# Siemens Energy

## Our take on the SpaceX turbine headlines - a potential new blade and vane supplier should be welcome news

**Overweight**

ANALYST FOCUS LIST

**ENR1n.DE, ENR GR**
Price (31 Aug 26):€142.74
**Price Target (Dec-27):€245.00**

**What happened:** We've received a lot of questions regarding Elon Musk's post over the weekend which suggested that SpaceX (covered by JPM's Doug Anmuth) may insource the production of blades and vanes to potentially reduce the lead times of gas turbines by as much as 18 months, which in turn led to GE Vernova (covered by Mark Strouse), Howmet (Seth Seifman) and Siemens Energy shares coming under pressure. This also follows the executive order on 26 August which we have summarised below given many investors were out of office.

**Our take:** Casting and forgings being the main bottleneck in CCGT ramp-up is well known, and Musk commented on the potential need / desire to insource these items back in February, so this is not strictly new news. Clearly, SpaceX/Musk has the technical competence and access to financial resources to disrupt any end market we look at, as they have done most notably in launchers, satellites and autos. SpaceX's experience in foundry work and casting/forging for its Raptor engines would suggest this would not be beyond their technical competence in a relatively short timeframe either; however, everything Musk has said points specifically to resolving this one bottleneck, as opposed to seeking to enter the gas turbine market itself. Further, it would be no small feat within the timeframes suggested to shift the lead times for new CCGT's (currently c4 yrs) by c18 months, one need only look at the commercial aero engine players and their key suppliers who have struggled to increase output quite modestly (relatively) over the years. More broadly, if the hot section of the precision casting and forgings market is now seen as easily addressable, this carries much wider consequences beyond the power gen market, in our view. From a Siemens Energy equity case standpoint, this evolving story implies a sequentially increasing demand outlook for new gas turbines, as opposed to the prevailing concerns of being at or around peak orders. Our rating and price target are unchanged, which is not predicated on the blades and vanes remaining a bottle neck for gas OE (which is c 10% of group sales), but rather the intrinsic value that stems from the growing gas installed base, powerful grid outlook, ToI simplification efforts, and the improving fundamentals of Gamesa (which collectively account for the other c90%), which will drive sector leading earnings growth and cash returns to at least the end of the decade, at undemanding valuation (c23x P/E or c16x EBIT FY27e) in our view.

**Executive Order 14,420:** President Trump issued an executive order to address imports of foreign-made equipment used in the "bulk-power system", including facilities and control systems to operate the grid, electricity power generation facilities, and transmission lines rated 69 kV or higher, but does not include facilities used in the local distribution of electric energy. This led to volatility in several shares across JPM's global power gen coverage, which we expect to continue ahead of the US mid-terms, which we have cited as a sentiment risk in several notes published over the course of this year. That said, we believe that the EO's scope mentioned above focuses on front-of-the-meter (FTM) restrictions, while behind-the-meter (BTM) applications not connected to the grid would not be seen as posing a material national security risk. We believe the EO could be an overhang until the Department of Energy finalizes more specific rules, which it is directed to do within 120 days (post the mid-terms).

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J.P.Morgan

# Investment Thesis, Valuation and Risks

## Siemens Energy *(Overweight; Price Target: €245.00)*

**Investment Thesis**

- **Strong and Sustainable FCF Trade:** Siemens Energy's earnings growth outlook through 2028 is stronger than peers, with company guidance likely beatable in Gas Services (GS), Grid Tech (GT), and possibly Gamesa. The company is locking in supply/demand imbalances into long-term, profitable service contracts extending into the 2040s. GS services FCF alone could justify the current valuation and provide protection against future volatility.
- **Electricity Demand Growth:** Accelerating electricity demand, driven by electrification and AI, especially in the US, will require significant grid investment. Siemens Energy, with its leading gas turbines, grid equipment, and offshore wind portfolio, is well-positioned to benefit from this trend and generate recurring FCF from service contracts.
- **Share Price Outlook:** Despite a strong share rally, there is potential for >50% upside over 12-18 months as long-only investors revisit the stock, driven by improved FCF margins similar to Rolls-Royce's recent performance.
- **Wind Business Turnaround:** The wind business turnaround is nearly complete, with break-even expected before the end of 2026, despite challenges from a reduced onshore presence.

**Valuation**

To derive our Dec-27 PT of €245, we value Siemens Energy on 24x calendarised 2028E EV/EBITA. The multiple is derived from a reverse DCF using long-term growth, normalised margin, capital structure, cost of capital, capital intensity and tax rates, among others. We adjust the EV to reflect net contract liabilities and excess provisions over normalised levels, but no longer adjusted our the cash cost of the Siemens India acquisition, as it carries a corresponding asset of the same value.

**Risks to Rating and Price Target**

- **Upside risks are:** 1) Siemens Energy could outperform if it continues to grow above guidance, which we see as possible in both GS and GT given the volume outlook and backlog, noting also that the company beat its prior three-year guidance c two years ahead of schedule. 2) The multiple for the stock could re re-rate if incremental buyers from long-only institutions can gain comfort in the sustainability of the FCF margin. 3) A more favourable environment for renewables in future could bring upside.
- **Downside risks are:** 1) Execution on projects could bring downside to estimates. 2) If electricity demand growth slows then the company could see a de-rating of the share price. 3) Aggressive behaviour by some competitors could bring downside.