



Target Corporation (TGT)

Updated December 7th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$175	5 Year CAGR Estimate:	5.0%	Market Cap:	\$88 B
Fair Value Price:	\$162	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/18/21 ¹
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	03/10/21 ²
Dividend Yield:	1.6%	5 Year Price Target	\$207	Years Of Dividend Growth:	53
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	3.0%

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 \$88 billion and should produce about \$91 billion in total revenue this year.

Target reported third quarter earnings on November 18th, 2020 with results smashing expectations on both the top and bottom lines. Revenue came to \$22.6 billion, up a staggering 21% year-over-year as the company enjoyed 20.7% higher comparable sales from the same period a year ago. Consensus estimates for comparable sales were for a gain of 11.2%, which Target nearly doubled. Comparable traffic was up 4.5% and average ticket was 15.6% higher in Q3, making up the huge comparable sales gain. In addition, digital comparable sales soared 155% higher, accounting for about half of the total comparable sales growth Target saw in Q3.

Gross margins were up 80bps to 30.6% of revenue, also beating estimates. Margin gains were from targeted merchandising actions, including much lower markdown rates, which was partially offset by higher digital fulfillment and supply chain costs. Operating margin was 8.5% of revenue, up from 5.4% in the same period a year ago.

Adjusted earnings-per-share came to \$2.79, up more than 100% year-over-year despite continued investments in employee pay and benefits, as well as COVID-19-related expenditures. We've boosted our estimate of earnings-per-share for this year to \$9.00 following a blockbuster Q3 report.

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	\$9.00	\$11.49
DPS	\$0.84	\$1.10	\$1.32	\$1.58	\$1.90	\$2.16	\$2.32	\$2.44	\$2.52	\$2.60	\$2.72	\$3.64
Shares³	729	679	657	635	640	633	583	546	524	512	505	480

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, although the pace of buybacks has slowed materially as the share price has risen. Overall, we expect 5% annualized growth.

We see continued comparable sales growth as driving results, along with a small measure of margin expansion, and a tailwind from the buyback. Target's digital efforts are also working extremely nicely, as we saw again in Q3 results, and the company's small-format stores are performing very well, opening up a new avenue of growth for the company in the coming years. SG&A costs were leveraged down in Q3, which is a positive change from prior quarters. Target lifted its share repurchase suspension during the Q3 report, so we expect to see significant shareholder returns via this medium in the near future.

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.



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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	19.4	18.0
Avg. Yld.	1.6%	2.2%	2.2%	2.4%	3.0%	2.8%	3.2%	4.0%	3.3%	2.8%	1.6%	1.8%

Target shares trade for 19.4 times our earnings estimate for this year, slightly ahead of our raised estimate of fair value at 18 times earnings. We note that the 1.6% yield is the lowest yield the stock has traded with for several years. If the stock reverts to our estimate of fair value over the next five years, it will produce a small headwind to total returns. Target's recent above-trend growth is already reflected in our fair value estimate.

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%	30%	32%

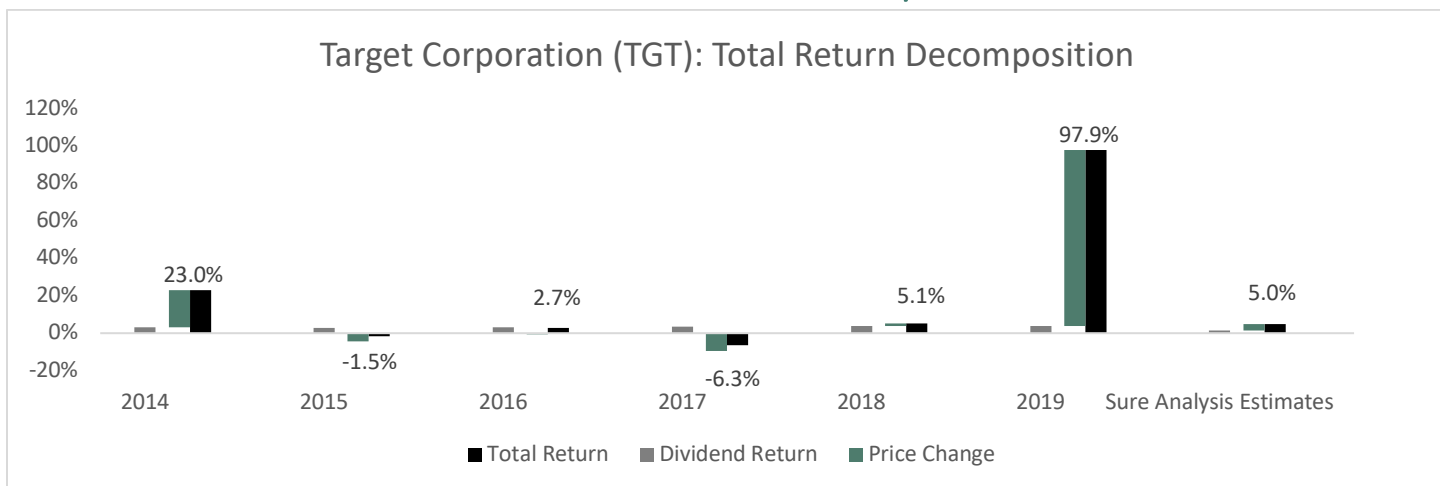
Target has grown its dividend for more than five decades. However, as it had grown its dividend more quickly than its earnings, the company has increased its payout ratio, from 20% in 2009 to 30% this year. Moreover, the company is heavily investing in its business in order to navigate through the changing landscape in the retail sector. Therefore, Target is likely to raise its dividend at a slower pace in the upcoming years, but we see no dividend risk at this point.

Target's competitive advantage comes from its everyday low prices on attractive merchandise in its guest-friendly stores. However, given the price war in the retail sector, Target's moat faces decline. 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. Target, rather than struggling, is thriving in 2020, producing record earnings.

Final Thoughts & Recommendation

We see Target as modestly overvalued, but given explosive earnings growth this year, and our raised fair value, shares are much closer to fairly valued than they have been earlier this year. We see total returns at 5% annually moving forward, and rate Target a hold as a result.

Total Return Breakdown by Year



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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	---	---	---	---	---	---	---	---
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	686
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.

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