



Target Corporation (TGT)

Updated March 8th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$106	5 Year CAGR Estimate:	10.3%	Market Cap:	\$53.4B
Fair Value Price:	\$117	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/18/20 ¹
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	06/10/20 ²
Dividend Yield:	2.5%	5 Year Price Target	\$157	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	3.1%

Overview & Current Events

Target was founded in 1902 and after a failed bid to expand into Canada, has operations solely in the U.S. market. Its business consists of about 1,850 big box stores, which offer general merchandise and food. Target has a market capitalization of \$53 billion and should produce about \$81 billion in total revenue this year.

Target reported Q4 and full-year earnings on March 3rd and results beat expectations on the bottom line, but slightly missed revenue consensus. Comparable sales rose 1.5% in Q4, which was short of expectations of a 2.1% gain.

Transactions rose 1.3% during the quarter and the average ticket moved fractionally higher, adding 0.2%.

Full-year sales were up 3.6% to \$77 billion, reflecting a 3.4% comparable sales gain and a fractional gain from non-mature stores. The company continues to gain due to its digital initiatives, as that channel produced more than 80% of the company's comparable sales gains in the fourth quarter.

Full-year operating income was \$4,658 million, up 13.3% from \$4,110 million in 2018. Gross margin came in at 28.9% of revenue, up 50bps from 28.4% in 2018. The increase was due to efforts to optimize merchandising, costs, promotions and assortments, as well as favorable sales mix. This was partially offset by higher supply chain and fulfillment costs – the result of the company's push for its digital channels – but margins moved in the right direction. SG&A costs were flat as a percentage of revenue year-over-year.

Target's earnings-per-share rose from \$5.39 to \$6.39 year-over-year as the company's impressive growth continues. We expect \$6.90 in earnings-per-share for this year as we see a modest revenue increase, share repurchases, and margin gains to combine to produce another solid year of earnings expansion.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.88	\$4.28	\$4.38	\$3.21	\$4.27	\$4.69	\$5.01	\$4.65	\$5.39	\$6.39	\$6.90	\$9.23
DPS	\$0.84	\$1.10	\$1.32	\$1.58	\$1.90	\$2.16	\$2.32	\$2.44	\$2.52	\$2.60	\$2.64	\$3.53
Shares³	729	679	657	635	640	633	583	546	524	512	505	460

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 borne fruit and as a result, Target has significantly improved its performance in recent quarters. 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, we expect 6% annualized growth beyond this year. We see continued comparable sales growth as driving results, along with a small measure of margin expansion, and the constant tailwind of the buyback. Target's digital efforts are also working extremely nicely, and the company's small-format stores are

¹ Estimated date

² Estimated date

³ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Target Corporation (TGT)

Updated March 8th, 2020 by Josh Arnold

performing very well, opening up a new avenue of growth for the company in the coming years. SG&A costs are continuing to rise, albeit slowly, so that is something to keep an eye on as well.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.9	11.9	13.7	20.7	14.7	16.6	14.6	14.2	14.2	14.4	15.4	17.0
Avg. Yld.	1.6%	2.2%	2.2%	2.4%	3.0%	2.8%	3.2%	4.0%	3.3%	2.8%	2.5%	2.3%

After the market-wide selloff due to the coronavirus, Target shares are trading under our estimate of fair value. Shares trade at a price-to-earnings ratio of 15.4, which is still in excess of its 10-year average of 14.7, but below our estimate of fair value at 17 times earnings. We note this is the lowest yield the stock has traded with for several years, going back to the aftermath of the financial crisis. If the stock reverts to our estimate of fair value over the next five years, it will produce an annualized tailwind of about 2% to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	22%	26%	30%	49%	45%	46%	46%	53%	47%	41%	38%	38%

