



Target Corporation (TGT)

Updated December 5th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$248	5 Year CAGR Estimate:	4.7%	Market Cap:	\$119 B
Fair Value Price:	\$239	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/18/22 ¹
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	03/10/22
Dividend Yield:	1.5%	5 Year Price Target	\$290	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 \$119 billion and should produce about \$106 billion in total revenue this year.

Target reported third quarter earnings on November 17th, 2021, and results were ahead of expectations on both revenue and adjusted profits. Total revenue was \$25.65 billion, which was 13% ahead of the same period a year ago, and beat expectations by more than \$1 billion, a very strong performance. Store comparable sales were up 9.7% year-over-year, while digital comparable sales were up 29%, extending the company's streak of very strong digital comparable sales, but the stores themselves performed quite well too. Target said the company expects high-single digit to low-double digit growth in comparable sales, which is up from the prior guidance of high-single digit growth.

Gross margins came to 28.0% in Q3, which was down from 30.6% in the year-ago period. The gross margin rate reflected pressure from higher merchandise and freight costs, higher inventory shrink costs, and increased supply chain costs, which stemmed from higher compensation and headcount in the company's distribution network. Operating income rose 3.9% to \$2 billion on weaker margins, but higher revenue.

We now expect \$13.25 in earnings-per-share for this year following very strong revenue, but weak margins in Q3.

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	\$13.25	\$16.12
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	479	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 4% 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 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 coming years. However, we note that Target remains committed to investing in its digital capabilities, as well as its 50+

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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year streak of dividend increases. The only caution is on margins now that we've seen Q3 results come in quite weak on a gross margin basis, so that's something that could introduce a wildcard for earnings in the near future.

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%	1.5%	1.7%

Target shares trade for 18.7 times our earnings estimate for this year, slightly ahead of our estimate of fair value at 18 times earnings. We note that the 1.5% 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 very 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%	27%	30%

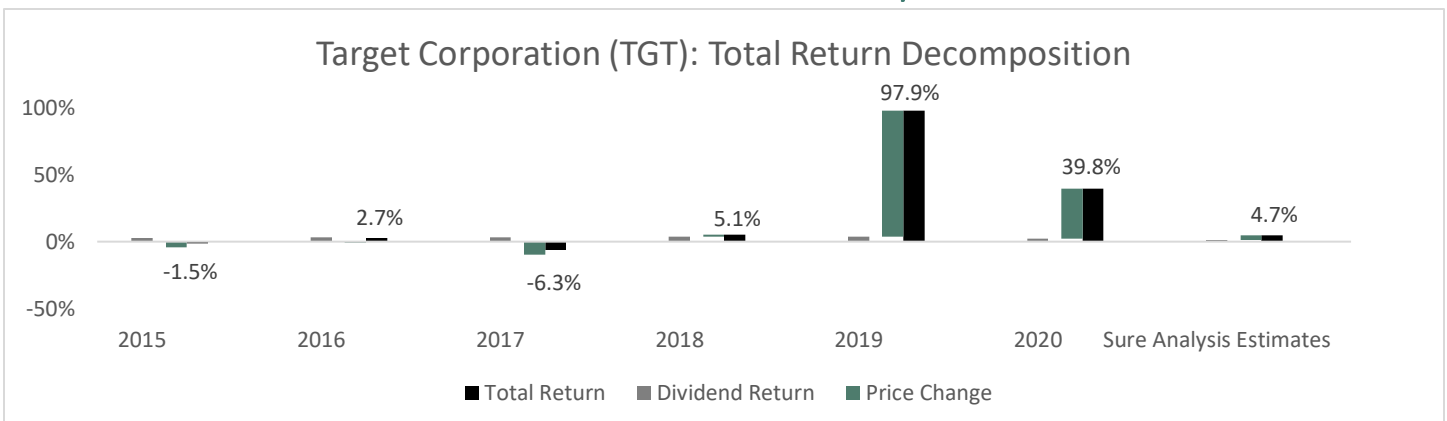
Target has grown its dividend for more than five decades. The company is heavily investing in its business in order to navigate through the changing landscape in the retail sector. The recent 32% dividend increase was unexpected given its massive size, but the payout ratio is still just 27%.

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 slightly 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 4.7% annually. The yield is extremely low by Target's standards, but the dividend increase streak is impressive and should provide many more years of payout growth. We are upgrading Target from sell to hold following Q3 results.

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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