TJX Companies (TJX)

Updated August 21st, 2021 by Kay Ng

Key Metrics

Current Price:	$74	**5 Year CAGR Estimate:**	2.8%	**Market Cap:**	$89B
Fair Value Price:	$51	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	11/13/21
% Fair Value:	146%	**5 Year Valuation Multiple Estimate:**	-7.3%	**Dividend Payment Date[1]:**	12/05/21
Dividend Yield:	1.4%	**5 Year Price Target**	$78	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase[1]:**	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 July 31, 2021, the company operated 4,665 stores in nine countries. These include 1,283 T.J. Maxx (28% of total), 1,145 Marshalls (25%) and 846 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 ("EPS") 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 two years*, including in fiscal 2021 in which it had huge setbacks because of economic lockdowns during the global COVID-19 pandemic. This degree of consistency is exceptional and proves the strength of the business model of the company and its execution. 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 08/18/21, TJX released its fiscal Q2 2022 results for the period ending 07/31/21, continuing the rebound of results from economic re-openings. For the quarter, net sales were $12 billion (an 81% increase year over year (YOY)), net income of $786 million (versus a $214 million loss YOY), and diluted EPS of $0.64 (versus loss per share of $0.18 in fiscal Q2 2021).

TJX experienced temporary closures of only about 3% in fiscal Q2 2022, primarily at stores in Canada, Europe, and Australia. There's too much uncertainty around temporary closures related to COVID regulations and around consumer behavior and future consumer demand. Therefore, TJX did not provide any forecasts for fiscal 2022. Due to the strong rebound, we updated our fiscal 2022 EPS estimate to $2.36.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.00	$1.28	$1.42	$1.58	$1.67	$1.77	$1.94	$2.43	$2.67	$0.26	***$2.36***	***$4.11***
DPS	$0.19	$0.23	$0.29	$0.35	$0.42	$0.52	$0.63	$0.78	$0.92	$0.26	***$1.04***	***$1.67***
Shares[1]	1,493	1,448	1,410	1,370	1,327	1,293	1,256	1,259	1,219	1,219	***1,221***	***1,161***

From 2009 through 2015, TJX was able to grow EPS 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. TJX's capital spending is expected to remain lighter than usual in fiscal 2022. 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

[1] Projected dividend dates; Dividend increase of 13% from FY2021 pre-suspension level; Shares in millions.
Disclosure: Kay Ng owns shares of Amazon.

FY2022 EPS to be about 12% lower than the norm. The company has rebounded more quickly than expected. We forecast an EPS growth rate of 9% and dividend-per-share ("DPS") growth rate of 10% through fiscal 2027.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.0	16.5	18.9	19.0	20.8	21.6	19.2	20.5	20.6	215	***31.4***	***19.0***
Avg. Yld.	1.4%	1.1%	1.1%	1.2%	1.2%	1.4%	1.7%	1.5%	1.7%	0.5%	***1.4%***	***2.1%***

Excluding the outlier in FY2021, from FY2012 to 2021, shares of TJX traded with an average P/E ratio of 19. We believe a multiple of 19 is more or less fair for a growth rate of about 9%. The stock appears to be outrageously overvalued due to lower earnings this year. That said, on normalized earnings, the stock is still expensive with a P/E of almost 28.

Safety, Quality, Competitive Advantage, & Recession Resiliency

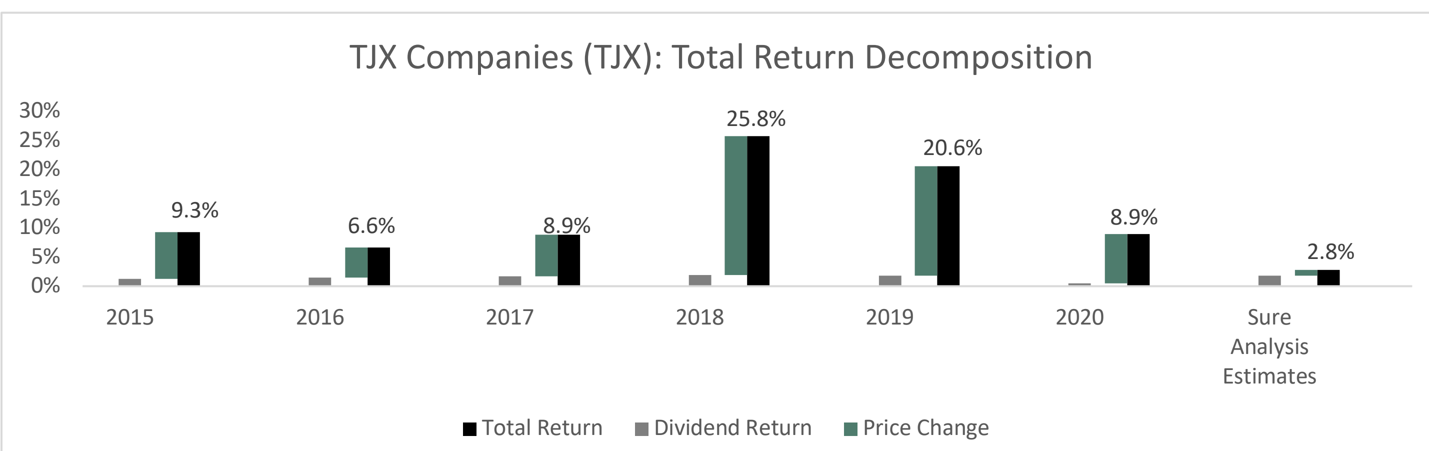
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	19%	18%	20%	22%	25%	29%	32%	32%	34%	100%	***44%***	***41%***

