



# Target Corporation (TGT)

Updated June 3<sup>rd</sup>, 2021 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$229	<b>5 Year CAGR Estimate:</b>	3.5%	<b>Market Cap:</b>	\$113 B
<b>Fair Value Price:</b>	\$221	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	08/18/21 <sup>1</sup>
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.8%	<b>Dividend Payment Date:</b>	09/10/21
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$256	<b>Years Of Dividend Growth:</b>	53
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 \$113 billion and should produce about \$101 billion in total revenue this year.

Target reported first quarter earnings on May 19<sup>th</sup>, 2021, with results for both revenue and earnings crushing expectations in a record quarter for the retailer. Total revenue was up 23% year-over-year to more than \$24 billion as Target lapped the initial stages of the pandemic. Comparable sales were 22.9% higher, which was substantially all of the revenue increase. Consensus estimates were for a comparable sales gain of 10.7%. Comparable digital sales once again led the way, adding 50% year-over-year to account for 18.3% of total sales.

Gross margin was 30.0% of sales, up strongly from 25.1% in the year-ago period. Gross margins were up due to favorable category mix and merchandising actions, particularly from low markdown rates. Operating margin came to 9.8% of sales, which was more than 300bps better than estimates. EBITDA was \$3.38 billion on an adjusted basis, which was up from \$2.18 billion in last year's Q1.

Target now guides for positive single digit comparable sales gains in the last two quarters of the year, and that full-year operating margin will be somewhere near 8% of revenue. We've drastically increased our estimate of earnings-per-share to \$12.25 following outstanding Q1 results.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$4.28	\$4.38	\$3.21	\$4.27	\$4.69	\$5.01	\$4.65	\$5.39	\$6.39	\$9.42	<b>\$12.25</b>	<b>\$14.20</b>
<b>DPS</b>	\$1.10	\$1.32	\$1.58	\$1.90	\$2.16	\$2.32	\$2.44	\$2.52	\$2.60	\$2.68	<b>\$2.72</b>	<b>\$3.64</b>
<b>Shares<sup>2</sup></b>	679	657	635	640	633	583	546	524	512	506	<b>495</b>	<b>455</b>

Target has grown its earnings-per-share at an average annual rate of 8.2% 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 -2.8% per year in the last five years, although the pace of buybacks has slowed materially as the share price has risen. Overall, we expect 3% 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 Q1 results, and the company's small-format stores are performing very well, opening a new avenue of growth for the company in the coming years. SG&A costs were leveraged down in the second half of 2020, which is a positive development from prior quarters. Target lifted its share repurchase suspension during the Q3 2020 report, so we expect to see significant shareholder returns via this medium in the near future. However, we note that Target remains committed to investing in

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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its digital capabilities, as well as its 50+ year streak of dividend increases. Our growth estimate has been reduced only because the base of earnings is so high for 2021; this does not reflect a deterioration of the company's outlook.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.9	13.7	20.7	14.7	16.6	14.6	14.2	14.2	14.4	14.0	18.7	18.0
Avg. Yld.	2.2%	2.2%	2.4%	3.0%	2.8%	3.2%	4.0%	3.3%	2.8%	2.0%	1.2%	1.4%

Target shares trade for 18.7 times our earnings estimate for this year, slightly ahead of our raised estimate of fair value at 18 times earnings. We note that the 1.3% 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 growth is already reflected in our fair value estimate.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	26%	30%	49%	45%	46%	46%	53%	47%	41%	28%	22%	26%

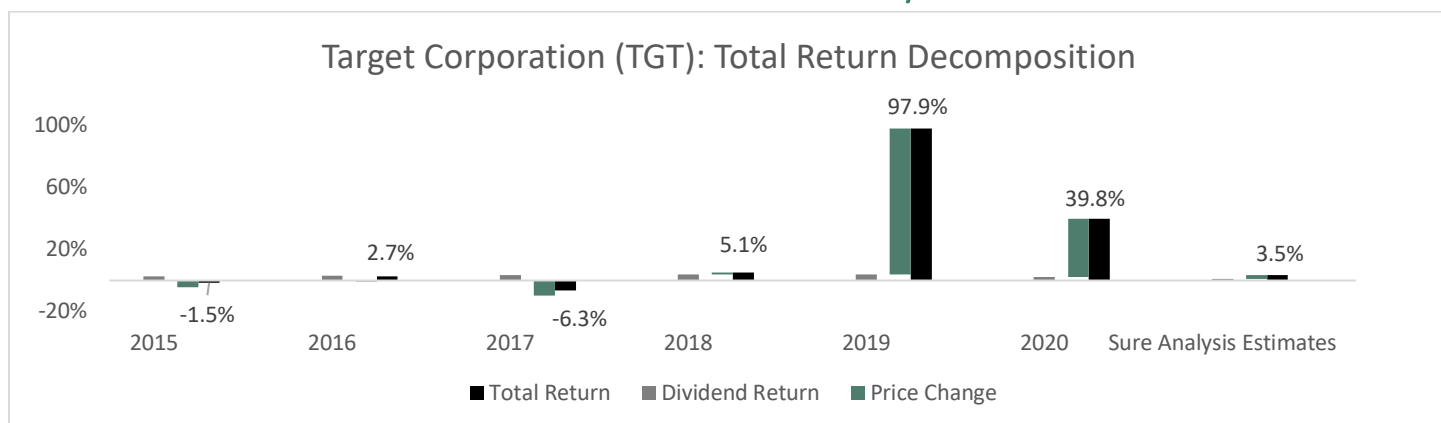
Target has grown its dividend for more than five decades. The company is heavily investing in its business in order to navigate through the changing landscape in the retail sector. Therefore, Target is likely to raise its dividend at a slower pace in the upcoming years, but we see no dividend risk at 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 is combatting this in part with its massive push towards digital sales channels, which is working.

