



**THE WORLD IS SHORT OF
POWER.
SIEMENS ENERGY
HAS THE MACHINES, THE
MARKETS, AND THE BACKLOG.
SO WHERE ARE
THE RETURNS?**

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Introduction

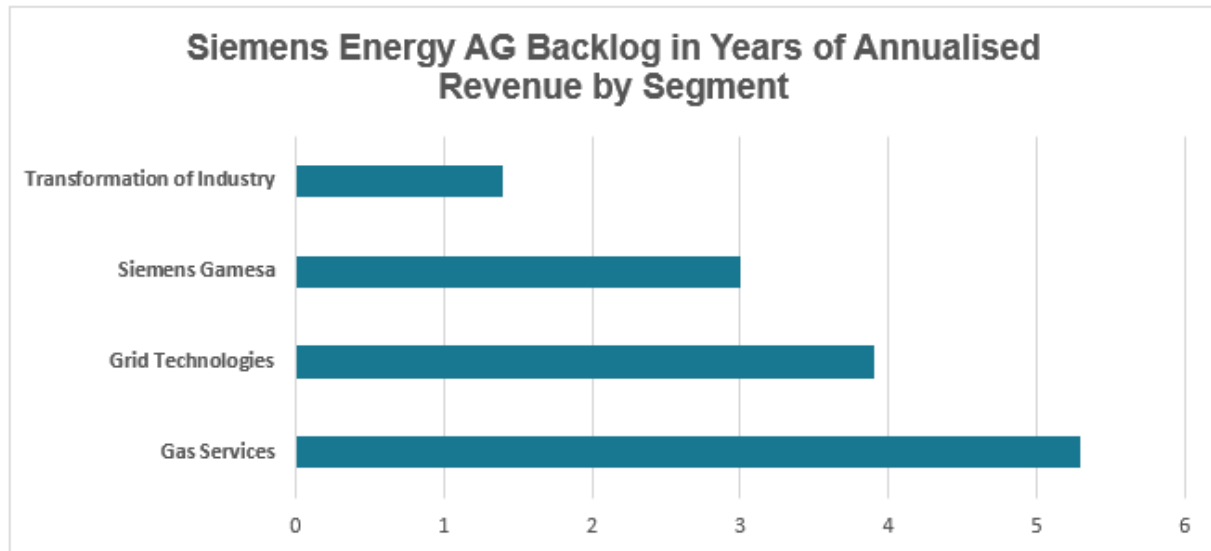
The next energy crisis may not be about fuel at all. It may be about copper, steel and lead times. Data centres, electrified factories, ageing grids and a scramble for dependable generation are all queuing at the same few factory gates, and the queue is getting longer. Few companies stand closer to that gate than Siemens Energy, whose technology the company says is involved in roughly a sixth of the world's electricity generation.

The figures are hard to argue with. In the second quarter of fiscal 2026 the group booked an all-time high of €17.7bn in orders, with a book-to-bill ratio of 1.72 and a record backlog of €154bn. The June quarter went further: record orders of €17.9bn against record revenue of €11.4bn, a book-to-bill of about 1.6, and profit before special items more than tripled to €1.6bn. Over nine months the company took in €53.3bn of orders for every €31.4bn of revenue it delivered. The backlog now stands at €162bn, about 3.9 times what Siemens Energy sold in the past year.

Management raised its fiscal 2026 growth guidance to 14–16% after the second quarter, and it now aims for a margin of 10–12% before special items, net income of around €4bn and pre-tax free cash flow of around €8bn.

And yet, at about €119 on 23 October, the shares trade some 38% below their April peak of €191.66. Nothing the company said explains the fall. Market reports point to a wider fear that the AI data-centre boom may be harder to finance than anyone assumed.

The easy reading is that investors are nervous about AI. We think the real issue lies elsewhere. A backlog is a statement of visibility, not of profit. Between an order and a shareholder's return sit factory capacity, supply chains, project execution, working capital, warranties, tax and, above all, the capital needed to produce the earnings.



