TJX Companies (TJX)

Updated February 25th, 2022 by Kay Ng

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	7.4%	**Market Cap:**	$80B
Fair Value Price:	$57	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	03/15/22
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date[1]:**	06/05/22
Dividend Yield:	1.8%	**5 Year Price Target**	$88	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	13.5%

Overview & Current Events

TJX Companies is a leading off-price retailer of apparel and home fashions in the U.S. and worldwide. As of January 29, 2022, the company operated 4,689 stores in nine countries. These include 1,284 T.J. Maxx (27% of total), 1,148 Marshalls (24%) and 850 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.

Throughout TJX's 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 02/23/22, TJX released its fiscal Q4 2022 results for the period ending 1/29/22, continuing the rebound of results from economic re-openings. For the quarter, net sales were $13.85 billion (a 26.6% increase year-over-year (YOY) and up 13.5% vs Q4 FY2020), net income was $940 million (up from $325.5 million a year ago but down 4.5% vs Q4 FY2020), and diluted EPS of $0.26 that was flat vs Q4 FY2021 and up 13% vs Q4 FY2020.

For the fiscal year 2022, net sales were $48.55 billion (up 51% vs FY2021 and up 16% vs FY2020), net income was $3.28 billion (up from $90.5 million a year ago and up 0.3% vs FY2020), and diluted EPS was $2.70 (up from $0.07 a year ago and up 1.1% vs FY2020).

TJX experienced temporary closures of about 4% for FY2022, which was a big improvement from FY2021's 24% closure. Although its U.S. stores were open, results were dragged down by temporary closures in Europe, Australia, and Canada. Management estimates the COVID temporary closure negatively impacted EPS by about $0.27 to $0.32 from lost sales of about $1.45 to $1.61 billion. To be declared in March and payable in June 2022, TJX is increasing its quarterly dividend by 13.5% to $0.295 per share.

It appears most of the pandemic impacts are behind it, but management did not provide FY2023 EPS guidance "given the current uncertainty around how long elevated expense pressures may persist. For example, for the full-year FY2022 there was a full-year incremental freight expense that weighed on its merchandise margin, although the margin was still flat vs the more normalized FY2020 margin. We initiate our FY2023 EPS estimate at $3.00.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.28	$1.42	$1.58	$1.67	$1.77	$1.94	$2.43	$2.67	$0.26	$2.70	***$3.00***	***$4.62***
DPS	$0.23	$0.29	$0.35	$0.42	$0.52	$0.63	$0.78	$0.92	$0.26	$1.04	***$1.18***	***$1.82***
Shares[1]	1,448	1,410	1,370	1,327	1,293	1,256	1,259	1,219	1,219	1,205	***1,187***	***1,100***

From FY2013 through FY2022, TJX was able to grow EPS by 8.6% per annum. Notably, the results in FY2021 were negatively affected by pandemic impacts and the company just recovered from that in FY2022. With TJX generating

[1] Projected dividend dates; Shares in millions.

Disclosure: Kay Ng owns shares of Amazon.

about 79% 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 could still be disrupted by COVID. 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 a recovering economy and higher inflation. The 13.5% dividend increase shows management's commitment to the dividend. The company may also buy back common stock should it become attractive, which would boost EPS. We forecast an EPS growth rate of 9% and dividend-per-share ("DPS") growth rate of 9% through FY2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.5	18.9	19.0	20.8	21.6	19.2	20.5	20.6	215	25.6	***22.3***	***19.0***
Avg. Yld.	1.1%	1.1%	1.2%	1.2%	1.4%	1.7%	1.5%	1.7%	0.5%	1.5%	***1.8%***	***2.1%***

Excluding the outlier in FY2021, from FY2013 to 2022, shares of TJX traded with an average P/E ratio of 20.3. We believe a multiple of 19 is more or less fair for a growth rate of about 9%. The stock appears to be overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

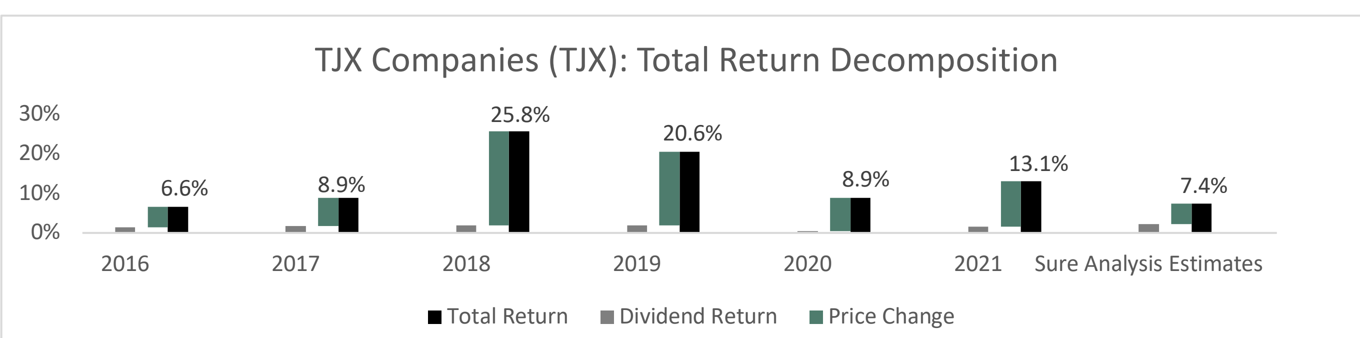
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	20%	22%	25%	29%	32%	32%	34%	100%	39%	***39%***	***39%***

