



Kohl's Corporation (KSS)

Updated March 9th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	7.6%	Market Cap:	\$5.4B
Fair Value Price:	\$35	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	03/17/20
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	04/01/20
Dividend Yield:	7.7%	5 Year Price Target	\$35	Years Of Dividend Growth:	9
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	5.1%

Overview & Current Events

Wisconsin-based retailer Kohl's traces its roots back to a single store – Kohl's Department Store – in 1962. Since then it has grown into a leader in the space – offering women's, men's and children's apparel, housewares, accessories and footwear in more than 1,100 stores in 49 states. The \$5.4 billion market capitalization company should generate about \$19 billion in sales this year.

Kohl's reported Q4 and full-year earnings on March 3rd, with both the top and bottom lines coming in better than expected. Total revenue declined -1.3% during the year, mostly offsetting the 1.7% gain that was made in the prior year. Gross margin declined 64bps to 35.7%, while SG&A expenses continued to rise, which crimped margins. Earnings-per-share declined -13% year-over-year to \$4.86 as Kohl's continues to struggle with its assortment, which is driving more promotions and discounts, but is failing to stem the tide of declining revenue.

Kohl's guided for flat comparable sales for this year, as well as a small decline in gross margins. Combined with rising SG&A expenses, earnings could decline to \$4.35 for this year from \$4.86 in 2019.

Kohl's also boosted its dividend by 5% to a new annualized payout of \$2.82, giving the stock a current yield of nearly 8%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.65	\$4.30	\$4.17	\$4.05	\$4.24	\$3.46	\$3.11	\$4.19	\$5.60	\$4.86	\$4.35	\$4.35
DPS	---	\$1.00	\$1.28	\$1.40	\$1.56	\$1.80	\$2.00	\$2.20	\$2.44	\$2.68	\$2.82	\$3.26
Shares¹	291	247	222	211	201	186	174	168	165	154	148	125

From 2007 through 2018, Kohl's was able to grow earnings-per-share by about 4.7% annually. However, it should be noted that this was driven by the company's extensive share repurchase program. Over that time period the share count was nearly halved, a reduction rate of -5.6% per annum. On a dollar basis, net profits are actually down (\$769 million in 2019 versus \$1.05 billion in 2007). After a sizable uptick in earnings in 2018 (in large part due to a lower tax rate), Kohl's produced a -13% decline in 2019, and earnings will almost certainly decline once again this year.

Thereafter we are more cautious with our growth rate assumption as the share repurchase program becomes more difficult with a much higher dividend payout ratio, along with the idea of a steady total store count and pressured margins. We've cut our annual growth estimate from 2% to 0% as a result of weak guidance and continued concern over the company's margins.

A dividend was initiated in 2011 and since that time has become a substantial part of the capital allocation plan. This reduces the company's opportunity to retire meaningful blocks of stock, but does offer a reliable and sizable income stream for dividend investors. We also think it could drive buying demand for the stock given the enormous yield.

¹ Share count in millions

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.



Kohl's Corporation (KSS)

Updated March 9th, 2020 by Josh Arnold

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.3	11.9	11.7	12.7	13.2	17.1	14.1	10.4	11.9	11.3	8.0	8.0
Avg. Yld.	---	2.0%	2.6%	2.7%	2.8%	3.1%	4.6%	5.1%	3.7%	4.9%	7.7%	9.4%

Over the past decade, shares of Kohl's have routinely traded hands with an average multiple of nearly 13 times earnings. We believe that this is more or less fair, given the company's past record. However, given the cut to guidance and weak 2019 results, along with declining valuations in the sector, we believe investors will be less willing to pay 13 times earnings or more in the near-term, and have cut our estimate of fair value to 8 times earnings. However, the yield is at an all-time high at 7.7%, making Kohl's a top-tier income stock for those that can stomach the volatility.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	23%	30%	34%	37%	52%	64%	64%	44%	55%	62%	75%

Just ten years ago the dividend was non-existent. Now, it makes up nearly two-thirds of anticipated profits. We believe this payout is well covered, but in our estimation the pace of dividend increases should slow dramatically.

