

Target Corporation (TGT)

\$117.01 (As of 02/21/20)

Price Target (6-12 Months): **\$124.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/20/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

Shares of Target have risen and outpaced the industry in a year. The company has been making multiple changes to business model to adapt and stay relevant in the ever-evolving retail landscape. Certainly, Target holds promise in spite of the company reporting softer-than-expected holiday sales. Its key seasonal merchandise categories witnessed challenges during the period. This compelled it to trim fourth-quarter fiscal 2019 comparable sales growth view. Nonetheless, the company retained its fourth-quarter earnings per share outlook. The company has been deploying resources to enhance omni-channel capabilities, coming up with new brands, remodeling or refurbishing stores, and expanding same-day delivery options to take on rivals. Target has also adopted cost reduction strategy, rationalization of supply chain and technology and process improvements.

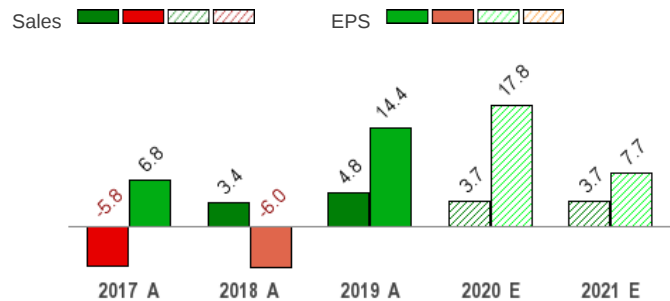
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$130.24 - \$70.03
20 Day Average Volume (sh)	3,819,591
Market Cap	\$59.3 B
YTD Price Change	-8.7%
Beta	0.57
Dividend / Div Yld	\$2.64 / 2.3%
Industry	Retail - Discount Stores
Zacks Industry Rank	Top 24% (60 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.3%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	03/03/2020
Earnings ESP	0.8%
P/E TTM	18.8
P/E F1	17.1
PEG F1	2.4
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	18,209 E	19,140 E	19,309 E	24,448 E	81,068 E
2020	17,627 A	18,422 A	18,665 A	23,492 E	78,181 E
2019	16,781 A	17,776 A	17,821 A	22,977 A	75,356 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.66 E	\$1.96 E	\$1.45 E	\$1.84 E	\$6.84 E
2020	\$1.53 A	\$1.82 A	\$1.36 A	\$1.66 E	\$6.35 E
2019	\$1.32 A	\$1.47 A	\$1.09 A	\$1.53 A	\$5.39 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/21/2020. The reports text is as of 02/24/2020.

Overview

Target Corporation (TGT) has evolved from just being a pure brick-&-mortar retailer to an omni-channel entity. The company has been making investment in technologies, improving websites and mobile apps and modernizing supply chain to keep pace with the changing retail landscape and better compete with pure e-commerce players. Its acquisition of Shipt to provide same-day delivery of groceries, essentials, home, electronics as well as other products is worth noting.

Founded in 1902, Target provides an array of goods ranging from household essentials and electronics to toys and apparel for men, women and kids. It also houses food and pet supplies, home furnishings and décor, home improvement, automotive products, and seasonal merchandise.

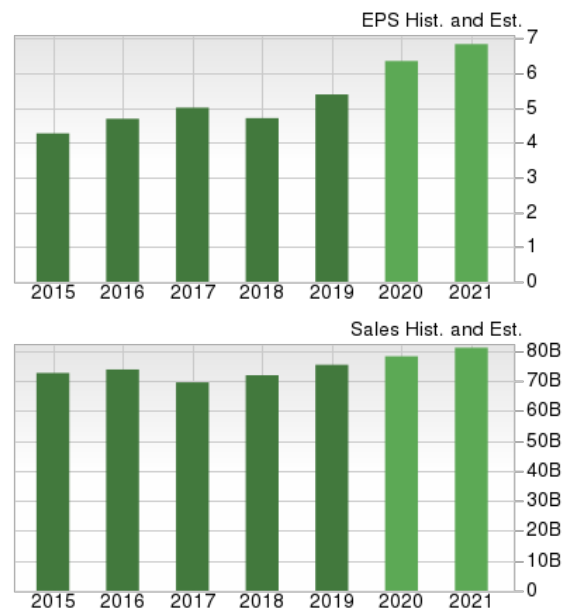
This Minneapolis, MN-based company also offers in-store amenities, consisting of Target Café, Target Photo, Target Optical, Portrait Studio, Starbucks, and other food service offerings. Target operates more than 1,800 stores.

