	6.41

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