Texas Instruments (TXN)

Updated January 28th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$126	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$118B
Fair Value Price:	$97	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	01/30/20
% Fair Value:	132%	**5 Year Valuation Multiple Estimate:**	-5.4%	**Dividend Payment Date:**	02/10/20
Dividend Yield:	2.9%	**5 Year Price Target**	$142	**Years Of Dividend Growth:**	16
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	16.9%

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 $118 billion.

Texas Instruments reported its fourth quarter earnings results on January 22. During the quarter Texas Instruments generated revenues of $3.35 billion, which represents a decline of 9.9% versus the previous year's quarter. This was the result of a revenue decline of 5% in the Analog business, while revenues in the Processing segment declined by 20% year-over-year. Due to the impact of operating leverage working against the company as long as its revenues keep declining, Texas Instruments had to report that its operating profits dropped by 18% year-over-year.

Texas Instruments generated earnings-per-share of $1.11 during the fourth quarter, which was ahead of the analyst consensus estimate, but which represents a decline versus the previous year's quarter. Texas Instruments continued to generate strong cash flows, which has been the case during the past as well. Operating cash flows totaled $1.8 billion during the fourth quarter, while free cash flows totaled $1.6 billion during the same time frame. Thanks to its strong cash generation, Texas Instruments was able to finance shareholder returns of $1.3 billion during the quarter, dividends made up $840 million of that, while the company spent $500 million on share repurchases. Texas Instruments guides for revenues of $3.1 billion to $3.4 billion for the first quarter of 2020, slightly ahead of the analyst consensus.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.62	$1.88	$1.51	$1.75	$2.57	$2.82	$3.48	$4.35	$5.42	$5.24	***$5.10***	***$7.49***
DPS	$0.49	$0.56	$0.72	$1.07	$1.24	$1.40	$1.64	$2.12	$2.63	$3.21	***$3.60***	***$5.54***
Shares[1]	1170	1140	1130	1100	1070	1010	990	980	970	948	***930***	***870***

Texas Instruments' results can be relatively cyclical, which is not a surprise, as demand for semiconductors usually depends on the strength of the economy. From 2008 to 2019 Texas Instruments grew its earnings-per-share by 12% annually, which includes the earnings decline during the last financial crisis. Despite a big hit to its earnings Texas Instruments remained profitable during the financial crisis, and its dividend remained well-covered.

During the last five 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 pose long-term tailwinds.

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 more than 40% of all shares since 2004. Even at the recent, somewhat slower pace, these share repurchases lead to a substantial amount of additional earnings-per-share growth.

[1] In Millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.0	16.9	19.9	21.6	18.5	19.1	18.1	19.4	17.5	24.4	***25.1***	***19.0***
Avg. Yld.	1.9%	1.8%	2.4%	2.8%	2.6%	2.6%	2.6%	2.5%	3.2%	2.8%	***2.9%***	***3.9%***

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 well above that level, which is why we think that multiple normalization will pose a headwind to Texas Instrument's total returns over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	18.7%	29.8%	47.7%	61.1%	48.2%	49.6%	47.1%	48.7%	48.5%	61.3%	***70.6%***	***73.9%***

