



Kohl's Corporation (KSS)

Updated March 7th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	2.6%	Market Cap:	\$8.8 B
Fair Value Price:	\$44	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/16/2021
% Fair Value:	125%	5 Year Valuation Multiple Estimate:	-4.4%	Dividend Payment Date:	03/31/2021
Dividend Yield:	1.8%	5 Year Price Target	\$56	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

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 1,000 stores in 49 states. The \$8.8 billion market capitalization company should generate just over \$17 billion in sales this year.

Kohl's reported fourth quarter and full year earnings on March 2nd, 2021 with results coming in better than expectations on both the top and bottom lines. Adjusted earnings-per-share came to \$2.22 in Q4, although \$1.15 of that was driven by a massive tax benefit that will not be repeated.

Revenue came to \$5.9 billion, which beat expectations, but was down more than -10% year-over-year as Kohl's continues to struggle with very stiff competition. Gross margins were lower once again in Q4, this time declining 70bps against the year-ago period at 32% of revenue. For the full year, gross margin performance was much worse, declining 460bps to 31.1% of revenue.

Earnings-per-share fell to a loss of -\$1.21 per share in 2020, but we expect a sharp rebound in profitability for 2021, albeit nowhere near pre-COVID levels. Our initial estimate is for \$2.80 in earnings-per-share for this year, based upon the company's initial guidance range of \$2.45 to \$2.95.

Kohl's ended the quarter with \$2.3 billion in cash on hand, and is resuming its capital returns, including reinstating the dividend at a very low level of 25 cents per share, per quarter, as well as the share repurchase program.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.30	\$4.17	\$4.05	\$4.24	\$3.46	\$3.11	\$4.19	\$5.60	\$4.86	-\$1.21	\$2.80	\$5.11
DPS	\$1.00	\$1.28	\$1.40	\$1.56	\$1.80	\$2.00	\$2.20	\$2.44	\$2.68	\$0.70	\$1.00	\$1.47
Shares¹	247	222	211	201	186	174	168	165	154	154	150	130

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 declined enormously in 2020 to a sizable loss.

With the share repurchase program now back on, we've reduced our share count forecast accordingly. We still think Kohl's will struggle with margins as its stores reopen, with reduced capacity and additional costs related to COVID-19. We see earnings-per-share at \$5.11 by 2026. Note that we use \$4 per share as our earnings power estimate for calculating fair value. Kohl's capital return program was a huge draw for the stock, and it may be again at some point. We do see a partial recovery in the dividend to \$1.47 per share by 2026, but that is dependent upon earnings normalizing at some point. We note this forecast is another improvement from our last update.

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.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.9	11.7	12.7	13.2	17.1	14.1	10.4	11.9	11.3	---	13.8	11.0
Avg. Yld.	2.0%	2.6%	2.7%	2.8%	3.1%	4.6%	5.1%	3.7%	4.9%	2.7%	1.8%	2.6%

Given the extremely unusual circumstances of today's environment, we are using an earnings power estimate of \$4 per share for our fair value and valuation calculations, rather than actual estimates for 2021, which are much lower.

Over the past decade, shares of Kohl's have routinely traded hands with an average multiple of nearly 13 times earnings. However, given weak 2020 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. Our fair value estimate stands at 11 times earnings. The yield is currently 1.8%, but we see this yield potentially rising in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	23%	30%	34%	37%	52%	64%	64%	44%	55%	---	36%	29%

We see the payout ratio falling over time, primarily as a function of earnings normalizing.

