



# Target Corporation (TGT)

Updated March 9<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$170	<b>5 Year CAGR Estimate:</b>	10.6%	<b>Market Cap:</b>	\$78 B
<b>Fair Value Price:</b>	\$159	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	05/15/24 <sup>1</sup>
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.3%	<b>Dividend Payment Date:</b>	06/10/24
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$256	<b>Years Of Dividend Growth:</b>	55
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 \$78 billion and should produce about \$107 billion in total revenue this year.

Target posted fourth quarter and full-year earnings on March 5<sup>th</sup>, 2024, and results were quite strong. Adjusted earnings-per-share came to \$2.98, which was a staggering 56 cents ahead of estimates. Total revenue was \$31.9 billion, which was 1.7% higher year-over-year, driven mostly by an additional week in fiscal 2023 compared to 2022. Revenue estimates, however, did miss estimates by \$400 million.

Comparable sales were down 4.4%, which was 20 basis points better than consensus. Same-day services were more than 10% of total sales, and were up 13.6%, which was led by the company's very popular Drive Up program.

Operating margin came to 5.8% of revenue, which was up sharply from 3.7% a year ago. Gross margin was 25.6% of sales, also up nicely from 22.7% a year ago. The improvement in gross margin was from lower markdowns and other inventory-related costs, lower freight costs, lower supply chain and digital fulfillment costs, and favorable category mix. Shrink costs were also lower than a year ago, despite continued increases in store loss rates.

Inventory was down 12% at the end of the quarter, which helped margins via lower markdown rates. The company did not repurchase any stock during the quarter, and it continues to have \$9.7 billion remaining on its share repurchase program, which we believe will be resumed in the relatively near future.

We start the year with an estimate of \$9.35 in adjusted earnings-per-share, which would mark the best year since 2021 were it to come to fruition.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$4.27	\$4.69	\$5.01	\$4.65	\$5.39	\$6.39	\$9.42	\$13.56	\$6.02	\$8.94	<b>\$9.35</b>	<b>\$15.06</b>
<b>DPS</b>	\$1.90	\$2.16	\$2.32	\$2.44	\$2.52	\$2.60	\$2.68	\$3.16	\$3.96	\$4.36	<b>\$4.40</b>	<b>\$5.62</b>
<b>Shares<sup>2</sup></b>	640	633	583	546	524	512	506	471	460	462	<b>460</b>	<b>440</b>

Target has grown its earnings-per-share at an average annual rate of about 8% 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 years. The company has reduced its share count over time, although the past two years have seen essentially no change. Overall, we expect 10% annualized growth from what should be a modest level for 2023 given margin issues that cropped up in recent quarters, but appear to be improving. In addition, sales growth remains an issue for Target.

<sup>1</sup> Estimated date

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

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We see comparable sales growth as a challenge, offset by sizable margin expansion from low levels in 2023, and a potential tailwind from the buyback. Target's digital efforts are also working extremely nicely, although 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 once repurchases are resumed. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.7	16.6	14.6	14.2	14.2	14.4	14.0	16.6	24.8	15.9	<b>18.2</b>	<b>17.0</b>
Avg. Yld.	3.0%	2.8%	3.2%	4.0%	3.3%	2.8%	2.0%	1.4%	2.7%	3.1%	<b>2.6%</b>	<b>2.2%</b>

Target shares trade for 18.2 times our earnings estimate for this year, ahead of our estimate of fair value at 17 times earnings. We note that the 2.6% yield is back at a more normalized level. If the stock reverts to our estimate of fair value over the next five years, it will produce a small headwind to total returns.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	45%	46%	46%	53%	47%	41%	28%	23%	66%	49%	<b>47%</b>	<b>37%</b>

