Target Corporation (TGT)

Updated November 22nd, 2023, by Josh Arnold

Key Metrics

Current Price:	$130	**5 Year CAGR Estimate:**	12.9%	**Market Cap:**	$60 B
Fair Value Price:	$132	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	02/15/24[1]
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date:**	03/10/24
Dividend Yield:	3.4%	**5 Year Price Target**	$213	**Years Of Dividend Growth:**	55
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Rating:**	Buy

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 $60 billion and should produce about $107 billion in total revenue this year.

Target posted third quarter earnings on November 15th, 2023, and results were much better than expected on both the top and bottom lines. The company's shares soared in a double-digit rally following the report.

Revenue came to $25.2 billion, which was down 4.2% year-over-year, but was $160 million better than expected. Comparable sales fell 4.9%, which was attributable to a physical store sales decline of 4.6%, and a comparable digital sales decline of 6.0%. Adjusted earnings-per-share came to $2.10, which was a staggering 62 cents better than expected.

Margins were the star of the show, as operating margins came to 5.2% of revenue, up sharply from 3.9% a year ago, and despite lower sales. Gross margins were 27.4% of revenue, up from 24.7% a year ago, which was due to lower markdowns and other inventory-related costs, lower freight costs, lower supply chain and digital fulfillment costs, and favorable category mix. SG&A costs were 20.9% of revenue, up from 19.7% a year ago, and reflected the deleveraging impact of lower sales combined with higher costs, including investments in pay and benefits. Inventory declined 14% a year ago, with the discretionary category declining 19%.

The company has $9.7 billion remaining on its share repurchase plan, and it did not repurchase any stock during the quarter. Target offered up consensus earnings guidance for Q4, and we now see $8.28 in earnings-per-share for this year after terrific Q3 results.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.21	$4.27	$4.69	$5.01	$4.65	$5.39	$6.39	$9.42	$13.56	$6.02	***$8.28***	***$13.34***
DPS	$1.58	$1.90	$2.16	$2.32	$2.44	$2.52	$2.60	$2.68	$3.16	$3.96	***$4.40***	***$5.62***
Shares[2]	635	640	633	583	546	524	512	506	471	460	***450***	***400***

Target has grown its earnings-per-share at an average annual rate of nearly 13% 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 -4.8% per year in the last six years, although the pace of buybacks has slowed as the share price has risen. Overall, we expect 10% annualized growth from what should be a low level for 2023 given margin issues that cropped up in recent quarters.

We see continued comparable sales growth as driving results, along with sizable margin expansion from low levels in 2022 and 2023, and a tailwind from the buyback. Target's digital efforts are also working extremely nicely, although

[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.

there was some pulling back after enormous sales growth during the pandemic. The remaining 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+ year streak of dividend increases. Margins are improving in 2023.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.7	14.7	16.6	14.6	14.2	14.2	14.4	14.0	16.6	24.8	***15.7***	***16.0***
Avg. Yld.	2.4%	3.0%	2.8%	3.2%	4.0%	3.3%	2.8%	2.0%	1.4%	2.7%	***3.4%***	***2.9%***

Target shares trade for 15.7 times our earnings estimate for this year, below our estimate of fair value at 16 times earnings. We note that the 3.4% yield is among the highest it's been for years. If the stock reverts to our estimate of fair value over the next five years, it will produce a fractional tailwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	49%	45%	46%	46%	53%	47%	41%	28%	23%	66%	***53%***	***42%***

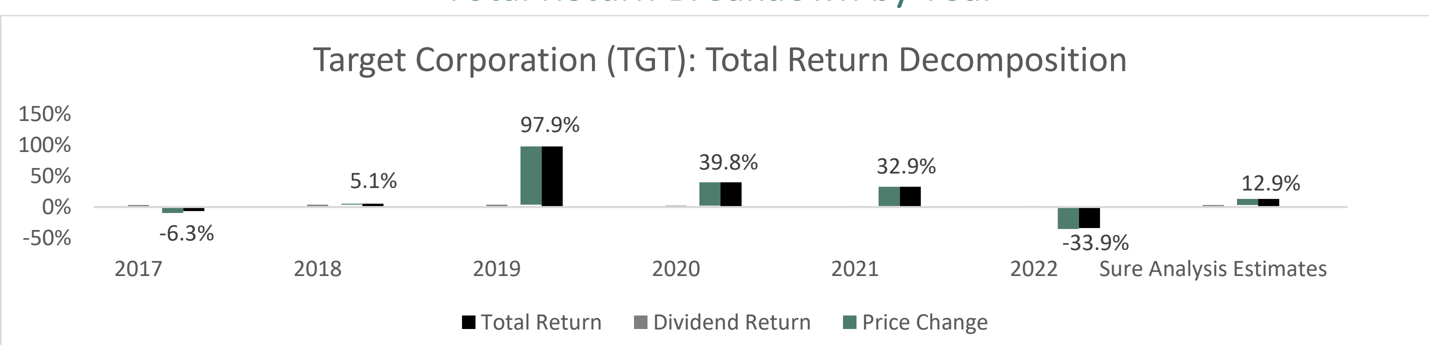
Target has grown its dividend for more than five decades, making it a Dividend King. The company is investing heavily in its business in order to navigate through the changing landscape in the retail sector. The payout is now 53% of earnings for this year, which is elevated historically. We expect the payout ratio to decline starting as earnings rise and smaller dividend increases.

