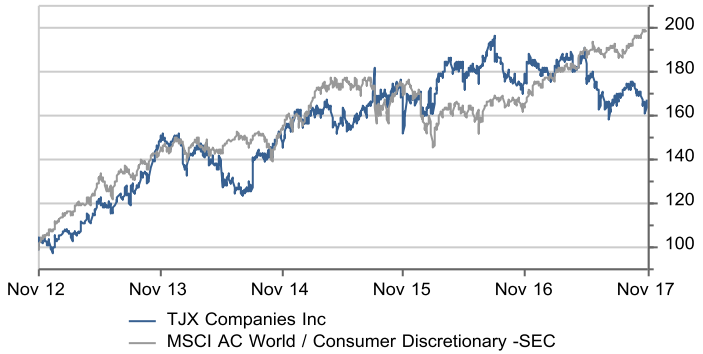
TJX Companies Inc

Isin / FactSet Code	**US8725401090 / TJX-US**	Market cap (in EUR mn)	**36 776**	52-week high	**80.92**	Rating	**BUY**
Sector	**Consumer Discretionary**	Market cap (in local curr. mn)	**43 228**	52-week low	**66.44**	12-month target price	**79.00**
Industry	**Retailing**	Local currency	**USD**	YTD return%	**-9.57**	Last price (14/11/17)	**67.94**
Benchmark	**MSCI AC World / Consumer Discretionary -SEC**	Free-float	**100%**	12-month return%	**-8.46**	Potential upside	**16%**

Investment Case:

- TJX is well placed in the off-price retail space, offering superior value to customers. The company has strong inventory buying arm (>18 000 vendors) compared to the majority of its rival discount-price buyers. This facilitates purchases, even in tough macro conditions, and increases merchandise margins. The company has a strong supply chain/ distribution network and has potential for international growth opportunities (higher square footage growth).
- TJX plans to achieve USD 40.0 bn in annual sales, boosting the global store count to 5 600 by 2020. The company's 'treasure-hunt' concept should help improving customer traffic. The recent introduction of Home concept (HomeSense) should also provide incremental opportunities leading to new stores and same-store sales growth.
- Reflecting the weak 3Q18 results, we reduce our target price to USD 79.00 (from USD 82.50), valuing the stock at 18.6x FY19E EPS of USD 4.25.

Five-year Performance vs. Benchmark (rebased to 100)



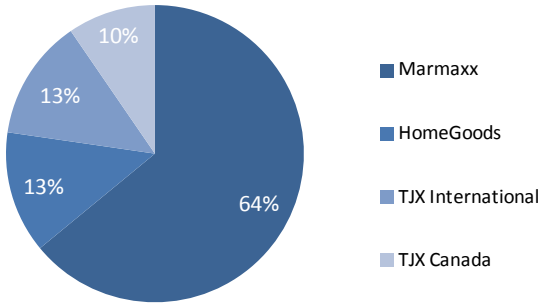
Sources: SGPB, FactSet

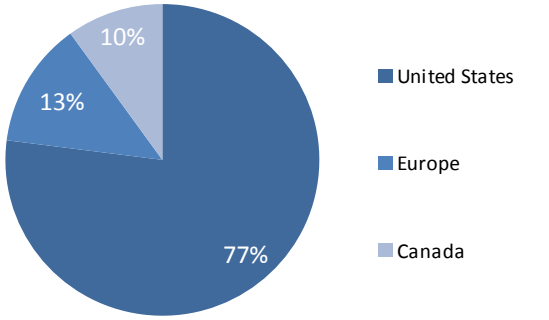
Company Description:

TJX Companies Inc. is an off-price retailer of apparel and home fashions with over 4 052 stores worldwide. It offers brand-name merchandise at a 20–60% discount to department and speciality store prices. The company has seven retail chains, including three e-commerce sites across nine countries with >USD 33 bn in revenues as of FY17.

