



Target Corporation (TGT)

Updated March 12th, 2025, by Josh Arnold

Key Metrics

Current Price:	\$113	5 Year CAGR Estimate:	12.2%	Market Cap:	\$52 B
Fair Value Price:	\$137	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	05/15/25 ¹
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.0%	Dividend Payment Date:	06/10/25
Dividend Yield:	4.0%	5 Year Price Target	\$175	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 \$52 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 fourth quarter and full-year earnings on March 4th, 2025, and results were better than expected on both the top and bottom lines, albeit on reduced estimates. Adjusted earnings-per-share came to \$2.41, which was 16 cents ahead of estimates. Revenue was off 3.1% year-over-year to \$30.92 billion, but did beat by \$90 million. Comparable sales in the fourth quarter rose 1.5% year-over-year due to strong traffic and digital channel performance. Management noted apparel and hardline categories saw particular strength. Digital comparable sales continue to drive the top line, adding 8.7% in Q4. Same-day delivery grew by more than 25% from the year-ago period.

Operating margin was 4.7% of revenue in Q4, off from 5.8% a year earlier. Gross margin was 26.2% of revenue, off from 26.6%. The decline in gross margin was due to higher digital fulfillment and supply chain costs, as well as higher promotional and clearance markdown rates. These were partially offset by the net benefit of other general merchandising activities.

Inventory ended the year at \$12.74 billion, up from \$11.89 billion a year ago. Given Target's waning sales performance, rising inventory is a possible precursor to more markdowns and lower margins in the quarters to come.

The company repurchased \$506 million worth of shares in Q4, and had \$8.7 billion left on its authorization as of year-end. The company guided for \$8.80 to \$9.80 in adjusted earnings-per-share for this year, and we've set our initial estimate at \$9.15. This is below the midpoint of guidance, but we struggle to see a path to the upper half of the guided range given sales and margin performances.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$4.69	\$5.01	\$4.65	\$5.39	\$6.39	\$9.42	\$13.56	\$6.02	\$8.94	\$8.86	\$9.15	\$11.68
DPS	\$2.16	\$2.32	\$2.44	\$2.52	\$2.60	\$2.68	\$3.16	\$3.96	\$4.36	\$4.44	\$4.48	\$5.72
Shares²	633	583	546	524	512	506	471	460	462	456	456	456

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

¹ Estimated date

² Share count in millions

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change. Overall, we expect 5% annualized growth from what should be a modest level for 2025 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 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	16.6	14.6	14.2	14.2	14.4	14.0	16.6	24.8	15.9	15.3	12.3	15.0
Avg. Yld.	2.8%	3.2%	4.0%	3.3%	2.8%	2.0%	1.4%	2.7%	3.1%	3.3%	4.0%	3.3%

Target shares trade for 12.3 times our earnings estimate for this year, well below our estimate of fair value at 15 times earnings. We note that the 4% 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 meaningful tailwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	46%	46%	53%	47%	41%	28%	23%	66%	49%	50%	49%	49%

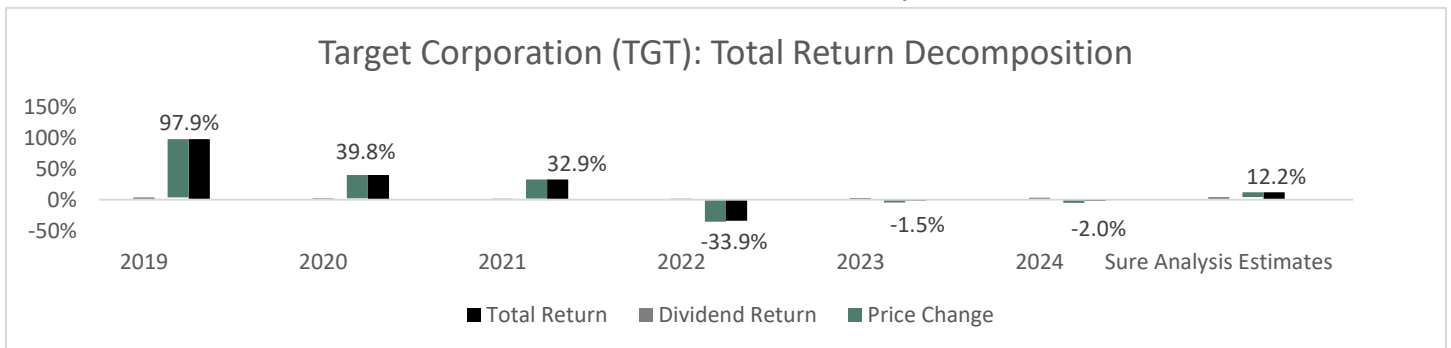
Target has grown its dividend for more than five decades, making it a Dividend King. The company is investing heavily in its business in order to navigate through the changing landscape in the retail sector. The payout is now 49% of earnings for this year, which is elevated historically.

