



Texas Instruments (TXN)

Updated October 28th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$160	5 Year CAGR Estimate:	12.1%	Market Cap:	\$147B
Fair Value Price:	\$179	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	10/28/22
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date:	11/15/22
Dividend Yield:	3.1%	5 Year Price Target	\$250	Years Of Dividend Growth:	19
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 third quarter earnings results on October 25. During the quarter Texas Instruments generated revenues of \$5.2 billion, which represents an increase of 13% versus the previous year's quarter. This beat analyst estimates by \$100 million, as the analyst community had forecasted a weaker sales growth rate. Texas Instruments managed to keep its gross profit margin at an attractive level of 69%, while the company's operating profit margin of 51% came in ahead of expectations as well.

Texas Instruments generated earnings-per-share of \$2.47 during the third quarter, which was better than the consensus estimate, coming in \$0.08 ahead of the analyst community's forecast. Texas Instruments continued to generate strong cash flows over the last year. Thanks to its strong cash generation, Texas Instruments was able to finance shareholder returns of \$2.0 billion during the last quarter. Spending on buybacks rose to \$1.0 billion in the quarter, as a declining share price made buybacks comparatively more attractive again. Texas Instruments guides for revenues of \$4.6 billion and for earnings-per-share of around \$1.95 for the fourth quarter of 2022. 2021 was a year during which the company hit new record profits, and it looks like the company will generate even higher profits in 2022, even though profits in the last quarter of the current year will be down sequentially.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.51	\$1.75	\$2.57	\$2.82	\$3.48	\$4.35	\$5.42	\$5.24	\$6.23	\$8.26	\$9.40	\$13.18
DPS	\$0.72	\$1.07	\$1.24	\$1.40	\$1.64	\$2.12	\$2.63	\$3.21	\$3.72	\$4.21	\$4.96	\$7.63
Shares¹	1130	1100	1070	1010	990	980	970	948	932	924	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 could remain a relevant growth driver for earnings-per-share in the future, too.

¹ 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	19.9	21.6	18.5	19.1	18.1	19.4	17.5	24.4	26.3	22.8	17.0	19.0
Avg. Yld.	2.4%	2.8%	2.6%	2.6%	2.6%	2.5%	3.2%	2.8%	2.3%	2.2%	3.1%	3.0%

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. Today, shares are trading at 17x this year's earnings, which is why we think that multiple normalization will pose a small tailwind to Texas Instrument's total returns over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	47.7%	61.1%	48.2%	49.6%	47.1%	48.7%	48.5%	61.3%	59.7%	51.0%	52.8%	57.9%

