



DSR STOCK CARD

09/27/2019

KOHL'S CORP (KSS)

Business Model

Kohl's Corp operates 1,159 department stores in 49 states that sell moderately priced private-label and national brand clothing, shoes, accessories, cosmetics, and home furnishings. Most of these stores are in strip centers. Kohl's also operates an e-commerce site (kohls.com), 12 FILA athletic apparel outlets, and four clearance stores. Women's apparel constitutes Kohl's largest line of business, generating approximately 30% of its sales. The retailer, headquartered in Menomonee Falls, Wisconsin, opened its first department store in 1962.

The Company in a Nutshell

- Kohl's is successfully shifting its business toward e-commerce - it even has a partnership with Amazon.
- The company uses its wide store network to reach the population and make online exchange/return easy.
- Sadly, KSS is facing fierce competition and is showing difficulty standing out in this crowded space.

Investment Thesis

You may like classic brick & mortar retailers showing a nice twist with online stores. KSS improved its stores through partnerships with Amazon (selling their products), Aldi, and Planet Fitness. It enjoys a wide coverage through its 1,100+ stores making online order pickups easy for customers. Unfortunately, KSS is struggling to show revenue growth as total sales only grew by 6.3% (total) in the past 5 years. The problem is that KSS is facing fierce competition and using coupons and discounts to keep customers coming. Now, the retailer must reduce stores sizes to improve efficiency as margins were hurt. This will not help KSS finding growth vector.

VALUATION

Dividend Growth Rate Years 1-10: 6%

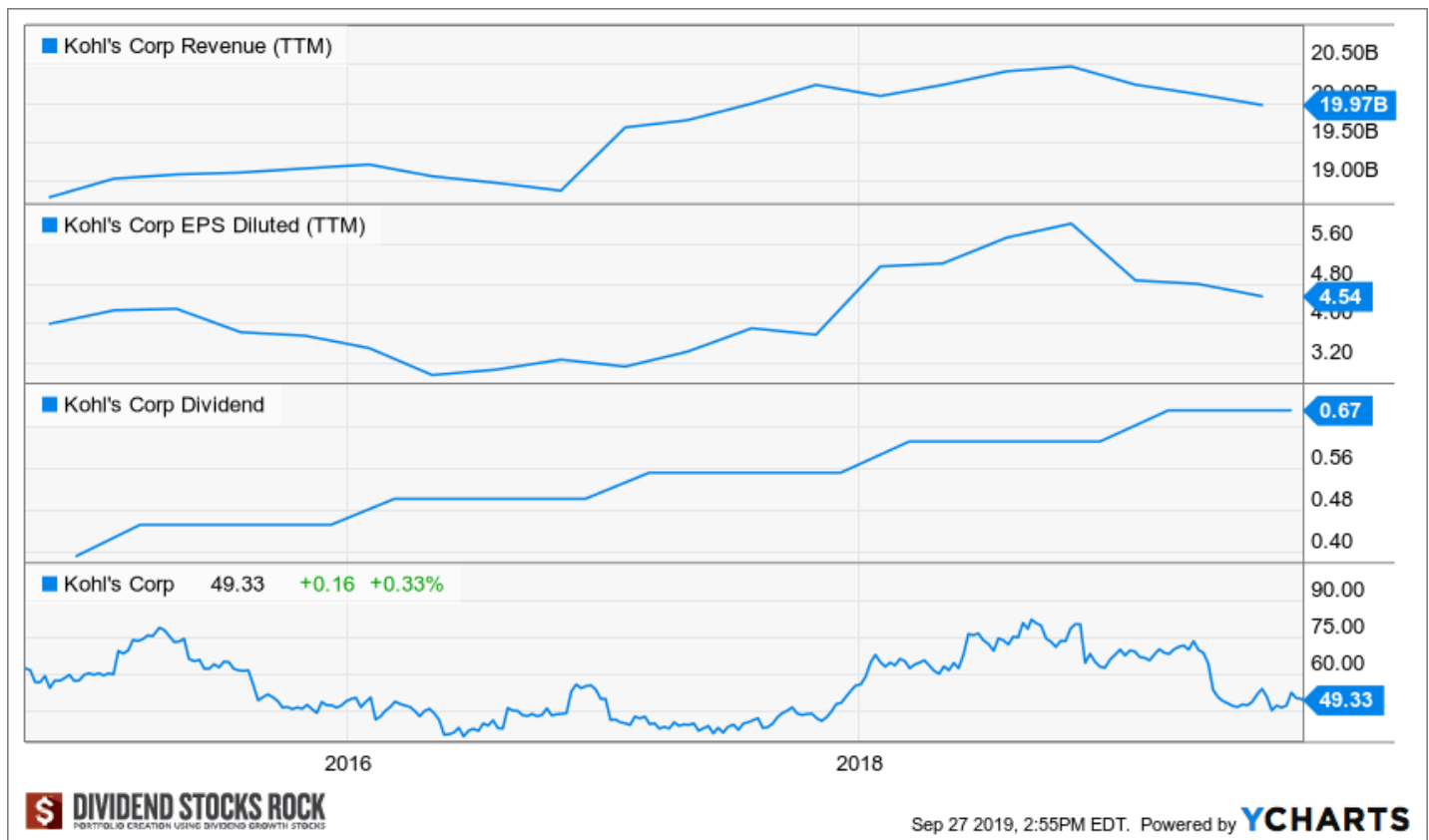
Terminal Dividend Growth Rate: 5%

	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$91.53	\$73.01	\$60.67
10% Premium	\$83.91	\$66.93	\$55.62
Intrinsic Value	\$76.28	\$60.84	\$50.56
10% Discount	\$68.65	\$54.76	\$45.51
20% Discount	\$61.02	\$48.67	\$40.45



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Potential Risks

KSS is facing similar threats as any other brick & mortar retailers. The company has no special card to play and stand out of the crowd. Therefore, KSS must do what all other retailers do - maximize store efficiency (smaller ones and partnerships) and go online. Sooner or later, weak margins will hurt KSS' ability to pay its dividend and growth its business. While its wide store network is a great asset for distribution, it is also a major source of fixed costs. You will see KSS closing large stores and opening smaller ones in the upcoming years. While this will improve earnings, this will have no impact on sales growth.

Dividend Growth Perspective

KSS has turned into a solid dividend grower in the past few years. The company shows great payout ratios opening the door for additional mid-single to high-single digit increases in the upcoming years. As we don't expect much price movement, shareholders should count on a good ~5% yield with a decent dividend increase every year.