

BJ's Wholesale Club Holdings

Expect General Merchandise to improve across categories in 2024

Reiterate Rating: BUY | PO: 80.00 USD | Price: 72.15 USD

F4Q EPS & comps ahead as gen. merch turns positive

BJ's reported F4Q adj. EPS of \$1.11 (vs our \$1.05 est.), which includes \$0.10 benefit from 53rd week, driven by stronger-than-expected comparable sales. Merchandise gross margin (ex-gas) decreased 40bps y/y given some unfavorable lapping of co-brand credit card program. Comparable sales (ex-gas) increased 0.5% (vs. our -1.0% est.) as ~3pts of traffic growth was partly offset by a lower basket due to continued disinflation. Grocery comps increased 1%, entirely driven by y/y unit volume growth. General merchandise comps saw a significant acceleration in F4Q (+2%) and up ~1,200bps vs. F3Q (including another +5% comp in apparel).

2024 guidance implies return to LT algo in F4Q

BJ's provided full year 2024 EPS guidance of \$3.75-\$4.00 which reflects comparable sales (ex-gas) in the range of +1-2%. BJ's expects 2024 to be slightly inflationary with slight deflation in 1Q (as we lap HSD% inflation LY) and comps (ex-gas) to build through the year with a return to long-term growth algo of LSD-MSD% in 4Q. We expect 20bps of merchandise margin improvement in 2024 supported by category management process and growth in own brand penetration (as BJ's leans into categories like food storage, nuts, and coffee after seeing success in paper category). We expect co-brand credit card program will continue to pressure margins through 1Q (as we lap the first year of the credit card program in April) then ease through the year.

BJ's accelerates pace of club openings in 2024

BJ has opened 6 new clubs since F3Q and expects to open about 12 new clubs in 2024 (above previous given target of ~10). In addition, BJ's will open approximately 15 new gas stations in new and existing clubs. Looking beyond 2024, BJ's continues to build its robust club pipeline.

BJ well positioned for market share gains & MFI growth

We maintain our Buy and expect BJ (and other warehouse clubs) to gain share in the current environment as consumers continue to adjust to higher prices, making BJ's value proposition and price positioning more attractive. BJ's tenured renewal rates remain at all-time high of 90%, supported by co-brand credit card program and higher penetration of Easy Renewal (see [BJ Bull/Bear report](#)). Our PO remains \$80, based 19-20x our F25E EPS.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.25	3.93	3.85	4.10	4.45
GAAP EPS	3.09	3.77	3.84	4.10	4.45
EPS Change (YoY)	5.2%	20.9%	-2.0%	6.5%	8.5%
Consensus EPS (Bloomberg)			3.86	3.99	4.36
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	22.2x	18.4x	18.7x	17.6x	16.2x
GAAP P/E	23.3x	19.1x	18.8x	17.6x	16.2x
EV / EBITDA*	12.9x	10.9x	10.5x	10.2x	9.6x
Free Cash Flow Yield*	5.2%	3.0%	3.0%	3.3%	4.0%

* For full definitions of *IQmethod*SM measures, see page 4.

07 March 2024

Equity

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Stock Data

Price	72.15 USD
Price Objective	80.00 USD
Date Established	22-Aug-2023
Investment Opinion	B-1-9
52-Week Range	60.33 USD - 78.88 USD
Mkt Val (mn) / Shares Out (mn)	9,649 USD / 133.7
Free Float	99.2%
Average Daily Value (mn)	80.17 USD
BofA Ticker / Exchange	BJ / NYS
Bloomberg / Reuters	BJ US / BJ.N
ROE (2024E)	42.0%
Net Dbt to Eqty (Jan-2023A)	78.2%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

HSD: high single digit

LSD: low single digit

MSD: mid-single digit

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iQprofileSM BJ's Wholesale Club Holdings

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.9%	13.8%	12.4%	12.0%	11.9%
Return on Equity	92.8%	63.3%	42.0%	33.7%	28.6%
Operating Margin	3.8%	4.0%	4.0%	4.0%	4.1%
Free Cash Flow	502	289	289	323	382

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.8x	1.2x	1.4x	1.4x	1.4x
Asset Replacement Ratio	1.7x	1.8x	2.2x	2.1x	2.0x
Tax Rate	23.7%	25.6%	29.2%	27.0%	27.0%
Net Debt-to-Equity Ratio	108.5%	78.2%	46.7%	26.2%	10.4%
Interest Cover	12.2x	17.5x	12.5x	12.3x	12.6x

