Texas Instruments (TXN)

Updated October 24th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	17.5%	**Volatility Percentile:**	39.4%
Fair Value Price:	$105	**5 Year Growth Estimate:**	11.5 %	**Momentum Percentile:**	44.5%
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.6%	**Growth Percentile:**	95.3%
Dividend Yield:	3.4%	**5 Year Price Target**	$181	**Valuation Percentile:**	69.1%
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Total Return Percentile:**	90.6%

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 $89 billion.

Texas Instruments reported its third quarter earnings results on October 23. The company grossed revenues of $4.3 billion, an increase of 3.6% year over year. Revenues were primarily driven by higher Analog revenues, whereas the Embedded Processing segment saw a sales decline of 4%. Gross margins expanded slightly. Texas Instruments was able to grow its earnings-per-share by 25% year over year, to $1.58.

Texas Instruments' guidance for Q4 sees earnings-per-share coming in below consensus estimates ($1.24 at the midpoint of Texas Instruments' guidance). This has spooked the market, which explains why shares have fallen to a 52-week low in the low $90s, although a broad market sell-off and weakness in other semiconductor companies played a role as well. Texas Instruments has increased its quarterly dividend by 24%, to $0.77 per share, during October.

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	***$2.63***	***$4.55***
Shares	1280	1240	1170	1140	1130	1100	1070	1010	990	980	***960***	***910***

Texas Instruments' results are somewhat cyclical, which is not a surprise as demand for semiconductors usually depends on the strength of the economy. 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.

Thanks to higher production volumes Texas Instruments has been able to grow its margins further during the most recent quarters. Texas Instruments grew its operating profits by 8% year over year during Q3, substantially more than the 4% revenue growth rate. A lower tax rate 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, somewhat slower pace, 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	***16.7***	***19.0***
Avg. Yld.	1.6%	2.2%	1.9%	1.8%	2.4%	2.8%	2.6%	2.6%	2.6%	2.5%	***3.4%***	***3.0%***

Disclosure: This analyst has a long position in the security discussed in this research report.

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Texas Instruments' valuation has come down substantially over the last couple of months, due to a combination of a broad market decline, pressure on semiconductor stocks, and the guidance for Q4 that disappointed many analysts. The decline in Texas Instruments' valuation has resulted in a price to earnings multiple of less than 17, which is below our fair value estimate. The share price decline, coupled with the recent dividend increase, has made Texas Instruments' dividend yield rise to 3.4%, the highest level over the last decade.

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%	***47.6%***	***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%***

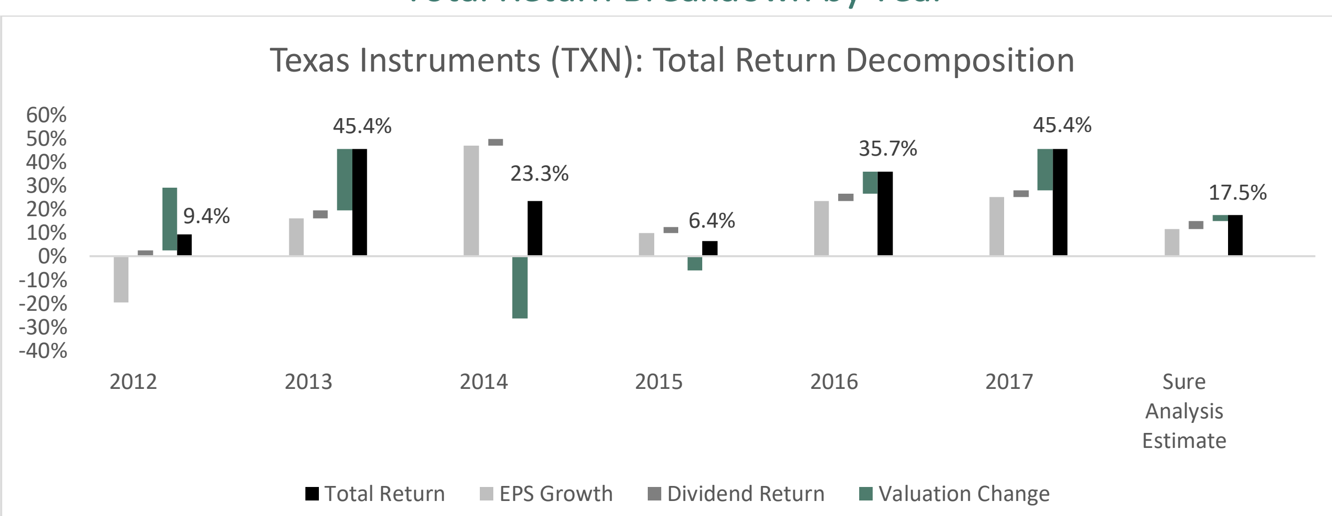
The company's total liabilities equal 40% of assets, but long term debt totals just $5 billion. The company's interest coverage ratio is excellent, standing at 79 at the end of 2017. Texas Instruments is in excellent financial shape. High cash flows and low long-term debt would easily enable the company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

