



Kohl's Corporation (KSS)

Updated August 28th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	6.3%	Market Cap:	\$9.1 B
Fair Value Price:	\$74	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	09/07/2021
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.6%	Dividend Payment Date:	09/22/2021
Dividend Yield:	1.7%	5 Year Price Target	\$74	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 1,100 stores in 49 states. The \$9.1 billion market capitalization company should generate over \$18 billion in sales this year.

Kohl's reported second quarter earnings on August 19th, 2021, and results were outstanding, far exceeding expectations on the top and bottom lines, as well as starkly raised guidance. Total sales were up 31.4% year-over-year, hitting \$4.45 billion. Gross margins soared year-over-year as the company's leaner inventory position, as well as very strong demand from consumers combined to produce high levels of pricing power for Kohl's.

SG&A costs rose 18% to \$1.2 billion, but net income was still up more than 700% to \$382 million. On a per-share basis, diluted earnings rose from 30 cents to \$2.48.

The company ended the quarter with \$2.6 billion in cash, and repurchased \$255 million worth of shares, and now plans for between \$500 million to \$700 million for the full year.

Earnings-per-share guidance is now \$5.80 to \$6.10, but we see earnings at the top end of that guidance on a continued strong outlook for both revenue and margins, as well as the company's high level of share repurchases.

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	\$6.15	\$6.15
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	152	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. Fears of struggling margins have proven unfounded, but we note that this year's earnings may well be the top for some time to come. We see earnings-per-share at \$6.15 this year. 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.

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	---	9.6	12.0
Avg. Yld.	2.0%	2.6%	2.7%	2.8%	3.1%	4.6%	5.1%	3.7%	4.9%	2.7%	1.7%	2.0%

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 1.7%, 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%	---	16%	24%

We forecast the payout ratio to be just 16% 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.

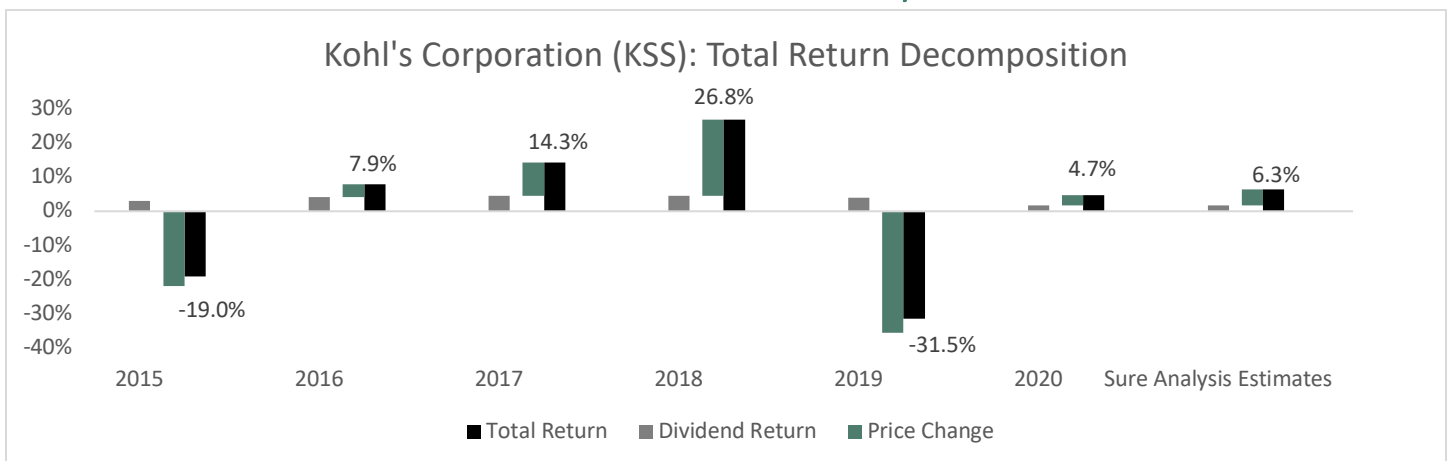
Compared to other retailers we believe Kohl's has a competitive advantage in the way of a well-entrenched store footprint outside of large malls, private-label brands, a large loyalty program, and an Amazon return service. This is offset somewhat by the competitive nature of the business, but it still allows Kohl's to stand out. Unfortunately, this reliance upon physical stores is more of a curse than a blessing in today's environment. That said, the company's Q2 was a very bright spot.

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 but is now well on the road to recovery.

Final Thoughts & Recommendation

Kohl's projected total returns now stand at 6.3% given the enormous increase in earnings estimates, so the stock appears more attractive at this point. We like that Kohl's has reinstated the dividend and share repurchases but are cautious on growth from this year's extremely high base. Even so, we are upgrading the stock from sell to hold.

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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