# TJX Companies (TJX)

*Updated August 20th, 2019 by Kay Ng*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $51 | **5 Year CAGR Estimate:** | 8.8% | **Volatility Percentile:** | 36.5% |
| **Fair Value Price:** | $47 | **5 Year Growth Estimate:** | 9.0% | **Momentum Percentile:** | 58.4% |
| **% Fair Value:** | 111% | **5 Year Valuation Multiple Estimate:** | -2.0% | **Growth Percentile:** | 87.9% |
| **Dividend Yield:** | 1.8% | **5 Year Price Target** | $71 | **Valuation Percentile:** | 30.4% |
| **Dividend Risk Score:** | A | **Retirement Suitability Score:** | C | **Total Return Percentile:** | 40.2% |

## Overview & Current Events

TJX Companies is a leading off-price retailer of apparel and home fashions in the U.S. and worldwide. As of August 3rd, 2019 the company operated a total of 4,412 stores in nine countries. These include 1,260 T.J. Maxx (29% of total), 1,107 Marshalls (25%) and 783 HomeGoods (18%) in the United States. The $62 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 (AMZN), 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 August 20th, 2019 TJX released Q2 fiscal 2020 results for the period ending August 3rd, 2019. For the quarter, sales increased 5% to $9.8 billion, driven by a 2% increase in comparable store sales, which was eclipsed by last year’s 6% increase. Net income was $759 million, while earnings-per-share were $0.62, an increase of 7% versus the prior year’s $0.58. Customer traffic drove sales growth in all four major divisions with TJX International (Europe & Australia) having the highest comparable store sales growth of 6% over 4% last year.

In the first half of the fiscal year, TJX bought back $650 million of TJX stock, retiring 12.3 million shares, effectively reducing the share count by about 3% over the past year. TJX expects to buy back roughly $1.75 billion worth of stock in this fiscal year.

Finally, TJX maintained its guidance for the year, anticipating earnings-per-share of $2.56 to $2.61, which would represent a 5% to 7% year-over-year increase over the prior year. On an adjusted basis, earnings-per-share are expected to increase 4% to 7%, 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 | ***$2.58*** | ***$3.97*** |
| DPS | $0.12 | $0.15 | $0.19 | $0.23 | $0.29 | $0.35 | $0.42 | $0.52 | $0.63 | $0.74 | ***$0.92*** | ***$1.48*** |
| Shares[1] | 1,638 | 1,559 | 1,493 | 1,448 | 1,410 | 1,370 | 1,327 | 1,293 | 1,256 | 1,259 | ***1,231*** | ***1,150*** |

From 2009 through 2015, TJX was able to grow earnings-per-share by 15% per annum. However, this was during a time when the company was adding 900 stores and the net profit margin was expanding from under 5% to over 7%. With TJX generating about 75% of sales in the U.S., its sales and earnings will depend on the health of the U.S. economy. 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 by wage increases.

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 a third of its earnings as dividends, leaving ample

1. Shares in millions.

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runway for more dividend increases ahead. Further, this payout ratio allows for a significant share repurchase program. Since 2009 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 | ***19.9*** | ***18*** |
| Avg. Yld. | 1.5% | 1.4% | 1.4% | 1.1% | 1.1% | 1.2% | 1.2% | 1.4% | 1.7% | 1.5% | ***1.8%*** | ***2.1%*** |

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 of 18 is more or less fair, given 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%*** | ***37%*** |

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, which the company could largely pay off with its cash and cash equivalents. Additionally, it also has underlying earnings power of about $3 billion per year.

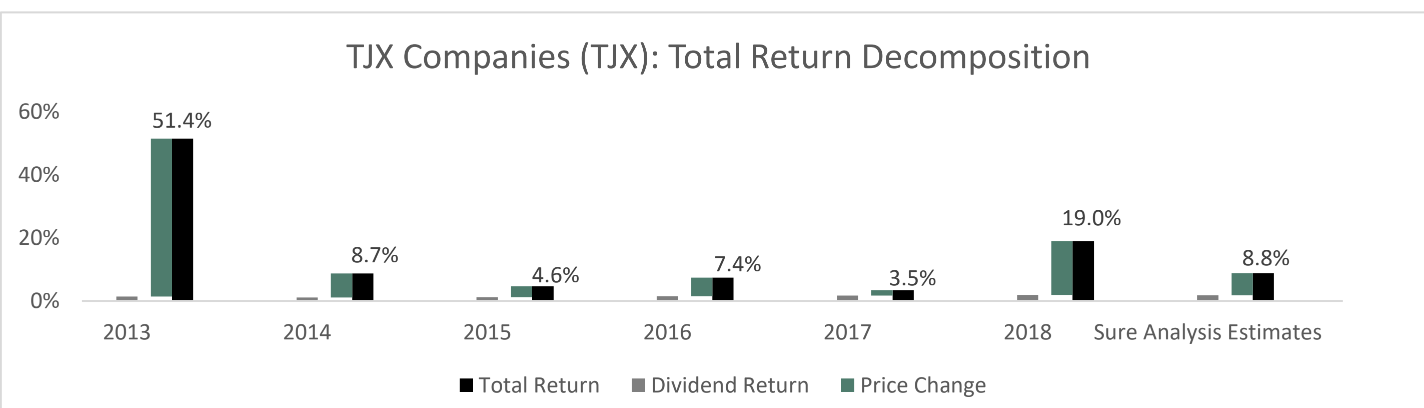
While the payout ratio has been growing (leading to 22% yearly dividend growth since 2009), it still makes up less than 40% of overall profits. Given the strong balance sheet, this leaves plenty of room for many dividend increases to come and a healthy share repurchase program as well.

## Final Thoughts & Recommendation

TJX is the type of business that you would love to own at the right price. The balance sheet is in solid 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.

That said, the stock looks a tad expensive. We estimate TJX will deliver annual total returns of about 8.8% over the next five years, consisting of 9% earnings-per-share growth, a 1.8% yield, and a 2% headwind from the valuation moving lower. All told, we rate TJX as a hold at current prices.

## Total Return Breakdown by Year

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1. Shares in millions.

*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 | 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 | 820 |
| 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 | 346 |
| 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.*