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 undervalued despite recent strength in the stock, and should provide a small tailwind to total returns. Given earnings this year, we see 10% earnings growth going forward. We forecast total returns at 12.9% annually. The yield of 3.4% is high, and the dividend increase streak is impressive and should provide many more years of payout growth. We're reiterating the stock at a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	71,279	72,618	73,785	70,271	72,714	75,356	78,112	93,561	106,005	109,120
Gross Profit	21,240	21,340	21,544	21,126	21,589	22,057	23,248	27,384	31,042	26,891
Gross Margin	29.8%	29.4%	29.2%	30.1%	29.7%	29.3%	29.8%	29.3%	29.3%	24.6%
SG&A Exp.	14,465	14,676	14,665	14,217	15,140	15,723	16,233	18,615	19,752	20,658
D&A Exp.	1,996	2,129	2,213	2,318	2,476	2,474	2,604	2,485	2,642	2,700
Operating Profit	4,779	4,535	4,910	4,864	4,224	4,110	4,658	6,539	8,946	3,848
Op. Margin	6.7%	6.2%	6.7%	6.9%	5.8%	5.5%	6.0%	7.0%	8.4%	2.5%
Net Profit	1,971	(1,636)	3,363	2,734	2,914	2,937	3,281	4,368	6,946	2,780
Net Margin	2.8%	-2.3%	4.6%	3.9%	4.0%	3.9%	4.2%	4.7%	6.6%	2.5%
Free Cash Flow	4,634	2,679	4,520	3,897	4,402	2,457	4,090	7,876	5,081	(1,510)
Income Tax	1,427	1,204	1,602	1,295	722	746	921	1,178	1,961	638

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	44,553	41,172	40,262	37,431	40,303	41,290	42,779	51,248	53,811	53,335
Cash & Equivalents	670	2,210	1,038	2,512	737	787	767	867	5,911	886
Acc. Receivable	---	---	---	---	---	---	498	631	---	1,169
Inventories	8,278	8,282	8,601	8,309	8,597	9,497	8,992	10,653	13,902	13,499
Goodwill & Int.	331	298	277	259	709	699	686	668	---	645
Total Liabilities	28,322	27,175	27,305	26,478	28,652	29,993	30,946	36,808	40,984	42,103
Accounts Payable	7,335	7,759	7,418	7,252	8,677	9,761	9,920	12,859	15,478	13,487
Long-Term Debt	12,572	12,725	12,760	12,749	11,398	11,275	11,499	12,680	13,720	16,139
Total Equity	16,231	13,997	12,957	10,953	11,651	11,297	11,833	14,440	12,827	11,232
LTD/E Ratio	0.77	0.91	0.98	1.16	0.98	1.00	0.97	0.88	1.07	1.44

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.3%	-3.8%	8.3%	7.0%	7.5%	7.2%	7.8%	9.3%	13.2%	5.2%
Return on Equity	12.0%	-10.8%	25.0%	22.9%	25.8%	25.6%	28.4%	33.3%	50.9%	23.1%
ROIC	6.3%	-5.9%	12.8%	11.1%	12.5%	12.9%	14.3%	17.3%	25.9%	10.3%
Shares Out.	635	640	633	583	546	524	512	506	471	465
Revenue/Share	111.1	113.45	116.58	120.64	132.14	141.33	151.50	185.12	215.15	234.82
FCF/Share	7.22	4.19	7.14	6.69	8.00	4.61	7.93	15.58	10.31	-3.25

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