Final Thoughts & Recommendation

Texas Instruments is a high-quality growth company that addresses niche markets in which it holds a strong position. Demand for its products can be cyclical, and Texas Instruments would be vulnerable versus an economic crisis. The long-term growth outlook remains positive, however, and a low valuation, coupled with a compelling dividend yield, could lead to substantial total returns over the coming years. We rate Texas Instruments a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	12501	10427	13966	13735	12825	12205	13045	13000	13370	14961
Gross Profit	6245	4999	7492	6772	6368	6364	7427	7575	8257	9614
Gross Margin	50.0%	47.9%	53.6%	49.3%	49.7%	52.1%	56.9%	58.3%	61.8%	64.3%
SG&A Exp.	1614	1320	1519	1638	1804	1858	1843	1776	1798	1755
D&A Exp.	1059	925	913	1108	1401	1297	1230	1133	955	904
Operating Profit	2691	2203	4403	3419	2687	2984	4226	4532	5103	6470
Op. Margin	21.5%	21.1%	31.5%	24.9%	21.0%	24.4%	32.4%	34.9%	38.2%	43.2%
Net Profit	1920	1470	3228	2236	1759	2162	2821	2986	3595	3682
Net Margin	15.4%	14.1%	23.1%	16.3%	13.7%	17.7%	21.6%	23.0%	26.9%	24.6%
Free Cash Flow	2567	1890	2621	2440	2919	2972	3669	3846	4083	4668
Income Tax	561	547	1323	719	176	592	1053	1230	1335	2398

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	11923	12119	13401	20497	20021	18938	17372	16230	16431	17642
Cash & Equivalents	1046	1182	1319	992	1416	1627	1199	1000	1154	1656
Acc. Receivable	913	1277	1518	1545	1230	1203	1246	1165	1267	1278
Inventories	1375	1202	1520	1788	1757	1731	1784	1691	1790	1957
Goodwill & Int.	1113	1169	1205	7558	7062	6703	6347	5991	5678	5418
Total Liabilities	2597	2397	2964	9545	9060	8131	6982	6284	5958	7305
Accounts Payable	324	503	621	625	444	422	437	386	396	466
Long-Term Debt	N/A	N/A	N/A	5592	5686	5158	4631	4120	3609	4077
Total Equity	9326	9722	10437	10952	10961	10807	10390	9946	10473	10337
D/E Ratio	0.00	0.00	0.00	0.51	0.52	0.48	0.45	0.41	0.34	0.39

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	15.6%	12.2%	25.3%	13.2%	8.7%	11.1%	15.5%	17.8%	22.0%	21.6%
Return on Equity	19.9%	15.4%	32.0%	20.9%	16.1%	19.9%	26.6%	29.4%	35.2%	35.4%
ROIC	19.9%	15.4%	32.0%	16.6%	10.6%	13.3%	18.2%	20.5%	25.5%	25.8%
Shares Out.	1280	1240	1170	1140	1130	1100	1070	1010	990	980
Revenue/Share	9.46	8.22	11.51	11.73	11.19	10.97	12.08	12.46	13.10	14.78
FCF/Share	1.94	1.49	2.16	2.08	2.55	2.67	3.40	3.69	4.00	4.61

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.