TJX Companies (TJX)

Updated February 22nd, 2023 by Kay Ng

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$91B
Fair Value Price:	$67	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	05/11/23
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date[1]:**	06/02/23
Dividend Yield:	1.7%	**5 Year Price Target**	$103	**Years Of Dividend Growth:**	2
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 January 28, 2023, the company operated 4,835 stores in nine countries. These include 1,299 T.J. Maxx (27% of total), 1,183 Marshalls (24%) and 894 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 $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 11/22/23, TJX released its fiscal Q4 and full-year 2023 results for the period ending 1/28/23. For the quarter, net sales climbed 5% to $14.5 billion, and net income rose 10% to $1.0 billion year over year ("YOY"). Diluted earnings-per-share ("EPS") rose 14% to $0.89.

For the fiscal year, results show a bigger picture. Net sales rose 3% to $49.9 billion, net income climbed 6.5% to $3.5 billion, and adjusted EPS rose 9% to $3.11. Its total U.S. comparable store sales were flat, while the U.S. open-only comparable store sales increased 17%. Net sales results were weighed down by HomeGoods stores at which net sales dropped 8% in the U.S., whereas net sales rose 13% at TJX Canada and 8% at TJX International.

During FY2023, TJX repurchased $2.25 billion worth of common stock at ~$64.66 per share. It's also planning to declare a dividend increase of ~13.6% in March (payable in June), which is reflected in our DPS row below for 2024. Management provided fiscal 2024 adjusted EPS guidance of $3.29-$3.41. As a result, we initiate our FY2024 EPS estimate at the midpoint of $3.35.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.42	$1.58	$1.67	$1.77	$1.94	$2.43	$2.67	$0.26	$2.70	$3.11	***$3.35***	***$5.15***
DPS	$0.29	$0.35	$0.42	$0.52	$0.63	$0.78	$0.92	$0.26	$1.04	$1.14	***$1.33***	***$2.05***
Shares[1]	1,410	1,370	1,327	1,293	1,256	1,259	1,219	1,219	1,205	1,171	***1,159***	***1,075***

From FY2014 through FY2023, TJX was able to grow EPS by 9.1% 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 more than three-quarters of its sales in the U.S., its sales and earnings will depend primarily 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 ~13.6% planned dividend increase in FYQ1 2024 shows management's

[1] Projected dividend dates; Shares in millions.

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commitment to the dividend. The company also tends to buy back common shares, which would boost EPS. We forecast an EPS growth rate of 9% and dividend-per-share ("DPS") growth rate of 9% through FY2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.9	19.0	20.8	21.6	19.2	20.5	20.6	215	25.6	23.7	***23.1***	***20.0***
Avg. Yld.	1.1%	1.2%	1.2%	1.4%	1.7%	1.5%	1.7%	0.5%	1.5%	1.7%	***1.7%***	***2.0%***

Excluding the outlier in FY2021, from FY2014 to 2023, shares of TJX traded with an average P/E ratio of 21.1. We believe a multiple of 20 is more or less fair for a growth rate of about 9%. The stock appears to be a bit expensive.

Safety, Quality, Competitive Advantage, & Recession Resiliency

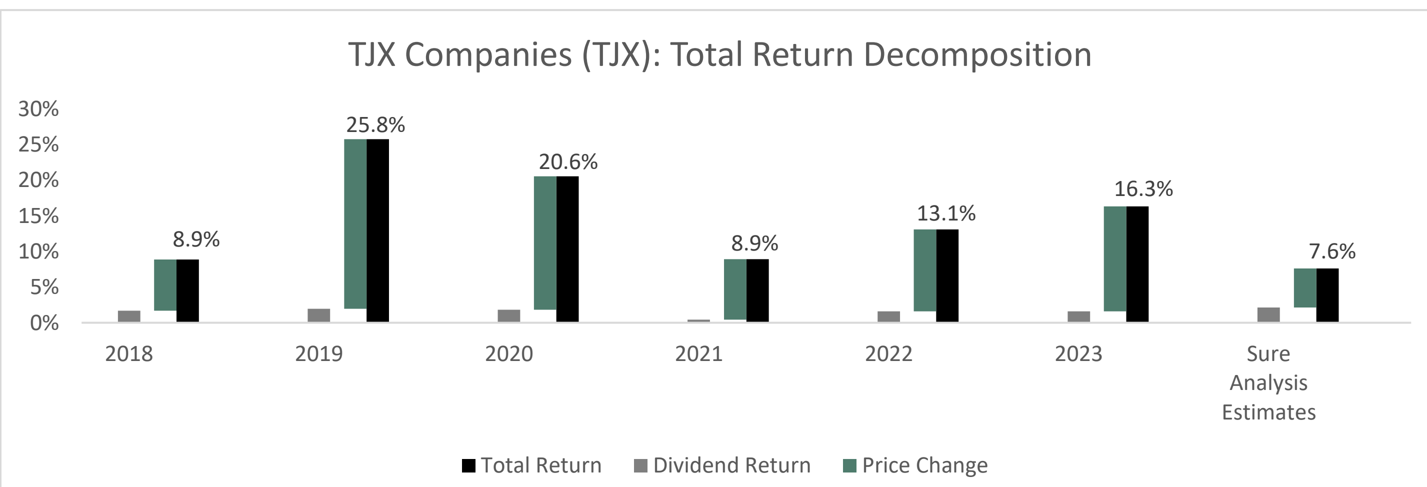
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	22%	25%	29%	32%	32%	34%	100%	39%	37%	***40%***	***40%***

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 could reduce consumer spending intents in the short term. It ended FY Q4 2023 with cash and cash equivalents of $5,477 million, while its long-term liabilities to equity was 1.8x. 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 above-average inflation could be 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 7.6% over the next five years, consisting of 9.0% earnings-per-share growth, a forward yield of 1.7%, and a 2.9% 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	28,461
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	518
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	22,458
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	1,216
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.