KLA Corporation (KLAC)

Updated May 11th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$323	**5 Year CAGR Estimate:**	11.2%	**Market Cap:**	$47B
Fair Value Price:	$355	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/13/22[1]
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date:**	06/01/22[2]
Dividend Yield:	1.3%	**5 Year Price Target**	$522	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Buy

Overview & Current Events

KLA Corporation is a supplier to the semiconductor industry. The company supplies process control and yield management systems for semiconductor producers such as TSMC, Samsung and Micron. KLA was created in 1997, through a merger between KLA Instruments and Tencor Instruments, and has grown through a range of acquisitions since then. The company is headquartered in Milpitas, CA.

KLA Corporation reported its third quarter (fiscal 2022) earnings results on April 28. The company reported revenues of $2.29 billion for the quarter, which represents an increase of 27% compared to the prior year's quarter. This revenue growth rate was stronger than what the analyst community had expected, as KLA's top line beat the analyst consensus by $90 million. KLA's solid revenue performance can be explained by the fact that semiconductor companies have increased their investments into manufacturing capacity thanks to ongoing strong chip demand.

KLA generated earnings-per-share of $5.13 during the third quarter, which beat estimates by $0.31, and which was up by an attractive 33% compared to the previous year's quarter. This follows strong earnings growth in recent quarters. KLA is guiding for revenues of $2.4 billion for the current quarter and sees Q4 earnings-per-share of around $5.50.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$4.64	$3.21	$3.47	$2.98	$4.66	$5.94	$7.50	$8.46	$10.35	$14.55	***$20.90***	***$30.71***
DPS	$1.40	$1.60	$1.80	$2.00	$2.08	$2.14	$2.52	$3.00	$3.40	$3.75	***$4.20***	***$6.76***
Shares[3]	167	165	165	158	156	157	156	156	156	155	***152***	***145***

KLA grew its earnings-per-share by ~20% annually between 2010 and 2021, although growth has been quite uneven. During 2009 the company reported net losses, and it has reported year-over-year earnings declines several times since then. Growth has seemingly stabilized during the last couple of years. From 2015 to 2019 the company reported strong results, and during fiscal 2020 the company hit new record profits.

KLA Corporation's earnings-per-share growth has historically come from a mix of revenue growth, margin improvements, and share repurchases. The revenue growth outlook remains strong, as KLA has been able to grow its sales considerably during the last couple of quarters. The majority of KLA's revenues come from product sales, but service revenues are becoming increasingly important. This is a positive in the long run, as a higher rate of recurring service revenues should help KLA's top line become less cyclical.

The semiconductor industry profits from massive tailwinds such as the Internet of Things, big data, autonomous driving, and cloud computing. These trends drive demand for chips, which means that companies such as Samsung and TSMC are increasing capacity to be able to meet demand, which fuels their demand for KLA's products. Global memory markets recovering from a period of low prices helps KLA. KLA has also made several acquisitions in the past, which have added to its growth, such as the $3.4 billion takeover of Orbotech.

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[1] Estimated date
[2] Estimated date
[3] 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	9.9	15.9	18.2	22.8	13.6	14.1	13.6	14.4	18.7	22.1	***15.5***	***17.0***
Avg. Yld.	3.0%	3.1%	2.8%	2.9%	3.3%	2.5%	2.9%	2.5%	1.8%	1.2%	***1.3%***	***1.3%***

Following a share price decline since our last update, KLA now trades at 15-16 times this year's net earnings, which is lower than our fair value estimate. We believe that shares have upside potential towards a price to earnings multiple of around 17, which would be more in-line with how KLA Corporation was valued in the past.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30.2%	49.8%	51.9%	67.1%	44.6%	36.0%	33.6%	35.5%	32.9%	25.8%	***20.1%***	***22.0%***

