Texas Instruments (TXN)

Updated January 29th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$166	**5 Year CAGR Estimate:**	1.4%	**Market Cap:**	$148B
Fair Value Price:	$100	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	01/30/24
% Fair Value:	166%	**5 Year Valuation Multiple Estimate:**	-9.7%	**Dividend Payment Date:**	02/13/24
Dividend Yield:	3.1%	**5 Year Price Target**	$147	**Years Of Dividend Growth:**	20
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 fourth quarter earnings results on January 23. During the quarter Texas Instruments generated revenues of $4.08 billion, which represents a decline of 13% versus the previous year's quarter. This missed analyst estimates by $50 million, as the analyst community had forecasted a better sales performance. Texas Instruments managed to keep its gross profit margin at a very solid level of 60%, but due to operating leverage working against the company, its operating profit margin declined to 38%.

Texas Instruments generated earnings-per-share of $1.49 during the fourth quarter, which was better than the consensus estimate, coming in $0.02 ahead of the analyst community's forecast. Texas Instruments generated solid cash flows over the last year, although less than during the previous period. Thanks to its cash generation, Texas Instruments was able to finance shareholder returns of $4.9 billion during the last four quarters. Spending on buybacks was lowered during recent quarters, relative to the last couple of years. Texas Instruments guides for revenues of $3.60 billion and for earnings-per-share of around $1.06 for the first quarter of 2024. 2022 was a year during which the company hit new record profits, but the company was significantly less profitable in 2023 on the back of the ongoing economic slowdown. For the current year, analysts predict further earnings declines.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.57	$2.82	$3.48	$4.35	$5.42	$5.24	$6.23	$8.26	$9.41	$7.07	***$5.25***	***$7.71***
DPS	$1.24	$1.40	$1.64	$2.12	$2.63	$3.21	$3.72	$4.21	$4.96	$5.20	***$5.20***	***$6.96***
Shares[1]	1070	1010	990	980	970	948	932	924	916	908	***900***	***850***

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.

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[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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.5	19.1	18.1	19.4	17.5	24.4	26.3	22.8	17.5	23.9	***31.6***	***19.0***
Avg. Yld.	2.6%	2.6%	2.6%	2.5%	3.2%	2.8%	2.3%	2.2%	3.0%	3.1%	***3.1%***	***4.7%***

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 many of those years. Today, shares are trading at 32x this year's earnings, which is why we think that multiple normalization will pose a significant headwind to Texas Instrument's total returns over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	48.2%	49.6%	47.1%	48.7%	48.5%	61.3%	59.7%	51.0%	52.7%	73.6%	***99.0%***	***90.2%***

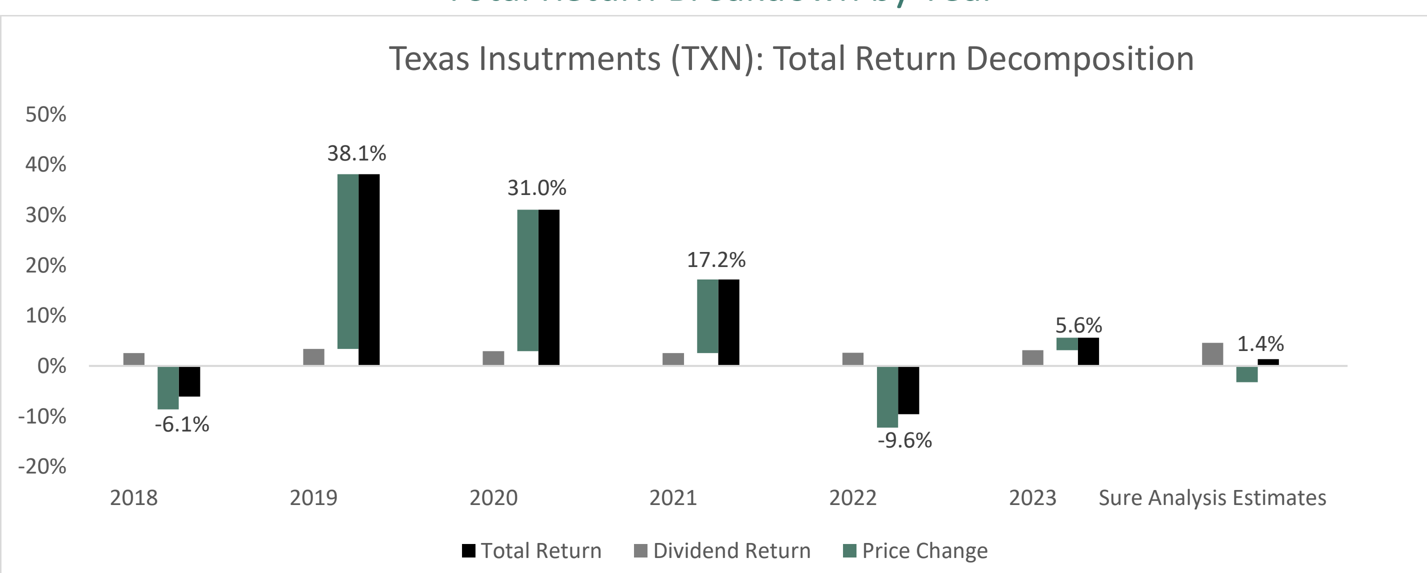
Texas Instruments' dividend payout ratio has risen over the last decade, especially in 2023 and in 2024, based on current profit estimates for this year. While Texas Instruments has a long dividend growth track record, the elevated payout ratio poses some risk for the company's dividend at the current level.

