Ross Stores (ROST)

Updated November 30th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$110	**5 Year CAGR Estimate:**	1.7%	**Market Cap:**	$39.0 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	14.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	182%	**5 Year Valuation Multiple Estimate:**	-11.3%	**Dividend Payment Date:**	N/A
Dividend Yield:	0.0%	**5 Year Price Target**	$116	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	N/A	**Retirement Suitability Score:**	N/A	**Last Dividend Increase:**	N/A

Overview & Current Events

Ross Stores operates 1,594 stores with off-price apparel and home fashion in 39 states. It also operates 275 dd's DISCOUNTS stores in 19 states and has a market cap of $39.0 billion. The retailer offers attractive merchandize at a 20%-70% discount compared to the regular prices of department and specialty stores. Prior to 2020, Ross Stores had grown its revenue and its earnings-per-share every single year for more than a decade. This record is a testament to the strength of its business model and the quality of its management, which executes its growth plan in an exemplary way.

In mid-November, Ross Stores reported (11/19/20) financial results for the third quarter of fiscal 2020, which ended on October 31st, 2020. Performance greatly improved sequentially thanks to the reopening of the stores of the retailer. Sales and same-store sales fell only -2% and -3%, respectively, over last year's quarter while adjusted earnings-per-share dipped only -1%, from $1.03 to $1.02, and thus exceeded analysts' consensus by an impressive $0.40. We have thus raised our earnings-per-share forecast for the year from $0.80 to $1.05. Due to the pandemic, Ross Stores has suspended its dividend this year, after 25 consecutive years of dividend growth. In addition, due to the second wave of the pandemic, the retailer did not provide any guidance for the fourth quarter and has suspended its growth plans.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.16	$1.43	$1.77	$1.94	$2.21	$2.51	$2.83	$3.55	$4.26	$4.60	***$1.05***	***$6.84***
DPS	$0.18	$0.24	$0.30	$0.36	$0.40	$0.47	$0.54	$0.64	$0.90	$1.02	***$0.29***	***$1.00***
Shares[1]	472.3	451.8	440.0	426.8	414.9	402.3	391.9	379.7	368.4	356.9	***354.5***	***330.0***

Ross Stores is currently facing an unprecedented downturn due to the recession caused by the coronavirus. However, we expect the pandemic to subside and the company to begin to recover from next year. Ross Stores has grown its earnings-per-share by a multiple of 5 in the last decade, from $0.89 in 2009 to $4.60 in 2019. Moreover, it still has growth prospects ahead. The company currently has 1,869 stores while management is confident for a potential of 2,500 to 3,000 stores in the U.S. Thus, the company can still grow its store count meaningfully. As the retailer opens about 100 new stores per year, it is evident that it has at least a decade of growth ahead.

Ross Stores has missed the analysts' estimates only twice in the last 27 quarters. Moreover, it has grown its earnings-per-share by 17.9% and 15.8% per year on average in the last 10 and 5 years, respectively. As the retailer will find it increasingly difficult to keep growing at its historical pace, particularly amid heating competition, we assume 14.0% average annual earnings-per-share growth off its mid-cycle level (5-year average) of $3.55 for the next five years.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.0	14.1	17.2	17.4	17.0	20.3	21.4	19.7	20.1	22.2	***31.0***	***17.0***
Avg. Yld.	1.3%	1.2%	1.0%	1.0%	1.1%	0.9%	0.9%	1.0%	1.0%	1.0%	***0.3%***	***0.9%***

[1] 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.

Ross Stores (ROST)

Updated November 30th, 2020 by Aristofanis Papadatos

Ross Stores is currently trading at 31.0 times its mid-cycle earnings. This valuation level is much higher than its 10-year average price-to-earnings ratio of 18.1. In fact, it is the richest valuation level of the stock in more than a decade. Due to the heating competition in the retail sector, we assume a fair earnings multiple of 17.0 for the stock. If the stock reverts to its fair valuation level in the next five years, it will incur an -11.3% annualized valuation drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	15.5%	16.8%	16.9%	18.6%	18.1%	18.7%	19.1%	19.2%	21.1%	22.2%	***8.2%***	***14.6%***

