TJX Companies (TJX)

Updated February 27th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	6.1%	**Volatility Percentile:**	31.1%
Fair Value Price:	$44	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	86.4%
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.7%	**Growth Percentile:**	65.8%
Dividend Yield:	1.8%	**5 Year Price Target**	$61	**Valuation Percentile:**	24.5%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	21.1%

Overview & Current Events

TJX Companies is a leading off-price retailer of apparel and home fashions in the U.S. and worldwide. As of February 2nd, 2019 the company operated a total of 4,306 stores in nine countries. These include 1,252 T.J. Maxx (29% of total), 1,091 Marshalls (25%) and 749 HomeGoods (17%) in the United States. The $63 billion market cap company generates $39 billion in annual revenue and makes over $3 billion in net profit.

TJX has grown its revenues and its earnings-per-share every year for more than a decade. *Throughout its 40-plus 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 proven 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 February 27th, 2019 TJX released Q4 and fiscal year 2019 results for the period ending February 2nd, 2019. For the quarter sales increased 2% to $11.1 billion, driven by a 6% increase in comparable store sales. Net income totaled $842 million or $0.68 per share, against guidance of $0.66 to $0.67 and $0.69 posted in Q4 of fiscal year 2018. For the year TJX generated sales of $39.0 billion, a 9% increase compared to last year. Net income equaled $3.1 billion or $2.43 per share compared to $2.02 in fiscal year 2018. Adjusted earnings-per-share, excluding the benefit of tax reform, equaled $2.11, a 9% increase compared to $1.93 in the year ago period.

TJX announced that it intends on increasing the dividend to $0.23 per quarter, which would represent a 18% year-over-year increase and mark the 23rd consecutive year of raising the dividend. In addition, the company also announced its plan to repurchase approximately $1.75 billion to $2.25 billion in stock in the upcoming fiscal year.

Finally, TJX provided guidance for fiscal year 2020. For the first quarter the company expects earnings-per-share of $0.53 to $0.54, compared to $0.56 last year. For the year TJX anticipates earnings-per-share of $2.55 to $2.60, which would represent a 5% to 7% year-over-year increase. On an adjusted basis, earnings-per-share are expected to increase 4% to 6%, based on comparable sales growth of 2% to 3%.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.71	$0.83	$1.00	$1.28	$1.42	$1.58	$1.67	$1.77	$1.94	$2.43	***$2.57***	***$3.60***
DPS	$0.12	$0.15	$0.19	$0.23	$0.29	$0.35	$0.42	$0.52	$0.63	$0.74	***$0.92***	***$1.44***
Shares	1,638	1,559	1,493	1,448	1,410	1,370	1,327	1,293	1,256	1,259	***1,235***	***1,150***

Note that while TJX is already in fiscal year 2020 (ending next February), we have elected to stick closer to the calendar year in the numbers presented above. 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, short-term results could be weighed down due to wage increases and comparing to the tax benefit received last year.

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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 one third of its earnings as dividends, leaving ample runway for more dividend increases ahead. Further, this 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.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	11.5	13.2	14.0	16.5	18.9	19.0	20.8	21.6	19.2	20.5	***19.5***	***17.0***
Avg. Yld.	1.5%	1.4%	1.4%	1.1%	1.1%	1.2%	1.2%	1.4%	1.7%	1.5%	***1.8%***	***2.4%***

Over the past decade shares of TJX have traded with an average P/E ratio of around 17 or 18 times earnings. We believe a multiple on the lower end of this is more or less fair, given the idea that TJX's expected growth rate is still solid, but not quite as impressive as it had been in the past. The stock looks a bit overvalued currently.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	17%	18%	19%	18%	21%	22%	25%	30%	32%	30%	***36%***	***40%***