Revenue by Key Segments & Geographies: FY17

(FY ending January)





Sources: SGPB, FactSet

Recent Developments Analysis:

- TJX announced 3Q18 results with USD 8.8 bn net sales (+5.7% YoY) and flat comp store sales, which were below consensus. The company reported EPS of USD 1.00 (including a USD 0.03 negative impact from hurricanes) which was in line with consensus.
- Improvements in merchandise margins and inventory hedging gains led gross profit margin to improve by 30 bps YoY to 29.8%. However, merchandise margin gains were partially offset by higher supply chain costs and expense deleverage on comps.
- For 4Q18, TJX expects EPS of USD 1.25–1.27 (in line with consensus). This guidance includes an assumption that wage increase and foreign exchange will negatively impact EPS by ~1% each. The company now expects FY18 EPS of USD 3.91–3.93 (from USD 3.89–3.93).
- Overall, 3Q18 was a weak quarter, the management highlighted hurricanes and weather as a drag on comps. Also, 3Q18 suffered due to weak execution, which the company hopes to resolve into 4Q18. TJX highlighted excellent inventory position with ample liquidity to take advantage of the buying opportunities. The company remains well placed for the upcoming holiday season.

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TJX Companies Inc

DESCRIPTION			VALUATION					GROWTH				PROFITABILITY			BALANCE SHEET		
FactSet Code	Company	Cap (mn€)	EV/EBITDA (e)		P/E (e)		Div. Yield	Sales Growth		EPS Growth		EBITDA Margin	Net Margin	ROE	Net Debt/ EBITDA		Net Debt/ Equity
			FY1x	FY2x	FY1x	FY2x	FY1%	FY1%	FY2%	FY1%	FY2%	FY1%	FY1%	FY1%	FY0x	FY1x	FY0x
ITX-ES	**Industria de Diseno Textil, S.A.**	91 496	15.2	13.5	26.5	23.7	2.5	10.2	9.8	9.4	11.7	21.5	13.3	24.9	-1.2	-1.2	-0.49
HM.B-SE	**Hennes & Mauritz AB Class B**	33 818	10.5	9.5	18.8	16.9	4.8	6.1	6.0	-3.9	11.2	15.3	8.7	28.6	-0.2	-0.1	-0.12
ROST-US	**Ross Stores, Inc.**	21 149	10.3	9.7	20.0	18.3	1.0	8.2	4.9	14.1	9.0	16.7	8.9	41.7	-0.3	-0.4	-0.27
BURL-US	**Burlington Stores, Inc.**	5 712	11.2	9.9	22.9	20.4	0.0	8.6	6.5	31.1	12.3	11.3	4.9	nm	1.8	1.4	nm
JWN-US	**Nordstrom, Inc.**	5 550	5.3	5.4	13.3	13.4	3.8	4.1	1.6	-6.5	-0.7	10.4	3.2	55.8	1.2	1.2	2.21
	Average:		**10.5**	**9.6**	**20.3**	**18.6**	**2.4**	**7.5**	**5.8**	**8.8**	**8.7**	**15.0**	**7.8**	**37.7**	**0.2**	**0.2**	**0.34**
TJX-US	**TJX Companies Inc**	36 776	8.9	8.5	17.3	16.0	1.8	7.7	5.5	11.4	8.0	13.4	7.1	53.1	-0.2	-0.1	-0.24

na=Not available, nm=Not meaningful

Financial terms detailed in glossary

Sources: SGPB, FactSet

Risks To Our Investment Case:

- The company follows an opportunistic buying strategy. Failure to obtain the right product mix, quantity and pricing may adversely affect customer traffic, pressurising sales and margins.
- TJX purchases inventory on the basis of its sales forecast. Should there be a mismatch between customer demand and sales forecasts, the company would experience higher inventory levels and markdown on excess/slow moving inventory. This would lead to lower profit margins.
- With the business seasonality, failure to maintain price deferential vs. department/ speciality store may decrease customer footfall. This could reduce the company's ability to sustain/protect margins.
- Global expansion may lead to foreign exchange risk from a stronger USD. Increased wages and higher supply-chain costs remain headwinds.