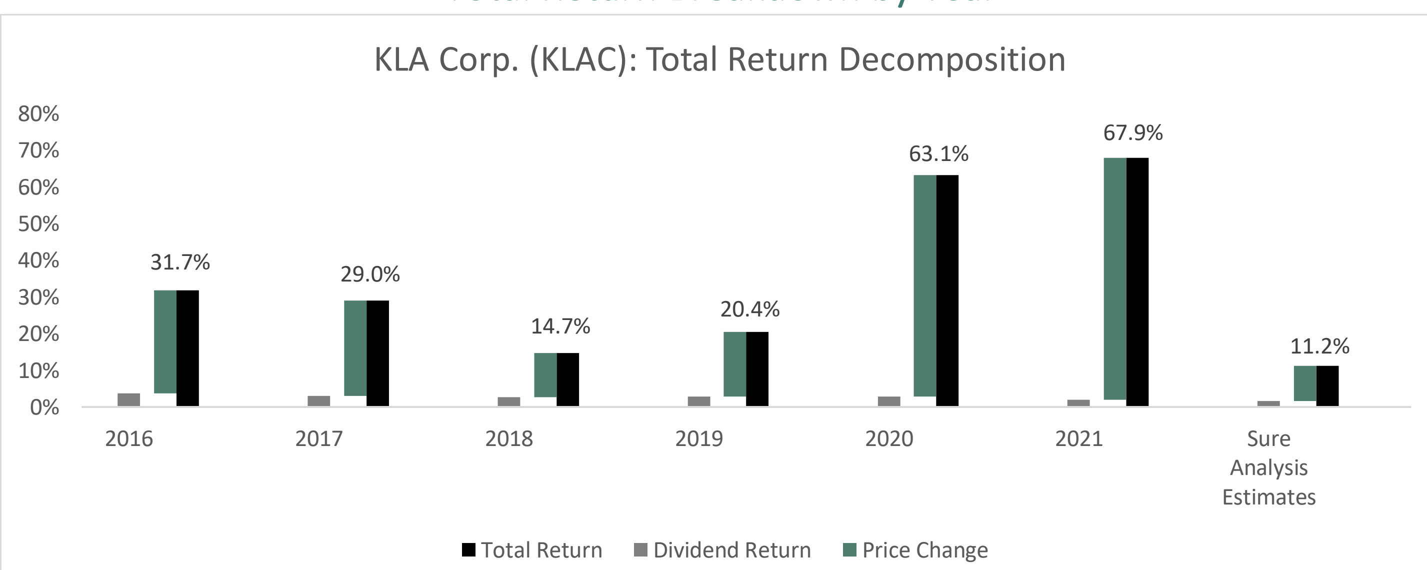
KLA did not raise its dividend during the last financial crisis, but since then the dividend has been raised very consistently. KLA was not profitable during 2009, but the company chose to maintain its dividend nevertheless. The payout ratio looks highly sustainable, although the cyclicality in KLA's earnings could make the payout ratio rise substantially during another global economic downturn that hurts chip markets massively.

KLA is a key supplier to the largest semiconductor companies, and therefore a relevant part of this large industry that is extremely important to our modern way of life. KLA is the market leader in the process control sector. Its scale and size give it advantages over competitors when it comes to receiving big contracts, and through better economies of scale, KLA also has the ability to achieve higher margins than smaller peers. KLA's business is cyclical, as lower spending by semiconductor manufacturers during market downturns hurts KLA.

Final Thoughts & Recommendation

As an important supplier to the global semiconductor industry, KLA benefits from megatrends that increase worldwide demand for chips, such as the Internet of Things. KLA should be able to capitalize on these trends by growing its earnings-per-share meaningfully in the future. Because shares also trade below fair value, the total return outlook is pretty good. We rate KLA Corporation a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,172	2,843	2,929	2,814	2,984	3,480	4,037	4,569	5,806	6,919
Gross Profit	1,842	1,605	1,696	1,599	1,821	2,194	2,591	2,700	3,357	4,147
Gross Margin	58.1%	56.5%	57.9%	56.8%	61.0%	63.0%	64.2%	59.1%	57.8%	59.9%
SG&A Exp.	373	388	385	407	379	388	442	599	734	730
D&A Exp.	92	88	83	81	67	58	63	233	348	333
Operating Profit	1,016	730	772	661	960	1,279	1,540	1,389	1,759	2,488
Operating Margin	32.0%	25.7%	26.4%	23.5%	32.2%	36.7%	38.1%	30.4%	30.3%	36.0%
Net Profit	756	543	583	366	704	926	802	1,176	1,217	2,078
Net Margin	23.8%	19.1%	19.9%	13.0%	23.6%	26.6%	19.9%	25.7%	21.0%	30.0%
Free Cash Flow	884	839	711	560	728	1,041	1,162	1,022	1,626	1,953
Income Tax	218	147	152	68	154	247	654	121	102	283

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5,100	5,287	5,536	4,826	4,962	5,532	5,639	9,009	9,280	10,271
Cash & Equivalents	751	985	631	838	1,108	1,153	1,404	1,016	1,234	1,435
Accounts Receivable	701	525	493	585	613	571	652	990	1,107	1,305
Inventories	651	634	656	618	699	733	932	1,263	1,311	1,575
Goodwill & Int. Ass.	383	361	363	347	340	368	374	3,773	3,437	3,196
Total Liabilities	1,785	1,805	1,867	4,405	4,273	4,206	4,018	6,331	6,599	6,895
Accounts Payable	139	116	103	103	107	147	169	202	264	342
Long-Term Debt	747	747	745	3,190	3,058	2,930	2,237	3,423	3,470	3,443
Shareholder's Equity	3,316	3,482	3,669	421	689	1,326	1,621	2,659	2,665	3,378
LTD/E Ratio	0.23	0.21	0.20	7.57	4.44	2.21	1.38	1.29	1.30	1.02

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	15.5%	10.5%	10.8%	7.1%	14.4%	17.6%	14.4%	16.1%	13.3%	21.3%
Return on Equity	24.5%	16.0%	16.3%	17.9%	127%	91.9%	54.4%	54.9%	45.7%	68.8%
ROIC	19.7%	13.1%	13.5%	9.1%	19.1%	23.1%	19.8%	23.6%	19.9%	32.0%
Shares Outstanding	167	165	165	158	156	157	156	156	156	155
Revenue Per Share	18.64	16.80	17.42	17.19	19.04	22.10	25.65	29.11	36.75	44.51
FCF Per Share	5.20	4.95	4.23	3.42	4.64	6.61	7.38	6.51	10.29	12.57

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