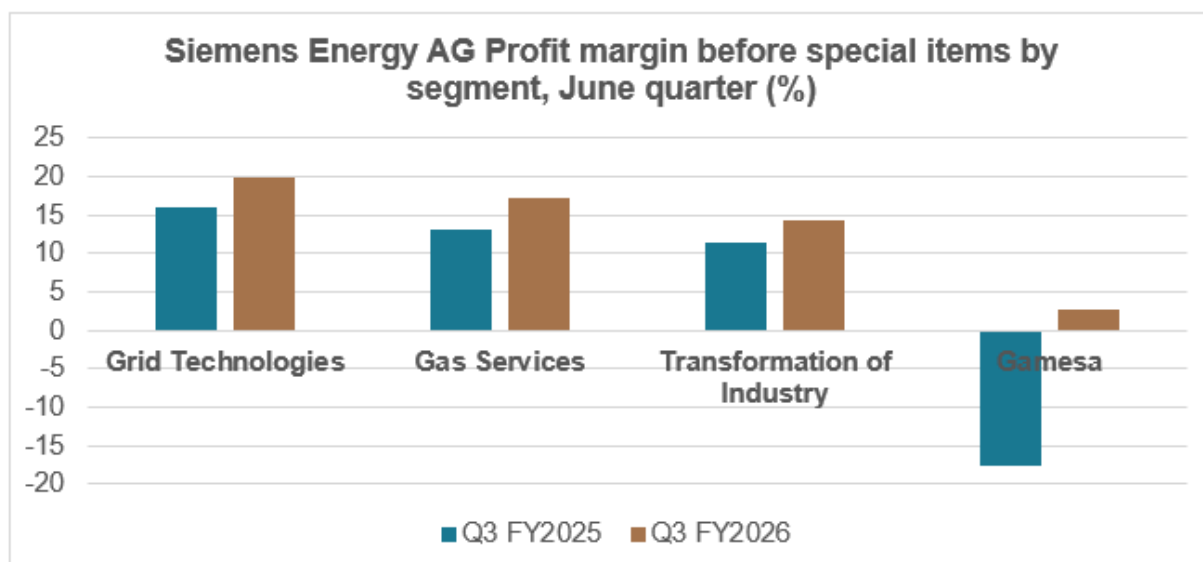
The chain runs from the global market to the addressable market, then to achievable share, revenue, margin, free cash flow and finally return on capital, and every link leaks.

Orders are arriving faster than Siemens Energy can turn them into revenue, which is a good problem to have.

But it changes the question from “where will demand come from?” to “how much of it becomes cash, and at what cost in capital?”

The market is also smaller than the headline suggests. Global electricity investment is not Siemens Energy’s opportunity. China, one of the world’s largest power markets, accounts for under 3% of the group’s revenue, because reliability, cybersecurity and supply-chain security weigh heavily with the customers it actually serves. The market that counts is the addressable one, which is smaller but potentially more valuable.

The answer also differs sharply by business, because Siemens Energy is really four companies at different stages of recovery.



The case for owning the shares is stronger than the share price suggests.

The world's electricity problem is increasingly a grid problem.

Generation can be built faster than transmission, and data centres can be announced before the grid exists to serve them, so transformers, substations and high-voltage links become the bottleneck.

Scarcity creates pricing power, technology creates barriers to entry and the installed base creates service revenue. Management says new orders are entering the backlog at margins above the portfolio's historical average. In gas, a technology many had written off is in a powerful investment cycle, because grids with a lot of wind and solar still need dependable power. Service accounts for 60% of Gas Services' external revenue and a third of group revenue, which is why we would not value it as an ordinary equipment cyclical. AI is one strong driver of all this, but industrial electrification, ageing networks and energy security would need the equipment anyway.

The sceptics have a case too, and it is not trivial. Barclays argues that sustainable demand for power equipment is nearer 80 to 90GW a year, about 15% below today's order pace. Capacity is the real constraint, and everyone is adding it: GE Vernova is raising turbine output and has expanded its transformer capacity, Hitachi Energy and ABB are expected to follow, and Siemens Energy itself is building a \$1bn US programme with more than 1,500 jobs.

The danger is that the expansion erodes the scarcity that justifies it. The United States already supplied 45% of June-quarter orders, which makes the group an indirect bet on American policy and hyperscaler budgets.

Cash flow deserves the same scepticism. Pre-tax free cash flow reached €7.2bn in nine months, but by our estimate about €3.9bn came from customers' advance payments. Those flatter the figures today and unwind as projects are delivered. Management has begun returning capital, paying a €0.70 dividend and buying back €2.3bn of shares so far this year, but that money comes from a balance sheet that customers helped to build. The decisive test is incremental capital.

Because if a euro of extra revenue needs 50 cents of fresh investment rather than 10, headline growth is worth far less than it looks.

Our argument follows from this. Management has delivered the hard part: record execution, expanded capacity and a portfolio sharpened around power generation and the grid. What is left is a question of duration and price. We will judge the shares on underlying cash, return on invested capital and incremental return on capital, not on the size of the order book.

The full-year results on 11 November, with the fiscal 2027 outlook, will be the first real test. The backlog tells us where Siemens Energy is going, but only returns on capital will show whether the journey is worth owning.

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The article draws on company disclosures, including Siemens Energy's earnings releases for the second and third quarters of fiscal 2026, and on third-party sources and market reports. Figures described as the author's calculations are derived from those disclosures and are not company-reported numbers. Every effort has been made to ensure accuracy, but no representation or warranty is given as to completeness, and no liability is accepted for loss arising from reliance on this material.

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