Business Quality Review:

- The company has >1 000 associates in merchandise buying at global level.
- TJX's plans of boosting store count should facilitate higher comps growth over the long term.
- The company is focussed in developing its omni-channel capabilities. TJX currently has three ecommerce sites. The management plans to eventually develop online capabilities across its brands.

Dividend Policy:

- During 3Q18, the company bought back shares worth USD 350 mn.
- In FY18, TJX anticipates USD 1.5–1.8 bn share buyback.
- TJX offers a FY18E and FY19E dividend yield of 1.8% and 2.0%, respectively.

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Financial Terms And Acronyms

BV (Book Value): is the total value of net assets of a company.

BV/S (Book Value Per Share): is the total value of the net assets of a company divided by the total number of outstanding shares.

C/I (Cost Income Ratio): is used for valuing banks. It shows a company's costs in relation to its income.

CAGR (Compound Annual Growth Rate): is a term used for the geometric progression ratio that provides a constant rate of return over a specific time period.

CAPEX (Capital Expenditure): is the fund used by the company to acquire or upgrade the physical assets such as property, industrial buildings or equipment. The most capital intensive industries include oil, telecom and utilities.

CAR (Capital Adequacy Ratio): is a measure of a bank's capital. It is expressed as a percentage of a bank's risk-weighted credit exposures.

CET I (Common Equity Tier I Ratio) : is a measure of the bank's common equity capital as a percentage of risk-weighted assets. It is generally compared to a defined benchmark stipulated by the regulatory authority to determine whether a bank is sufficiently capitalised.

COMBINED RATIO: It represents the total of acquisition and administrative expenses, and claims and insurance benefits incurred, divided by net premiums earned.

DIVIDEND PER SHARE (DPS): Dividend per share or DPS (total dividend paid out divided by the total number of shares) expressed as a percentage of current stock price.

EBIT (Earnings Before Interest and Taxes): profit before taking into account interest payments and income taxes.

EBIT Margin: Ratio that expresses EBIT as a percentage of total sales (EBIT/Sales*100)

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): profit before taking into account interest payments, income taxes and non-cash operating expenses (depreciation and amortisation).

EPS (Earnings Per Share): is the division of total net profit by the number of shares.

EQUITY is the difference between the value of the assets and the cost of the liabilities.

EV (Enterprise Value) is a measure of a company's value, often used as an alternative to straightforward market capitalisation. It is calculated as (market cap + debt + minority interest + preferred shares) − total cash − cash equivalents.

FCF (Free Cash Flow): represents the difference between operating cash flow and capital expenditures.

FFO (Funds from Operations): measures a REIT's operating performance. It is net income plus gains (minus losses) from property sale and purchase. FFO per share is often used in place of earnings per share when analysing REITs.

FY0: Realised year, **FY1**: Current unrealised year, **FY2**: next year, **FY17E:** Fiscal year 2017 estimation

GOODWILL: is an intangible asset that arises as a result of the acquisition of one company by another company for a premium value.

GROSS INCOME: gross profit calculated as a company's total sales minus its cost of goods sold (COGS) that corresponds to labour and production costs.

GROSS MARGIN: expresses gross income as a percentage of total sales.

LIKE FOR LIKE (LFL) GROWTH: is a measure of growth in sales, adjusted for new or divested businesses.

Loan-to-deposit (L/D) ratio: Loans/Deposits. This helps in assessing a bank's liquidity, lending capacity and balance sheet quality.

LTV (Loan-To-Value Ratio): is a financial term used to express the ratio of a loan to the value of an asset purchased.

NAV (Net Asset Value): is similar to book value and is also called per investment unit. NAV is the marked-to-market value of the company's property investments less liabilities.

ND (Net Debt): is calculated as a company's total debt minus cash and other similar liquid assets.

