

The TJX Companies (TJX)

\$62.30 (As of 01/21/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

TJX Companies' shares have outpaced the industry in the past three months. The company has been benefiting from its robust comps, which in turn are gaining from continuous rise in consumer traffic and strong merchandising policies. These along with TJX Companies' off-price model, strategic store locations and impressive brands have been driving its performance. This reflected in the company's third-quarter fiscal 2020 results, wherein both earnings and sales grew year over year and beat the consensus mark. Moreover, management raised its earnings view for fiscal 2020. However, the company has been witnessing high supply-chain costs, which have been weighing on the gross margin. Margins also remain susceptible to tariffs on goods sourced from China. Additionally, volatile currency movements pose concerns.

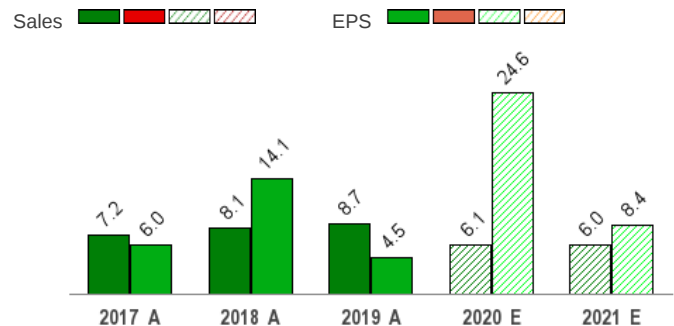
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.03 - \$48.19
20 Day Average Volume (sh)	3,620,720
Market Cap	\$75.0 B
YTD Price Change	2.0%
Beta	0.68
Dividend / Div Yld	\$0.92 / 1.5%
Industry	Retail - Discount Stores
Zacks Industry Rank	Top 35% (88 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	25.3
P/E F1	23.7
PEG F1	2.2
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	9,849 E	10,394 E	11,120 E	12,622 E	43,842 E
2020	9,278 A	9,782 A	10,451 A	11,855 E	41,361 E
2019	8,689 A	9,331 A	9,826 A	11,127 A	38,973 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.62 E	\$0.67 E	\$0.74 E	\$0.83 E	\$2.85 E
2020	\$0.57 A	\$0.62 A	\$0.68 A	\$0.77 E	\$2.63 E
2019	\$0.57 A	\$0.59 A	\$0.63 A	\$0.59 A	\$2.11 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

Overview

Based in Framingham, MA, The TJX Companies, Inc. is a leading off-price retailer of apparel and home fashions in the U.S. and worldwide. It has more than 4,300 stores across the globe, which are well known for their unique value proposition of brand, fashion, price and quality. The company's broad range of assortments at varying prices helps it to reach out to a broad range of consumers. In addition to these, TJX Companies tries to attract consumers through rapid turn of inventories.

The company has been able to distinguish itself from traditional retailers on the grounds of opportunistic buying strategies and flexible business model. In fact, TJX Companies' low-cost structure sets it apart from other traditional retailers. In order to maintain control on costs, the company engages in the promotion of retail banners, rather than specific brands. The company's distribution network is also designed in a manner such that helps curtailing costs. Moreover, the company emphasizes on creating strong relations with vendors across different countries, in order leverage buying power.

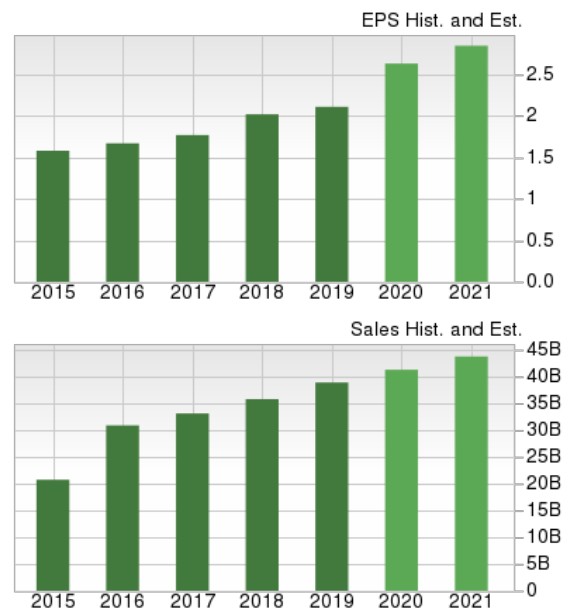
The TJX Companies operates through four business segments:

In the U.S., it operates through two segments, namely, Marmaxx (through stores under the names of T.J. Maxx and Marshalls) and HomeGoods.

