TJX Companies (TJX)

Updated March 15th, 2019 by Kay Ng

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	9.5%	**Market Cap:**	$62B
Fair Value Price:	$50	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	05/15/20
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date[1]:**	06/06/20
Dividend Yield:	2.0%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	23
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	13.0%

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 1st, 2020 the company operated a total of 4,529 stores in nine countries. These include 1,273 T.J. Maxx (28% of total), 1,130 Marshalls (25%) and 809 HomeGoods (18%) in the United States. The company generates about $40 billion in annual revenue and $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 02/26/20, TJX released Q4 and full-year fiscal 2020 results for the period ending 02/02/20. For the quarter and fiscal year, customer traffic drove sales growth in all four major divisions with TJX International (Europe & Australia) having the highest comparable store sales growth. For the quarter, sales increased 10% to $12.2 billion, driven by a 6% increase in comparable store sales, which was as strong as last year's 6% increase. Net income was $985 million, while earnings-per-share were $0.81, an increase of 19% year over year (YOY). During fiscal 2020, sales increased 7% to $41.7 billion, driven by a 4% increase in comparable store sales, lower than last year's 6% increase but higher than company's guidance of 3%. Net income was almost $3.3 billion (up 7% YOY), while earnings-per-share were $2.67, an increase of 10% YOY. In fiscal 2020, TJX bought back $1.5 billion of TJX common stock, retiring 27.1 million shares. TJX expects to buy back $1.75 - $2.25 billion worth of stock in this fiscal year.

TJX increased its quarterly dividend per share by 13% to $0.26. For this fiscal year, TJX guides for earnings-per-share of $2.77 to $2.83, which represents a midpoint EPS estimate of $2.80, a growth of 4.9% YOY, based on a comparable sales growth estimate of 2% to 3%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$0.83	$1.00	$1.28	$1.42	$1.58	$1.67	$1.77	$1.94	$2.43	$2.67	***$2.80***	***$4.11***
DPS	$0.15	$0.19	$0.23	$0.29	$0.35	$0.42	$0.52	$0.63	$0.78	$0.92	***$1.04***	***$1.67***
Shares[1]	1,559	1,493	1,448	1,410	1,370	1,327	1,293	1,256	1,259	1,219	***1,186***	***1,062***

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 77% of sales in the U.S., its sales and earnings will depend on the health of the U.S. economy. In the short term, TJX's sales and earnings are expected to be impacted by the coronavirus crisis. However, we expect TJX's long-term outlook to remain solid, but not quite as robust growth rate as the firm is coming off a much larger base. Dividend growth has been tremendous, a result of very fast EPS growth coupled with a willingness to increase the payout ratio. The firm's dividend is safe with a payout ratio of below 40%. We expect continued dividend increases.

1. These are estimated Dividend Dates; Shares in millions.

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Additionally, its payout ratio also allows for a meaningful share repurchase program. Since 2010 the company has retired roughly 3% of the share count every year. This ought to help the bottom line.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.2	14.0	16.5	18.9	19.0	20.8	21.6	19.2	20.5	20.6	***18.4***	***18.0***
Avg. Yld.	1.4%	1.4%	1.1%	1.1%	1.2%	1.2%	1.4%	1.7%	1.5%	1.7%	***2.0%***	***2.3%***

From 2010 to 2019, shares of TJX traded with an average P/E ratio of 18.4. 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 fairly valued currently.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	18%	19%	18%	20%	22%	25%	29%	32%	32%	34%	***37%***	***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 pay off with its cash and cash equivalents with leftover if it wanted to. Additionally, it also has underlying earnings power of about $3 billion per year.

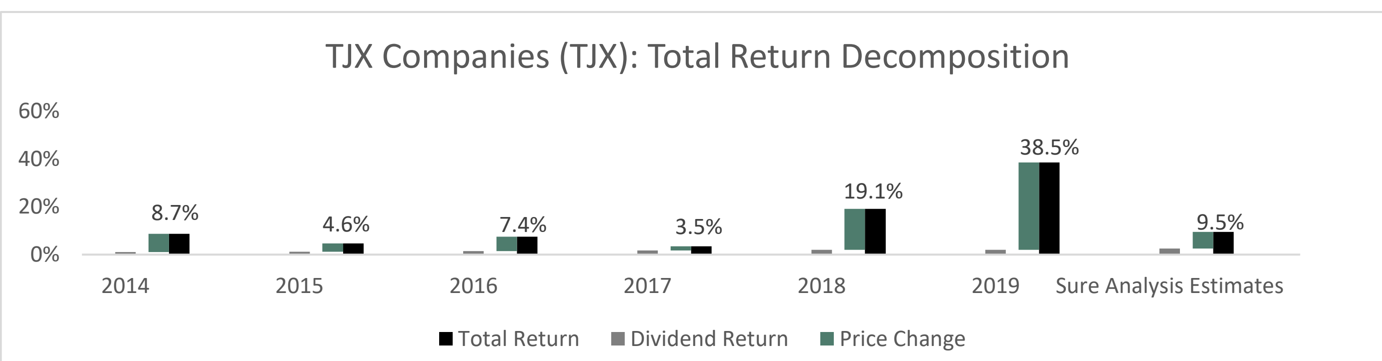
While the payout ratio has been growing (leading to 21% yearly dividend growth since 2010), it still makes up less than 40% of overall profits. Given the strong balance sheet, this leaves plenty of room for many dividend increases to come and a healthy share repurchase program as well.

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 market is likely going to give you a better price over the next three to six months. At the current valuation, we estimate TJX will deliver annual total returns of about 9.5% over the next five years, consisting of 8.0% earnings-per-share growth, a 2.0% yield, and a -0.5% 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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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
Operating 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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.	1,559	1,493	1,448	1,410	1,370	1,327	1,293	1,256	1,259	1,219
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.