NET MARGIN: is a financial ratio which measures the profitability of the net income of a company.

NI (Net Income or Bottom Line): represents a company's total earnings (or profit) which is calculated by adjusting revenues for the costs, depreciation, interest, taxes and other expenses.

NIM: Net Interest Margin

NON-PERFORMING LOANS (NPL) RATIO: NPLs/Loans. This indicates the percentage of the loans that are non-performing or are in stressed segments.

OPERATING MARGIN: See definition of EBIT Margin.

ORGANIC GROWTH: is the growth rate that a company can achieve by increasing its output and enhancing sales, excluding any profits or growth from takeovers or M&A activities.

P/E or PER (Price Earnings Ratio): reflects the trading price of a share in relation to the expected earnings.

P/BV (Price To Book Value): expresses the share price with regard to the accounting value of the company.

PAYOUT RATIO: is the proportion of earnings paid out as dividends to shareholders and typically expressed as a percentage.

PROFIT WARNING: is the announcement made by the company before its earnings release indicating the investors that its earnings would not meet the analysts' expectations.

RWA (Risk Weighted Assets): is a measure of the bank's assets, weighted according to their risk. It involves the risk weighting of both on and off-balance-sheet exposures.

REVENUE GROWTH: Illustrates the growth of sales over a given period.

ROA (Return on assets): a financial ratio that is calculated as net income divided by total assets and shows how profitable a company is relative to its total assets.

ROC (Return on invested capital): a profitability ratio which is calculated as net income minus dividends divided by total invested capital.

ROE (Return On Equity): The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by disclosing how much profit a company generates with the money shareholders have invested.

TBV (Tangible Book Value): is the book value excluding intangible assets.

TBV/S (Tangible Book Value Per Share): allows to estimate the accounting value of a company by measuring its stockholders' equity per share. Formula: Re-valued Net Assets/Total Shares of Company.

WACC (Weighted Average Cost of Capital): also referred to as the firm's cost of capital, it is the rate that a company is expected to pay on an average to all its security holders to finance its assets.

WORKING CAPITAL: is the difference between a company's current assets and current liabilities and shows whether the company has sufficient short-term assets to cover its short-term debts.

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Appendix

Investment Rating Definitions:

Buy	Stock that is expected to outperform its MSCI sector index over a 12-month investment horizon.
Neutral	Stock that is expected to perform in line with its MSCI sector index over a 12-month investment horizon.
Sell	Stock that is expected to underperform its MSCI sector index over a 12-month investment horizon.
Restricted	Covered stock that is not rated or assigned a target price as the Societe Generale group has a capital market transaction with that company.
Termination	Stock is subject to be deleted from the SGPB recommended universe and will no longer be followed. In this case, a coverage termination alert is issued.

Recommended Universe Principle:

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Product Risk Rating:

The product category of single equity, stock, share is rated at '4'.

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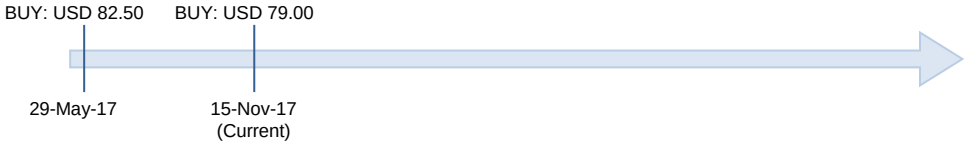
Risk Levels	Losses
0 - Lowest Risk	There is a 95% probability that the product will not depreciate in value in one year.
1 - Low Risk	There is a 95% probability that the product will not lose more than 5% of its value in one year.
2 - Medium Risk	There is a 95% probability that the product will not lose more than 15% of its value in one year.
3 - High Risk	There is a 95% probability that the product will not lose more than 30% of its value in one year.
4 - Highest Risk	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

1Y Target Price:



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Risk Classification:

R0: Lowest Risk
R1: Low Risk
R2: Medium Risk
R3: High Risk
R4: Highest Risk

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