



Target Corporation (TGT)

Updated March 6th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$76	5 Year CAGR Estimate:	10.0%	Volatility Percentile:	79.4%
Fair Value Price:	\$87	5 Year Growth Estimate:	4.0%	Momentum Percentile:	64.4%
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Growth Percentile:	23.2%
Dividend Yield:	3.4%	5 Year Price Target	\$106	Valuation Percentile:	71.5%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	52.4%

Overview & Current Events

Target was founded in 1902 and has operations in the U.S. Its business consists of 1,850 discount stores, which offer general merchandise and food. Target has a market capitalization of \$40 billion.

Target has been able to withstand the ongoing price war in the retail sector. The acquisition of Whole Foods by Amazon caused shockwaves for traditional retailers, but the dire forecasts on pricing and market share have not materialized. Moreover, Target has moved in the right direction to address its challenges. It has invested heavily in the remodeling of its stores and has expanded the same-day delivery option to about 65% of U.S. households.

In early March, Target reported (3/5/19) financial results for the fourth quarter of fiscal 2018. In the quarter, the company grew its comparable sales by 5.3%, more than the expected 5.0% growth rate. Comparable digital sales grew 31% while comparable sales from stores grew 2.9% over prior year's quarter. In the year, comparable sales grew 5.0%. This is the strongest performance of Target since 2005. In addition, 2018 marked the fifth consecutive year with comparable digital sales growth above 25%. Reported and adjusted earnings-per-share were \$5.50 and \$5.39, respectively. Both figures set new all-time highs for the retailer.

Management expects comparable sales to grow at a low- to mid-single digit rate this year and the earnings-per-share to increase to \$5.75-\$6.05. At the mid-point, this guidance implies a 9.5% increase in the earnings-per-share.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.30	\$3.88	\$4.28	\$4.38	\$3.21	\$4.27	\$4.69	\$5.01	\$4.65	\$5.39	\$5.90	\$7.18
DPS	\$0.66	\$0.84	\$1.10	\$1.32	\$1.58	\$1.90	\$2.16	\$2.32	\$2.44	\$2.52	\$2.62	\$3.30
Shares	754.8	729.4	679.1	656.7	635.1	640.1	632.9	582.5	545.9	524.3	510.0	420.0

Target has grown its earnings-per-share at an average annual rate of 6.5% during the last decade. Due to fierce competition and the failed attempt to expand to Canada, Target's earnings-per-share remained almost flat from 2012 to 2017. However, turnaround efforts have eventually born fruit and thus Target has significantly improved its performance in the last 12 months. The company has reduced its share count by about 4% per year in the last five years and is likely to maintain a similar buyback rate ahead. Overall, it is reasonable to expect 4% annualized growth beyond this year. We have lowered our expected growth rate from 6% to 4% due to the strong results expected this year, which will form a high comparison base for future results.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.8	13.9	11.9	13.7	20.7	14.7	16.6	14.6	14.2	14.2	12.9	14.7
Avg. Yld.	1.6%	1.6%	2.2%	2.2%	2.4%	3.0%	2.8%	3.2%	4.0%	3.3%	3.4%	3.1%

In our last research report, in November, we noted the attractive valuation of Target. Since then, the stock has rallied 13%. Nevertheless, thanks to strong earnings growth, the stock is still attractively valued. It is trading at a price-to-

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earnings ratio of 12.9, which is lower than its 10-year average of 14.7. If the stock reverts to its average valuation level over the next five years, it will enjoy a 2.6% annualized gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	20.0%	21.6%	25.7%	30.1%	49.2%	44.5%	46.1%	46.3%	52.5%	46.8%	44.4%	46.0%

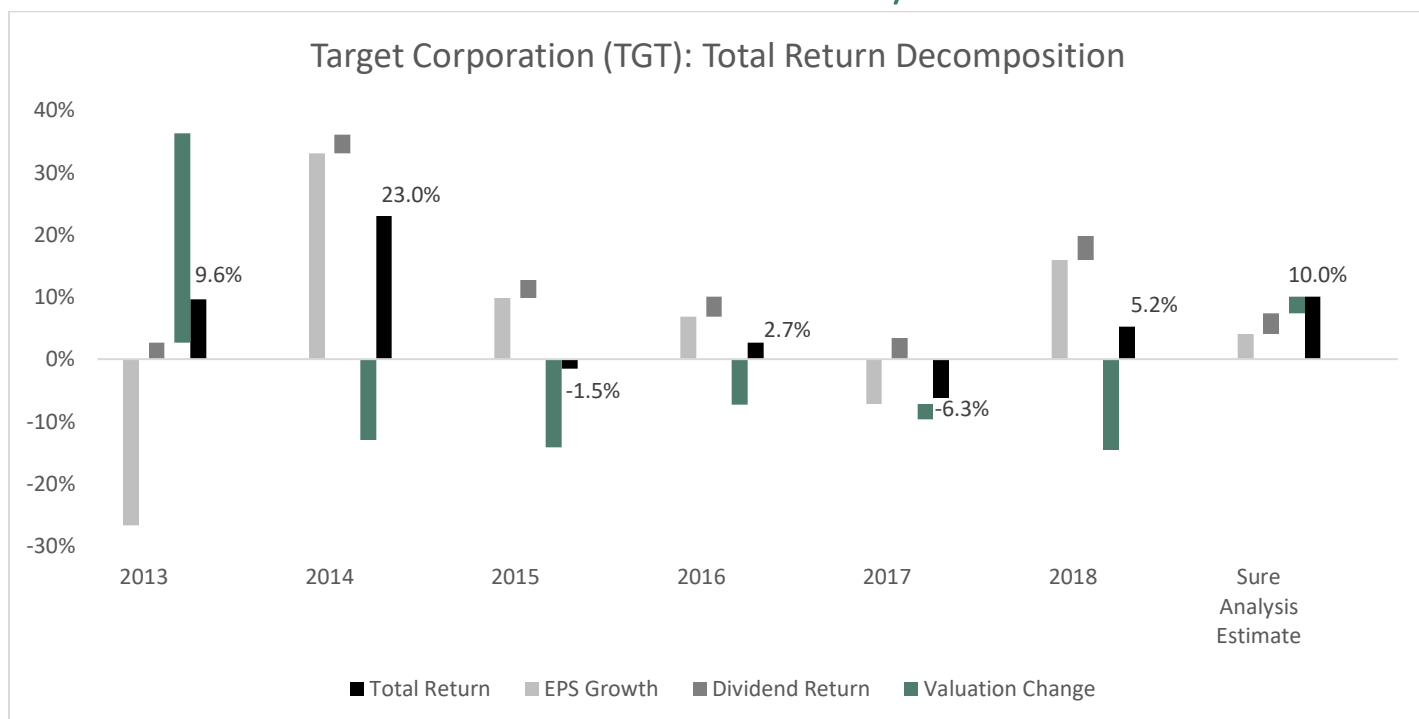
Target is a Dividend Aristocrat that has grown its dividend for 49 consecutive years. However, as it has grown its dividend much faster than its earnings, the company has markedly increased its payout ratio, from 20% in 2009 to 44% this year. Moreover, the company is heavily investing in its business in order to navigate through the changing landscape in the retail sector. Therefore, the company is likely to raise its dividend at a slow pace in the upcoming years.

