Texas Instruments (TXN)

Updated July 25th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$115	**5 Year CAGR Estimate:**	11.9%	**Volatility Percentile:**	47.0%
Fair Value Price:	$105	**5 Year Growth Estimate:**	11.5%	**Momentum Percentile:**	91.2%
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Valuation Percentile:**	45.3%
Dividend Yield:	2.2%	**5 Year Price Target**	$181	**Total Return Percentile:**	79.8%

Overview & Current Events

Texas Instruments is a semiconductor company that operates two business units: Analog and 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 $113 billion.

Texas Instruments' most recent quarterly results were announced on July 24. The company earned $1.37 per share during Q2, beating analyst estimates by $0.05. Texas Instruments was able to grow its revenues by 9% year over year. The top line hit $4.0 billion during Q2. The company also continued to generate strong cash flows. Over the last four quarters free cash flows totaled $5.7 billion, 42% more than in the previous four quarters.

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	***$5.52***	***$9.51***
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' Q2 report we see several factors that contributed to higher earnings per share, the first being higher revenues. Revenues in the Analog segment grew 12%, while Embedded Processing revenues grew by 9%. Demand for Texas Instruments' products will remain strong, as solid economic growth around the globe will continue to drive demand for semiconductors in the industrial sector.

Thanks to higher production volumes Texas Instruments has also been able to grow its margins further during the most recent quarter. Texas Instruments grew its operating profits by 16% year over year, substantially more than the 9% revenue growth rate. 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	***20.8***	***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%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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

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%	***44.9%***	***47.8%***
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%***

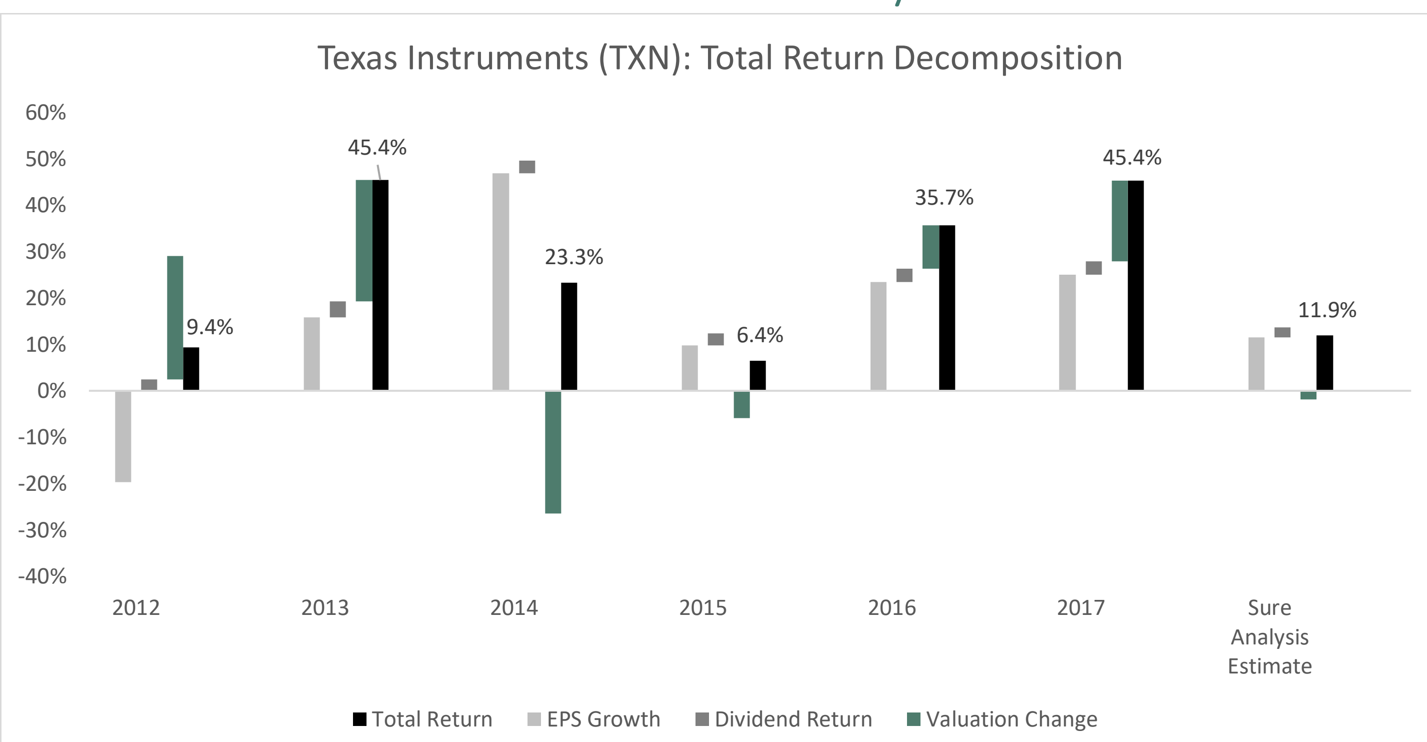
The company's total liabilities equal 40% of assets, but long term debt totals just $5 billion. The company's interest coverage ratio is excellent, standing at 79 at the end of 2017. Texas Instruments is in excellent financial shape. High cash flows and low long-term debt would easily enable the company to grow through acquisitions.

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 other semiconductor companies will likely not try to enter these markets. 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 has a good growth outlook, and provides compelling shareholder returns, 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



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