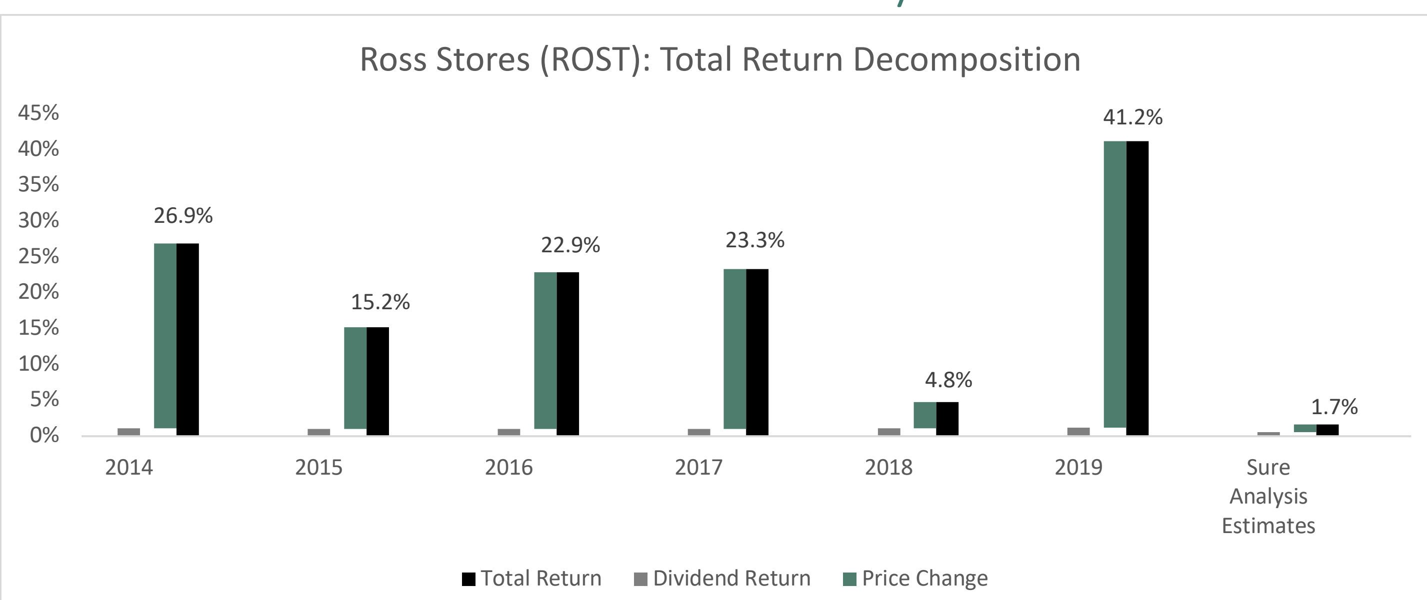
The key behind the exceptional growth record of Ross Stores is the fact that it offers great discounts on popular brands. It creates a treasure-hunting experience, which is appealing to consumers and constitutes a moat. This unique shopping experience helps explain why Ross Stores is one of the few retailers that have not been affected by Amazon. Moreover, while the U.S. economy had been growing for a whole decade, consumers have become increasingly price-conscious in recent years. Therefore, Ross Stores appeals to a wide range of consumers. With that said, competition has become increasingly heated in the retail sector.

Ross Stores had raised its dividend for 25 consecutive years until this year. Its capital expenses have remained below half of its operating cash flows every year in the last decade, resulting in high free cash flows. However, the retailer was forced to suspend its dividend this year due to the pandemic. Ross Stores proved resilient in previous recessions, as consumers were particularly price-sensitive. However, this downturn is much fiercer, as it forced the company to close its stores for nearly two months and social distancing is a strong headwind for this business. Nevertheless, we expect the retailer to recover from the downturn from next year.

Final Thoughts & Recommendation

Ross Stores is a high-quality discount retailer with a wide moat and solid growth prospects over the next several years. The company is now hurt by the social distancing caused by the pandemic but we expect it to recover from next year. Nevertheless, thanks to its high quality, the stock is richly valued and hence it could offer mediocre returns over the next five years, particularly if its valuation returns to historical levels. We thus rate the stock as a hold.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Ross Stores (ROST)

Updated November 30th, 2020 by Aristofanis Papadatos

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	7866	8608	9721	10230	11042	11940	12867	14135	14984	16,039
Gross Profit	2136	2368	2710	2869	3104	3363	3693	4092	4257	4,503
Gross Margin	27.2%	27.5%	27.9%	28.0%	28.1%	28.2%	28.7%	29.0%	28.4%	28.1%
SG&A Exp.	1230	1304	1438	1526	1615	1739	1890	2044	2217	2,357
D&A Exp.	161	160	185	206	233	275	303	313	330	351
Operating Profit	907	1063	1272	1343	1488	1624	1803	2048	2041	2,146
Operating Margin	11.5%	12.4%	13.1%	13.1%	13.5%	13.6%	14.0%	14.5%	13.6%	13.4%
Net Profit	555	657	787	837	925	1021	1118	1363	1587	1,661
Net Margin	7.1%	7.6%	8.1%	8.2%	8.4%	8.5%	8.7%	9.6%	10.6%	10.4%
Free Cash Flow	474	404	555	471	726	959	1261	1310	1653	1,616
Income Tax	342	396	478	506	561	591	669	678	463	503

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3116	3301	3671	3897	4687	4869	5309	5722	6074	9,348
Cash & Equivalents	834	650	647	423	697	762	1112	1290	1413	1,351
Accounts Receivable	45	51	60	63	73	74	75	88	97	102
Inventories	1087	1130	1209	1257	1373	1419	1513	1642	1750	1,832
Total Liabilities	1784	1808	1904	1889	2408	2397	2561	2673	2768	5,989
Accounts Payable	767	762	808	779	1001	946	1022	1060	1177	1,296
Long-Term Debt	150	150	150	150	396	396	396	397	312	313
Shareholder's Equity	1333	1493	1767	2007	2279	2472	2748	3049	3306	3,359
D/E Ratio	0.11	0.10	0.08	0.07	0.17	0.16	0.14	0.13	0.09	0.09

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	18.9%	20.5%	22.6%	22.1%	21.5%	21.4%	22.0%	24.7%	26.9%	21.5%
Return on Equity	44.6%	46.5%	48.3%	44.4%	43.1%	43.0%	42.8%	47.0%	50.0%	49.8%
ROIC	39.8%	42.0%	44.2%	41.1%	38.3%	36.8%	37.2%	41.4%	44.9%	45.6%
Shares Out.	472.3	451.8	440.0	426.8	414.9	402.3	391.9	379.7	368.4	356.9
Revenue/Share	16.40	18.72	21.82	23.70	26.41	29.38	32.58	36.78	40.21	44.41
FCF/Share	0.99	0.88	1.25	1.09	1.74	2.36	3.19	3.41	4.43	4.47

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