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, which should provide a tailwind to total returns. We see 5% earnings growth going forward, producing total returns of 12.2% annually. The yield of 4% 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.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	73,785	70,271	72,714	75,356	78,112	93,561	106,005	109,120	107,412	106,566
Gross Profit	21,544	21,126	21,589	22,057	23,248	27,384	31,042	26,891	29,676	30,064
Gross Margin	29.2%	30.1%	29.7%	29.3%	29.8%	29.3%	29.3%	24.6%	27.6%	28.2%
SG&A Exp.	14,665	14,217	15,140	15,723	16,233	18,615	19,752	20,658	21,554	21,969
D&A Exp.	2,213	2,318	2,476	2,474	2,604	2,485	2,642	2,700	2,801	2,981
Operating Profit	4,910	4,864	4,224	4,110	4,658	6,539	8,946	3,848	5,707	5,566
Op. Margin	6.7%	6.9%	5.8%	5.5%	6.0%	7.0%	8.4%	2.5%	5.3%	5.2%
Net Profit	3,363	2,734	2,914	2,937	3,281	4,368	6,946	2,780	4,138	4,091
Net Margin	4.6%	3.9%	4.0%	3.9%	4.2%	4.7%	6.6%	2.5%	3.9%	3.8%
Free Cash Flow	4,520	3,897	4,402	2,457	4,090	7,876	5,081	(1,510)	3,815	4,476
Income Tax	1,602	1,295	722	746	921	1,178	1,961	638	1,159	1,170

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	40,262	37,431	40,303	41,290	42,779	51,248	53,811	53,335	55,356	57,769
Cash & Equivalents	1,038	2,512	737	787	767	867	5,911	886	3,805	4,762
Acc. Receivable	---	---	---	---	498	631	835	1,169	891	---
Inventories	8,601	8,309	8,597	9,497	8,992	10,653	13,902	13,499	11,886	12,740
Goodwill & Int.	277	259	709	699	686	668	656	645	639	---
Total Liabilities	27,305	26,478	28,652	29,993	30,946	36,808	40,984	42,103	41,924	43,103
Accounts Payable	7,418	7,252	8,677	9,761	9,920	12,859	15,478	13,487	12,098	13,053
Long-Term Debt	12,760	12,749	11,398	11,275	11,499	12,680	13,720	16,139	16,038	15,940
Total Equity	12,957	10,953	11,651	11,297	11,833	14,440	12,827	11,232	13,432	14,666
LTD/E Ratio	0.98	1.16	0.98	1.00	0.97	0.88	1.07	1.44	1.19	1.09

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	8.3%	7.0%	7.5%	7.2%	7.8%	9.3%	13.2%	5.2%	7.6%	7.2%
Return on Equity	25.0%	22.9%	25.8%	25.6%	28.4%	33.3%	50.9%	23.1%	33.6%	29.1%
ROIC	12.8%	11.1%	12.5%	12.9%	14.3%	17.3%	25.9%	10.3%	14.6%	13.6%
Shares Out.	633	583	546	524	512	506	471	465	463	462
Revenue/Share	116.58	120.64	132.14	141.33	151.50	185.12	215.15	234.82	232.09	230.76
FCF/Share	7.14	6.69	8.00	4.61	7.93	15.58	10.31	-3.25	8.24	9.69

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

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