TJX Companies (TJX)

Updated November 20th, 2018 by Eli Inkrot

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	5.6%	**Volatility Percentile:**	18.9%
Fair Value Price:	$41	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	93.6%
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Growth Percentile:**	63.2%
Dividend Yield:	1.7%	**5 Year Price Target**	$57	**Valuation Percentile:**	28.6%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	25.1%

Overview & Current Events

TJX Companies a leading off-price retailer of apparel and home fashions in the U.S. and worldwide. As of November 3rd, 2018 the company operated a total of 4,296 stores in nine countries. These include 1,247 T.J. Maxx (29% of total), 1,091 Marshalls (25%) and 745 HomeGoods (17%) in the United States. The $60 billion market cap company is on pace to generate ~$38 billion in revenue and make ~$3 billion in net profit this year.

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 execution. While several retailers are closing stores as a result of losing market share to Amazon, TJX has proved resilient. TJX offers great discounts on an attractive selection of merchandise while it also cultivates a "treasure-hunting" experience, which cannot be imitated by the online giant.

On November 20th, 2018 TJX reported Q3 2018 results. Net sales for the quarter came in at $9.8 billion, a 12% increase, and earnings-per-share were $0.61 compared to $0.50 previously. For the last nine months sales have increased 12% to $27.8 billion and earnings-per-share have totaled $1.75 against $1.33 in the prior year. This was driven by strong customer traffic and a benefit from the 2017 Tax Act.

TJX provided guidance of $0.66 to $0.67 (against $0.69 last year) for the fourth quarter and $2.41 to $2.43 for the full year (against $2.02 in the prior year). This takes into account a $0.36 benefit from the Tax Act, which we model as an ongoing benefit. (TJX's tax rate has average 35% to 38% in the last decade and is now expected to be closer to 25%.)

Note that TJX had a 2-for-1 stock split on October 30th, 2018, which has been reflected in our numbers.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.50	$0.71	$0.83	$1.00	$1.28	$1.42	$1.58	$1.67	$1.77	$1.94	***$2.42***	***$3.39***
DPS	$0.11	$0.12	$0.15	$0.19	$0.23	$0.29	$0.35	$0.42	$0.52	$0.63	***$0.76***	***$1.36***
Shares	1,651	1,638	1,559	1,493	1,448	1,410	1,370	1,327	1,293	1,256	***1,256***	***1,150***

From 2008 through 2015, TJX was able to grow earnings-per-share by nearly 19% per annum. However, this was during a time when the company was adding over 1,000 stores and the net profit margin was expanding from under 5% to over 7%. Moving forward we anticipate a solid, but not quite as robust growth rate as the firm is coming off a much larger base. Further, the company expects incremental freight costs and wage increases to weigh on short-term results.

Dividend growth has been tremendous, a result of very fast earnings-per-share growth coupled with a willingness to increase the payout ratio. Still, the firm is only paying out roughly of third of its earnings as cash dividends, leaving ample runway for substantial dividend increases over time.

Further, the still below average payout ratio allows for a significant share repurchase program. Since 2008 the company has retired roughly 3% of the share count every year. This too ought to help the bottom line.

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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	***19.8***	***16.9***
Avg. Yld.	1.5%	1.5%	1.4%	1.4%	1.1%	1.1%	1.2%	1.2%	1.4%	1.7%	***1.6%***	***2.4%***

Since our last update shares of TJX are down about 10%, resulting in a "current" P/E ratio of just under 20 times earnings. The 10-year average P/E has been 16.9, which we view as fair given that TJX had been growing at a much faster clip in years past. The capital return plan has two shinning stars – a robust share repurchase program and a growing dividend – both of which ought to prove important to shareholders returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	21.8%	16.9%	18.2%	19.1%	18.0%	20.5%	22.2%	25.2%	29.5%	32.3%	***31.4%***	***40.1%***

