TJX Companies (TJX)

Updated August 21st, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$106	**5 Year CAGR Estimate:**	3.6%	**Volatility Percentile:**	13.4%
Fair Value Price:	$83	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	87.6%
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Valuation Percentile:**	20.5%
Dividend Yield:	1.5%	**5 Year Price Target**	$116	**Total Return Percentile:**	20.0%

Overview & Current Events

TJX is a leading off-price retailer of apparel and home fashion goods in the U.S. and worldwide. It currently has 4,194 stores in nine countries and a market cap of $64 billion.

TJX has grown its revenues and its earnings per share every year for more than a decade. *Throughout its 40-year history, it has experienced a decline in its same-store sales in only one year*. This degree of consistency is exceptional and proves the strength of the business model of the company and its perfect execution. While several retailers are closing stores as a result of losing market share to Amazon, TJX has proved resilient to Amazon. The key is that TJX offers great discounts on an attractive selection of merchandize while it also cultivates a “treasure-hunting” experience, which cannot be imitated by the online giant.

TJX reported its financial results for the second quarter of fiscal 2018 today. It was an impressive report, as the retailer posted 6% same-store sales growth, which was triple the 2% consensus. The primary growth driver was customer traffic once again. In fact, Q2 was the 16th consecutive quarter of customer traffic growth. Total sales increased 12% and earnings per share jumped 38% over last year. Moreover, management stated that Q3 was off to a strong start and raised its guidance for this year to $4.83-$4.88, thus implying ~21% earnings-per-share growth this year. If the benefit from the recent tax reform is excluded, then earnings per share will grow by about 7% this year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.01	$1.42	$1.65	$1.99	$2.55	$2.83	$3.15	$3.33	$3.53	$3.87	***$4.88***	***$6.84***
DPS	$0.22	$0.24	$0.30	$0.38	$0.46	$0.58	$0.70	$0.84	$1.04	$1.25	***$1.56***	***$3.10***

Thanks to the strong business performance and a $0.73 benefit from the recent tax reform, management expects to grow its earnings-per-share from $3.87 to $4.86 (at the midpoint) this year. As management has always proved somewhat conservative in its guidance, we expect earnings per share around $4.88 this year.

While the company has grown at impressive rates in the past, it is only natural that it has decelerated as it has grown bigger. It has thus grown its earnings per share at a 7% average annual rate in the last three years and is likely to grow at the same rate this year. It is reasonable to expect the retailer to grow its earnings per share at a 7.0% average annual rate over the next five years. Part of this growth will come from share repurchases, as the company has consistently reduced its share count by about 3% per year in the last five years and has confirmed its intention to keep running its share buyback program at a similar pace.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.6	11.5	13.2	14.0	16.5	18.9	19.0	20.8	21.6	19.2	***21.7***	***16.9***
Avg. Yld.	1.5%	1.5%	1.4%	1.4%	1.1%	1.1%	1.2%	1.2%	1.4%	1.7%	***1.5%***	***2.7%***

TJX has rallied 40% in the last six months. Consequently, it is now trading at a P/E of 21.9, which is much higher than its 10-year average P/E of 16.9. If the stock reverts to its average valuation level within the next five years, it will incur a 4.9% annualized drag due to the contraction of its P/E ratio in this period.

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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	68.1%	74.0%	71.3%	74.0%	76.5%	77.3%	76.6%	75.5%	77.5%	74.7%	***76.0%***	***76.0%***
Debt/A	67.7%	65.5%	61.3%	61.1%	61.2%	61.5%	58.5%	61.2%	62.5%	65.0%	***63.0%***	***62.0%***
Int. Cov.	----	104.2	2639.6	56.5	69.0	106.9	108.3	90.6	80.1	86.9	***90.0***	***95.0***
Payout	21.8%	16.9%	18.2%	19.1%	18.0%	20.5%	22.2%	25.2%	29.5%	32.3%	***32.0%***	***45.3%***
Std. Dev.	36.3%	24.6%	18.2%	17.4%	16.6%	12.9%	19.6%	11.7%	15.3%	14.3%	***15.0%***	***16.0%***