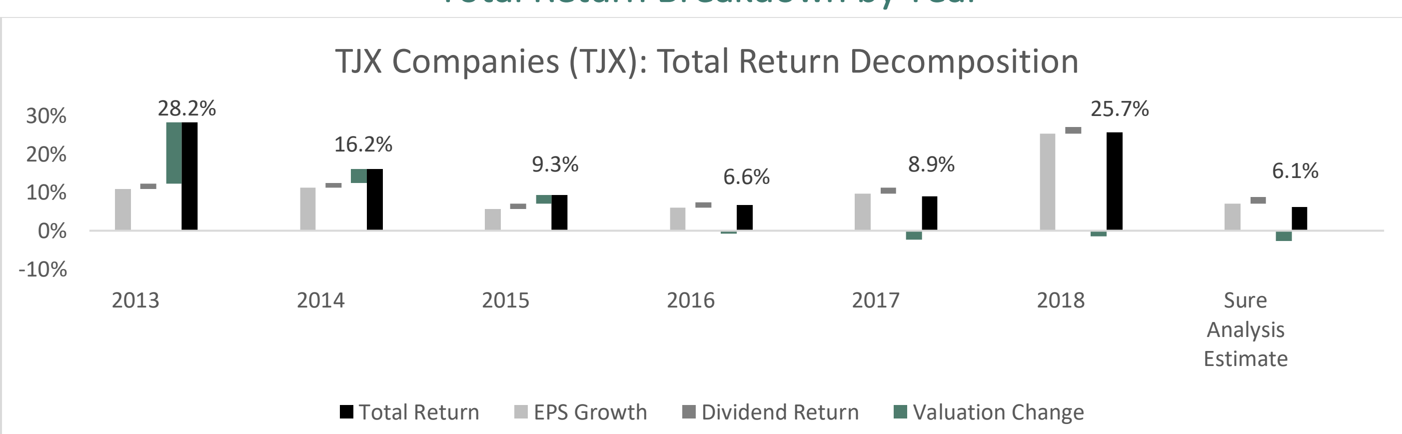
As mentioned in the overview, TJX has a terrific record (EPS was growing during the last recession) driven by its discounted prices and "treasure-hunting" experience. We believe this model has a competitive advantage not just against its look-alike competitors, but even the Amazon's of the world. Moreover, 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 many dividend increases to come and a healthy share repurchase program as well.

Final Thoughts & Recommendation

Since our last update, shares are up about 4% while earnings came in slightly better than expected. 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's valuation leaves something to be desired; requiring outsized growth from this point to justify an investment thesis. We rate TJX as a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	20288	21942	23191	25878	27423	29078	30945	33184	35865	38973
Gross Profit	5320	5902	6337	7357	7818	8302	8910	9618	10362	11142
Gross Margin	26.2%	26.9%	27.3%	28.4%	28.5%	28.5%	28.8%	29.0%	28.9%	28.6%
SG&A Exp.	3329	3710	3890	4250	4467	4695	5206	5768	6375	6924
D&A Exp.	435	458	486	509	549	589	617	659	726	818
Operating Profit	1992	2203	2447	3107	3351	3607	3705	3850	3987	4218
Op. Margin	9.8%	10.0%	10.6%	12.0%	12.2%	12.4%	12.0%	11.6%	11.1%	10.8%
Net Profit	1214	1343	1496	1907	2137	2215	2278	2298	2608	3060
Net Margin	6.0%	6.1%	6.5%	7.4%	7.8%	7.6%	7.4%	6.9%	7.3%	7.9%
Free Cash Flow	1843	1269	1113	2077	1654	2097	2068	2602	1968	2963
Income Tax	738	825	915	1171	1182	1335	1381	1425	1249	1113

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	7464	7972	8282	9512	10201	10989	11490	12884	14058	14326
Cash & Equivalents	1615	1742	1507	1812	2150	2494	2095	2930	2758	3030
Accounts Receivable	148	200	204	223	210	214	238	259	327	860
Inventories	2532	2765	2951	3014	2966	3218	3695	3645	4187	4579
Goodwill & Int. Ass.	180	180	180	316	313	310	194	196	100	98
Total Liabilities	4575	4872	5072	5846	5971	6725	7183	8373	8910	9277
Accounts Payable	1508	1684	1645	1931	1771	2008	2203	2231	2488	2644
Long-Term Debt	774	774	774	775	1274	1624	1615	2228	2231	2234
Shareholder's Equity	2889	3100	3209	3666	4230	4264	4307	4511	5148	5049
D/E Ratio	0.27	0.25	0.24	0.21	0.30	0.38	0.38	0.49	0.43	0.44

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	17.8%	17.4%	18.4%	21.4%	21.7%	20.9%	20.3%	18.9%	19.4%	21.6%
Return on Equity	48.3%	44.9%	47.4%	55.5%	54.1%	52.2%	53.1%	52.1%	54.0%	60.0%
ROIC	37.0%	35.6%	38.1%	45.3%	43.0%	38.9%	38.6%	36.3%	36.9%	41.7%
Shares Out.	1,638	1,559	1,493	1,448	1,410	1,370	1,327	1,293	1,256	1,259
Revenue/Share	11.86	13.50	14.99	17.31	18.88	20.67	22.65	24.97	27.75	30.95
FCF/Share	1.08	0.78	0.72	1.39	1.14	1.49	1.51	1.96	1.52	2.35

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