Marmaxx divisions (62% of FY19 Sales) sell family apparel (including footwear and accessories), home fashions (including home basics, accent furniture, lamps, rugs, wall décor, decorative accessories and giftware) and other merchandise.

HomeGoods (15% of FY19 Sales) chain offers home basics, giftware, accent furniture, lamps, rugs, wall décor and decorative accessories from around the world, seasonal and other merchandise.

In Canada, it operates through TJX Canada (9% of FY19 Sales) through stores under the names of Winners, Marshalls and HomeSense and in Europe, it operates through TJX International (14% of FY19 Sales) through stores under the names of T.K. Maxx and HomeSense.



Reasons To Buy:

- ▲ **Solid Comps Growth Boost Stock:** TJX Companies' shares have gained 4.8% in the past three months, outpacing the industry's growth of 2.5%. The company has been gaining from robust comparable store sales (comps). During the third quarter of fiscal 2020, TJX Companies' consolidated comps grew 4% year over year, fueled by increased customer traffic at all major segments.

Notably, the quarter marked the 21st straight period of higher customer traffic at both Marmaxx and the entire company. Most segments reported higher comps, courtesy of consumers' favorable response to the company's brands and impressive merchandise assortments at reasonable prices. Comps rose 2%, 6%, 4% and 1% in TJX Canada, TJX International, Marmaxx and HomeGoods segments, respectively. Markedly, TJX International's results were backed by solid performance in Europe. Further, apparel and home businesses remained strong at Marmaxx. In fiscal 2020, management expects consolidated comps to grow 3%, and comps at Marmaxx 3-4%. Further, the company expects consolidated comps growth of 2-3% for the fourth quarter.

TJX Companies' strong merchandising and brand strategies, combined with effective marketing efforts have been aiding increased consumer traffic across stores.

- ▲ **Favorable Inventory Position & Outlook:** Consolidated inventories on a per-store basis (including distribution centers, and excluding e-commerce, inventory in transit and Sierra stores) increased 9% (also on a constant-currency basis) year over year. Given its impressive inventory position, the company is well-poised to take advantage of solid opportunities in the holiday season. Management remains impressed with its performance, driven by robust customer traffic and successful implementation of the company's off-price fundamentals. Markedly, the company's apparel and home businesses performed exceptionally well. Consumers' favorable response to TJX Companies' impressive brand portfolio and consistent rise in customer traffic keep management encouraged about witnessing continued growth.

The company is impressed with the quarterly performance and began the fiscal fourth quarter on a strong note. Management is encouraged about initiatives and constant efforts to boost customer traffic and sales. The company is particularly encouraged about the opportunities during the holiday season. These factors prompted management to raise the bottom-line view for fiscal 2020. TJX Companies now projects earnings per share of \$2.61-\$2.63 for the fiscal, indicating year-over-year growth of 7-8% (including last year's pension settlement charges) and 7% (excluding last year's pension settlement charges). Earlier, management had projected earnings per share of \$2.56-\$2.61, indicating year-over-year growth of 5-7% (including last year's pension settlement charges) and 4-7% (excluding last year's pension settlement charges).

- ▲ **Store & E-commerce Efforts:** TJX Companies has an aggressive store-opening strategy. The company regularly opens stores and expands fast across the U.S., Europe and Canada. While many retailers are resorting to store closures, TJX Companies added 107 stores during the third quarter of fiscal 2020, taking the total count to 4,519 as of Nov 2. TJX Companies intends to continue expanding store base with plans to operate about 6,100 stores in the long term. Further, with increasing number of consumers resorting to online shopping, TJX Companies has undertaken several initiatives to boost online sales and strengthen its e-commerce business. TJX Companies' off-price model, along with its strategic store locations, impressive brands and fashion products, has been driving its performance, both in stores and online.