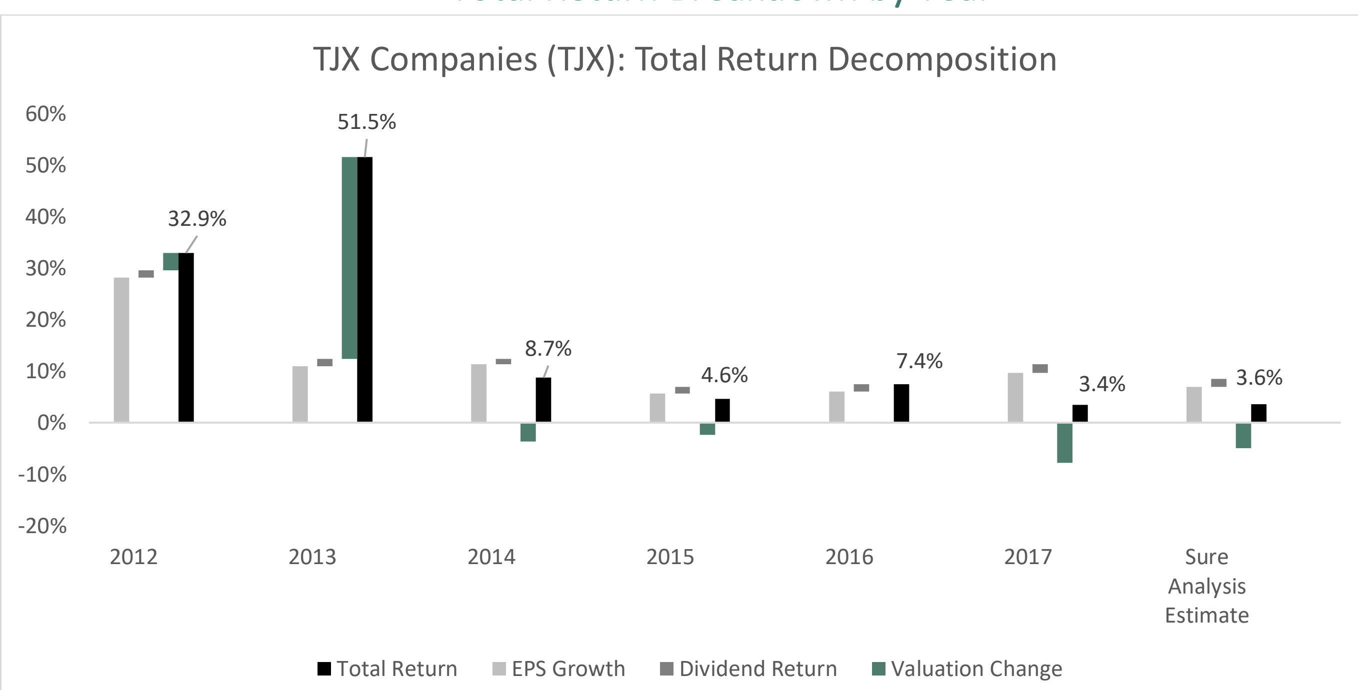
As TJX has always offered a lackluster dividend yield, below 2.0%, most income-oriented investors do not have this stock on their radar. However, this is a great mistake. Thanks to its exceptional growth record, the company has raised its dividend for 22 consecutive years at a 23% average annual rate. This year it raised its dividend by 25%. If it continues to raise its dividend at a similar pace in the upcoming years, TJX will approximately double its dividend within the next three years. Moreover, it certainly has the capacity to keep raising its dividend at its historical pace thanks to its markedly strong balance sheet, its reliable free cash flows and its low payout ratio, which currently stands at 32%. Therefore, the stock is suitable, not only for growth-oriented investors, but also for income-oriented investors.

In addition, thanks to its off-price business model, TJX is markedly resilient during recessions. To be sure, in the Great Recession, when most companies saw their earnings collapse, TJX grew its earnings per share by 5% in 2008 and another 41% in 2009. Of course, the retailer was in its high-growth phase back then and hence it is not likely to repeat that performance whenever the next recession shows up. On the other hand, thanks to its recession-proof business model, it is likely to perform much better than most retailers and the broad market upon the next economic downturn.

Final Thoughts & Recommendation

Thanks to its exceptional growth record, TJX usually trades at a rich valuation. This is the case now, as the stock has rallied 40% in the last six months. Consequently, the stock is likely to offer just a 3.6% average annual return over the next five years, as its 7.0% annual EPS growth and its 1.5% dividend will be partly offset by a 4.9% annualized P/E contraction. TJX is one of the highest quality retailers around. It makes an excellent buy for the long run when trading below its fair value, which is unfortunately not the case currently. The stock is likely to trade range-bound after its recent rally, just like it has almost always done in the past after similar rallies.

Total Return Breakdown by Year



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.