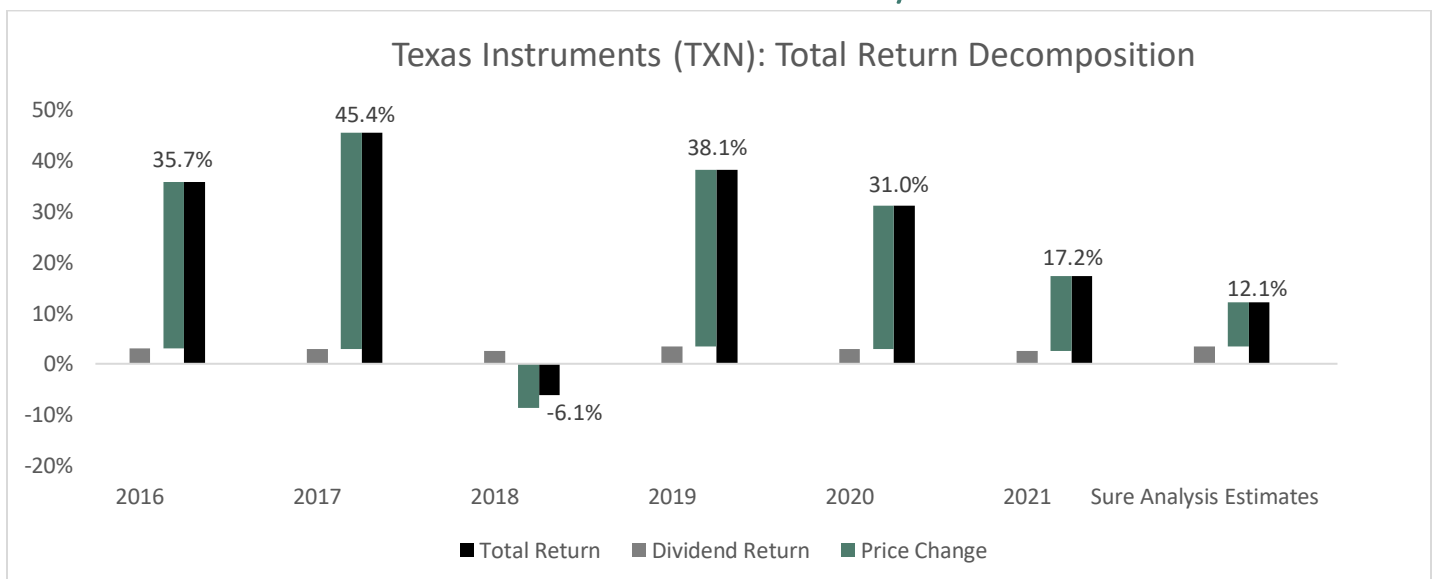
Texas Instruments' dividend payout ratio has risen over the last decade, but the dividend still looks relatively safe, as Texas Instruments generates vast free cash flows, of which it pays out roughly half in dividends. During the last financial crisis, the dividend remained well-covered, even though 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 investment in the past, both when it comes to earnings-per-share growth and when it comes to dividend increases. During 2021, Texas Instruments hit new record profits, and it looks like the current year will be even more successful for Texas Instruments. Shares trade slightly below fair value today. We rate shares a buy at current prices as we forecast attractive total returns over the coming years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	12,825	12,205	13,045	13,000	13,370	14,961	15,784	14,383	14,461	18,344
Gross Profit	6,368	6,364	7,427	7,575	8,257	9,614	10,277	9,164	9,269	12,376
Gross Margin	49.7%	52.1%	56.9%	58.3%	61.8%	64.3%	65.1%	63.7%	64.1%	67.5%
SG&A Exp.	1,804	1,858	1,843	1,728	1,742	1,694	1,684	1,645	1,623	1,666
D&A Exp.	1,401	1,297	1,230	1,133	955	904	954	1,050	992	954
Operating Profit	2,687	2,984	4,226	4,580	5,159	6,412	7,034	5,975	6,116	9,156
Op. Margin	21.0%	24.4%	32.4%	35.2%	38.6%	42.9%	44.6%	41.5%	42.3%	49.9%
Net Profit	1,759	2,162	2,821	2,986	3,595	3,682	5,580	5,017	5,595	7,769
Net Margin	13.7%	17.7%	21.6%	23.0%	26.9%	24.6%	35.4%	34.9%	38.7%	42.4%
Free Cash Flow	2,919	2,972	3,669	3,846	4,083	4,668	6,058	5,802	5,490	6,294
Income Tax	176	592	1,053	1,230	1,335	2,398	1,106	711	422	1,150

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	20,021	18,938	17,372	16,230	16,431	17,642	17,137	18,018	19,351	24,676
Cash & Equivalents	1,416	1,627	1,199	1,000	1,154	1,656	2,438	2,437	3,107	4,631
Acc. Receivable	1,230	1,203	1,246	1,165	1,267	1,278	1,207	1,074	1,414	1,701
Inventories	1,757	1,731	1,784	1,691	1,790	1,957	2,217	2,001	1,955	1,910
Goodwill & Int.	7,062	6,703	6,347	5,991	5,678	5,418	5,079	4,771	4,636	4,447
Total Liabilities	9,060	8,131	6,982	6,284	5,958	7,305	8,143	9,111	10,164	11,343
Accounts Payable	444	422	437	386	396	466	478	388	415	653
Long-Term Debt	5,686	5,158	4,631	4,120	3,609	4,077	5,068	5,803	6,798	7,741
Total Equity	10,961	10,807	10,390	9,946	10,473	10,337	8,994	8,907	9,187	13,333
LTD/E Ratio	0.52	0.48	0.45	0.41	0.34	0.39	0.56	0.65	0.74	0.58

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.7%	11.1%	15.5%	17.8%	22.0%	21.6%	32.1%	28.5%	29.9%	35.3%
Return on Equity	16.1%	19.9%	26.6%	29.4%	35.2%	35.4%	57.7%	56.1%	61.8%	69.0%
ROIC	10.6%	13.3%	18.2%	20.5%	25.5%	25.8%	39.2%	34.9%	36.5%	41.9%
Shares Out.	1130	1100	1070	1010	990	980	970	948	932	924
Revenue/Share	11.19	10.97	12.08	12.46	13.10	14.78	15.94	15.11	15.50	19.60
FCF/Share	2.55	2.67	3.40	3.69	4.00	4.61	6.12	6.09	5.88	6.72

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

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