A greater number of general merchandise stores provides an edited food assortment, including perishables, dry grocery, dairy, and frozen items. The company's stores, which are larger than 170,000 square feet, offer a full line of food items comparable to traditional supermarkets.

The company's small format stores, which are smaller than 50,000 square feet, offer curated general merchandise and food assortments. The company's digital channels include a wide merchandise assortment, including many items found in stores, along with a complementary assortment.

Some of the company's Owned Brands includes: A New Day, Cat & Jack, Cloud Island, Made By Design, Opalhouse, Prologue, Project 62, Ava & Viv, Smith & Hawken, Wild Fable and Wine Cube.

Some of the company's Exclusive Brands includes: C9 by Champion, Hand Made Modern, Kid Made Modern, DENIZEN from Levi's, Fieldcrest, Genuine Kids from OshKosh, Isabel Maternity by Ingrid & Isabel and Umbro.



Reasons To Buy:

▲ **Impressive Stock Run:** Shares of Target have increased roughly 60.1% compared with the industry's rise of 38.8% in a year. The company continued with its impressive performance in fiscal 2019 and posted solid third-quarter results, prompting management to raise fiscal year earnings view. Both the top and the bottom line not only beat the Zacks Consensus Estimate but also grew year over year. Adjusted earnings of \$1.36 per share surpassed the Zacks Consensus Estimate of \$1.19 and improved 24.9% from the prior-year period. This year-over-year growth can be attributable to higher sales and share repurchase activity. The company generated total revenue of \$18,665 million that increased 4.7% from the year-ago period and beat the Zacks Consensus Estimate of \$18,467 million. Comparable sales rose 4.5% during the quarter, marking the tenth successive quarter of increase. Comparable digital channel sales surged 31% and added 1.7 percentage points to comparable sales.

Target's initiatives, including the development of omni-channel capacities, diversification and localization of assortments along with emphasis on flexible format stores, bode well.

Robust traffic, favorable store comps and a surge in comparable digital sales are clearly yielding results. Target projects fourth-quarter adjusted earnings between \$1.54 and \$1.74 per share, higher than \$1.53 reported in the year-ago period. For fiscal 2019, management anticipates adjusted earnings in the band of \$6.25-\$6.45, up from the prior range of \$5.90-\$6.20. The company had reported earnings of \$5.39 in fiscal 2018.

▲ **Strategic Initiatives Bode Well:** Target has undertaken several strategic initiatives to boost performance. The company is deploying resources to enhance omni-channel capacities, come up with new brands, remodel or refurbish stores, and expand same-day delivery options. Target has also adopted cost reduction strategy, rationalization of supply chain with same-day delivery of in-store purchases and technology and process improvements. To sum it up, the company has been aggressively adopting strategies to enhance the shopping experience through miscellaneous channels. The company plans to expand its merchandise assortments with special emphasis on Style, Baby, Kids, and Wellness categories that are performing well. Moreover, management is focusing on key departments, such as Apparel, Beauty, Electronics and Food and Beverage. Target launched a new food brand, Good & Gather. Prior to this, the company's owned brand launches included Everspring, Auden, Colsie and Cloud Island Essentials. Including Good & Gather, customers will now be able to shop more than 25 new owned and exclusive brands by the end of 2019. The company in collaboration with Disney launched exclusive collection of more than 350 items comprising apparel, toys, bedding, beauty, food and pet treats, inspired by Mickey Mouse. The closure of Toys R Us stores has provided an opportunity to the retailer to ramp up its shelf space and accommodate a wider assortment of toys.

