This Tech Blue Chip Just Raised Its Dividend 17%

Description

There are few tech companies as shareholder friendly as **Texas Instruments** (NASDAQ: TXN), and the company just proved it once again. The blue chip semiconductor giant — the world's leading producer of analog chips and microcontrollers — just raised its dividend a hefty 17%, from $0.77 to $0.90 per share. The dividend raise was all the more impressive considering the company raised the payout by 24% last year and the semiconductor sector remains in a downcycle due to the U.S.-China trade war.

At the current share price, the new $3.60 annual dividend per share comes to a dividend yield of about 2.8%, which is certainly not bad in a world where the 10-year Treasury note yields just 1.77%.

Boosting to the high end of TI's payout range

More than perhaps any other tech company, Texas Instruments puts its capital allocation philosophy and execution front and center. In early 2018, Texas Instruments set a new target for its dividend payout ratio at 40%-60% of trailing 12-month free cash flow. Over the last 12 months, that ratio was 47%. Assuming no increase in cash flow next year, the raised dividend would be about 55% of cash flow, still within the range, though getting toward the high end.

Texas Instruments will also likely continue share repurchases with the remainder of its free cash flow. In the press release announcing the dividend increase, management made the point that in addition to 16 straight years of dividend increases, the company has also decreased shares outstanding by a whopping 46% over the past 15 years. That comes to about 4% of the company's shares retired every year, on average.

If you add those returns to the current dividend yield, shareholders are currently due a 6.8% total shareholder return. This would be quite generous for a growth company, but can Texas Instruments continue to grow in this environment?

Not all sunshine and rainbows

Though the dividend hike is welcome news to shareholders, while last year's dividend raise was supported by a huge 55% rise in earnings per share, this year's raise has actually come at a time when TI's earnings are in *decline*. Wall Street forecasts just $5.32 in earnings per share (EPS) in 2019, compared with $5.59 per share earned in 2018.

The company remains somewhat in limbo, as the U.S.-China trade war has dented demand for its chips this year. And while Wall Street forecasts moderate growth next year to $5.79 per share, that figure could easily be higher or lower, depending on the outcome of U.S.-China trade talks.

That makes Texas Instruments' forward price-to-earnings (P/E) ratio of 22.2 times 2020 earnings seem a tad rich today. If there's a cloudy lining to the dividend raise, the hike could be seen as coming at the expense of more share repurchases. Texas Instruments' stock has actually *risen* during the 18 month-long trade war, so its valuation doesn't exactly seem like a screaming bargain today. That may explain management's decision to aggressively hike the dividend in lieu of more repurchases.

A great sign long term

While there's considerable uncertainty around Texas Instruments' current valuation given trade uncertainties, today's dividend increase is a great example of Texas Instruments' ample cash generation and shareholder-friendly capital allocation. So while the near-term picture is a bit unclear, the dividend raise is another reminder why this blue chip remains a great long-term hold for dividend growth investors.

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