



Target Corporation (TGT)

Updated August 21st, 2021, by Josh Arnold

Key Metrics

Current Price:	\$253	5 Year CAGR Estimate:	3.0%	Market Cap:	\$120 B
Fair Value Price:	\$234	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/18/21 ¹
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	12/10/21
Dividend Yield:	1.4%	5 Year Price Target	\$271	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	32.4%

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, as well as serving as distribution points for the company's burgeoning e-commerce business. Target has a market capitalization of \$120 billion and should produce about \$104 billion in total revenue this year.

Target reported second quarter earnings on August 18th, 2021, and results were better than expected on both the top and bottom lines. Total revenue was up 9.5% year-over-year to \$25.2 billion, beating estimates by about \$130 million. Comparable sales were up a very impressive 8.9%, which was on top of record growth in the year-ago period of 24.3%, making the company's two-year stacked comparable sales gain for Q2 a staggering 33.2%. Management said the gain in comparable sales was driven entirely by increased traffic levels, indicating that the average ticket size was the same year-over-year. Store comparable sales were up 8.7%, which was on top of 10.9% growth in last year's Q2. Digital comparable sales were up 10%, which was on top of 195% growth a year ago. The company's same-day services continue to lead the way, with Order Pickup, Drive Up, and Shipt combining for 55% comparable growth, on top of 270% growth in last year's Q2.

Gross margins fell 50bps to 30.4% of sales, which was due to higher merchandise and freight costs. Earnings-per-share came to \$3.64 on an adjusted basis, which was 11 cents better than estimated. It was also double the level the company achieved in the same period of 2019.

The board also authorized a new \$15 billion share repurchase program and Target boosted its dividend by 32.4% during the quarter to a new annualized payout of \$3.60 per share. This marks the 54th consecutive year of dividend increases.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.28	\$4.38	\$3.21	\$4.27	\$4.69	\$5.01	\$4.65	\$5.39	\$6.39	\$9.42	\$13.00	\$15.07
DPS	\$1.10	\$1.32	\$1.58	\$1.90	\$2.16	\$2.32	\$2.44	\$2.52	\$2.60	\$2.68	\$3.60	\$4.82
Shares²	679	657	635	640	633	583	546	524	512	506	490	425

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 Q2 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. The new buyback authorization should be good for a significant tailwind to earnings-per-share in the

¹ Estimated date

² 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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coming years. However, we note that Target remains committed to investing in its digital capabilities, as well as its 50+ year streak of dividend increases.

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	19.5	18.0
Avg. Yld.	2.2%	2.2%	2.4%	3.0%	2.8%	3.2%	4.0%	3.3%	2.8%	2.0%	1.4%	1.8%

Target shares trade for 19.5 times our earnings estimate for this year, slightly ahead of our raised estimate of fair value at 18 times earnings. We note that the 1.4% yield is near 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%	28%	32%

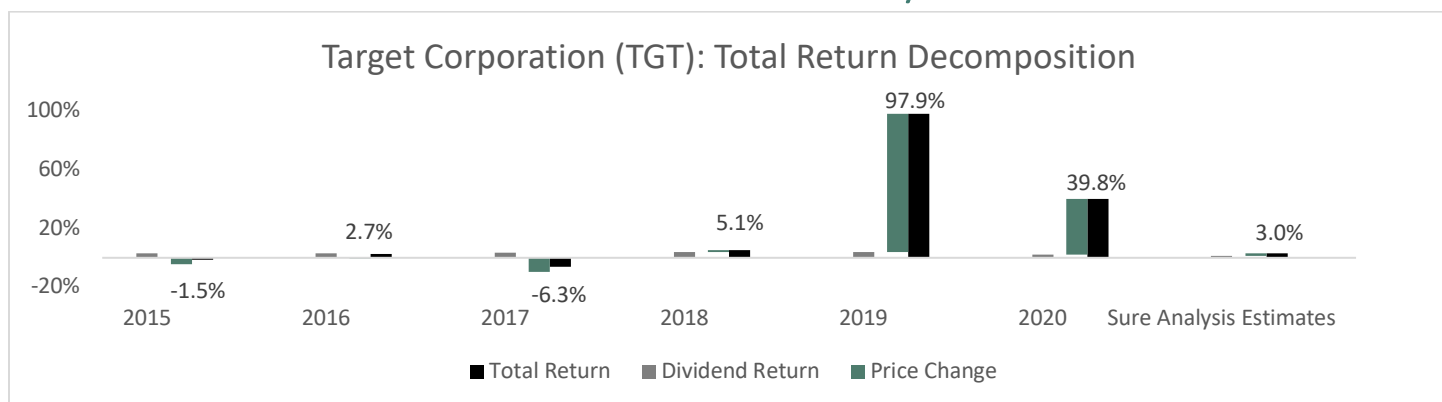
Target has grown its dividend for more than five decades. The company is heavily investing in its business in order to navigate through the changing landscape in the retail sector. The recent 32% dividend increase was unexpected given its massive size, but the payout ratio is still just 28%.

