TJX Companies (TJX)

Updated August 18th, 2023 by Kay Ng

Key Metrics

Current Price:	$90	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$103B
Fair Value Price:	$75	**5 Year Growth Estimate:**	11.0 %	**Ex-Dividend Date[1]:**	11/09/23
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.4%	**Dividend Payment Date[1]:**	12/01/23
Dividend Yield:	1.5%	**5 Year Price Target**	$127	**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 July 29, 2023, the company operated 4,884 stores in nine countries. These include 1,305 T.J. Maxx (27% of total), 1,190 Marshalls (24%) and 907 HomeGoods (19%) in the United States. TJX also operates 7 e-commerce sites. In a normal economy, the company generates about $50 billion in annual revenue and $3.5 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 8/16/23, TJX released its fiscal Q2 2024 results for the period ending 7/29/23. For the quarter, net sales climbed 8% to $12.76 billion and diluted earnings-per-share ("EPS") rose 23% to $0.85. Net sales results were good at the Marmaxx division, which consists of the Marshall's and Maxx brands (+9%), HomeGoods (+8%), and TJX International (in Europe and Australia) (+8%), which helped offset the sales decline of 2% at TJX Canada. Same-store sales increased by 6%. Year over year, it witnessed gross profit margin improvement of 2.6% to 30.2%, driven primarily by lower freight costs. This also helped the pretax profit margin improve by 1.2% to 10.4%.

During the first half of the fiscal year, TJX repurchased $1.05 billion worth of common stock at ~$79.55 per share. It's planning to buy back up to $2.0 to $2.5 billion of common stock during this fiscal year that ends 2/3/2024. Management improved its fiscal 2024 adjusted EPS guidance to $3.56-$3.62. As a result, we updated our FY2024 EPS estimate at the midpoint of $3.59.

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	***$3.59***	***$6.05***
DPS	$0.29	$0.35	$0.42	$0.52	$0.63	$0.78	$0.92	$0.26	$1.04	$1.14	***$1.33***	***$2.24***
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. We expect TJX's long-term outlook to remain solid, as the company is demonstrating good results in a higher inflation and higher interest rate environment. The 12.7% dividend increase in FYQ1 2024 shows management's commitment to the dividend. The company also tends to buy back common shares, which would boost EPS. We forecast an EPS growth rate of 11% and dividend-per-share ("DPS") growth rate of 10% through FY2029.

[1] Projected dividend dates; Shares in millions.

Disclosure: Kay Ng owns shares of Amazon.

TJX Companies (TJX)

Updated August 18th, 2023 by Kay Ng

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.9	19.0	20.8	21.6	19.2	20.5	20.6	215	25.6	23.7	***24.9***	***21.0***
Avg. Yld.	1.1%	1.2%	1.2%	1.4%	1.7%	1.5%	1.7%	0.5%	1.5%	1.7%	***1.5%***	***1.8%***

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 21 is more or less fair for a growth rate of about 11%. The stock appears to be a bit expensive.

Safety, Quality, Competitive Advantage, & Recession Resiliency

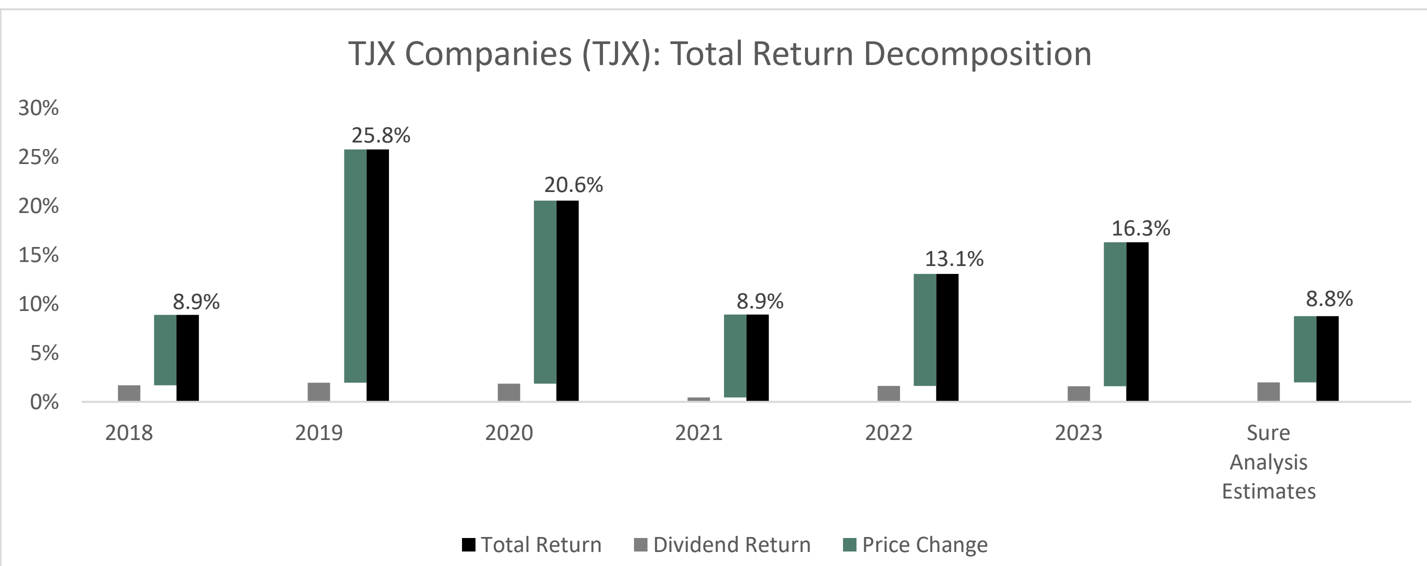
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	20%	22%	25%	29%	32%	32%	34%	100%	39%	37%	***37%***	***37%***

