Ross Stores (ROST)

Updated August 23rd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$160	**5 Year CAGR Estimate:**	4.1%	**Market Cap:**	$52.8 B
Fair Value Price:	$115	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	9/10/2024
% Fair Value:	140%	**5 Year Valuation Multiple Estimate:**	-6.4%	**Dividend Payment Date:**	9/30/2024
Dividend Yield:	0.9%	**5 Year Price Target**	$185	**Years Of Dividend Growth:**	4
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Ross Stores operates 1,795 stores with off-price apparel and home fashion in 43 states. It also operates 353 dd's DISCOUNTS stores in 22 states and has a market cap of $52.8 billion. The retailer offers attractive merchandise 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 late August, Ross Stores reported (8/22/24) financial results for the second quarter of fiscal 2024. Sales grew 7% over the prior year's quarter and earnings-per-share grew 21%, from $1.32 to $1.59, thus exceeding the analysts' estimates by $0.10. The strong performance resulted primarily from easing inflationary pressures, which had taken their toll on consumer spending and had increased the operating costs of the company in the prior year's period. Thanks to a strong first half of the year, Ross Stores raised its guidance again for earnings-per-share in 2024, from $5.79-$5.98 to $6.00-$6.13. As the retailer has exceeded the analysts' estimates in 13 of the last 14 quarters and tends to issue cautious guidance, we have raised our forecast from $5.95 to $6.10, near the high end of the revised guidance. We still view the headwind of inflation as temporary and remain confident in the bright long-term outlook of Ross Stores.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.21	$2.51	$2.83	$3.55	$4.26	$4.60	$0.78	$4.87	$4.38	$5.56	***$6.10***	***$9.82***
DPS	$0.40	$0.47	$0.54	$0.64	$0.90	$1.02	$0.29	$1.14	$1.24	$1.34	***$1.47***	***$2.64***
Shares[1]	414.9	402.3	391.9	379.7	368.4	356.9	355.2	351.2	342.0	335.0	***330.0***	***310.0***

Ross Stores has grown its earnings-per-share more than 6-fold since 2009, from $0.89 to $5.56 in 2023. Moreover, it still has growth prospects ahead. The company currently has 2,148 stores while management is confident for a potential of 3,600 stores in the U.S. It has 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 42 quarters. Moreover, it has grown its earnings-per-share by 10.8% per year on average over the last decade. We expect 10.0% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.0	20.3	21.4	19.7	20.1	22.2	125.6	24.4	20.8	20.5	***26.2***	***18.8***
Avg. Yld.	1.1%	0.9%	0.9%	1.0%	1.0%	1.0%	0.3%	1.0%	1.4%	1.2%	***0.9%***	***1.4%***

[1] In millions.

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Ross Stores is currently trading at a price-to-earnings ratio of 26.2, which is higher 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 incur a -6.4% annualized valuation drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	18.1%	18.7%	19.1%	19.2%	21.1%	22.2%	37.2%	23.4%	28.3%	24.1%	***24.1%***	***26.8%***

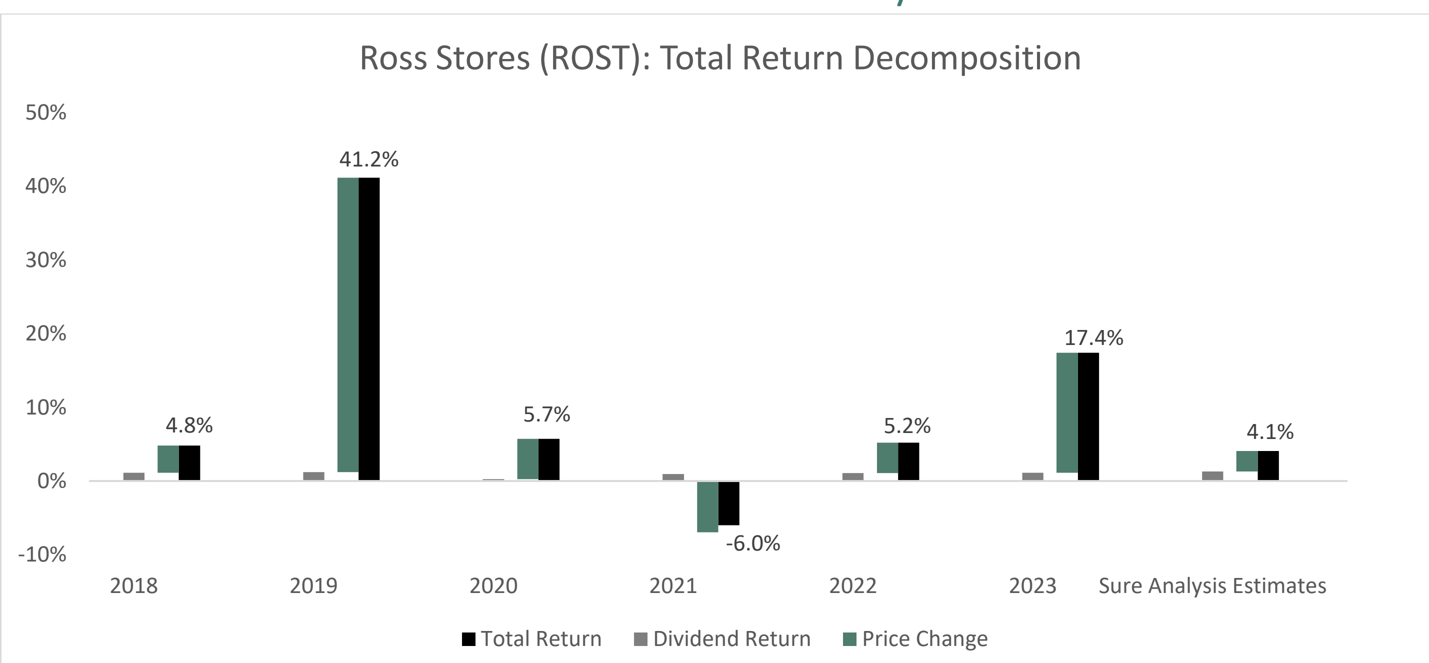
The key behind the exceptional growth record of Ross Stores is the fact that it offers great discounts on popular brands. It creates a treasure-hunting experience, which is appealing to consumers and constitutes a moat. This unique shopping experience helps explain why Ross Stores is one of the few retailers 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 has fully recovered from the pandemic, with record earnings-per-share in 2023.