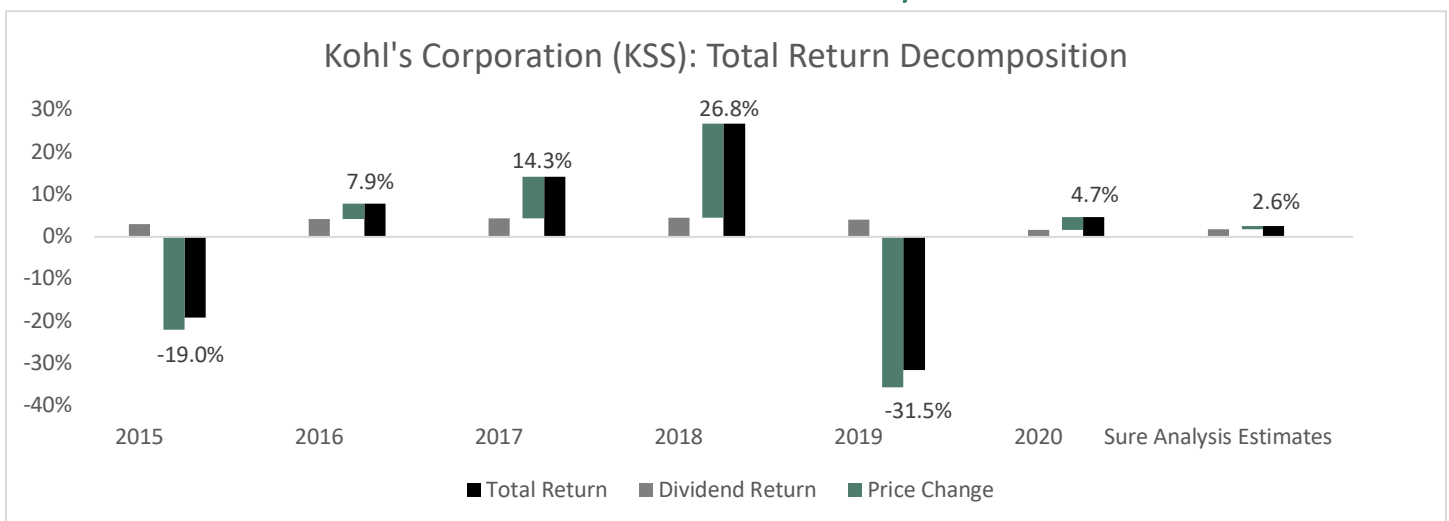
Compared to other retailers we believe Kohl's has a competitive advantage in the way of a well-entrenched store footprint outside of large malls, private-label brands, a large loyalty program, and an Amazon return service. This is offset somewhat by the competitive nature of the business, but it still allows Kohl's to stand out. Unfortunately, this reliance upon physical stores is more of a curse than a blessing in today's environment.

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. Damage was much worse in 2020 as Kohl's posted a sizable loss and has a long road to recovery.

Final Thoughts & Recommendation

Kohl's projected total returns now stand at 2.6%, as the share price has continued to rocket higher. That has taken the valuation to what we view as too high, so the stock appears unattractive at this point. We like that Kohl's has reinstated the dividend and share repurchases but are reiterating our sell rating on the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	18,804	19,279	19,031	19,023	19,204	19,681	20,084	20,229	19,974	15,955
Gross Profit	7,179	6,990	6,944	6,925	6,939	7,737	7,908	8,030	7,834	5,595
Gross Margin	38.2%	36.3%	36.5%	36.4%	36.1%	39.3%	39.4%	39.7%	39.2%	35.1%
SG&A Exp.	4,243	4,267	4,313	4,350	4,452	5,430	5,501	5,601	5,705	5,021
D&A Exp.	778	833	889	886	934	938	991	964	917	874
Operating Profit	2,158	1,890	1,742	1,689	1,553	1,369	1,416	1,465	1,212	(300)
Op. Margin	11.5%	9.8%	9.2%	8.9%	8.1%	7.0%	7.1%	7.2%	6.1%	-1.9%
Net Profit	1,167	986	889	867	673	556	859	801	691	(163)
Net Margin	6.2%	5.1%	4.7%	4.6%	3.5%	2.8%	4.3%	4.0%	3.5%	-1.0%
Free Cash Flow	1,212	480	1,241	1,342	794	1,385	1,019	1,529	802	1,004
Income Tax	692	575	515	482	384	319	258	241	210	(383)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	14,148	13,905	14,357	14,333	13,606	13,574	13,389	12,469	14,555	15,337
Cash & Equivalents	1,205	537	971	1,407	707	1,074	1,308	934	723	2,271
Inventories	3,216	3,748	3,874	3,814	4,038	3,795	3,542	3,475	3,537	2,590
Total Liabilities	7,640	7,857	8,379	8,342	8,115	8,397	7,970	6,942	9,105	10,141
Accounts Payable	1,233	1,307	1,365	1,511	1,251	1,507	1,271	1,187	1,206	1,476
Long-Term Debt	2,141	2,492	2,792	2,780	2,792	2,795	2,797	1,861	1,856	2,451
Total Equity	6,508	6,048	5,978	5,991	5,491	5,177	5,419	5,527	5,450	5,196
D/E Ratio	0.33	0.41	0.47	0.46	0.51	0.54	0.52	0.34	0.34	0.47

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.4%	7.0%	6.3%	6.0%	4.8%	4.1%	6.4%	6.2%	5.1%	-1.1%
Return on Equity	16.0%	15.7%	14.8%	14.5%	11.7%	10.4%	16.2%	14.6%	12.6%	-3.1%
ROIC	12.4%	11.5%	10.3%	9.9%	7.9%	6.8%	10.6%	10.3%	9.4%	-2.2%
Shares Out.	247	222	211	201	186	174	168	165	154	154
Revenue/Share	69.39	81.35	86.50	93.25	98.48	109.95	119.55	122.60	126.42	103.60
FCF/Share	4.47	2.03	5.64	6.58	4.07	7.74	6.07	9.27	5.08	6.52

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

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