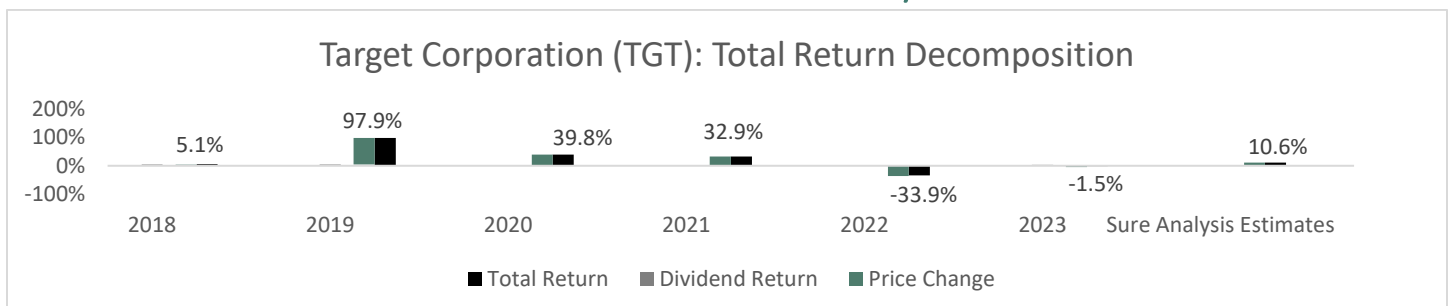
Target has grown its dividend for more than five decades, making it a Dividend King. The company is investing heavily in its business in order to navigate through the changing landscape in the retail sector. The payout is now 47% of earnings for this year, which is elevated historically. We expect the payout ratio to decline 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 overvalued on recent strength in the stock, and should provide a small headwind to total returns. Given earnings this year, we see 10% earnings growth going forward. We forecast total returns at 10.6% annually. The yield of 2.6% is off from its highs, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	72,618	73,785	70,271	72,714	75,356	78,112	93,561	106,005	109,120	107,412
<b>Gross Profit</b>	21,340	21,544	21,126	21,589	22,057	23,248	27,384	31,042	26,891	29,676
<b>Gross Margin</b>	29.4%	29.2%	30.1%	29.7%	29.3%	29.8%	29.3%	29.3%	24.6%	27.6%
<b>SG&amp;A Exp.</b>	14,676	14,665	14,217	15,140	15,723	16,233	18,615	19,752	20,658	21,554
<b>D&amp;A Exp.</b>	2,129	2,213	2,318	2,476	2,474	2,604	2,485	2,642	2,700	2,801
<b>Operating Profit</b>	4,535	4,910	4,864	4,224	4,110	4,658	6,539	8,946	3,848	5,707
<b>Op. Margin</b>	6.2%	6.7%	6.9%	5.8%	5.5%	6.0%	7.0%	8.4%	2.5%	5.3%
<b>Net Profit</b>	(1,636)	3,363	2,734	2,914	2,937	3,281	4,368	6,946	2,780	4,138
<b>Net Margin</b>	-2.3%	4.6%	3.9%	4.0%	3.9%	4.2%	4.7%	6.6%	2.5%	3.9%
<b>Free Cash Flow</b>	2,679	4,520	3,897	4,402	2,457	4,090	7,876	5,081	(1,510)	3,815
<b>Income Tax</b>	1,204	1,602	1,295	722	746	921	1,178	1,961	638	1,159

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	41,172	40,262	37,431	40,303	41,290	42,779	51,248	53,811	53,335	55,356
<b>Cash &amp; Equivalents</b>	2,210	1,038	2,512	737	787	767	867	5,911	886	3,805
<b>Acc. Receivable</b>	---	---	---	---	---	498	631	---	1,169	---
<b>Inventories</b>	8,282	8,601	8,309	8,597	9,497	8,992	10,653	13,902	13,499	11,886
<b>Goodwill &amp; Int.</b>	298	277	259	709	699	686	668	---	645	---
<b>Total Liabilities</b>	27,175	27,305	26,478	28,652	29,993	30,946	36,808	40,984	42,103	41,924
<b>Accounts Payable</b>	7,759	7,418	7,252	8,677	9,761	9,920	12,859	15,478	13,487	12,098
<b>Long-Term Debt</b>	12,725	12,760	12,749	11,398	11,275	11,499	12,680	13,720	16,139	16,038
<b>Total Equity</b>	13,997	12,957	10,953	11,651	11,297	11,833	14,440	12,827	11,232	13,432
<b>LTD/E Ratio</b>	0.91	0.98	1.16	0.98	1.00	0.97	0.88	1.07	1.44	1.19

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	-3.8%	8.3%	7.0%	7.5%	7.2%	7.8%	9.3%	13.2%	5.2%	7.6%
<b>Return on Equity</b>	-10.8%	25.0%	22.9%	25.8%	25.6%	28.4%	33.3%	50.9%	23.1%	33.6%
<b>ROIC</b>	-5.9%	12.8%	11.1%	12.5%	12.9%	14.3%	17.3%	25.9%	10.3%	14.6%
<b>Shares Out.</b>	640	633	583	546	524	512	506	471	465	463
<b>Revenue/Share</b>	113.45	116.58	120.64	132.14	141.33	151.50	185.12	215.15	234.82	232.09
<b>FCF/Share</b>	4.19	7.14	6.69	8.00	4.61	7.93	15.58	10.31	-3.25	8.24

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

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