TJX Companies (TJX)

Updated August 21st, 2022 by Kay Ng

Key Metrics

Current Price:	$66	**5 Year CAGR Estimate:**	8.1%	**Market Cap:**	$77.8B
Fair Value Price:	$59	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	11/09/22
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Dividend Payment Date[1]:**	12/02/22
Dividend Yield:	1.8%	**5 Year Price Target**	$90	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

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 30, 2022, the company operated 4,736 stores in nine countries. These include 1,290 T.J. Maxx (27% of total), 1,157 Marshalls (24%) and 862 HomeGoods (18%) in the United States. TJX also operates 5 e-commerce sites. In a normal economy, the company generates about $48 billion in annual revenue and close to $3.3 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 8/17/22, TJX released its fiscal Q2 2023 results for the period ending 7/30/22 with lower sales but profits better than expected**.** For the quarter, net sales were $11.8 billion (a 1.9% drop year-over-year ("YOY")), net income was $809.3 million (up 3.0% YOY), and diluted EPS of $0.69 (up 7.8% YOY). Results were dragged down by lower sales in the U.S. that made up more than three-quarters of the company's sales. Net sales fell 3.6% in the U.S. during the quarter. Comparable store sales particularly dropped 13% for HomeGoods, likely no thanks to high inflation, leading to an overall U.S. comparable store sales drop of 5%. TJX Canada net sales increased 22% to $1.2 billion, while TJX International (Europe & Australia) saw net sales drop 7.4% to $1.5 billion, noting that foreign exchanges between other currencies and the US$ do make an impact. For the quarter, competing forces dragged the pretax profit margin down 1.5% to 9.2% YOY. The press release highlighted merchandise margin benefitted from strong mark-on and TJX's pricing initiative, but was negatively impacted by freight pressure and higher wage costs, which is a common headwind for the industry, including its competitors like Ross Stores (ROST). During the quarter, the company repurchased and retired $700 million worth of common stock at an average price of about $59.32 per share.

The results in the first half of the year show a bigger picture. Net sales rose 4.9% to $23.2 billion, net income climbed 5.9% to $1.4 billion, and diluted EPS rose 9.3% to $1.18. Management updated its fiscal 2023 guidance: U.S. comparable store sales to be *down* 2%-3%, adjusted pretax margin at 9.7%-9.9%, and adjusted diluted earnings per share ("EPS") at $3.05-$3.13. As a result, we updated our FY2023 EPS estimate to the midpoint at about $3.09.

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	***$3.09***	***$4.75***
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	***1,178***	***1,102***

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.
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more than three-quarters of its 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 in FYQ1 2023 showed 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	***21.5***	***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%***	***2.0%***

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 slightly pricey.

Safety, Quality, Competitive Advantage, & Recession Resiliency

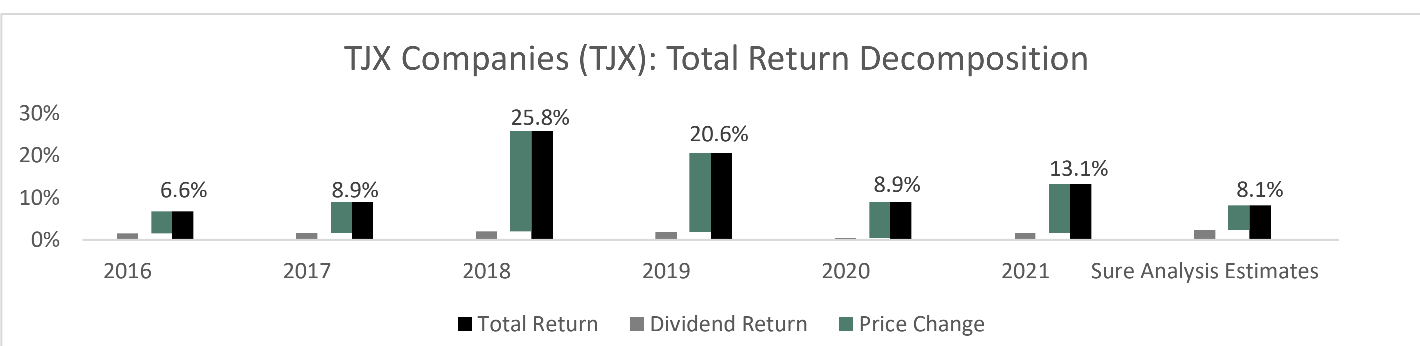
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Payout	18%	20%	22%	25%	29%	32%	32%	34%	100%	39%	***38%***	***38%***

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 company has rebounded from the COVID-19 pandemic fairly quickly, but it's now faced with higher-than-normal inflation that will reduce consumer spending intents in the short term. It ended FY Q2 2023 with cash and cash equivalents of ~$3.5 billion. The company also restored and began increasing its dividend since December 2020. Results will normalize in the long run. 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 and above-average inflation is a dampener on growth. 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 8.1% over the next five years, consisting of 9.0% earnings-per-share growth, a 1.8% yield, and a 2.4% headwind from P/E compression. 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.