



Target Corporation (TGT)

Updated November 21st, 2024, by Josh Arnold

Key Metrics

Current Price:	\$122	5 Year CAGR Estimate:	12.4%	Market Cap:	\$56 B
Fair Value Price:	\$138	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/20/24
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	12/10/24
Dividend Yield:	3.7%	5 Year Price Target	\$193	Years Of Dividend Growth:	56
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 \$56 billion and should produce more than \$100 billion in total revenue this year. The company also sports an extremely impressive dividend increase streak of 56 years.

Target posted third quarter earnings on November 20th, 2024, and the stock was obliterated after what can only be described as awful guidance for the fourth quarter.

Third quarter revenue was \$25.67 billion, up 1.1% year-over-year, but missing estimates by \$230 million. Adjusted earnings-per-share came to \$1.85, which missed estimates by a staggering 45 cents, or 20%.

For Q3, comparable sales were up just 0.3%, missing estimates of 1.5%. Guest traffic was up 2.4% in the quarter while digital comparable sales rose 10.8%. Gains there were led by Target Circle 360 and Drive Up.

Operating margin was 4.6% of revenue, down from 5.2% a year ago. Gross margins were off 20 basis points to 27.2% of revenue, reflecting higher digital fulfillment and supply chain costs. That was due to higher inventory levels, higher digital sales volumes, and new supply chain facilities coming online. Inventory at the end of Q3 was \$15.17 billion, up from less than \$12 billion a year ago.

Shares worth \$354 million were repurchased during the quarter, and \$9.2 billion remained on the company's authorization, worth about 16% of the current market cap. Management slashed guidance for this year to a midpoint of \$8.60 in adjusted earnings-per-share and we've cut our estimate accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.27	\$4.69	\$5.01	\$4.65	\$5.39	\$6.39	\$9.42	\$13.56	\$6.02	\$8.94	\$8.60	\$12.06
DPS	\$1.90	\$2.16	\$2.32	\$2.44	\$2.52	\$2.60	\$2.68	\$3.16	\$3.96	\$4.36	\$4.48	\$5.72
Shares¹	640	633	583	546	524	512	506	471	460	462	460	440

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 7% annualized growth from what should be a modest level for 2024 given margin issues that cropped up in recent quarters. In addition, sales growth remains an issue for Target.

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

¹ Share count in millions

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a significant tailwind to earnings-per-share in the coming. 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	14.2	16.0
Avg. Yld.	3.0%	2.8%	3.2%	4.0%	3.3%	2.8%	2.0%	1.4%	2.7%	3.1%	3.7%	3.0%

Target shares trade for 14.2 times our earnings estimate for this year, just below our estimate of fair value at 16 times earnings. We note that the 3.7% yield is quite elevated on a historical basis. If the stock reverts to our estimate of fair value over the next five years, it will produce a modest tailwind 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%	52%	47%