▲ **Flexible & Smaller Format Stores:** Target continues to lay emphasis on developing flexible format stores to penetrate deeper into urban areas. Earlier, the company used to concentrate on large format stores for a particular location, which lowered its accessibility to the country's densely populated urban regions and space-crunched cities. However, with the changing business scenario and rising competition, Target felt the need to have stores of various sizes and formats in order to better serve its target areas. We believe this approach will help the company to augment its sales without substantial capital investment. These types of stores generally have higher sales productivity. During the third quarter of fiscal 2019, the company opened about seven small format stores and plans to open roughly 30 such stores every year. It also remodeled 153 stores during the quarter bringing the total to just under 300 for the fiscal year. The company plans to remodel approximately 300 stores in fiscal 2020. Beyond fiscal 2020, the company plans to remodel 150-200 stores a year.

▲ **Customer Friendly Initiatives:** With an aim to capture the booming online grocery delivery market, Target teamed up with popular online grocery delivery service Instacart. The company further made significant headway in the same-day delivery race by acquiring Internet-based grocery delivery service Shipt to provide same-day delivery of groceries, essentials, home, electronics as well as other products. Shipt is now operating in more than 1,500 outlets in over 200 markets. The company also rolled out Target Restock program that allows customers to restock their shipping box with essential items online and get them delivered at door steps by the next business day for a nominal charge. Further, in order to improve supply chain and expand delivery capabilities, Target acquired Grand Junction. This transportation technology company provides a platform that allows retailers, distributors and third-party logistics providers to manage local deliveries through a network of over 700 carriers. Drive Up, an app-based service, is another initiative to expedite the shopping process. The service allows customers to place orders using the Target app and have them delivered to their cars. The company offers the service across more than 1,750 stores. To enhance service to its customers, the company rolled out a new loyalty program — Target Circle — nationwide on Oct 6, 2019. Courtesy of this program, customers can avail more convenient and customized shopping experience in the upcoming holiday season. The program also comes with a zero-membership fee.

▲ **Shareholder Friendly Moves:** Target has been actively managing its capital and returning much of its free cash via share repurchases and dividends. The company hiked its quarterly dividend by 3.1% in June 2019. During the third quarter of fiscal 2019, Target repurchased shares worth \$294 million and paid dividends of \$337 million. The company still had about \$0.3 billion remaining under its \$5 billion share buyback program approved in 2016. In September 2019, the company's board authorized a new \$5 billion share repurchase program. The company will initiate repurchasing of shares under the new program, upon completing the existing \$5 billion buyback plan, which is likely to take place in fiscal 2020. Management now expects capital expenditures of \$3.1 billion during fiscal 2019 attributable to remodel program, other investments in store assets, new store openings and supply chain and technology capabilities. For fiscal 2020, Target anticipates capital expenditures of \$3.5 billion as it expects to maintain current remodel pace of about 300 stores for one additional year. However, beyond fiscal 2020 the company plans to remodel 150-200 stores a year. As a result, capital expenditures for fiscal 2021 is projected to be in the range of \$2.5-\$3 billion.

Reasons To Sell:

▼ **Trims Comparable Sales View:** The holiday season did not turn out to be a blissful one for Target with sales coming in below expectations. The disappointing performance compelled the company to trim fourth-quarter fiscal 2019 comparable sales growth forecast. The company informed that its key seasonal merchandise categories witnessed challenges throughout November and December period. Comparable sales in the combined November/December period increased 1.4%. This shows a sharp deceleration from growth rate of 5.7% registered in the year-ago period. Notably, comparable digital sales rose 19% during the festive period buoyed by same-day fulfillment services. Clearly, the figure does not look as outstanding when compared with 29% growth witnessed during the 2018 holiday season and 31% increase reported in the third quarter of fiscal 2019.

Management said that softer-than-expected performance across Electronics, Toys and portions of Home assortment hurt the company's overall holiday sales. Target now envisions comparable sales to rise in line with its November/December performance of 1.4% in the fourth quarter and more than 3% in fiscal 2019. Management had earlier projected comparable sales growth of 3-4% for the final quarter and approximately 4% for the fiscal year.

Some of Target's competitors are far more geographically diversified. We believe that incremental investments, higher wages and rise in costs due to new fulfillment options may squeeze margins.