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	16,667	19,315	20,020	20,560	21,590
% Change	8.0%	15.9%	3.6%	2.7%	5.0%
Gross Profit	3,079	3,439	3,666	3,788	3,970
% Change	3.3%	11.7%	6.6%	3.3%	4.8%
EBITDA	822	967	1,008	1,035	1,106
% Change	1.5%	17.6%	4.2%	2.7%	6.8%
Net Interest & Other Income	(52)	(44)	(64)	(67)	(70)
Net Income (Adjusted)	449	537	520	551	592
% Change	4.6%	19.5%	-3.1%	5.9%	7.5%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	449	537	520	551	592
Depreciation & Amortization	181	201	208	214	225
Change in Working Capital	177	(96)	11	8	16
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	0	0	0
Capital Expenditure	(305)	(353)	(450)	(450)	(450)
Free Cash Flow	502	289	289	323	382
% Change	-14.4%	-42.5%	0.1%	11.6%	18.5%
Share / Issue Repurchase	(120)	(138)	(138)	(138)	(138)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(273)	148	0	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	45	34	185	370	614
Trade Receivables	174	240	248	255	268
Other Current Assets	1,298	1,430	1,482	1,522	1,598
Property, Plant & Equipment	942	1,337	1,579	1,815	2,040
Other Non-Current Assets	3,237	3,310	3,310	3,310	3,310
Total Assets	5,696	6,350	6,804	7,271	7,830
Short-Term Debt	0	405	405	405	405
Other Current Liabilities	1,861	1,963	2,035	2,090	2,194
Long-Term Debt	749	448	448	448	448
Other Non-Current Liabilities	210	251	251	251	251
Total Liabilities	5,048	5,303	5,375	5,430	5,534
Total Equity	648	1,047	1,429	1,842	2,296
Total Equity & Liabilities	5,696	6,350	6,804	7,271	7,830

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Supermarkets/Food Retailers

Company Description

BJ's Wholesale Club, Inc. operates 218 warehouse clubs in 17 states, primarily in the Eastern US. BJ's offers its members brand-name and private label food, general merchandise, gasoline and other specialty businesses. BJ's is based in Westborough, Massachusetts and was founded in 1984.

Investment Rationale

We rate BJ shares at Buy as we view BJ's as well-positioned in both the near-term as well as long-term given its strong value proposition (esp in fuel) in a highly inflationary environment, as well as strong & improving membership trends.

Stock Data

Average Daily Volume 1,182,567

Quarterly Earnings Estimates

	2023	2024
Q1	0.87A	0.85A
Q2	1.06A	0.97A
Q3	0.99A	0.98A
Q4	1.00A	1.05E

Price objective basis & risk

BJ's Wholesale Club Holdings (BJ)

Our \$80 price objective is based on 19-20x our \$4.10 F25E adj. EPS, a discount to key warehouse club comparable COST (30-40x) and more in line with the food and discount retail group average (17-18x). We think a discount to COST is warranted given BJ's lower new store growth, lower same-store sales growth (low single digit vs. COST's mid- to high- single digit), and lower ROIC (approx. 20% vs. COST's approx. 30%). We believe BJ will trade more in line with the food and discount retail group avg. given support from: 1) BJ's membership fee structure, which provides increased visibility on earnings, 2) BJ's unique positioning as a grocery-focused warehouse club, and 3) our forecast for an approx. 4% EPS CAGR over the next three years (in-line with the discount and food retail group average of roughly 4% [ex-DLTR]).

Downside risks to our price objective: 1) Difficult stimulus-driven comparisons, 2) comp risk from continued pressure in general merchandise categories, 3) incremental supply chain pressures and other cost increases, 4) the unwinding of excess gas margin from 2021.

Analyst Certification

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US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	Arhaus, Inc	ARHS	ARHS US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Mattel	MAT	MAT US	Alexander Perry
	Mister Car Wash	MCW	MCW US	Robert F. Ohmes, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Robert F. Ohmes, CFA
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA
	Sysco Corporation	SY	SY US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Upbound Group Inc.	UPBD	UPBD US	Vicky Liu
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
NEUTRAL				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Hasbro	HAS	HAS US	Alexander Perry
	Williams-Sonoma	WSM	WSM US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Robert F. Ohmes, CFA



US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Alexander Perry
	Canada Goose Holdings Inc	GOOS	GOOS US	Alexander Perry
	Columbia Sportswear	COLM	COLM US	Alexander Perry
	Dollar General Corporation	DG	DG US	Robert F. Ohmes, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA
	Tractor Supply Company	TSCO	TSCO US	Robert F. Ohmes, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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BJ's Wholesale (BJ) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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