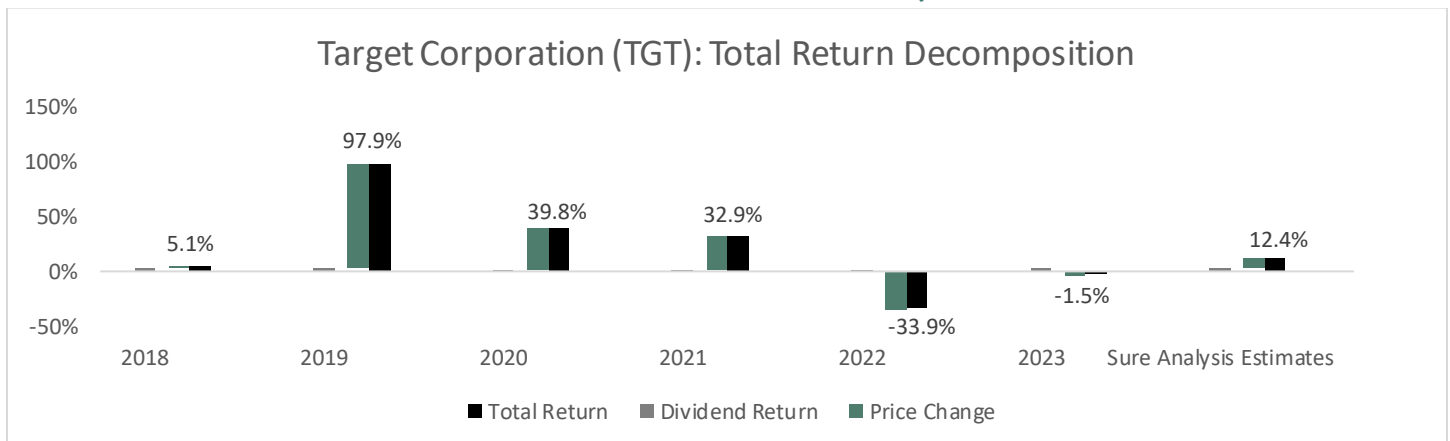
Target has grown its dividend for more than five decades, making it a Dividend King. The company is investing heavily in its business in order to navigate through the changing landscape in the retail sector. The payout is now 52% of earnings for this year, which is elevated historically. We expect the 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 under fair value on recent weakness in the stock, which should provide a small tailwind to total returns. Given earnings this year, we see 7% earnings growth going forward. We forecast total returns at 12.4% annually. The yield of 3.7% is back near 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 despite much lower earnings estimates for 2024 and beyond.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	72,618	73,785	70,271	72,714	75,356	78,112	93,561	106,005	109,120	107,412
Gross Profit	21,340	21,544	21,126	21,589	22,057	23,248	27,384	31,042	26,891	29,676
Gross Margin	29.4%	29.2%	30.1%	29.7%	29.3%	29.8%	29.3%	29.3%	24.6%	27.6%
SG&A Exp.	14,676	14,665	14,217	15,140	15,723	16,233	18,615	19,752	20,658	21,554
D&A Exp.	2,129	2,213	2,318	2,476	2,474	2,604	2,485	2,642	2,700	2,801
Operating Profit	4,535	4,910	4,864	4,224	4,110	4,658	6,539	8,946	3,848	5,707
Op. Margin	6.2%	6.7%	6.9%	5.8%	5.5%	6.0%	7.0%	8.4%	2.5%	5.3%
Net Profit	(1,636)	3,363	2,734	2,914	2,937	3,281	4,368	6,946	2,780	4,138
Net Margin	-2.3%	4.6%	3.9%	4.0%	3.9%	4.2%	4.7%	6.6%	2.5%	3.9%
Free Cash Flow	2,679	4,520	3,897	4,402	2,457	4,090	7,876	5,081	(1,510)	3,815
Income Tax	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
Total Assets	41,172	40,262	37,431	40,303	41,290	42,779	51,248	53,811	53,335	55,356
Cash & Equivalents	2,210	1,038	2,512	737	787	767	867	5,911	886	3,805
Acc. Receivable	---	---	---	---	---	498	631	835	1,169	891
Inventories	8,282	8,601	8,309	8,597	9,497	8,992	10,653	13,902	13,499	11,886
Goodwill & Int.	298	277	259	709	699	686	668	656	645	639
Total Liabilities	27,175	27,305	26,478	28,652	29,993	30,946	36,808	40,984	42,103	41,924
Accounts Payable	7,759	7,418	7,252	8,677	9,761	9,920	12,859	15,478	13,487	12,098
Long-Term Debt	12,725	12,760	12,749	11,398	11,275	11,499	12,680	13,720	16,139	16,038
Total Equity	13,997	12,957	10,953	11,651	11,297	11,833	14,440	12,827	11,232	13,432
LTD/E Ratio	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
Return on Assets	-3.8%	8.3%	7.0%	7.5%	7.2%	7.8%	9.3%	13.2%	5.2%	7.6%
Return on Equity	-10.8%	25.0%	22.9%	25.8%	25.6%	28.4%	33.3%	50.9%	23.1%	33.6%
ROIC	-5.9%	12.8%	11.1%	12.5%	12.9%	14.3%	17.3%	25.9%	10.3%	14.6%
Shares Out.	640	633	583	546	524	512	506	471	465	463
Revenue/Share	113.45	116.58	120.64	132.14	141.33	151.50	185.12	215.15	234.82	232.09
FCF/Share	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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