Ross Stores (ROST)

Updated May 24th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	15.7%	**Market Cap:**	$27.5 B
Fair Value Price:	$84	**5 Year Growth Estimate:**	13.0%	**Ex-Dividend Date:**	6/6/2022
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	6/30/2022
Dividend Yield:	1.6%	**5 Year Price Target**	$154	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Buy

Overview & Current Events

Ross Stores operates 1,648 stores with off-price apparel and home fashion in 40 states. It also operates 303 dd's DISCOUNTS stores in 21 states and has a market cap of $27.5 billion. The retailer offers attractive merchandize at a 20%-60% 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-May, Ross Stores reported (5/19/22) financial results for the first quarter of fiscal 2022. Same-store sales declined -7% due to especially strong sales in the prior year's period amid fiscal stimulus packages and pent-up demand after lockdowns. The poor sales were also caused by 40-year high inflation, which took its toll on consumer spending. Given also higher freight and labor costs, earnings-per-share fell -28%, from $1.34 to $0.97, and missed analysts' consensus by $0.03. Even worse, due to the above headwinds, management lowered its guidance for earnings-per-share in 2022, from $4.71-$5.12 to $4.34-$4.58. We have thus lowered our forecast from $5.05 to $4.45. The stock plunged -22% after its earnings release but retrieved about half of its losses on the following day. We expect poor results this year but we view the above headwinds as temporary and remain confident in the bright long-term outlook of Ross Stores.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.77	$1.94	$2.21	$2.51	$2.83	$3.55	$4.26	$4.60	$0.78	$4.87	***$4.45***	***$8.20***
DPS	$0.30	$0.36	$0.40	$0.47	$0.54	$0.64	$0.90	$1.02	$0.29	$1.14	***$1.24***	***$2.40***
Shares[1]	440.0	426.8	414.9	402.3	391.9	379.7	368.4	356.9	355.2	351.2	***340.0***	***320.0***

Ross Stores has grown its earnings-per-share more than 5-fold since 2009, from $0.89 to $4.87 in 2021. Moreover, it still has growth prospects ahead. The company currently has 1,951 stores while management is confident for a potential of 3,600 stores in the U.S. It recently raised this number, from 2,900 previously, thanks to the large number of retail bankruptcies caused by the pandemic. As a result, 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 four times in the last 33 quarters. Moreover, it has grown its earnings-per-share by 11.9% and 11.5% per year on average in the last 10 and 5 years, respectively. Given the somewhat low comparison base formed due to the stagnation in the last three years amid the pandemic and the resultant inflation, we assume 13.0% average annual earnings-per-share growth beyond this year.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.2	17.4	17.0	20.3	21.4	19.7	20.1	22.2	125.6	24.4	***17.8***	***18.8***
Avg. Yld.	1.0%	1.0%	1.1%	0.9%	0.9%	1.0%	1.0%	1.0%	0.3%	1.0%	***1.6%***	***1.6%***

[1] In millions.

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Ross Stores is currently trading at a price-to-earnings ratio of 17.8, which is lower than its 10-year average price-to-earnings ratio of 18.8. If the stock trades at its historical valuation level in five years, it will enjoy a 1.2% annualized valuation gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	16.9%	18.6%	18.1%	18.7%	19.1%	19.2%	21.1%	22.2%	37.2%	23.4%	***27.9%***	***29.2%***