TJX has a terrific record (EPS was growing during the last recession triggered by a financial crisis) 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 ended FY Q2 2022 with a cash position of $7.1 billion. Additionally, it has normalized earnings power of about $3 billion per year. So, we expect TJX to survive through the pandemic disruptions. Notably, TJX rent deferrals from FY2021 will eat into its earnings for FY2022. There's high uncertainty around the COVID-19 situation, but management sees sufficient recovery in the macro environment to reinstate the dividend in fiscal Q4 2021 – at a 13% higher payout than before.

Final Thoughts & Recommendation

TJX has a good track record, but COVID-19 hit it hard. In normal markets, the company would grow profits and dividends, and buy back shares. It could take a year for things to normalize. At the current valuation, we estimate TJX will deliver annual total returns of about 2.8% over the next five years, consisting of 9.0% earnings-per-share growth, a 1.4% yield, and a -7.3% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	23191	25878	27423	29078	30945	33184	35865	38973	41717	32137
Gross Profit	6337	7357	7818	8302	8910	9618	10362	11142	11871	7603
Gross Margin	27.3%	28.4%	28.5%	28.5%	28.8%	29.0%	28.9%	28.6%	28.5%	23.7%
SG&A Exp.	3890	4250	4467	4695	5206	5768	6375	6924	7455	7021
D&A Exp.	486	509	549	589	617	659	726	820	867	871
Operating Profit	2447	3107	3351	3607	3705	3850	3987	4218	4416	582
Operating Margin	10.6%	12.0%	12.2%	12.4%	12.0%	11.6%	11.1%	10.8%	10.6%	1.8%
Net Profit	1496	1907	2137	2215	2278	2298	2608	3060	3272	90
Net Margin	6.5%	7.4%	7.8%	7.6%	7.4%	6.9%	7.3%	7.9%	7.8%	0.3%
Free Cash Flow	1113	2077	1654	2097	2068	2602	1968	2963	2843	3994
Income Tax	915	1171	1182	1335	1381	1425	1249	1113	1134	-1

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	8282	9512	10201	10989	11490	12884	14058	14326	24145	30814
Cash & Equivalents	1507	1812	2150	2494	2095	2930	2758	3030	3217	10470
Accounts Receivable	204	223	210	214	238	259	327	346	386	896
Inventories	2951	3014	2966	3218	3695	3645	4187	4579	4873	4337
Goodwill & Int. Ass.	180	316	313	310	194	196	100	98	96	99
Total Liabilities	5072	5846	5971	6725	7183	8373	8910	9277	18197	24981
Accounts Payable	1645	1931	1771	2008	2203	2231	2488	2644	2673	4823
Long-Term Debt	774	775	1274	1624	1615	2228	2231	2234	2237	6083
Shareholder’s Equity	3209	3666	4230	4264	4307	4511	5148	5049	5948	5833
D/E Ratio	0.24	0.21	0.30	0.38	0.38	0.49	0.43	0.44	0.38	1.04

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	18.4%	21.4%	21.7%	20.9%	20.3%	18.9%	19.4%	21.6%	17.0%	0.3%
Return on Equity	47.4%	55.5%	54.1%	52.2%	53.1%	52.1%	54.0%	60.0%	59.5%	1.5%
ROIC	38.1%	45.3%	43.0%	38.9%	38.6%	36.3%	36.9%	41.7%	42.3%	0.9%
Shares Out.	1493	1448	1410	1370	1327	1293	1256	1259	1219	1219
Revenue/Share	14.99	17.31	18.88	20.67	22.65	24.97	27.75	30.95	34.01	26.46
FCF/Share	0.72	1.39	1.14	1.49	1.51	1.96	1.52	2.35	2.32	3.29

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