Ross Stores (ROST)

Updated March 9th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$120	**5 Year CAGR Estimate:**	4.9%	**Market Cap:**	$42.6 B
Fair Value Price:	$78	**5 Year Growth Estimate:**	13.0%	**Ex-Dividend Date:**	3/15/2021
% Fair Value:	154%	**5 Year Valuation Multiple Estimate:**	-8.3%	**Dividend Payment Date:**	3/31/2021
Dividend Yield:	1.0%	**5 Year Price Target**	$144	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	N/A

Overview & Current Events

Ross Stores operates 1,585 stores with off-price apparel and home fashion in 40 states. It also operates 274 dd's DISCOUNTS stores in 21 states and has a market cap of $42.6 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 early March, Ross Stores reported (3/2/21) financial results for the fourth quarter of fiscal 2020, which ended on January 31st, 2021. Same-store sales decreased -6% over the prior year's quarter due to the effect of the pandemic, especially in California, the largest market of Ross Stores, where there were stringent restrictions in occupancy and operating hours. As a result, earnings-per-share plunged -48%, from $1.28 to $0.67. Due to the effect of the pandemic, the retailer did not provide specific guidance for this year but it stated that it expects lower earnings than the record level in 2019. On the bright side, Ross Stores has reinstated its dividend and has resumed its growth plans, with the goal of opening 60 new stores this year, thus signaling its confidence in its recovery from the pandemic later this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.43	$1.77	$1.94	$2.21	$2.51	$2.83	$3.55	$4.26	$4.60	$0.78	***$4.15***	***$7.65***
DPS	$0.24	$0.30	$0.36	$0.40	$0.47	$0.54	$0.64	$0.90	$1.02	$0.29	***$1.14***	***$2.28***
Shares[1]	451.8	440.0	426.8	414.9	402.3	391.9	379.7	368.4	356.9	355.2	***354.0***	***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 later this 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 1,859 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 normally 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 three times in the last 28 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, excluding 2020, the year of the pandemic. As the retailer will find it increasingly difficult to keep growing at its historical pace, particularly amid heating competition, we assume 13.0% average annual earnings-per-share growth beyond this year.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.1	17.2	17.4	17.0	20.3	21.4	19.7	20.1	22.2	125.6	***28.9***	***18.8***
Avg. Yld.	1.2%	1.0%	1.0%	1.1%	0.9%	0.9%	1.0%	1.0%	1.0%	0.3%	***1.0%***	***1.6%***

[1] In millions.

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Ross Stores is currently trading at a forward price-to-earnings ratio of 28.9, which is much higher than its 10-year average price-to-earnings ratio of 18.8. If the stock reverts to its historical valuation level in the next five years, it will incur an -8.3% annualized valuation drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	16.8%	16.9%	18.6%	18.1%	18.7%	19.1%	19.2%	21.1%	22.2%	37.2%	***27.5%***	***29.9%***