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% annually moving forward. 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. Still, we are downgrading Target from hold to sell on poor prospective returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	69,865	73,301	71,279	72,618	73,785	70,271	72,714	75,356	78,112	93,561
Gross Profit	21,559	22,266	21,240	21,340	21,544	21,126	21,589	22,057	23,248	27,384
Gross Margin	30.9%	30.4%	29.8%	29.4%	29.2%	30.1%	29.7%	29.3%	29.8%	29.3%
SG&A Exp.	14,106	14,643	14,465	14,676	14,665	14,217	15,140	15,723	16,233	18,615
D&A Exp.	2,131	2,044	1,996	2,129	2,213	2,318	2,476	2,474	2,604	2,485
Operating Profit	5,322	5,579	4,779	4,535	4,910	4,864	4,224	4,110	4,658	6,539
Op. Margin	7.6%	7.6%	6.7%	6.2%	6.7%	6.9%	5.8%	5.5%	6.0%	7.0%
Net Profit	2,929	2,999	1,971	(1,636)	3,363	2,734	2,914	2,937	3,281	4,368
Net Margin	4.2%	4.1%	2.8%	-2.3%	4.6%	3.9%	4.0%	3.9%	4.2%	4.7%
Free Cash Flow	1,066	2,979	4,634	2,679	4,520	3,897	4,402	2,457	4,090	7,876
Income Tax	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
Total Assets	46,630	48,163	44,553	41,172	40,262	37,431	40,303	41,290	42,779	51,248
Cash & Equivalents	794	784	670	2,210	1,038	2,512	737	787	2,577	8,511
Acc. Receivable	5,927	---	---	---	---	---	---	---	---	---
Inventories	7,918	7,903	8,278	8,282	8,601	8,309	8,597	9,497	8,992	10,653
Goodwill & Int.	242	224	331	298	277	259	709	699	686	---
Total Liabilities	30,809	31,605	28,322	27,175	27,305	26,478	28,652	29,993	30,946	36,808
Accounts Payable	6,857	7,056	7,335	7,759	7,418	7,252	8,677	9,761	9,920	12,859
Long-Term Debt	16,483	17,648	12,572	12,725	12,760	12,749	11,398	11,275	11,499	12,680
Total Equity	15,821	16,558	16,231	13,997	12,957	10,953	11,651	11,297	11,833	14,440
D/E Ratio	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
Return on Assets	6.5%	6.3%	4.3%	-3.8%	8.3%	7.0%	7.5%	7.2%	7.8%	9.3%
Return on Equity	18.7%	18.5%	12.0%	-10.8%	25.0%	22.9%	25.8%	25.6%	28.4%	33.3%
ROIC	9.2%	9.0%	6.3%	-5.9%	12.8%	11.1%	12.5%	12.9%	14.3%	17.3%
Shares Out.	679	657	635	640	633	583	546	524	512	506
Revenue/Share	102.2	110.51	111.06	113.45	116.58	120.64	132.14	141.33	151.50	185.12
FCF/Share	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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