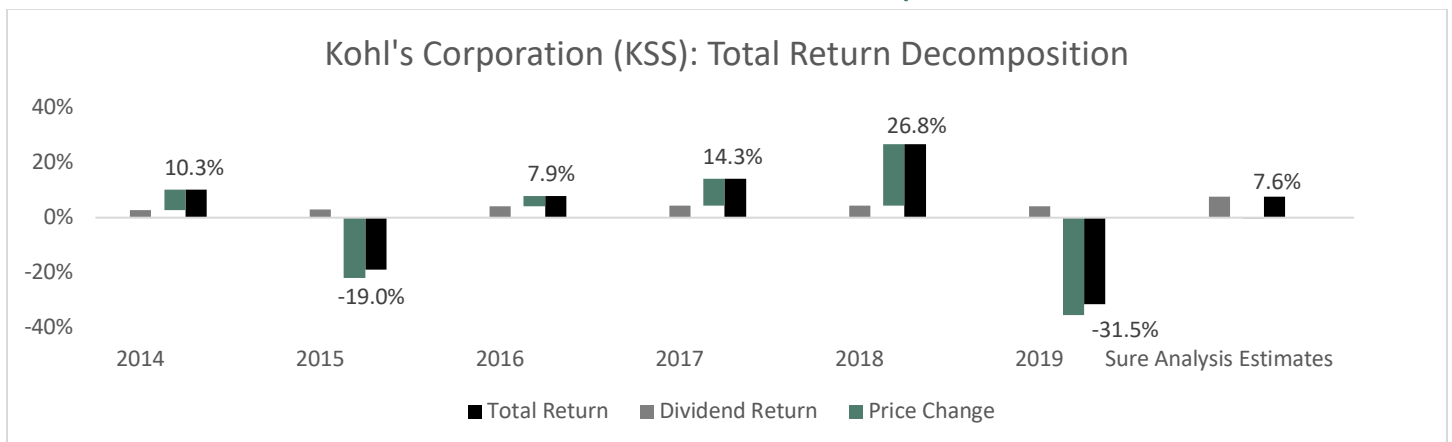
Compared to other retailers we believe Kohl's has a competitive advantage in the way of a well-entrenched store footprint outside of large malls, private-label brands, a large loyalty program, and an Amazon return service that is driving traffic. This is offset somewhat by the competitive nature of the business, but it still allows Kohl's to stand out.

During the last recession Kohl's held up quite well, with earnings-per-share of \$3.39, \$2.89 and \$3.23 during the 2007 through 2009 period – representing a decline of just -15% when competitors were faring much worse. Additionally, we are encouraged by management's commitment to extinguish debt early, which ought to bode well for interest coverage.

Final Thoughts & Recommendation

Kohl's has had a rough time since our last update, but the downward move in earnings and our downward revision in our fair value target means shares are roughly fairly valued in our view. We also see Kohl's yield as very attractive, but we note that the near-term ride may be bumpy for shareholders given yet another guidance cut. In total, we expect nearly 8% annual returns for shareholders consisting of 0% earnings growth, a 7.7% dividend yield, and little impact from the valuation. However, with significant near-term challenges and further cuts to our estimates, we're reiterating Kohl's at a hold rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Kohl's Corporation (KSS)

Updated March 9th, 2020 by Josh Arnold

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	18,391	18,804	19,279	19,031	19,023	19,204	19,681	20,084	20,229	19,974
Gross Profit	7,032	7,179	6,990	6,944	6,925	6,939	7,737	7,908	8,030	7,834
Gross Margin	38.2%	38.2%	36.3%	36.5%	36.4%	36.1%	39.3%	39.4%	39.7%	39.2%
SG&A Exp.	4,190	4,243	4,267	4,313	4,350	4,452	5,430	5,501	5,601	5,705
D&A Exp.	750	778	833	889	886	934	938	991	964	917
Operating Profit	2,092	2,158	1,890	1,742	1,689	1,553	1,369	1,416	1,465	1,212
Op. Margin	11.4%	11.5%	9.8%	9.2%	8.9%	8.1%	7.0%	7.1%	7.2%	6.1%
Net Profit	1,120	1,167	986	889	867	673	556	859	801	691
Net Margin	6.1%	6.2%	5.1%	4.7%	4.6%	3.5%	2.8%	4.3%	4.0%	3.5%
Free Cash Flow	949	1,212	480	1,241	1,342	794	1,385	1,019	1,529	802
Income Tax	668	692	575	515	482	384	319	258	241	210

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	13,564	14,148	13,905	14,357	14,333	13,606	13,574	13,389	12,469	14,555
Cash & Equivalents	2,277	1,205	537	971	1,407	707	1,074	1,308	934	723
Inventories	3,036	3,216	3,748	3,874	3,814	4,038	3,795	3,542	3,475	3,537
Total Liabilities	5,462	7,640	7,857	8,379	8,342	8,115	8,397	7,970	6,942	9,105
Accounts Payable	1,138	1,233	1,307	1,365	1,511	1,251	1,507	1,271	1,187	1,206
Long-Term Debt	2,096	2,141	2,492	2,792	2,780	2,792	2,795	2,797	1,861	1,856
Total Equity	8,102	6,508	6,048	5,978	5,991	5,491	5,177	5,419	5,527	5,450
D/E Ratio	0.26	0.33	0.41	0.47	0.46	0.51	0.54	0.52	0.34	0.34

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.0%	8.4%	7.0%	6.3%	6.0%	4.8%	4.1%	6.4%	6.2%	5.1%
Return on Equity	14.3%	16.0%	15.7%	14.8%	14.5%	11.7%	10.4%	16.2%	14.6%	12.6%
ROIC	10.3%	12.4%	11.5%	10.3%	9.9%	7.9%	6.8%	10.6%	10.3%	9.4%
Shares Out.	291	247	222	211	201	186	174	168	165	154
Revenue/Share	60.10	69.39	81.35	86.50	93.25	98.48	109.95	119.55	122.60	126.42
FCF/Share	3.10	4.47	2.03	5.64	6.58	4.07	7.74	6.07	9.27	5.08

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.