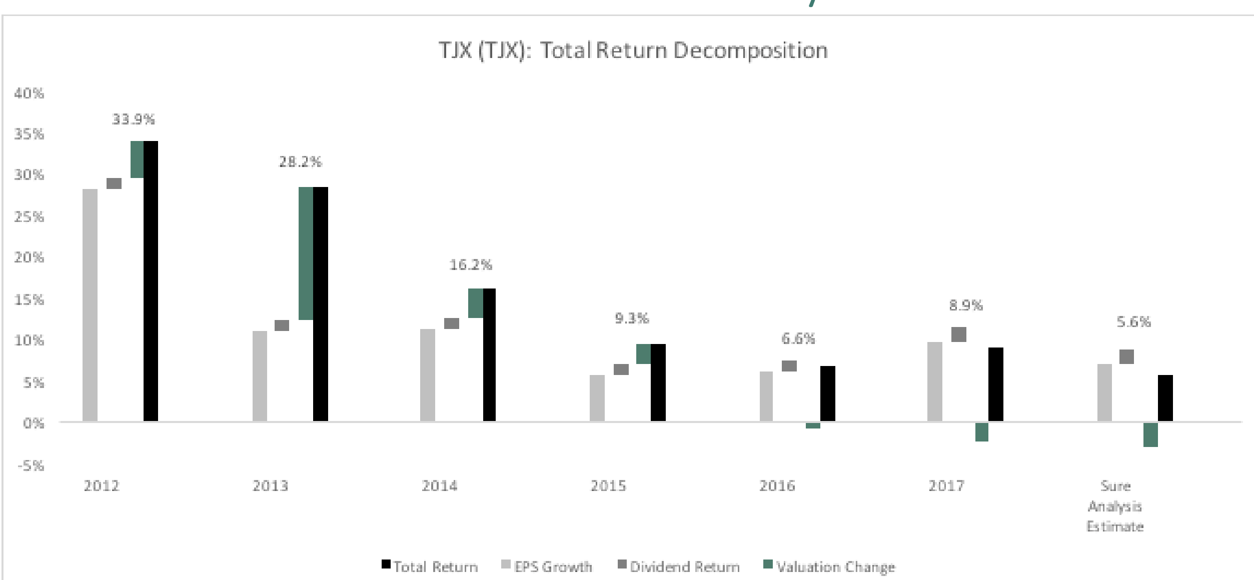
As mentioned in the overview, TJX has a terrific record (EPS was growing during the last recession) driven by its discounted prices and "treasure-hunting" experience. We believe this model has a competitive advantage not just against its look-alike competitors, but even the Amazon's of the world. Moreover, the company has an enviable balance sheet in the industry, with just $2.2 billion in long-term debt against underlying earnings power of ~$3 billion per year.

While the payout ratio has been growing (leading to 20%+ yearly dividend growth) it still makes up less than a third of overall profits. Given the strong balance sheet, this leaves plenty of room for strong dividend increases to come and a healthy share repurchase program as well.

Final Thoughts & Recommendation

TJX is the type of business that you would love to own at the right price. The balance sheet is in good shape, the company's record is superb, profits are growing, you have a "moaty" aspect to the business model ,and management returns cash through dividends and share repurchases. With that being said, TJX looks overvalued now. We rate TJX as a hold at current prices; it will likely be a buy when trading at or below fair value.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	19000	20288	21942	23191	25878	27423	29078	30945	33184	35865
Gross Profit	4570	5320	5902	6337	7357	7818	8302	8910	9618	10362
Gross Margin	24.1%	26.2%	26.9%	27.3%	28.4%	28.5%	28.5%	28.8%	29.0%	28.9%
SG&A Exp.	3136	3329	3710	3890	4250	4467	4695	5206	5800	6375
D&A Exp.	402	435	458	486	509	549	589	617	659	726
Operating Profit	1465	1992	2203	2447	3107	3351	3607	3705	3818	3987
Op. Margin	7.7%	9.8%	10.0%	10.6%	12.0%	12.2%	12.4%	12.0%	11.5%	11.1%
Net Profit	881	1214	1343	1496	1907	2137	2215	2278	2298	2608
Net Margin	4.6%	6.0%	6.1%	6.5%	7.4%	7.8%	7.6%	7.4%	6.9%	7.3%
Free Cash Flow	572	1843	1269	1113	1887	1654	2097	2010	2600	1968
Income Tax	536	738	825	915	1171	1182	1335	1381	1425	1249

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	6178	7464	7972	8282	9512	10201	10989	11490	12884	14058
Cash & Equivalents	454	1615	1742	1507	1812	2150	2494	2095	2930	2758
Accounts Receivable	144	148	200	204	223	210	214	238	259	327
Inventories	2619	2532	2765	2951	3014	2966	3218	3695	3645	4187
Goodwill & Int. Ass.	180	180	180	180	316	313	310	194	196	100
Total Liabilities	4044	4575	4872	5072	5846	5971	6725	7183	8373	8910
Accounts Payable	1276	1508	1684	1645	1931	1771	2008	2203	2231	2488
Long-Term Debt	758	774	774	774	775	1274	1624	1615	2228	2231
Shareholder's Equity	2135	2889	3100	3209	3666	4230	4264	4307	4511	5148
D/E Ratio	0.36	0.27	0.25	0.24	0.21	0.30	0.38	0.38	0.49	0.43

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	13.8%	17.8%	17.4%	18.4%	21.4%	21.7%	20.9%	20.3%	18.9%	19.4%
Return on Equity	41.3%	48.3%	44.9%	47.4%	55.5%	54.1%	52.2%	53.1%	52.1%	54.0%
ROIC	30.1%	37.0%	35.6%	38.1%	45.3%	43.0%	38.9%	38.6%	36.3%	36.9%
Shares Out.	1,651	1,638	1,559	1,493	1,448	1,410	1,370	1,327	1,293	1,256
Revenue/Share	10.74	11.86	13.50	14.99	17.31	18.88	20.67	22.65	24.97	27.75
FCF/Share	0.32	1.08	0.78	0.72	1.26	1.14	1.49	1.47	1.96	1.52

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