- ▲ **Marketing Strategy & Loyalty Programs:** The company remains committed toward boosting comps growth, through effective marketing initiatives and loyalty programs. Incidentally, TJX Companies' aggressive marketing and advertising campaigns through multiple mediums (TV, radio and social media) have been boosting traffic at its stores. Its gift-giving initiatives, unique among off-price retailers and loyalty card program (which offers consumers a non-credit card choice and soft benefits such as early shopping hours) also help to improve customer engagement.

- ▲ **Shareholder-Friendly Moves:** The company has been returning value to its shareholders through dividends and share buybacks. During the reported quarter, TJX Companies returned \$778 million to its stockholders in forms of dividend payouts and share buybacks. In the fiscal third quarter, the company repurchased 9 million shares for \$500 million and paid out dividends worth \$278 million. In the first three quarters of fiscal 2020, management paid out dividends worth \$795 million and repurchased 21.3 million shares for \$1.15 billion. TJX Companies intends to buy back shares worth \$1.5-\$1.75 billion in fiscal 2020.

Further, On Nov 18, TJX Companies concluded an investment for a 25% stake in Familia, a major off-price apparel and home fashions retailer in Russia. This investment, worth \$225 million, is expected to slightly augment TJX Companies' bottom line from fiscal 2021. Notably, this goes in line with the company's efforts to enhance shareholder-value, as management expects this investment to generate attractive returns.

Reasons To Sell:

- ▼ **Margins Look Pressurized:** TJX Companies' gross margin has been contracting year over year for quite some time now due to elevated supply-chain costs, among other factors. The trend continued in third-quarter fiscal 2020, wherein gross margin fell 0.1 percentage points to 28.8%. In the second quarter, gross margin fell 0.7 percentage points, due to elevated supply-chain expenses and lower merchandise margins. Prior to this, gross margin contracted 0.4 percentage points in the first quarter.

In fourth-quarter fiscal 2020, management expects gross margin to come in a range of 27.6-27.85 compared with 27.8% reported in the year-ago period. Further, the company is battling margin pressure owing to tariff-related impacts on goods sourced from China. This is likely to be a deterrent in the fourth quarter.

- ▼ **Currency Headwinds:** TJX Companies' solid international presence keeps it exposed to risks associated with adverse currency fluctuations. Evidently, currency movements hurt top-line growth to the tune of 1% in the third quarter. Volatility in currency movements is a threat to profits.

- ▼ **Off Price Retail Nature May Put Pressure on Margins:** TJX Companies provides goods at discounted prices. For example, TJX has been selling coveted apparel brands such as Tommy Hilfiger and Marc Jacobs at prices 20%-60% prices than those offered by others. Despite rising product costs, TJX, being an off-price retailer, cannot increase the price of its products, which may lead to lower margins.

- ▼ **Lack of Exposure in Emerging Markets:** TJX Companies does not have any presence in the developing markets which deprives it of the benefits of high growth opportunities of the developing nations like China, Brazil, India, Mexico, Russia and Southeast Asia.

Since the developed markets of Europe, America and Canada are already saturated, most of the U.S. companies are looking toward the emerging ones, which offer great growth opportunity owing to the growing population and affluent middle class. TJX Companies, however, does not have any plans to open stores in any of these markets.

TJX Companies' gross margin has been contracting year over year for quite some time now, owing to increased supply-chain expenses, among other factors.

Last Earnings Report

TJX Companies Beats on Q3 Earnings & Sales, Raises View

TJX Companies posted third-quarter fiscal 2020 results. The company's earnings were 68 cents per share, which grew 8% year over year. Further, the bottom line surpassed the Zacks Consensus Estimate of 66 cents as well as management's guidance.

