TJX Companies (TJX)

Updated December 5th, 2020 by Kay Ng

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	2.8%	**Market Cap:**	$80B
Fair Value Price:	$48	**5 Year Growth Estimate:**	7.8%	**Ex-Dividend Date[1]:**	12/15/20
% Fair Value:	139%	**5 Year Valuation Multiple Estimate:**	-6.3%	**Dividend Payment Date[1]:**	03/05/20
Dividend Yield:	1.6%	**5 Year Price Target**	$70	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase[1]:**	13%

Overview & Current Events

TJX Companies is a leading off-price retailer of apparel and home fashions in the U.S. and worldwide. As of October 31, the company operated 4,574 stores in nine countries. These include 1,272 T.J. Maxx (28% of total), 1,134 Marshalls (25%) and 821 HomeGoods (18%) in the United States. In a normal economy, 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. Fiscal 2021 will be a rare year with huge setbacks and same-store sales decline for TJX. We expect TJX to remain resilient, against Amazon (AMZN) compared to most other retailers, in the long haul because 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 11/18/20, TJX released its fiscal Q3 2021 results for the period ending 10/31/20. For the quarter, net sales were $10.1 billion (a 3.2% decline year over year), net income of $866.7 million (up 4.6%), and diluted earnings-per-share (EPS) of $0.71 (up 4.4%). The results were way better than in the first half of the fiscal year in which its stores were forced to close temporarily to slow down the spread of COVID-19. The results year-to-date in fiscal 2021 resulted in net sales of $21 billion (down 28% year over year), a net loss of $235 million, and a loss per share of $0.20.

Due to high uncertainties surrounding the current retail environment, consumer behavior, and future consumer demand, the company will not provide any guidance for this year. TJX has suspended its share buyback program and dividend for now to increase the liquidity. Following dividend suspensions from fiscal Q1-Q3 2021, the company plans to increase its quarterly dividend per share from $0.23 pre-suspension to $0.26, subject to the Board's approval.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.83	$1.00	$1.28	$1.42	$1.58	$1.67	$1.77	$1.94	$2.43	$2.67	***$0.54***	***$3.88***
DPS	$0.15	$0.19	$0.23	$0.29	$0.35	$0.42	$0.52	$0.63	$0.78	$0.92	***$0.26***	***$1.51***
Shares[1]	1,559	1,493	1,448	1,410	1,370	1,327	1,293	1,256	1,259	1,219	***1,198***	***1,072***

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 substantially disrupted by the coronavirus crisis. However, we expect TJX's long-term outlook to remain solid, but at a slower pace than before as the firm is coming off a much larger base on the back of an economy that needs time to recover. The company prudently reduced its originally fiscal 2021 capital spending plan by about two-thirds to $400-$600 million. The reinstated higher dividend in fiscal Q4 2021 shows management's commitment to the dividend. The company's share repurchase program should also resume to help boost the bottom line in the future. We expect EPS to be about 80% lower in fiscal 2021, normalize in about a year, and EPS to grow by about 10% through fiscal 2026. For now, we expect a similar trajectory for its dividend.

1. Estimated dividend dates; Dividend increase of 13% from FY2021 pre-suspension level; Shares in millions.

Disclosure: Kay owns shares of Amazon.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.2	14.0	16.5	18.9	19.0	20.8	21.6	19.2	20.5	20.6	***123***	***18.0***
Avg. Yld.	1.4%	1.4%	1.1%	1.1%	1.2%	1.2%	1.4%	1.7%	1.5%	1.7%	***1.6%***	***2.2%***

From fiscal 2011 to 2020, shares of TJX traded with an average P/E ratio of 18.4. We believe a multiple of 18 is more or less fair for a normalized growth rate of about 10%. The stock appears to be outrageously overvalued due to lower earnings this year. But on normalized earnings, the stock is still expensive with a P/E of 25. Even if we become less conservative and set the target 2026 P/E to 20, the quality stock would still be 25% overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

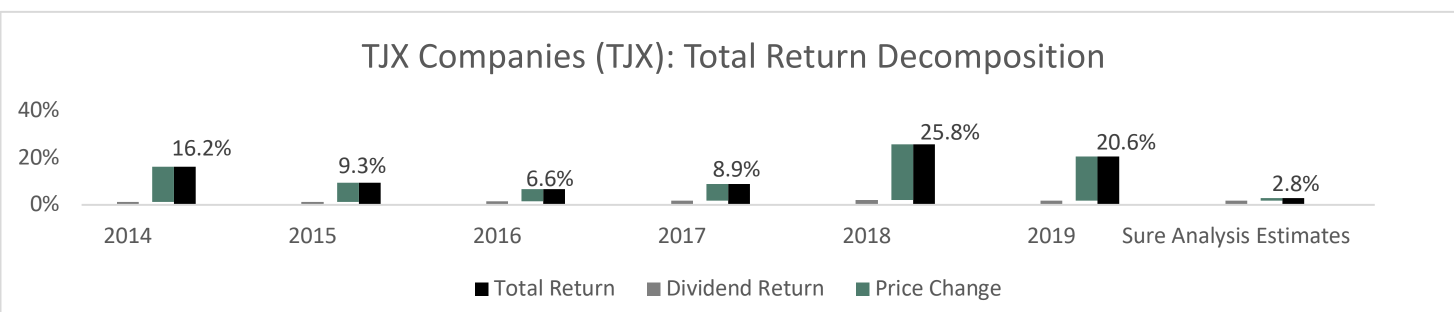
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Payout	18%	19%	18%	20%	22%	25%	29%	32%	32%	34%	***48%***	***39%***