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 2022, Texas Instruments hit new record profits, but 2023 was considerably weaker, and earnings will most likely decline in 2024 as well. Shares trade way above fair value today. We rate shares a sell at current prices as we forecast unattractive total returns over the coming years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	13,045	13,000	13,370	14,961	15,784	14,383	14,461	18,344	20,028	17,519
Gross Profit	7,427	7,575	8,257	9,614	10,277	9,164	9,269	12,376	13,771	11,019
Gross Margin	56.9%	58.3%	61.8%	64.3%	65.1%	63.7%	64.1%	67.5%	68.8%	62.9%
SG&A Exp.	1,843	1,728	1,742	1,694	1,684	1,645	1,623	1,666	1,704	1,825
D&A Exp.	1,230	1,133	955	904	954	1,050	992	954	979	1,238
Operating Profit	4,226	4,580	5,159	6,412	7,034	5,975	6,116	9,156	10,397	7,331
Op. Margin	32.4%	35.2%	38.6%	42.9%	44.6%	41.5%	42.3%	49.9%	51.9%	41.8%
Net Profit	2,821	2,986	3,595	3,682	5,580	5,017	5,595	7,769	8,749	6,510
Net Margin	21.6%	23.0%	26.9%	24.6%	35.4%	34.9%	38.7%	42.4%	43.7%	37.2%
Free Cash Flow	3,669	3,846	4,083	4,668	6,058	5,802	5,490	6,294	5,923	1,349
Income Tax	1,053	1,230	1,335	2,398	1,106	711	422	1,150	1,283	908

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	17,372	16,230	16,431	17,642	17,137	18,018	19,351	24,676	27,207	32,348
Cash & Equivalents	1,199	1,000	1,154	1,656	2,438	2,437	3,107	4,631	3,050	2,964
Acc. Receivable	1,246	1,165	1,267	1,278	1,207	1,074	1,414	1,701	1,895	1,787
Inventories	1,784	1,691	1,790	1,957	2,217	2,001	1,955	1,910	2,757	3,999
Goodwill & Int.	6,347	5,991	5,678	5,418	5,079	4,771	4,484	4,447	4,514	4,585
Total Liabilities	6,982	6,284	5,958	7,305	8,143	9,111	10,164	11,343	12,630	15,451
Accounts Payable	437	386	396	466	478	388	415	571	851	802
Long-Term Debt	4,631	4,120	3,609	4,077	5,068	5,803	6,798	7,741	8,735	11,223
Total Equity	10,390	9,946	10,473	10,337	8,994	8,907	9,187	13,333	14,577	16,897
LTD/E Ratio	0.45	0.41	0.34	0.39	0.56	0.65	0.74	0.58	0.60	0.66

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	15.5%	17.8%	22.0%	21.6%	32.1%	28.5%	29.9%	35.3%	33.7%	21.9%
Return on Equity	26.6%	29.4%	35.2%	35.4%	57.7%	56.1%	61.8%	69.0%	62.7%	41.4%
ROIC	18.2%	20.5%	25.5%	25.8%	39.2%	34.9%	36.5%	41.9%	39.4%	25.3%
Shares Out.	1070	1010	990	980	970	948	932	924	916	908
Revenue/Share	12.08	12.46	13.10	14.78	15.94	15.11	15.50	19.60	21.63	19.13
FCF/Share	3.40	3.69	4.00	4.61	6.12	6.09	5.88	6.72	6.40	1.47

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