Net sales advanced about 6% year over year to \$10,451.3 million and beat the Zacks Consensus Estimate of \$10,318 million. Net sales growth included a 1% adverse impact from currency movements. Sales were backed by solid comparable store sales (comps), which gained from robust customer traffic across all segments. TJX Companies' consolidated comps grew 4% year over year.

Comps rose 2%, 6%, 4% and 1% in TJX Canada, TJX International, Marmaxx and HomeGoods segments, respectively. Markedly, TJX International's results were backed by solid performance in Europe.

Gross margin fell 0.1 percentage point (pp) to 28.8%. Selling, general and administrative costs as a percentage of sales rose 0.1 pp year over year to 18%.

Other Financial Updates

The company ended the quarter with cash and cash equivalents of \$2,060.2 million, long-term debt of \$2,235.9 million and total shareholders' equity of \$5,542.5 million. Cash provided by operating activities for 39 weeks ended Nov 2, 2019, was \$1,873.6 million.

Consolidated inventories on a per-store basis (including distribution centers, and excluding e-commerce, inventory in transit and Sierra stores) increased 9% (also on a constant-currency basis) year over year. Given its impressive inventory position, the company is well-poised to take advantage of solid opportunities in the holiday season.

During the reported quarter, TJX Companies returned \$778 million to its stockholders in forms of dividend payouts and share buybacks. In the fiscal third quarter, the company repurchased 9 million shares for \$500 million and paid out dividends worth \$278 million. In the first three quarters of fiscal 2020, management paid out dividends worth \$795 million and repurchased 21.3 million shares for \$1.15 billion. TJX Companies intends to buy back shares worth \$1.5-\$1.75 billion in fiscal 2020.

The company opened 107 stores in the fiscal third quarter, taking the total count to 4,519. Further, on Nov 18, TJX Companies concluded an investment for a 25% stake in Familia — major off-price apparel and home fashions retailer in Russia. The investment was worth \$225 million. Notably, from fiscal 2021, the investment in Familia is expected to slightly augment TJX Companies' bottom line.

Fiscal 2020 Guidance

Management raised bottom-line guidance for fiscal 2020. TJX Companies now projects earnings per share of \$2.61-\$2.63 for the fiscal year, indicating year-over-year growth of 7-8% — including last year's pension settlement charges) — and 7% — excluding last year's pension settlement charges. Earlier, management had projected earnings per share of \$2.56-\$2.61, indicating year-over-year growth of 5-7% — including last year's pension settlement charges) — and 4-7% — excluding last year's pension settlement charges. Further, it expects consolidated comps growth of 3% and comps growth of 3-4% at Marmaxx

The company expects consolidated comps growth of 2-3% for the fourth quarter. It anticipates comps at Marmaxx to grow in the same range. The company expects earnings of 74-76 cents per share, whereas it reported 68 cents in the year-ago quarter.

Quarter Ending 10/2019

Report Date	Nov 19, 2019
Sales Surprise	1.21%
EPS Surprise	3.03%
Quarterly EPS	0.68
Annual EPS (TTM)	2.46

Recent News

TJX Companies Announces Quarterly Dividend – Dec 3, 2019

The company's board declared quarterly dividend of 23 cents per share, payable on Mar 5, 2020, to shareholders held in record as on Feb 13, 2020.

Valuation

TJX Companies shares are up 30.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 39% and 21.5% over the past year, respectively

The S&P 500 index is up 28.1% in the past year.

The stock is currently trading at 21.92X forward 12-month earnings, which compares to 23.48X for the Zacks sub-industry, 25.63X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.68X and as low as 16.03X, with a 5-year median of 19.82X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$66 price target reflects 23.22X forward 12-month earnings.