## Final Thoughts & Recommendation

We see Target as modestly overvalued. Given explosive earnings growth in 2020, and more of the same forecast for 2021, we see diminished growth potential moving forward. We forecast total returns at 3.5% annually moving forward and continue to rate Target a hold as a result. The yield is now extremely low by Target's standards, but the dividend increase streak is impressive and should provide many more years of payout growth.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	69,865	73,301	71,279	72,618	73,785	70,271	72,714	75,356	78,112	93,561
<b>Gross Profit</b>	21,559	22,266	21,240	21,340	21,544	21,126	21,589	22,057	23,248	27,384
<b>Gross Margin</b>	30.9%	30.4%	29.8%	29.4%	29.2%	30.1%	29.7%	29.3%	29.8%	29.3%
<b>SG&amp;A Exp.</b>	14,106	14,643	14,465	14,676	14,665	14,217	15,140	15,723	16,233	18,615
<b>D&amp;A Exp.</b>	2,131	2,044	1,996	2,129	2,213	2,318	2,476	2,474	2,604	2,485
<b>Operating Profit</b>	5,322	5,579	4,779	4,535	4,910	4,864	4,224	4,110	4,658	6,539
<b>Op. Margin</b>	7.6%	7.6%	6.7%	6.2%	6.7%	6.9%	5.8%	5.5%	6.0%	7.0%
<b>Net Profit</b>	2,929	2,999	1,971	(1,636)	3,363	2,734	2,914	2,937	3,281	4,368
<b>Net Margin</b>	4.2%	4.1%	2.8%	-2.3%	4.6%	3.9%	4.0%	3.9%	4.2%	4.7%
<b>Free Cash Flow</b>	1,066	2,979	4,634	2,679	4,520	3,897	4,402	2,457	4,090	7,876
<b>Income Tax</b>	1,527	1,741	1,427	1,204	1,602	1,295	722	746	921	1,178

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	46,630	48,163	44,553	41,172	40,262	37,431	40,303	41,290	42,779	51,248
<b>Cash &amp; Equivalents</b>	794	784	670	2,210	1,038	2,512	737	787	2,577	8,511
<b>Acc. Receivable</b>	5,927	---	---	---	---	---	---	---	---	---
<b>Inventories</b>	7,918	7,903	8,278	8,282	8,601	8,309	8,597	9,497	8,992	10,653
<b>Goodwill &amp; Int.</b>	242	224	331	298	277	259	709	699	686	---
<b>Total Liabilities</b>	30,809	31,605	28,322	27,175	27,305	26,478	28,652	29,993	30,946	36,808
<b>Accounts Payable</b>	6,857	7,056	7,335	7,759	7,418	7,252	8,677	9,761	9,920	12,859
<b>Long-Term Debt</b>	16,483	17,648	12,572	12,725	12,760	12,749	11,398	11,275	11,499	12,680
<b>Total Equity</b>	15,821	16,558	16,231	13,997	12,957	10,953	11,651	11,297	11,833	14,440
<b>D/E Ratio</b>	1.04	1.07	0.77	0.91	0.98	1.16	0.98	1.00	0.97	0.88

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	6.5%	6.3%	4.3%	-3.8%	8.3%	7.0%	7.5%	7.2%	7.8%	9.3%
<b>Return on Equity</b>	18.7%	18.5%	12.0%	-10.8%	25.0%	22.9%	25.8%	25.6%	28.4%	33.3%
<b>ROIC</b>	9.2%	9.0%	6.3%	-5.9%	12.8%	11.1%	12.5%	12.9%	14.3%	17.3%
<b>Shares Out.</b>	679	657	635	640	633	583	546	524	512	506
<b>Revenue/Share</b>	102.2	110.51	111.06	113.45	116.58	120.64	132.14	141.33	151.50	185.12
<b>FCF/Share</b>	1.56	4.49	7.22	4.19	7.14	6.69	8.00	4.61	7.93	15.58

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

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