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 rebounded from the COVID-19 pandemic fairly quickly, and the company seems to be taking higher inflation and higher interest rates well. It ended FY Q2 2024 with cash and cash equivalents of $4.55 billion, 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. 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 8.8% over the next five years, consisting of 11% earnings-per-share growth, a yield of 1.5%, and a 3.4% headwind from P/E compression. All told, we rate TJX as a Hold at current prices.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

[1] Projected dividend dates; Shares in millions.

Disclosure: Kay Ng owns shares of Amazon.

TJX Companies (TJX)

Updated August 18th, 2023 by Kay Ng

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	27423	29,078	30,945	33,184	35,865	38,973	41,717	32,137	48,550	49936
Gross Profit	7,818	8,302	8,910	9,618	10,362	11,142	11,871	7,603	13,836	13787
Gross Margin	28.5%	28.5%	28.8%	29.0%	28.9%	28.6%	28.5%	23.7%	28.5%	27.6%
SG&A Exp.	4,467	4,695	5,206	5,768	6,375	6,924	7,455	7,021	9,081	8927
D&A Exp.	549	589	617	659	726	820	867	871	868	887
Operating Profit	3,351	3,607	3,705	3,850	3,987	4,218	4,416	582	4,755	4860
Operating Margin	12.2%	12.4%	12.0%	11.6%	11.1%	10.8%	10.6%	1.8%	9.8%	9.7%
Net Profit	2,137	2,215	2,278	2,298	2,608	3,060	3,272	90	3,283	3498
Net Margin	7.8%	7.6%	7.4%	6.9%	7.3%	7.9%	7.8%	0.3%	6.8%	7.0%
Free Cash Flow	1,654	2,097	2,068	2,602	1,968	2,963	2,843	3,994	2,013	2627
Income Tax	1,182	1,335	1,381	1,425	1,249	1,113	1,134	-1	1,115	1138

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	10201	10989	11490	12884	14058	14326	24145	30814	28461	28349
Cash & Equivalents	2150	2494	2095	2930	2758	3030	3217	10470	6227	5477
Accounts Receivable	210	214	238	259	327	346	386	461	518	563
Inventories	2,966	3,218	3,695	3,645	4,187	4,579	4,873	4,337	5,962	5819
Goodwill & Int. Ass.	313	310	194	196	100	98	96	99	97	97
Total Liabilities	5,971	6,725	7,183	8,373	8,910	9,277	18197	24981	22458	21985
Accounts Payable	1,771	2,008	2,203	2,231	2,488	2,644	2,673	4,823	4,465	3794
Long-Term Debt	1,274	1,624	1,615	2,228	2,231	2,234	2,237	6,083	3,355	3359
Shareholder's Equity	4,230	4,264	4,307	4,511	5,148	5,049	5,948	5,833	6,003	6364
D/E Ratio	0.30	0.38	0.38	0.49	0.43	0.44	0.38	1.04	0.56	0.53

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	21.4%	20.9%	20.3%	18.9%	19.4%	21.6%	17.0%	0.3%	11.1%	12.3%
Return on Equity	55.5%	52.2%	53.1%	52.1%	54.0%	60.0%	59.5%	1.5%	55.5%	56.6%
ROIC	45.3%	38.9%	38.6%	36.3%	36.9%	41.7%	42.3%	0.9%	30.9%	36.7%
Shares Out.	1,410	1,370	1,327	1,293	1,256	1,259	1,219	1,219	1,216	1178
Revenue/Share	17.31	20.67	22.65	24.97	27.75	30.95	34.01	26.46	39.94	42.39
FCF/Share	1.39	1.49	1.51	1.96	1.52	2.35	2.32	3.29	1.66	2.23

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