



Texas Instruments (TXN)

Updated October 22nd, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$148	5 Year CAGR Estimate:	3.7%	Market Cap:	\$135B
Fair Value Price:	\$103	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	10/29/20
% Fair Value:	144%	5 Year Valuation Multiple Estimate:	-7.1%	Dividend Payment Date:	11/16/20
Dividend Yield:	2.8%	5 Year Price Target	\$151	Years Of Dividend Growth:	17
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	13.3%

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.

Texas Instruments reported its third quarter earnings results on October 21. During the quarter Texas Instruments generated revenues of \$3.8 billion, which represents an increase of 1% versus the previous year's quarter. This was the result of a revenue increase of 7% in the Analog business, while revenues in the Processing segment declined by 10% year-over-year. Texas Instruments managed to keep its gross profit margin at an attractive level of 64%, while the company's operating profit margin of 42% came in ahead of expectations as well.

Texas Instruments generated earnings-per-share of \$1.45 during the third quarter, which was better than the analyst consensus estimate, coming in \$0.17 ahead of the analyst community's forecast. Texas Instruments continued to generate strong cash flows, which has been the case during the past as well. Thanks to its strong cash generation, Texas Instruments was able to finance shareholder returns of \$6.4 billion during the last twelve months, although spending slowed down during the third quarter, as buybacks were reduced substantially. Texas Instruments guides for revenues of \$3.6 billion for the fourth quarter of 2020. 2020 will be a down year for Texas Instruments versus 2019, due to the impact of the coronavirus pandemic, but we believe that the company will recover over the coming years. This is why we calculate fair value using an earnings power estimate of \$5.40 for the current year.

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	\$4.90	\$7.93
DPS	\$0.49	\$0.56	\$0.72	\$1.07	\$1.24	\$1.40	\$1.64	\$2.12	\$2.63	\$3.21	\$4.08	\$6.28
Shares¹	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 eight quarters, Texas Instruments was not able to grow its revenues by a lot. It is, however, likely that Texas Instruments' revenues start to grow more meaningfully again in the 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. Stock repurchases should remain a relevant growth driver for earnings-per-share in the future, too.

¹ 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.



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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	27.4	19.0
Avg. Yld.	1.9%	1.8%	2.4%	2.8%	2.6%	2.6%	2.6%	2.5%	3.2%	2.8%	2.8%	4.2%

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, however. 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%	75.6%	79.1%

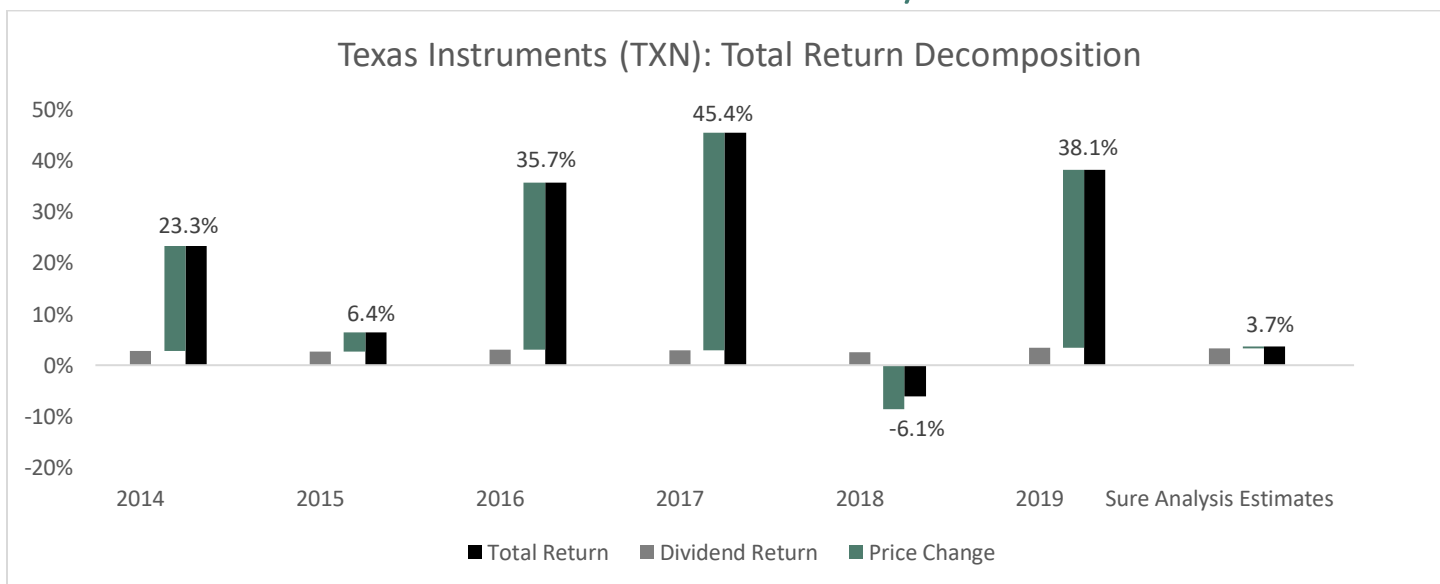
Texas Instruments' dividend payout ratio has risen over the last decade, but the dividend still looks relatively safe, as Texas Instruments generates vast free cash flows, of which it pays out roughly half in dividends. During the last financial crisis, the dividend remained well-covered, despite the 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, we believe it is unlikely that Texas Instruments loses market share in the foreseeable future. The company is dependent on the global economy. During the last financial crisis its earnings declined considerably, and the impact of the current pandemic has been visible as well, but it should be noted that Texas Instruments remained quite profitable.