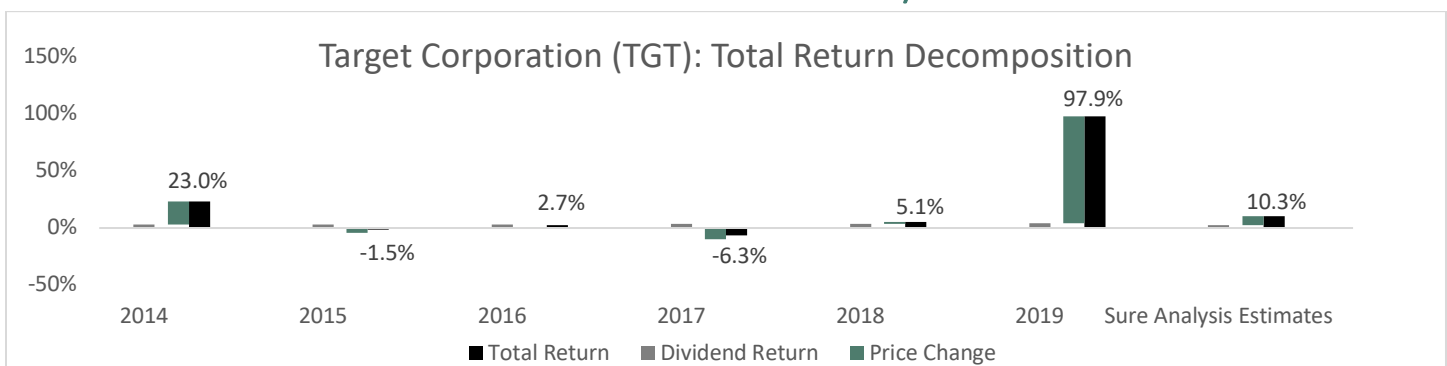
Target has grown its dividend for nearly five decades. However, as it has grown its dividend much more quickly than its earnings recently, the company has markedly increased its payout ratio, from 20% in 2009 to 38% this year. Moreover, the company is heavily investing in its business in order to navigate through the changing landscape in the retail sector. Therefore, Target is likely to raise its dividend at a slower pace in the upcoming years.

Target's competitive advantage comes from its discounted prices on attractive merchandise 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

We see Target as undervalued after the recent selloff, and as possessing a reasonably strong growth outlook. In addition, the company's dividend history is outstanding. We see total annual returns at 10.3% in the coming years after the recent selloff, which has made the stock much cheaper. We like Target's fundamentals and with the cheaper valuation, we are upgrading it to a buy rating from hold.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Target Corporation (TGT)

Updated March 8th, 2020 by Josh Arnold

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	67,390	69,865	73,301	71,279	72,618	73,785	70,271	72,714	75,356	78,112
Gross Profit	20,805	21,559	22,266	21,240	21,340	21,544	21,126	21,589	22,057	23,248
Gross Margin	30.9%	30.9%	30.4%	29.8%	29.4%	29.2%	30.1%	29.7%	29.3%	29.8%
SG&A Exp.	13,469	14,106	14,643	14,465	14,676	14,665	14,217	15,140	15,723	16,233
D&A Exp.	2,084	2,131	2,044	1,996	2,129	2,213	2,318	2,476	2,474	2,604
Operating Profit	5,252	5,322	5,579	4,779	4,535	4,910	4,864	4,224	4,110	4,658
Op. Margin	7.8%	7.6%	7.6%	6.7%	6.2%	6.7%	6.9%	5.8%	5.5%	6.0%
Net Profit	2,920	2,929	2,999	1,971	(1,636)	3,363	2,734	2,914	2,937	3,281
Net Margin	4.3%	4.2%	4.1%	2.8%	-2.3%	4.6%	3.9%	4.0%	3.9%	4.2%
Free Cash Flow	3,142	1,066	2,979	4,634	2,679	4,520	3,897	4,402	2,457	4,090
Income Tax	1,575	1,527	1,741	1,427	1,204	1,602	1,295	722	746	921

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	43,705	46,630	48,163	44,553	41,172	40,262	37,431	40,303	41,290	42,779
Cash & Equivalents	583	794	784	670	2,210	1,038	2,512	737	787	2,577
Acc. Receivable	6,153	5,927	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inventories	7,596	7,918	7,903	8,278	8,282	8,601	8,309	8,597	9,497	8,992
Goodwill & Int.	N/A	242	224	331	298	277	259	709	699	
Total Liabilities	28,218	30,809	31,605	28,322	27,175	27,305	26,478	28,652	29,993	30,946
Accounts Payable	6,625	6,857	7,056	7,335	7,759	7,418	7,252	8,677	9,761	9,920
Long-Term Debt	15,726	16,483	17,648	12,572	12,725	12,760	12,749	11,398	11,275	11,499
Total Equity	15,487	15,821	16,558	16,231	13,997	12,957	10,953	11,651	11,297	11,833
D/E Ratio	1.02	1.04	1.07	0.77	0.91	0.98	1.16	0.98	1.00	0.97

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.6%	6.5%	6.3%	4.3%	-3.8%	8.3%	7.0%	7.5%	7.2%	7.8%
Return on Equity	18.9%	18.7%	18.5%	12.0%	-10.8%	25.0%	22.9%	25.8%	25.6%	28.4%
ROIC	9.2%	9.2%	9.0%	6.3%	-5.9%	12.8%	11.1%	12.5%	12.9%	14.3%
Shares Out.	729	679	657	635	640	633	583	546	524	512
Revenue/Share	92.39	102.16	110.51	111.06	113.45	116.58	120.64	132.14	141.33	151.50
FCF/Share	4.31	1.56	4.49	7.22	4.19	7.14	6.69	8.00	4.61	7.93

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.