The table below shows summary valuation data for TJX

Valuation Multiples - TJX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.92	23.48	25.63	19.18
	5-Year High	22.68	23.75	26.23	19.34
	5-Year Low	16.03	17.95	19.07	15.17
	5-Year Median	19.82	20.04	22.95	17.44
P/S F12M	Current	1.71	1.38	1.09	3.57
	5-Year High	1.75	1.39	1.11	3.57
	5-Year Low	1.16	0.94	0.8	2.54
	5-Year Median	1.47	1.12	0.91	3
EV/EBITDA TTM	Current	15.4	17.92	11.77	12.66
	5-Year High	26.31	19.4	12.72	12.66
	5-Year Low	10.21	12.4	9.4	9.08
	5-Year Median	20.25	15.62	10.4	10.78

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 255)



Top Peers

Target Corporation (TGT)	Outperform
Big Lots, Inc. (BIG)	Neutral
Burlington Stores, Inc. (BURL)	Neutral
Costco Wholesale Corporation (COST)	Neutral
Dollar General Corporation (DG)	Neutral
Ross Stores, Inc. (ROST)	Neutral
Dollar Tree, Inc. (DLTR)	Underperform
Kohls Corporation (KSS)	Underperform

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	TJX Neutral	X Industry	S&P 500	BURL Neutral	DG Neutral	DLTR Underperform
VGM Score	B	-	-	A	C	A
Market Cap	74.96 B	18.11 B	24.43 B	15.03 B	40.11 B	21.18 B
# of Analysts	12	9	13	9	23	6
Dividend Yield	1.48%	0.82%	1.75%	0.00%	0.81%	0.00%
Value Score	C	-	-	C	C	C
Cash/Price	0.03	0.03	0.04	0.01	0.01	0.02
EV/EBITDA	16.59	16.59	14.00	23.14	19.57	11.72
PEG Ratio	2.19	2.15	2.06	1.98	2.07	2.06
Price/Book (P/B)	13.52	5.01	3.39	38.38	6.03	3.46
Price/Cash Flow (P/CF)	22.10	17.10	13.69	23.10	20.27	4.52
P/E (F1)	23.89	23.68	19.00	30.93	23.68	18.95
Price/Sales (P/S)	1.84	0.82	2.68	2.12	1.47	0.90
Earnings Yield	4.22%	4.22%	5.26%	3.24%	4.22%	5.27%
Debt/Equity	1.81	1.33	0.72	8.28	1.57	1.33
Cash Flow (\$/share)	2.82	6.08	6.94	9.82	7.77	19.78
Growth Score	B	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	11.16%	11.35%	10.60%	34.96%	13.32%	18.83%
Proj. EPS Growth (F1/F0)	24.73%	8.76%	7.57%	13.91%	11.43%	-13.33%
Curr. Cash Flow Growth	1.26%	12.70%	14.00%	29.71%	25.19%	163.96%
Hist. Cash Flow Growth (3-5 yrs)	5.93%	7.44%	9.00%	22.30%	8.34%	43.00%
Current Ratio	1.22	1.12	1.23	0.88	1.12	1.09
Debt/Capital	64.47%	57.13%	42.99%	89.22%	61.12%	57.13%
Net Margin	7.70%	4.18%	11.15%	6.26%	6.09%	-6.82%
Return on Equity	57.63%	24.22%	17.16%	145.12%	25.53%	20.85%
Sales/Assets	1.94	1.87	0.55	1.51	1.38	1.30
Proj. Sales Growth (F1/F0)	6.13%	3.95%	4.05%	9.30%	8.27%	3.83%
Momentum Score	B	-	-	B	D	A
Daily Price Chg	-0.61%	-0.45%	-0.27%	-0.05%	-0.28%	-2.24%
1 Week Price Chg	0.55%	0.36%	2.29%	-1.88%	3.11%	0.22%
4 Week Price Chg	3.18%	0.22%	2.13%	-0.40%	0.83%	-4.00%
12 Week Price Chg	8.33%	4.82%	6.99%	16.98%	-1.92%	-20.50%
52 Week Price Chg	27.82%	12.75%	21.25%	34.83%	39.54%	-6.51%
20 Day Average Volume	3,620,720	1,176,471	1,415,064	501,377	1,687,250	2,964,196
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.16%
(F1) EPS Est 12 week change	0.86%	0.74%	-0.34%	1.57%	0.64%	-6.22%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-0.18%	-0.35%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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