Texas Instruments (TXN)

Updated May 19th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$111	**5 Year CAGR Estimate:**	10.0%	**Quality Percentile:**	N/A
Fair Value Price:	$92	**5 Year Growth Estimate:**	11.5%	**Momentum Percentile:**	N/A
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.7%	**Total Return Percentile:**	N/A
Dividend Yield:	2.2%	**5 Year Price Target**	$159	**Valuation Percentile:**	

Overview & Current Events

Texas Instruments is a semiconductor company that operates two business units: Analog & Embedded Processing. Its products include semiconductors that measure sound, temperature and other physical data and convert them to digital signals, as well as semiconductors that are designed to handle specific tasks and applications. Texas Instruments was founded in 1930, is headquartered in Dallas, TX, and is currently valued at $109 billion.

Texas Instruments' most recent quarterly results were announced on April 24, the company earned $1.21 per share and revenues of $3.8 billion, an increase of eleven percent year over year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.57	$1.15	$2.62	$1.88	$1.51	$1.75	$2.57	$2.82	$3.48	$4.35	***$4.85***	***$8.35***
DPS	$0.40	$0.45	$0.49	$0.56	$0.72	$1.07	$1.24	$1.40	$1.64	$2.12	***$2.48***	***$4.55***

Texas Instruments results are somewhat cyclical, which isn't a surprise as demand for semiconductors usually depends on the strength of the economy overall. From 2008 to 2017 Texas Instruments has grown its earnings per share by 12.0% annually, which includes the earnings decline during the last financial crisis.

When we look at Texas Instruments' Q1 report we see several factors that contributed to higher earnings per share, the first one being higher revenues. Revenues in the Analog segment grew 14% yoy, whilst Embedded Processing revenues grew by 15% (other revenues dropped by 13%, although from a small level, which is why this hasn't been a major headwind). Demand for Texas Instruments' products has been especially strong in industrial and automotive markets, which isn't a surprise: Global automobile sales continue to rise thanks to strong demand in markets such as China, and with the global economy on a strong footing it is also not surprising that industrial end markets are doing well, which, in turn, means higher demand for Texas Instruments' semiconductors that go into these industrial products.

Thanks to higher production volumes Texas Instruments has also been able to grow its margins further during the most recent quarter, as there operating expenses don't grow much when output rises the company's high gross margins (of more than 60%) provide strong operating leverage that allowed for a 24% operating earnings increase in Q1 (whilst revenues were up by 11% year over year). A lower tax rate (due to tax legislation changes) has further increased Texas Instruments' net earnings, and the company has guided for a tax rate of 20% in 2018 and just 16% in 2019, which should boost net earnings growth over the coming two years.

Last but not least Texas Instruments' policy of returning all free cash flows to the company's shareholders in the form of dividends and share repurchases affects its earnings per share growth, as a declining share count increases each remaining share's portion of all profits. Texas Instruments has bought back 43% of all shares since 2004, but even at the more recent pace (~3% annually) these share repurchases lead to a substantial amount of additional EPS growth.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.0	18.0	10.0	16.9	19.9	21.6	18.5	19.1	18.1	19.4	***22.9***	***19.0***
Avg. Yld.	1.6%	2.2%	1.9%	1.8%	2.4%	2.8%	2.6%	2.6%	2.6%	2.5%	***2.2%***	***2.5%***

Texas Instruments is a high-quality company that combined attractive growth rates with sizeable shareholder returns, thus it isn't surprising that its valuation has been relatively high throughout most of the last decade. Right now shares are trading above the historic average and median though, which is why valuation compression could be a headwind for total returns over the coming years.

Texas Instruments has increased its dividend by 18% annually over the last five years, which makes it look compelling as an income investment despite the fact that its current dividend yield is just slightly higher than the yield of the broad market.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	51.5%	41.7%	55.9%	33.2%	32.1%	33.4%	43.1%	46.9%	48.7%	54.5%	***55.0%***	***55.0%***
Debt/A	21.8%	20.6%	22.4%	47.2%	45.7%	42.9%	40.3%	39.1%	36.7%	41.4%	***42.0%***	***44.0%***
Int. Cov.	---	---	---	97	45	38	59	49	62	79	***70.0***	***65.0***
Payout	25.5%	39.1%	18.7%	29.8%	47.7%	61.1%	48.2%	49.6%	47.1%	48.7%	***51.1%***	***54.5%***
Std. Dev.	32.1%	26.9%	23.8%	28.3%	20.5%	14.1%	19.6%	24.2%	15.8%	13.4%	***17.0%***	***19.0%***

Texas Instruments generates very strong margins, and the company is also efficient in earning money with the assets it owns. Texas Instruments' gross profits to assets ratio of more than fifty percent is excellent, as is its return on assets of 24% and its return on equity of 38%.

The company finances about 40% of its assets with debt, but since a sizeable portion of those liabilities are not interest bearing (long term debt is quite small at only $4 billion). The company's interest coverage ratio is excellent, standing at 79 at the end of 2017. Texas Instruments is in excellent financial shape. High cash flows and low long-term debt would easily allow the company to grow through acquisitions if management so desired.

The semiconductor industry is large, competitive, and specialized. Texas Instruments has, over the decades, become a top player in the segments it addresses. Thanks to more than 100,000 products and 40,000 patents as well as huge R&D efforts it is unlikely that Texas Instruments loses market share in the foreseeable future. The markets the company addresses are specialized and not gigantic, which is why ;arger semiconductor companies will likely not try to enter these markets, strengthening Texas Instruments' position. The company is dependent on the global economy, though, during the last financial crisis its earnings declined considerably (and would do so again in another deep global crash).

Final Thoughts & Recommendation

Texas Instruments is a high-quality growth company that is focused on specialized niche markets where it is a technological leader. The company offers attractive shareholder returns and has a good growth outlook, its valuation is a bit expensive, though. We rate the company as a hold at current prices. Texas Instruments will likely be a buy when it trades at or below fair value.

Total Return Breakdown by Year