S&P Global
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Bulletin:

Siemens' Solid Operating Performance And Stronger-Than-Expected Cash Generation Preserves Its Rating Headroom

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This report does not constitute a rating action.

FRANKFURT (S&P Global Ratings) Nov. 23, 2022--S&P Global Ratings today said that Siemens AG's (A+/Stable/A-1+) performance in fiscal year (FY) 2022 (ended Sept. 30), based on figures it published Nov. 17, outperformed our base-case scenario in terms of revenue, while the S&P Global Ratings-adjusted EBITDA margin remained muted, at an estimated 15.5% compared with 15.7% in FY2021.

Siemens has shown strong business performance despite major economic and geopolitical headwinds. The company's revenue, at about €71.3 billion (excluding captive finance), grew by 16% from FY2021 and outperformed our estimate by more than 12%, substantially driven by price inflation and higher volumes. Nevertheless, the reported EBITDA margins for the industrial business segments remain flat due to supply chain challenges and higher prices for raw materials, logistics, and labor. Siemens' adjusted free operating cash flow (FOCF) of about €6.5 billion was better than our expectation of above €5.5 billion (but lower than FY2021's approximately €6.8 billion), as the company is leveraging opportunities while pursuing stringent working capital management, with a cash conversion rate of 1.86x in FY2022.

Siemens' most profitable segment, Digital Industries, has recorded a 37% increase in order intake in FY2022, with a record backlog of over €13.5 billion. Nevertheless, we expect this to normalize as the automation demand slows. The comparable revenue growth forecast of 10%-13% in 2023 is based on the high order backlog, gaining further market share, and price increases. Based on preliminary figures, we predict the company's funds from operations (FFO) to debt will be 65%-75% for FY2022, above our previous estimate of 60%-65%.

Siemens has shown further progress toward portfolio optimization, having disposed its 50% stake in Valeo Siemens eAutomotive GmbH and its mail and parcel-handling business of Siemens Logistics in fourth-quarter 2022. Furthermore, Siemens is combining Large Drives Applications, its largest segment, within Portfolio Companies, with Sykatec (another small segment within Portfolio Companies) and parts of its Motion Control business in Digital Industries to create a specialized and integrated motors and large drives company in an own legal setup and to exploit operational synergies, such as in terms of value chains or manufacturing technologies. The new company has joint revenue of €3 billion and its portfolio constitutes low-to-high voltage motors, geared motors, medium-voltage converters, and motor spindles. We understand that the combined activities remain noncore and Siemens will continue to evaluate its strategic options for the new entity.

Due to continued inflation and expected demand normalization, we now expect Siemens will grow 5%-7% in 2023 on a like-for-like basis, compared with 1%-3% in our prior base-case scenario. Furthermore, we expect Siemens will post an S&P Global Ratings-adjusted EBITDA margin of 15%-16% in 2023 compared with about 17% previously. This is mainly due to continued impacts from higher prices of raw materials, components, and wages, along with supply chain constraints.

Despite subdued profitability, we forecast somewhat better adjusted FOCF of about $6.0 billion in 2023, compared with above €5.5 billion in our previous base-case scenario. Still, we expect that FFO to debt will remain at comfortably above 45% over the next 24 months, corresponding with our expectation for an 'A+' rating, as the company continues to execute its cost-savings program and maintains its conservative financial policy.