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 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 Q4 2022 with a cash position of $6.2 billion. Additionally, it has normalized earnings power of about $3 billion per year. So, we expect TJX to survive through the pandemic disruptions. The company also restored and began increasing its dividend since December 2020. We expect TJX to continue increasing its dividend in the foreseeable future based on expected growing EPS and a sustainable payout ratio.

Final Thoughts & Recommendation

TJX has a good track record, but COVID-19 hit it hard. The company recovered by the end of FY2022. In normal markets, the company would grow profits and dividends, and buy back shares. At the current valuation, we estimate TJX will deliver annual total returns of about 7.4% over the next five years, consisting of 9.0% earnings-per-share growth, a 1.8% yield, and a -3.1% headwind from a P/E contraction. All told, we rate TJX as a Hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	25,878	27,423	29,078	30,945	33,184	35,865	38,973	41,717	32,137	48,550
Gross Profit	7,357	7,818	8,302	8,910	9,618	10,362	11,142	11,871	7,603	13,836
Gross Margin	28.4%	28.5%	28.5%	28.8%	29.0%	28.9%	28.6%	28.5%	23.7%	28.5%
SG&A Exp.	4,250	4,467	4,695	5,206	5,768	6,375	6,924	7,455	7,021	9,081
D&A Exp.	509	549	589	617	659	726	820	867	871	868
Operating Profit	3,107	3,351	3,607	3,705	3,850	3,987	4,218	4,416	582	4,755
Operating Margin	12.0%	12.2%	12.4%	12.0%	11.6%	11.1%	10.8%	10.6%	1.8%	9.8%
Net Profit	1,907	2,137	2,215	2,278	2,298	2,608	3,060	3,272	90	3,283
Net Margin	7.4%	7.8%	7.6%	7.4%	6.9%	7.3%	7.9%	7.8%	0.3%	6.8%
Free Cash Flow	2,077	1,654	2,097	2,068	2,602	1,968	2,963	2,843	3,994	2,013
Income Tax	1,171	1,182	1,335	1,381	1,425	1,249	1,113	1,134	-1	1,115

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9,512	10,201	10,989	11,490	12,884	14,058	14,326	24,145	30,814	28,462
Cash & Equivalents	1,812	2,150	2,494	2,095	2,930	2,758	3,030	3,217	10,470	6,227
Accounts Receivable	223	210	214	238	259	327	346	386	461	956
Inventories	3,014	2,966	3,218	3,695	3,645	4,187	4,579	4,873	4,337	5,962
Goodwill & Int. Ass.	316	313	310	194	196	100	98	96	99	97
Total Liabilities	5,846	5,971	6,725	7,183	8,373	8,910	9,277	18,197	24,981	22,459
Accounts Payable	1,931	1,771	2,008	2,203	2,231	2,488	2,644	2,673	4,823	4,465
Long-Term Debt	775	1,274	1,624	1,615	2,228	2,231	2,234	2,237	6,083	3,355
Shareholder's Equity	3,666	4,230	4,264	4,307	4,511	5,148	5,049	5,948	5,833	6,003
LTD/E Ratio	0.21	0.30	0.38	0.38	0.49	0.43	0.44	0.38	1.04	0.56

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	21.4%	21.4%	20.9%	20.3%	18.9%	19.4%	21.6%	17.0%	0.3%	11.1%
Return on Equity	55.5%	55.5%	52.2%	53.1%	52.1%	54.0%	60.0%	59.5%	1.5%	55.5%
ROIC	45.3%	45.3%	38.9%	38.6%	36.3%	36.9%	41.7%	42.3%	0.9%	30.9%
Shares Out.	1,448	1,410	1,370	1,327	1,293	1,256	1,259	1,219	1,219	1,205
Revenue/Share	17.31	17.31	20.67	22.65	24.97	27.75	30.95	34.01	26.46	39.94
FCF/Share	1.39	1.39	1.49	1.51	1.96	1.52	2.35	2.32	3.29	1.66

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