Final Thoughts & Recommendation

Ross Stores is a high-quality discount retailer with a wide moat and solid growth prospects over the next several years. With that said, the stock has rallied 36% this year and hence it could offer just a 4.1% average annual return over the next five years thanks to 10.0% earnings growth and its 0.9% dividend, partly offset by a -6.4% valuation headwind. It thus maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	11042	11940	12867	14135	14984	16,039	12,532	18,916	18,696	20,377
Gross Profit	3104	3363	3693	4092	4257	4,503	2,693	5,207	4,750	5,575
Gross Margin	28.1%	28.2%	28.7%	29.0%	28.4%	28.1%	21.5%	27.5%	25.4%	27.4%
SG&A Exp.	1615	1739	1890	2044	2217	2,357	2,503	2,874	2,759	3,268
D&A Exp.	233	275	303	313	330	351	364	361	395	419
Operating Profit	1488	1624	1803	2048	2041	2,146	190	2,333	1,990	2,308
Operating Margin	13.5%	13.6%	14.0%	14.5%	13.6%	13.4%	1.5%	12.3%	10.6%	11.3%
Net Profit	925	1021	1118	1363	1587	1,661	85	1,723	1,512	1,875
Net Margin	8.4%	8.5%	8.7%	9.6%	10.6%	10.4%	0.7%	9.1%	8.1%	9.2%
Free Cash Flow	726	959	1261	1310	1653	1,616	1,841	1,181	1,035	1,752
Income Tax	561	591	669	678	463	503	21	536	475	597

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4687	4869	5309	5722	6074	9,348	12,718	13,640	13,416	14,300
Cash & Equivalents	697	762	1112	1290	1413	1,351	4,819	4,922	4,552	4,872
Accounts Receivable	73	74	75	88	97	102	115	119	146	131
Inventories	1373	1419	1513	1642	1750	1,832	1,509	2,262	2,023	2,192
Total Liabilities	2408	2397	2561	2673	2768	5,989	9,427	9,580	9,128	9,429
Accounts Payable	1001	946	1022	1060	1177	1,296	2,257	2,372	2,010	1,956
Long-Term Debt	396	396	396	397	312	313	2,513	2,452	2,457	2,461
Shareholder's Equity	2279	2472	2748	3049	3306	3,359	3,291	4,060	4,289	4,871
LTD/E Ratio	0.17	0.16	0.14	0.13	0.09	0.09	0.76	0.60	0.57	0.51

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	21.5%	21.4%	22.0%	24.7%	26.9%	21.5%	0.8%	13.1%	11.2%	13.5%
Return on Equity	43.1%	43.0%	42.8%	47.0%	50.0%	49.8%	2.6%	46.9%	36.2%	40.9%
ROIC	38.3%	36.8%	37.2%	41.4%	44.9%	45.6%	1.8%	28.0%	22.8%	26.6%
Shares Out.	414.9	402.3	391.9	379.7	368.4	356.9	355.2	351.2	345.2	337.4
Revenue/Share	26.41	29.38	32.58	36.78	40.21	44.41	35.34	53.48	54.16	60.39
FCF/Share	1.74	2.36	3.19	3.41	4.43	4.47	5.19	3.34	3.00	5.19

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