Target's competitive advantage comes from its discounted prices on attractive merchandize in its guest-friendly stores. However, given the price war in the retail sector, Target's moat is declining. In addition, as consumers tend to curtail their consumption during recessions, the company is vulnerable in such periods. In 2008, its earnings-per-share fell 14%. Nevertheless, that performance was much better than that of most companies, which saw their earnings collapse during the Great Recession. Moreover, it took only one year for the earnings of Target to return to their pre-crisis level. Therefore, while Target is vulnerable to economic downturns, it is much more resilient than most stocks in such periods.

Final Thoughts & Recommendation

In our last report, we advised investors to buy Target thanks to its attractive valuation and growth prospects. Since then, the stock has rallied 13%. Despite this rally, Target is still attractively valued thanks to its strong business momentum. As a result, it can offer a 10.0% average annual return over the next five years and thus maintains its buy rating. Thanks to the safety of its dividend, Target is suitable for income-oriented investors; however, these investors should expect lackluster dividend growth in the upcoming years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	65357	67390	69865	73301	71279	72618	73785	69495	71879	75356
Gross Profit	19774	20805	21559	22266	21240	21340	21544	20350	20754	22057
Gross Margin	30.3%	30.9%	30.9%	30.4%	29.8%	29.4%	29.2%	29.3%	28.9%	29.3%
SG&A Exp.	13078	13469	14106	14643	14465	14676	14665	13356	14248	15723
D&A Exp.	2023	2084	2131	2044	1996	2129	2213	2298	2445	2474
Operating Profit	4673	5252	5322	5579	4779	4535	4910	4969	4312	4110
Op. Margin	7.1%	7.8%	7.6%	7.6%	6.7%	6.2%	6.7%	7.2%	6.0%	5.5%
Net Profit	2488	2920	2929	2999	1971	-1636	3363	2737	2934	2937
Net Margin	3.8%	4.3%	4.2%	4.1%	2.8%	-2.3%	4.6%	3.9%	4.1%	3.9%
Free Cash Flow	4152	3142	1066	2979	4634	2679	4520	3889	4390	2457
Income Tax	1384	1575	1527	1741	1427	1204	1602	1296	718	746

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	44533	43705	46630	48163	44553	41172	40262	37431	38999	41290
Cash & Equivalents	583	583	794	784	670	2210	4046	2512	2643	1556
Acc. Receivable	6966	6153	5927	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inventories	7179	7596	7918	7903	8278	8282	8601	8309	8657	9497
Goodwill & Int.	N/A	N/A	242	224	331	298	277	259	782	N/A
Total Liabilities	29186	28218	30809	31605	28322	27175	27305	26478	27290	29993
Accounts Payable	6511	6625	6857	7056	7335	7759	7418	7252	8677	9761
Long-Term Debt	16814	15726	16483	17648	12572	12725	12760	12749	11587	11275
Total Equity	15347	15487	15821	16558	16231	13997	12957	10953	11709	11297
D/E Ratio	1.10	1.02	1.04	1.07	0.77	0.91	0.98	1.16	0.99	1.00

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	5.6%	6.6%	6.5%	6.3%	4.3%	-3.8%	8.3%	7.0%	7.7%	7.3%
Return on Equity	17.1%	18.9%	18.7%	18.5%	12.0%	-10.8%	25.0%	22.9%	25.9%	25.5%
ROIC	7.7%	9.2%	9.2%	9.0%	6.3%	-5.9%	12.8%	11.1%	12.5%	12.8%
Shares Out.	754.8	729.4	679.1	656.7	635.1	640.1	632.9	582.5	545.9	524.3
Revenue/Share	86.59	92.39	102.16	110.51	111.06	113.45	116.58	119.30	130.62	141.33
FCF/Share	5.50	4.31	1.56	4.49	7.22	4.19	7.14	6.68	7.98	4.61

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

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