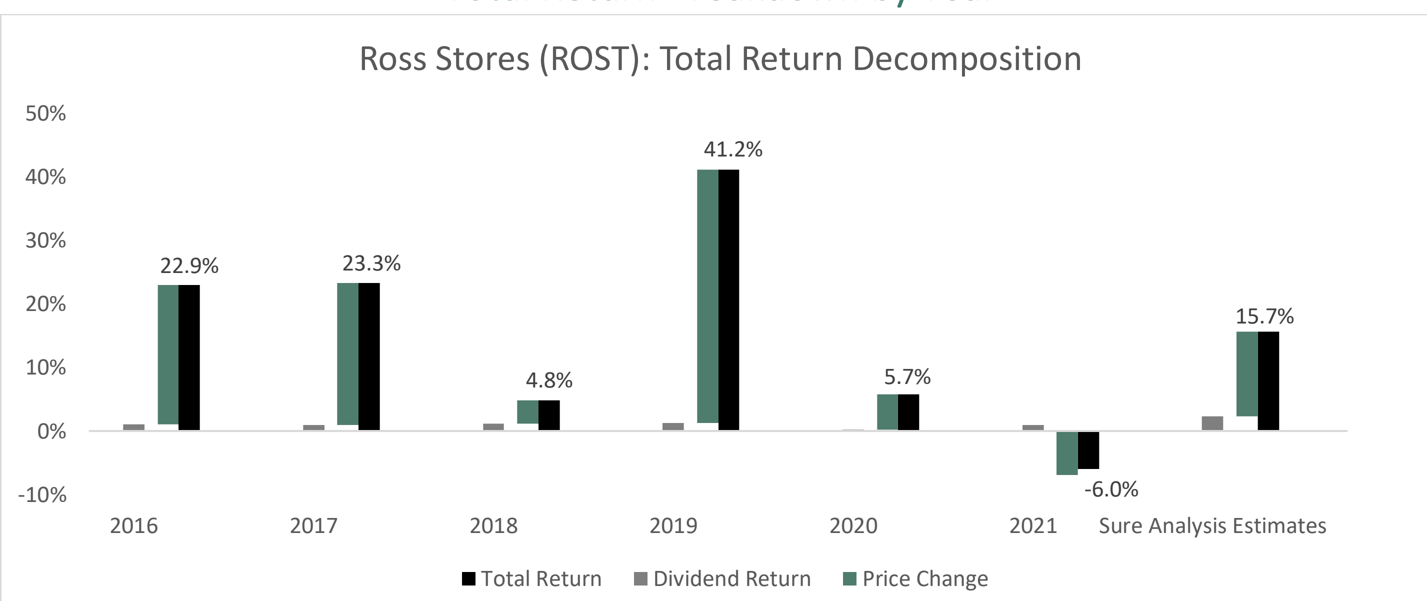
The key behind the exceptional growth record of Ross Stores is the fact that it offers great discounts on popular brands. It creates a treasure-hunting experience, which is appealing to consumers and constitutes a moat. This unique shopping experience helps explain why Ross Stores is one of the few retailers that have not been affected by Amazon. Moreover, while the U.S. economy has been growing for more than a 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 2020. 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 in 2020 due to the pandemic. Ross Stores proved resilient in previous recessions, as consumers were particularly price-sensitive. However, this downturn was much fiercer, as it forced the company to close its stores for nearly two months and social distancing was a strong headwind for this business. Nevertheless, the retailer is currently recovering from the pandemic.

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 stock has shed -30% this year due to the impact of 40-year high inflation on consumer spending and on the cost basis of the retailer. We expect this headwind to attenuate next year. The stock could offer a 15.7% average annual return over the next five years thanks to 13.0% earnings growth, its 1.6% dividend and a 1.2% valuation gain. Given also its high quality, we rate it as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	9721	10230	11042	11940	12867	14135	14984	16,039	12,532	18,916
Gross Profit	2710	2869	3104	3363	3693	4092	4257	4,503	2,693	5,207
Gross Margin	27.9%	28.0%	28.1%	28.2%	28.7%	29.0%	28.4%	28.1%	21.5%	27.5%
SG&A Exp.	1438	1526	1615	1739	1890	2044	2217	2,357	2,503	2,874
D&A Exp.	185	206	233	275	303	313	330	351	364	361
Operating Profit	1272	1343	1488	1624	1803	2048	2041	2,146	190	2,333
Operating Margin	13.1%	13.1%	13.5%	13.6%	14.0%	14.5%	13.6%	13.4%	1.5%	12.3%
Net Profit	787	837	925	1021	1118	1363	1587	1,661	85	1,723
Net Margin	8.1%	8.2%	8.4%	8.5%	8.7%	9.6%	10.6%	10.4%	0.7%	9.1%
Free Cash Flow	555	471	726	959	1261	1310	1653	1,616	1,841	1,181
Income Tax	478	506	561	591	669	678	463	503	21	536

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3671	3897	4687	4869	5309	5722	6074	9,348	12,718	13,640
Cash & Equivalents	647	423	697	762	1112	1290	1413	1,351	4,819	4,922
Accounts Receivable	60	63	73	74	75	88	97	102	115	119
Inventories	1209	1257	1373	1419	1513	1642	1750	1,832	1,509	2,262
Total Liabilities	1904	1889	2408	2397	2561	2673	2768	5,989	9,427	9,580
Accounts Payable	808	779	1001	946	1022	1060	1177	1,296	2,257	2,372
Long-Term Debt	150	150	396	396	396	397	312	313	2,513	2,452
Shareholder's Equity	1767	2007	2279	2472	2748	3049	3306	3,359	3,291	4,060
LTD/E Ratio	0.08	0.07	0.17	0.16	0.14	0.13	0.09	0.09	0.76	0.60

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	22.6%	22.1%	21.5%	21.4%	22.0%	24.7%	26.9%	21.5%	0.8%	13.1%
Return on Equity	48.3%	44.4%	43.1%	43.0%	42.8%	47.0%	50.0%	49.8%	2.6%	46.9%
ROIC	44.2%	41.1%	38.3%	36.8%	37.2%	41.4%	44.9%	45.6%	1.8%	28.0%
Shares Out.	440.0	426.8	414.9	402.3	391.9	379.7	368.4	356.9	355.2	351.2
Revenue/Share	21.82	23.70	26.41	29.38	32.58	36.78	40.21	44.41	35.34	53.48
FCF/Share	1.25	1.09	1.74	2.36	3.19	3.41	4.43	4.47	5.19	3.34

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