Texas Instruments (TXN)

Updated January 30th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$166	**5 Year CAGR Estimate:**	5.7%	**Market Cap:**	$152B
Fair Value Price:	$131	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	01/29/21
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Dividend Payment Date:**	02/01/21
Dividend Yield:	2.5%	**5 Year Price Target**	$192	**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 fourth quarter earnings results on January 26. During the quarter Texas Instruments generated revenues of $4.1 billion, which represents an increase of 22% versus the previous year's quarter. This was the result of a revenue increase of 25% in the Analog business, while revenues in the Processing segment grew 14% year-over-year. Texas Instruments managed to grow its gross profit margin to an attractive level of 65%, while the company's operating profit margin of 42% came in ahead of expectations as well.

Texas Instruments generated earnings-per-share of $1.80 during the fourth quarter, which was better than the analyst consensus estimate, coming in $0.47 ahead of the analyst community's forecast. Texas Instruments continued to generate strong cash flows, which has been the case throughout the pandemic. Thanks to its strong cash generation, Texas Instruments was able to finance shareholder returns of $6.0 billion during the last twelve months, although spending slowed down during the fourth quarter, as buybacks were reduced. Texas Instruments guides for revenues of $4.0 billion for the first quarter of 2021. 2020 was a year during which the company hit new record profits, despite the impact of the coronavirus pandemic. We believe that the company will generate even higher profits in 2021, as demand across the semiconductor industry continues to increase.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.88	$1.51	$1.75	$2.57	$2.82	$3.48	$4.35	$5.42	$5.24	$6.23	***$6.70***	***$9.84***
DPS	$0.56	$0.72	$1.07	$1.24	$1.40	$1.64	$2.12	$2.63	$3.21	$3.72	***$4.08***	***$6.28***
Shares[1]	1140	1130	1100	1070	1010	990	980	970	948	932	***920***	***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 2020 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 nearly 50% of all shares since 2004. Stock repurchases should remain a relevant growth driver for earnings-per-share in the future, too.

[1] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.9	19.9	21.6	18.5	19.1	18.1	19.4	17.5	24.4	26.3	***24.8***	***19.5***
Avg. Yld.	1.8%	2.4%	2.8%	2.6%	2.6%	2.6%	2.5%	3.2%	2.8%	2.3%	***2.5%***	***3.3%***

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29.8%	47.7%	61.1%	48.2%	49.6%	47.1%	48.7%	48.5%	61.3%	59.7%	***60.9%***	***63.8%***

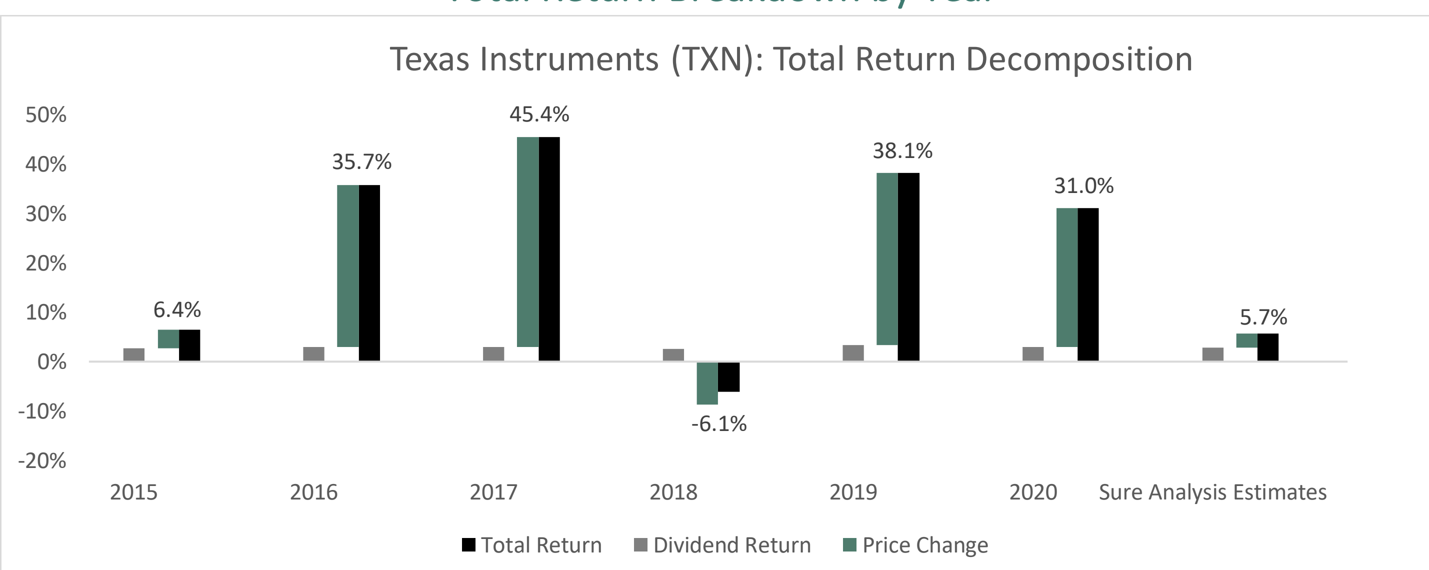
Texas Instruments' dividend payout ratio has risen over the last decade, but the dividend still looks relatively safe, as Texas Instruments generates vast free cash flows, of which it pays out roughly half in dividends. During the last financial crisis, the dividend remained well-covered, despite the 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, but during the current pandemic Texas Instruments has fared very well so far, which should remain the case going forward.

