



Kohl's Corporation (KSS)

Updated June 3rd, 2021 by Josh Arnold

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	3.4%	Market Cap:	\$8.8 B
Fair Value Price:	\$51	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	06/08/2021
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	06/23/2021
Dividend Yield:	1.9%	5 Year Price Target	\$56	Years Of Dividend Growth:	0
Dividend Risk Score:	D	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 1,100 stores in 49 states. The \$8.8 billion market capitalization company should generate just over \$18 billion in sales this year.

Kohl's reported first quarter earnings on May 20th, 2021, with results for both revenue and earnings coming in well ahead of expectations. Kohl's also raised guidance for the year. Total sales were up 69.5% year-over-year as Kohl's lapped the initial stages of the pandemic lockdown period when sales collapsed. Revenue was \$3.89 billion in Q1.

Gross margin was 39% of sales versus just 17.3% in the year-ago period, although the year-ago results were heavily impacted by store closures and heavy markdowns during the worst stages of the pandemic. Kohl's said it lowered its long-term debt by more than \$500 million during the quarter and ended Q1 with \$1.6 billion in cash and equivalents.

Earnings were \$1.05 per share on an adjusted basis, up from a loss of -\$3.22 per share in last year's Q1. Kohl's said it expects mid-to-high teens in terms of sales increases for the year, so the strength appears to be sticking around for some period of time. Kohl's also said it expects adjusted operating margin to be in the area of 6% of revenue this year.

We've boosted our estimate for this year to \$4.25 in earnings-per-share after outstanding Q1 results and raised guidance from Kohl's.

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	\$4.25	\$4.69
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. 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 \$4.69 by 2026. 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.

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	---	12.5	12.0
Avg. Yld.	2.0%	2.6%	2.7%	2.8%	3.1%	4.6%	5.1%	3.7%	4.9%	2.7%	1.9%	2.9%

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 12 times earnings, which we've boosted from the prior estimate of 11 on a greatly improved 2021 outlook. The yield is currently 1.9%, 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%	---	24%	31%

We forecast the payout ratio to be just one-quarter of earnings for this year given the strong rebound in earnings that we are currently forecasting. With modest earnings growth projected from 2021's high base, the payout ratio may move higher if Kohl's tries to rebuild its dividend back to prior levels.

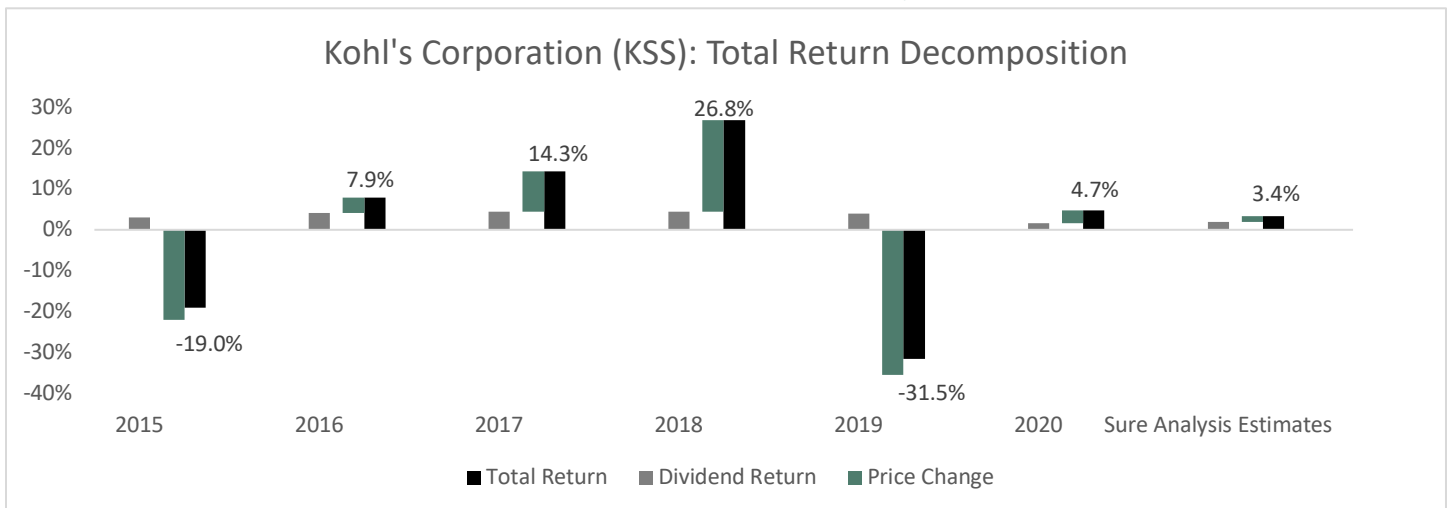
Compared to other retailers we believe Kohl's has a competitive advantage in the way of a well-entrenched store footprint outside of large malls, private-label brands, a large loyalty program, and an Amazon return service. This is offset somewhat by the competitive nature of the business, but it still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

Final Thoughts & Recommendation

Kohl's projected total returns now stand at just 3.4%, despite a consolidation in the share price since our last update, 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, primarily due to the valuation, and in spite of progress being made.

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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