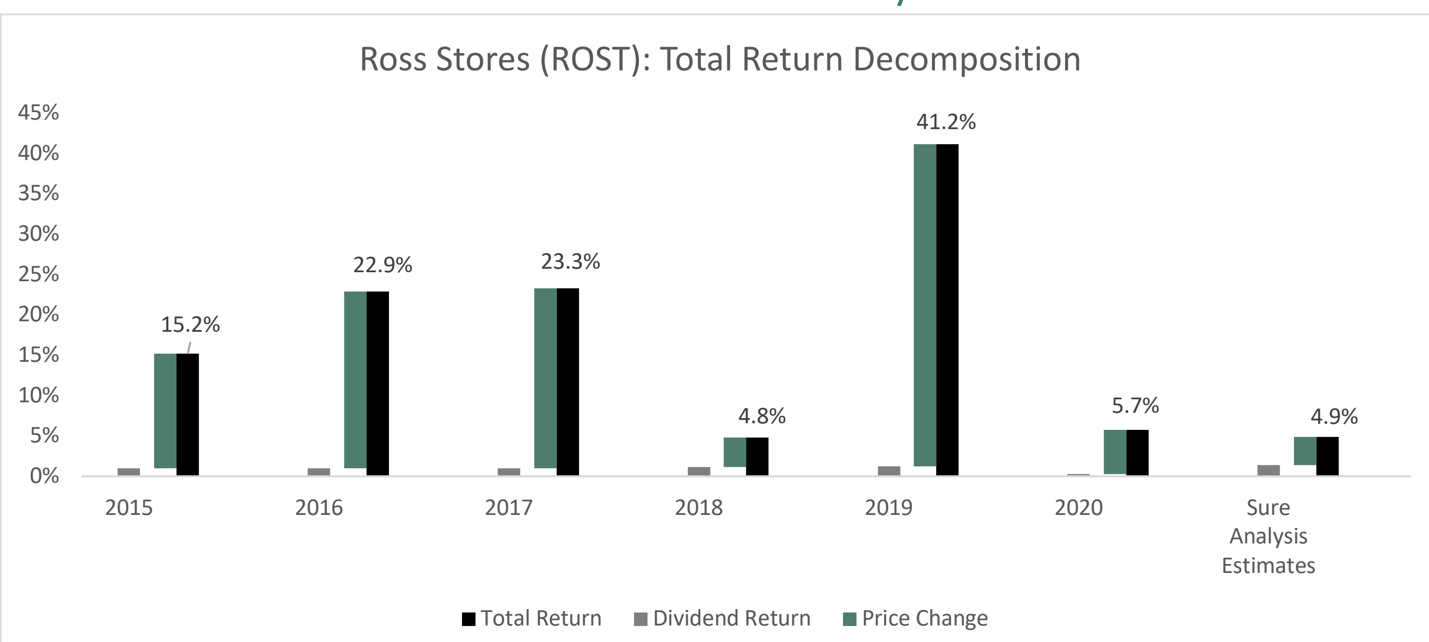
The key behind the exceptional growth record of Ross Stores is the fact that it offers great discounts on popular brands. It creates a treasure-hunting experience, which is appealing to consumers and constitutes a moat. This unique shopping experience helps explain why Ross Stores is one of the few retailers 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 last 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 last 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 later this 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 in the second half of this year thanks to the ongoing vaccination program. Nevertheless, thanks to its high quality, the stock is richly valued and hence it could offer just a 4.9% average annual return over the next five years. It thus receives a hold rating.

Total Return Breakdown by Year



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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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	8608	9721	10230	11042	11940	12867	14135	14984	16,039	12,532
Gross Profit	2368	2710	2869	3104	3363	3693	4092	4257	4,503	2,693
Gross Margin	27.5%	27.9%	28.0%	28.1%	28.2%	28.7%	29.0%	28.4%	28.1%	21.5%
SG&A Exp.	1304	1438	1526	1615	1739	1890	2044	2217	2,357	2,503
D&A Exp.	160	185	206	233	275	303	313	330	351	364
Operating Profit	1063	1272	1343	1488	1624	1803	2048	2041	2,146	190
Operating Margin	12.4%	13.1%	13.1%	13.5%	13.6%	14.0%	14.5%	13.6%	13.4%	1.5%
Net Profit	657	787	837	925	1021	1118	1363	1587	1,661	85
Net Margin	7.6%	8.1%	8.2%	8.4%	8.5%	8.7%	9.6%	10.6%	10.4%	0.7%
Free Cash Flow	404	555	471	726	959	1261	1310	1653	1,616	1,841
Income Tax	396	478	506	561	591	669	678	463	503	21

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3301	3671	3897	4687	4869	5309	5722	6074	9,348	12,718
Cash & Equivalents	650	647	423	697	762	1112	1290	1413	1,351	4,819
Accounts Receivable	51	60	63	73	74	75	88	97	102	115
Inventories	1130	1209	1257	1373	1419	1513	1642	1750	1,832	1,509
Total Liabilities	1808	1904	1889	2408	2397	2561	2673	2768	5,989	9,427
Accounts Payable	762	808	779	1001	946	1022	1060	1177	1,296	2,257
Long-Term Debt	150	150	150	396	396	396	397	312	313	2,513
Shareholder's Equity	1493	1767	2007	2279	2472	2748	3049	3306	3,359	3,291
D/E Ratio	0.10	0.08	0.07	0.17	0.16	0.14	0.13	0.09	0.09	0.76

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	20.5%	22.6%	22.1%	21.5%	21.4%	22.0%	24.7%	26.9%	21.5%	0.8%
Return on Equity	46.5%	48.3%	44.4%	43.1%	43.0%	42.8%	47.0%	50.0%	49.8%	2.6%
ROIC	42.0%	44.2%	41.1%	38.3%	36.8%	37.2%	41.4%	44.9%	45.6%	1.8%
Shares Out.	451.8	440.0	426.8	414.9	402.3	391.9	379.7	368.4	356.9	355.2
Revenue/Share	18.72	21.82	23.70	26.41	29.38	32.58	36.78	40.21	44.41	35.34
FCF/Share	0.88	1.25	1.09	1.74	2.36	3.19	3.41	4.43	4.47	5.19

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