TJX has a terrific record (EPS was growing during the last recession) driven by its discounted prices and "treasure-hunting" experience. However, for this recession, its stores, including its e-commerce sites were closed temporarily. And there's a chance that they could be shut down again on surges in COVID-19 cases. That said, we believe TJX's model has a competitive advantage not just against its look-alike competitors, but even the Amazon's of the world. The precondition is that its stores need to be opened. The company further raised its cash position to $10.6 billion. Additionally, it has normalized earnings power of about $3 billion per year. So, we expect TJX to survive through this recession. Notably, TJX paid most of its rent due in Q1 but have subsequently negotiated rent deferrals to immediately improve liquidity, but which will eat into its earnings for fiscal 2022. There's high uncertainty around the COVID-19 situation, but management sees sufficient recovery in the macro environment to reinstate the dividend – at a 13% higher payout than before.

Final Thoughts & Recommendation

TJX has a good track record, but COVID-19 is hitting it hard this year. In normal markets, the company would grow profits and dividends, and buy back shares. It could take a year for things to normalize before the company resumes growth. At the current valuation, we estimate TJX will deliver annual total returns of about 2.8% over the next five years, consisting of 7.8% earnings-per-share growth, a 1.6% normalized yield, and a -6.3% headwind from a P/E contraction. All told, we rate TJX as a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	21942	23191	25878	27423	29078	30945	33184	35865	38973	41717
Gross Profit	5902	6337	7357	7818	8302	8910	9618	10362	11142	11871
Gross Margin	26.9%	27.3%	28.4%	28.5%	28.5%	28.8%	29.0%	28.9%	28.6%	28.5%
SG&A Exp.	3710	3890	4250	4467	4695	5206	5768	6375	6924	7455
D&A Exp.	458	486	509	549	589	617	659	726	820	867
Operating Profit	2203	2447	3107	3351	3607	3705	3850	3987	4218	4416
Operating Margin	10.0%	10.6%	12.0%	12.2%	12.4%	12.0%	11.6%	11.1%	10.8%	10.6%
Net Profit	1343	1496	1907	2137	2215	2278	2298	2608	3060	3272
Net Margin	6.1%	6.5%	7.4%	7.8%	7.6%	7.4%	6.9%	7.3%	7.9%	7.8%
Free Cash Flow	1269	1113	2077	1654	2097	2068	2602	1968	2963	2843
Income Tax	825	915	1171	1182	1335	1381	1425	1249	1113	1134

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	7972	8282	9512	10201	10989	11490	12884	14058	14326	24145
Cash & Equivalents	1742	1507	1812	2150	2494	2095	2930	2758	3030	3217
Accounts Receivable	200	204	223	210	214	238	259	327	346	386
Inventories	2765	2951	3014	2966	3218	3695	3645	4187	4579	4873
Goodwill & Int. Ass.	180	180	316	313	310	194	196	100	98	96
Total Liabilities	4872	5072	5846	5971	6725	7183	8373	8910	9277	18197
Accounts Payable	1684	1645	1931	1771	2008	2203	2231	2488	2644	2673
Long-Term Debt	774	774	775	1274	1624	1615	2228	2231	2234	2237
Shareholder's Equity	3100	3209	3666	4230	4264	4307	4511	5148	5049	5948
D/E Ratio	0.25	0.24	0.21	0.30	0.38	0.38	0.49	0.43	0.44	0.38

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	17.4%	18.4%	21.4%	21.7%	20.9%	20.3%	18.9%	19.4%	21.6%	17.0%
Return on Equity	44.9%	47.4%	55.5%	54.1%	52.2%	53.1%	52.1%	54.0%	60.0%	59.5%
ROIC	35.6%	38.1%	45.3%	43.0%	38.9%	38.6%	36.3%	36.9%	41.7%	42.3%
Shares Out.	1559	1493	1448	1410	1370	1327	1293	1256	1259	1219
Revenue/Share	13.50	14.99	17.31	18.88	20.67	22.65	24.97	27.75	30.95	34.01
FCF/Share	0.78	0.72	1.39	1.14	1.49	1.51	1.96	1.52	2.35	2.32

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