Texas Instruments (TXN)

Updated April 24th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$116	**5 Year CAGR Estimate:**	11.0%	**Volatility Percentile:**	35.9%
Fair Value Price:	$105	**5 Year Growth Estimate:**	10.5%	**Momentum Percentile:**	75.3%
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Growth Percentile:**	95.3%
Dividend Yield:	2.7%	**5 Year Price Target**	$172	**Valuation Percentile:**	38.7%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	70.3%

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 $109 billion.

Texas Instruments reported its first quarter earnings results on April 23. During the first quarter Texas Instruments produced revenues of $3.59 billion, which represents a decline of 5.3% versus the previous year's quarter. This was based on a revenue decline of 2% in the Analog business, while revenues in the Processing segment declined by 14% year over year. Texas Instruments nevertheless was able to generate strong margins during the quarter, as gross margins were 63% during the first quarter.

This allowed Texas Instruments to generate earnings-per-share of $1.22 during the Q1, which was $0.05 ahead of the analyst consensus estimate, but which represents a decline versus $1.35 in earnings-per-share during the previous year's quarter. Texas Instruments continued to generate vast amounts of cash during Q1, as operating cash flows totaled $7.2 billion during the last four quarters (Q2 2018 to Q1 2019), free cash flows totaled $6.0 billion during the same time frame. Thanks to its strong cash generation, Texas Instruments was able to finance huge shareholder returns of $8.0 billion during the last 12 months, with the majority of that ($5.4 billion) consisting of share repurchases, while dividends were equal to 45% of the company's free cash generation during that time frame.

Texas Instruments guides for revenues of $3.46 billion to $3.74 billion during Q2 of 2019. Earnings-per-share are forecasted to fall into a range of $1.12 to $1.32 during the second quarter.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.15	$2.62	$1.88	$1.51	$1.75	$2.57	$2.82	$3.48	$4.35	$5.42	***$5.48***	***$9.03***
DPS	$0.45	$0.49	$0.56	$0.72	$1.07	$1.24	$1.40	$1.64	$2.12	$2.63	***$3.13***	***$4.96***
Shares	1240	1170	1140	1130	1100	1070	1010	990	980	970	***950***	***890***

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. Despite the hit to its earnings Texas Instruments remained profitable during the financial crisis, though, and its dividend remained well-covered.

During the last two quarters, Texas Instruments was not able to grow its revenues further. It is, however, likely that Texas Instruments' revenues start to grow again in the foreseeable future, as the company should be able to benefit from rising demand for processors, as favorable trends such as industry 4.0 and automation lead to growing demand.

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 earnings-per-share growth.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	18.0	10.0	16.9	19.9	21.6	18.5	19.1	18.1	19.4	17.5	***21.2***	***19.0***
Avg. Yld.	2.2%	1.9%	1.8%	2.4%	2.8%	2.6%	2.6%	2.6%	2.5%	3.2%	***2.7%***	***3.0%***

Texas Instruments has been a high-quality growth stock during the last decade, which explains why the company's shares were never especially cheap. Texas Instruments was valued at a price to earnings multiple of slightly below 20 throughout most of those years. Today, shares are trading at an above-average valuation, which is why we think that multiple normalization will pose a bit of a headwind to Texas Instrument's total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	39.1%	18.7%	29.8%	47.7%	61.1%	48.2%	49.6%	47.1%	48.7%	48.5%	***57.1%***	***54.9%***