Final Thoughts & Recommendation

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

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	13,966	13,735	12,825	12,205	13,045	13,000	13,370	14,961	15,784	14,383
Gross Profit	7,492	6,772	6,368	6,364	7,427	7,575	8,257	9,614	10,277	9,164
Gross Margin	53.6%	49.3%	49.7%	52.1%	56.9%	58.3%	61.8%	64.3%	65.1%	63.7%
SG&A Exp.	1,519	1,638	1,804	1,858	1,843	1,728	1,742	1,694	1,684	1,645
D&A Exp.	913	1,108	1,401	1,297	1,230	1,133	955	904	954	1,050
Operating Profit	4,403	3,419	2,687	2,984	4,226	4,580	5,159	6,412	7,034	5,975
Op. Margin	31.5%	24.9%	21.0%	24.4%	32.4%	35.2%	38.6%	42.9%	44.6%	41.5%
Net Profit	3,228	2,236	1,759	2,162	2,821	2,986	3,595	3,682	5,580	5,017
Net Margin	23.1%	16.3%	13.7%	17.7%	21.6%	23.0%	26.9%	24.6%	35.4%	34.9%
Free Cash Flow	2,621	2,440	2,919	2,972	3,669	3,846	4,083	4,668	6,058	5,802
Income Tax	1,323	719	176	592	1,053	1,230	1,335	2,398	1,106	711

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	13,401	20,497	20,021	18,938	17,372	16,230	16,431	17,642	17,137	18,018
Cash & Equivalents	1,319	992	1,416	1,627	1,199	1,000	1,154	1,656	2,438	2,437
Acc. Receivable	1,518	1,545	1,230	1,203	1,246	1,165	1,267	1,278	1,207	1,074
Inventories	1,520	1,788	1,757	1,731	1,784	1,691	1,790	1,957	2,217	2,001
Goodwill & Int.	1,205	7,558	7,062	6,703	6,347	5,991	5,678	5,418	5,079	4,771
Total Liabilities	2,964	9,545	9,060	8,131	6,982	6,284	5,958	7,305	8,143	9,111
Accounts Payable	621	625	444	422	437	386	396	466	478	388
Long-Term Debt	-	5,592	5,686	5,158	4,631	4,120	3,609	4,077	5,068	5,803
Total Equity	10,437	10,952	10,961	10,807	10,390	9,946	10,473	10,337	8,994	8,907
D/E Ratio	-	0.51	0.52	0.48	0.45	0.41	0.34	0.39	0.56	0.65

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	25.3%	13.2%	8.7%	11.1%	15.5%	17.8%	22.0%	21.6%	32.1%	28.5%
Return on Equity	32.0%	20.9%	16.1%	19.9%	26.6%	29.4%	35.2%	35.4%	57.7%	56.1%
ROIC	32.0%	16.6%	10.6%	13.3%	18.2%	20.5%	25.5%	25.8%	39.2%	34.9%
Shares Out.	1170	1140	1130	1100	1070	1010	990	980	970	948
Revenue/Share	11.51	11.73	11.19	10.97	12.08	12.46	13.10	14.78	15.94	15.11
FCF/Share	2.16	2.08	2.55	2.67	3.40	3.69	4.00	4.61	6.12	6.09

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

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