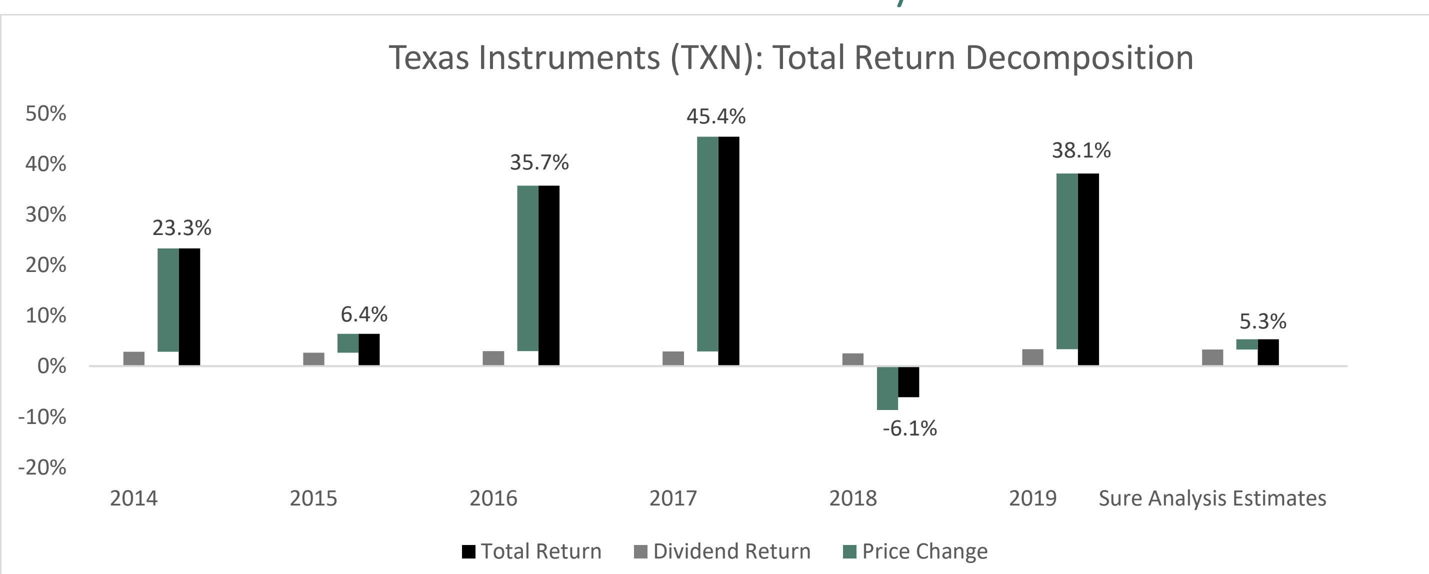
Texas Instruments' dividend payout ratio has risen over the last decade, but the dividend still looks relatively safe, as Texas Instruments produces vast free cash flows, of which it pays out roughly half in dividends. During the last financial crisis, the dividend remained well-covered, despite the 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, we believe. The company is dependent on the global economy. During the last financial crisis its earnings declined considerably. Texas Instruments' financial performance is likely to deteriorate in case of another global economic crisis.

Final Thoughts & Recommendation

Texas Instruments has been a strong growth stock in the past, both regarding earnings-per-share and dividend increases. The last couple of quarters were not overly strong, but it is likely that Texas Instruments will get back on growth track in the foreseeable future. Shares trade above fair value, which hurts the long-term total return forecast. We rate shares a hold at current prices due to the valuation that is in excess of fair value.

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	10,427	13,966	13,735	12,825	12,205	13,045	13,000	13,370	14,961	15,784
Gross Profit	4,999	7,492	6,772	6,368	6,364	7,427	7,575	8,257	9,614	10,277
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.	1,320	1,519	1,638	1,804	1,858	1,843	1,728	1,742	1,694	1,684
D&A Exp.	925	913	1,108	1,401	1,297	1,230	1,133	955	904	954
Operating Profit	2,203	4,403	3,419	2,687	2,984	4,226	4,580	5,159	6,412	7,034
Op. Margin	21.1%	31.5%	24.9%	21.0%	24.4%	32.4%	35.2%	38.6%	42.9%	44.6%
Net Profit	1,470	3,228	2,236	1,759	2,162	2,821	2,986	3,595	3,682	5,580
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	1,890	2,621	2,440	2,919	2,972	3,669	3,846	4,083	4,668	6,058
Income Tax	547	1,323	719	176	592	1,053	1,230	1,335	2,398	1,106

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	12,119	13,401	20,497	20,021	18,938	17,372	16,230	16,431	17,642	17,137
Cash & Equivalents	1,182	1,319	992	1,416	1,627	1,199	1,000	1,154	1,656	2,438
Acc. Receivable	1,277	1,518	1,545	1,230	1,203	1,246	1,165	1,267	1,278	1,207
Inventories	1,202	1,520	1,788	1,757	1,731	1,784	1,691	1,790	1,957	2,217
Goodwill & Int.	1,169	1,205	7,558	7,062	6,703	6,347	5,991	5,678	5,418	5,079
Total Liabilities	2,397	2,964	9,545	9,060	8,131	6,982	6,284	5,958	7,305	8,143
Accounts Payable	503	621	625	444	422	437	386	396	466	478
Long-Term Debt	-	-	5,592	5,686	5,158	4,631	4,120	3,609	4,077	5,068
Total Equity	9,722	10,437	10,952	10,961	10,807	10,390	9,946	10,473	10,337	8,994
D/E Ratio	-	-	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.	1270	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.