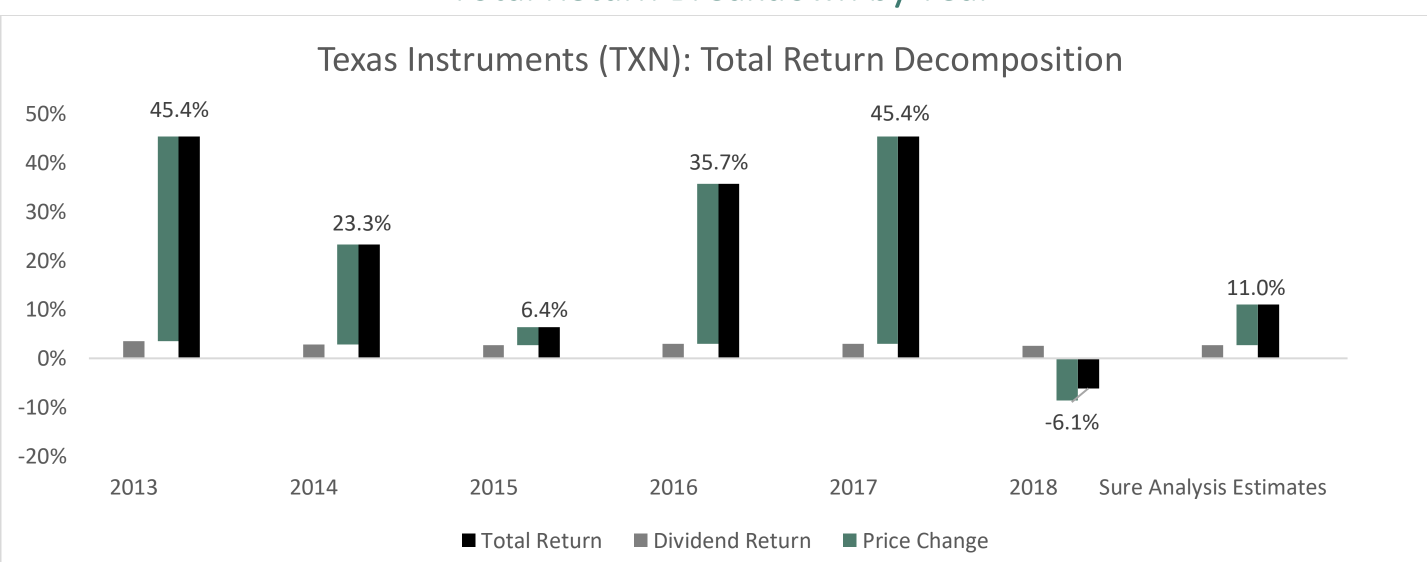
Texas Instruments' dividend payout ratio has risen somewhat over the last decade, but the dividend still looks relatively safe, as Texas Instruments produces vast free cash flows and pays out just over half of its profits. During the last financial crisis the dividend remained well-covered, despite the fact that Texas Instruments' profits took a hit.

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 company is dependent on the global economy, though. During the last financial crisis its earnings declined considerably. Texas Instruments' financial performance is likely to deteriorate during another global economic crisis.

Final Thoughts & Recommendation

Texas Instruments has been a strong growth stock in the past, both when it comes to profits as well as when it comes to dividend growth. The last two quarters were not overly strong, but it is highly likely that Texas Instruments will get back on growth track in the foreseeable future. Shares look a bit overvalued, but they should still produce solid total returns over the coming years. We rate shares a buy thanks to a strong yield and high projected growth rates.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	10427	13966	13735	12825	12205	13045	13000	13370	14961	15784
Gross Profit	4999	7492	6772	6368	6364	7427	7575	8257	9614	10277
Gross Margin	47.9%	53.6%	49.3%	49.7%	52.1%	56.9%	58.3%	61.8%	64.3%	65.1%
SG&A Exp.	1320	1519	1638	1804	1858	1843	1728	1742	1694	1684
D&A Exp.	925	913	1108	1401	1297	1230	1133	955	904	954
Operating Profit	2203	4403	3419	2687	2984	4226	4580	5159	6531	7034
Op. Margin	21.1%	31.5%	24.9%	21.0%	24.4%	32.4%	35.2%	38.6%	43.7%	44.6%
Net Profit	1470	3228	2236	1759	2162	2821	2986	3595	3682	5580
Net Margin	14.1%	23.1%	16.3%	13.7%	17.7%	21.6%	23.0%	26.9%	24.6%	35.4%
Free Cash Flow	1890	2621	2440	2919	2972	3669	3846	4083	4668	6058
Income Tax	547	1323	719	176	592	1053	1230	1335	2398	1106

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	12119	13401	20497	20021	18938	17372	16230	16431	17642	17137
Cash & Equivalents	1182	1319	992	1416	1627	1199	1000	1154	1656	2438
Acc. Receivable	1277	1518	1545	1230	1203	1246	1165	1267	1278	1207
Inventories	1202	1520	1788	1757	1731	1784	1691	1790	1957	2217
Goodwill & Int.	1169	1205	7558	7062	6703	6347	5991	5678	5418	5079
Total Liabilities	2397	2964	9545	9060	8131	6982	6284	5958	7305	8143
Accounts Payable	503	621	625	444	422	437	386	396	466	478
Long-Term Debt	0	0	5592	5686	5158	4631	4120	3609	4077	5068
Total Equity	9722	10437	10952	10961	10807	10390	9946	10473	10337	8994
D/E Ratio	0.00	0.00	0.51	0.52	0.48	0.45	0.41	0.34	0.39	0.56

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	12.2%	25.3%	13.2%	8.7%	11.1%	15.5%	17.8%	22.0%	21.6%	32.1%
Return on Equity	15.4%	32.0%	20.9%	16.1%	19.9%	26.6%	29.4%	35.2%	35.4%	57.7%
ROIC	15.4%	32.0%	16.6%	10.6%	13.3%	18.2%	20.5%	25.5%	25.8%	39.2%
Shares Out.	1240	1170	1140	1130	1100	1070	1010	990	980	970
Revenue/Share	8.22	11.51	11.73	11.19	10.97	12.08	12.46	13.10	14.78	15.94
FCF/Share	1.49	2.16	2.08	2.55	2.67	3.40	3.69	4.00	4.61	6.12

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