TJX Companies (TJX)

Updated November 19th, 2019 by Kay Ng

Key Metrics

Current Price:	$61	**5 Year CAGR Estimate:**	5.0%	**Volatility Percentile:**	36.6%
Fair Value Price:	$47	**5 Year Growth Estimate:**	8.5%	**Momentum Percentile:**	79.7%
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Growth Percentile:**	85.7%
Dividend Yield:	1.5%	**5 Year Price Target**	$71	**Valuation Percentile:**	29.6%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	36.8%

Overview & Current Events

TJX Companies is a leading off-price retailer of apparel and home fashions in the U.S. and worldwide. As of November 2nd, 2019 the company operated a total of 4,519 stores in nine countries. These include 1,271 T.J. Maxx (28% of total), 1,125 Marshalls (25%) and 807 HomeGoods (18%) in the United States. The $73 billion market cap company generates $40 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 to be 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 19th, 2019 TJX released Q3 fiscal 2020 results for the period ending November 2nd, 2019. For the quarter, sales increased 6% to $10.5 billion, driven by a 4% increase in comparable store sales, which was eclipsed by last year's 7% increase. Net income was $828 million, while earnings-per-share were $0.68, an increase of 11% versus the prior year's $0.61. 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 3% last year.

In the first nine months of the fiscal year, TJX bought back $1.15 billion of TJX stock, retiring 21.3 million shares. TJX expects to buy back $1.5 - $1.75 billion worth of stock in this fiscal year. On November 18, TJX invested $225 million for a 25% ownership stake in privately-held Familia, the only major off-price apparel and home fashions retailer in Russia. Familia has more than 275 stores there.

Finally, TJX increased its guidance marginally by ~1.3% for the year, anticipating earnings-per-share of $2.61 to $2.63, which would represent a 7% to 8% year-over-year increase over the prior year based on comparable sales growth of 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	***$2.62***	***$3.94***
DPS	$0.12	$0.15	$0.19	$0.23	$0.29	$0.35	$0.42	$0.52	$0.63	$0.74	***$0.92***	***$1.62***
Shares[1]	1,638	1,559	1,493	1,448	1,410	1,370	1,327	1,293	1,256	1,259	***1,224***	***1,057***

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, assisted by an expanding payout ratio and growing earnings. Its payout ratio also allows for a meaningful 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	***23.1***	***18.0***
Avg. Yld.	1.5%	1.4%	1.4%	1.1%	1.1%	1.2%	1.2%	1.4%	1.7%	1.5%	***1.5%***	***2.3%***

Over the past decade, shares of TJX have traded with an average P/E ratio of about 17.5 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 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%	***35%***	***41%***

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.

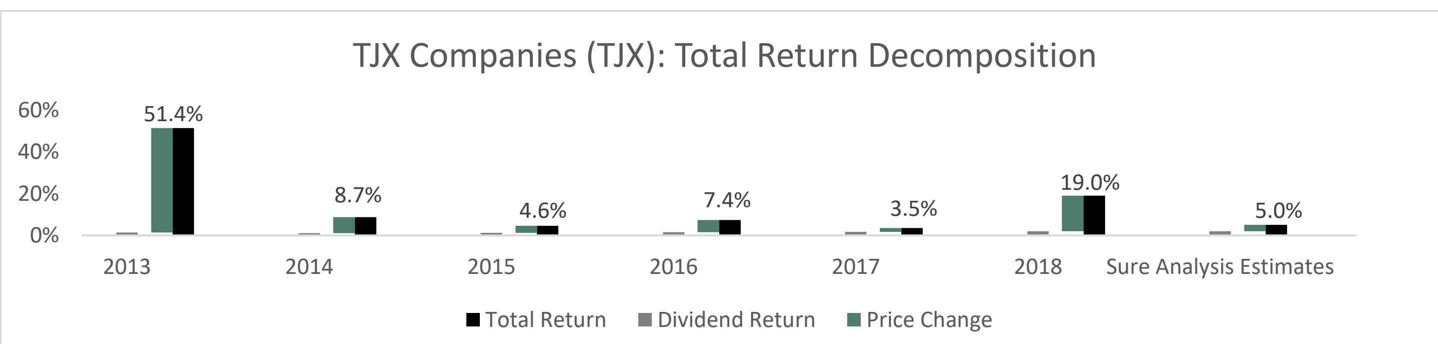
While the payout ratio has been growing (leading to 22% yearly dividend growth since 2009), it still makes up less than 40% of overall profits. Given the strong balance sheet, this leaves plenty of room for many dividend increases to come and a healthy share repurchase program as well.

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 expensive. We estimate TJX will deliver annual total returns of about 5% over the next five years, consisting of 8.5% earnings-per-share growth, a 1.5% yield, and a 4.9% headwind from the valuation moving lower. All told, we rate TJX as a sell 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	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.