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. During 2020, Texas Instruments managed to hit new record profits, despite the pandemic, as demand for processors remains strong. 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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	13,735	12,825	12,205	13,045	13,000	13,370	14,961	15,784	14,383	14,461
Gross Profit	6,772	6,368	6,364	7,427	7,575	8,257	9,614	10,277	9,164	9,269
Gross Margin	49.3%	49.7%	52.1%	56.9%	58.3%	61.8%	64.3%	65.1%	63.7%	64.1%
SG&A Exp.	1,638	1,804	1,858	1,843	1,728	1,742	1,694	1,684	1,645	1,623
D&A Exp.	1,108	1,401	1,297	1,230	1,133	955	904	954	1,050	992
Operating Profit	3,419	2,687	2,984	4,226	4,580	5,159	6,412	7,034	5,975	6,116
Op. Margin	24.9%	21.0%	24.4%	32.4%	35.2%	38.6%	42.9%	44.6%	41.5%	42.3%
Net Profit	2,236	1,759	2,162	2,821	2,986	3,595	3,682	5,580	5,017	5,595
Net Margin	16.3%	13.7%	17.7%	21.6%	23.0%	26.9%	24.6%	35.4%	34.9%	38.7%
Free Cash Flow	2,440	2,919	2,972	3,669	3,846	4,083	4,668	6,058	5,802	5,490
Income Tax	719	176	592	1,053	1,230	1,335	2,398	1,106	711	422

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	20,497	20,021	18,938	17,372	16,230	16,431	17,642	17,137	18,018	19,351
Cash & Equivalents	992	1,416	1,627	1,199	1,000	1,154	1,656	2,438	2,437	3,107
Acc. Receivable	1,545	1,230	1,203	1,246	1,165	1,267	1,278	1,207	1,074	1,414
Inventories	1,788	1,757	1,731	1,784	1,691	1,790	1,957	2,217	2,001	1,955
Goodwill & Int.	7,558	7,062	6,703	6,347	5,991	5,678	5,418	5,079	4,771	4,636
Total Liabilities	9,545	9,060	8,131	6,982	6,284	5,958	7,305	8,143	9,111	10,164
Accounts Payable	625	444	422	437	386	396	466	478	388	415
Long-Term Debt	5,592	5,686	5,158	4,631	4,120	3,609	4,077	5,068	5,803	6,798
Total Equity	10,952	10,961	10,807	10,390	9,946	10,473	10,337	8,994	8,907	9,187
D/E Ratio	0.51	0.52	0.48	0.45	0.41	0.34	0.39	0.56	0.65	0.74

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.2%	8.7%	11.1%	15.5%	17.8%	22.0%	21.6%	32.1%	28.5%	29.9%
Return on Equity	20.9%	16.1%	19.9%	26.6%	29.4%	35.2%	35.4%	57.7%	56.1%	61.8%
ROIC	16.6%	10.6%	13.3%	18.2%	20.5%	25.5%	25.8%	39.2%	34.9%	36.5%
Shares Out.	1140	1130	1100	1070	1010	990	980	970	948	932
Revenue/Share	11.73	11.19	10.97	12.08	12.46	13.10	14.78	15.94	15.11	15.50
FCF/Share	2.08	2.55	2.67	3.40	3.69	4.00	4.61	6.12	6.09	5.88

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

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