▼ **High SG&A Expense May Strain Margins:** SG&A expenses have been increasing for quite some time now. Certainly, any deleverage in the same has a direct bearing on margins. After increasing 1.2% during the second quarter of fiscal 2019, SG&A expenses rose 5.5% in the third quarter due to the timing of marketing and store expenses from the second quarter. Again, SG&A expense rate deleveraged 20 basis points to 22.3% during the third quarter. Analysts pointed that any increase in depreciation and amortization on account of remodel program, rise in costs due to new fulfillment options, higher wages and incremental investments may also weigh on margins. Target expects to raise the minimum hourly wage to \$15 by the end of 2020.

▼ **Stiff Competition May Hurt Results:** The retail landscape has been witnessing a sea change with the focus gradually shifting to online shopping. In the retail segment, Target faces stiff competition from discount stores, department stores, drug stores, specialty stores, supermarkets, wholesale clubs, and other forms of retail commerce such as online retailers, contingent on location, price and quality of merchandise, in-stock consistency, merchandise assortments, and customer service. Some of the company's competitors are also far more geographically diversified. We believe that unhealthy price competition to gain market share and attract footfall might weigh on the company's profit margins.

▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth and profitability.

Last Earnings Report

Target Beats on Q3 Earnings, Raises FY19 View

Target Corporation continued with its impressive performance in the third quarter and provided an upbeat outlook for fiscal 2019. Robust traffic, favorable store comps and a surge in comparable digital sales are clearly working in favor of the company. Both the top and the bottom lines not only surpassed the Zacks Consensus Estimate but also increased year over year.

Let's Delve Deeper

This operator of general merchandise stores reported adjusted earnings of \$1.36 per share that surpassed the Zacks Consensus Estimate of \$1.19 and improved 24.9% from the prior-year period. This year-over-year growth can be attributable to higher sales and share repurchase activity.

Target envisions fourth-quarter adjusted earnings between \$1.54 and \$1.74 per share, the mid-point of which — \$1.64 — is higher than \$1.53 reported in the year-ago period. For fiscal 2019, management now anticipates adjusted earnings in the band of \$6.25-\$6.45, up from the prior range of \$5.90-\$6.20. The company had reported earnings of \$5.39 in fiscal 2018.

The company generated total revenues of \$18,665 million that increased 4.7% from the year-ago period and surpassed the Zacks Consensus Estimate of \$18,467 million. We note that sales jumped 4.7% to \$18,414 million, while other revenue rose 8.8% to \$251 million.

Target is deploying resources to enhance omni-channel capacities, coming up with new brands, remodeling or refurbishing stores, and expanding same-day delivery options. Target has undertaken rationalization of supply chain with same-day delivery of in-store purchases along with technology and process improvements.

Meanwhile, comparable sales for the quarter increased 4.5% compared with 5.1% growth witnessed in the year-ago period. The number of transactions rose 3.1%, while the average transaction amount improved 1.4%. Management envisions comparable sales to increase 3-4% in the final quarter and approximately 4% in fiscal 2019.

Comparable digital channel sales surged 31% and added 1.7 percentage points to comparable sales. Within digital sales, 80% of third quarter growth was driven by same-day fulfillment options, in-store Pick Up, Drive Up and Shipt.

Gross margin expanded 110 basis points to 29.8% during the quarter on account of cost optimization, pricing, promotions and assortment, and favorable category sales mix. Operating margin expanded 80 basis points to 5.4%. Management expects mid to high-single-digit increase in operating margin during the fourth quarter benefiting from gross margin expansion, offset by small increase in SG&A and D&A expense rates. For fiscal 2019, management envisions operating income dollar growth in the low-teens.

Target's debit card penetration shrunk 40 basis points to 12.5%, while credit card penetration fell 10 basis points to 10.7%. Total REDcard penetration declined to 23.1% from 23.7% in the year-ago quarter.

Other Financial Details

During the quarter, Target repurchased shares worth \$294 million and paid dividends of \$337 million. The company still had about \$0.3 billion remaining under its \$5 billion share buyback program approved in 2016. In September 2019, the company's board authorized a new \$5 billion share repurchase program.

The company ended the quarter with cash and cash equivalents of \$969 million, long-term debt and other borrowings of \$10,513 million and shareholders' investment of \$11,545 million. Management now expects capital expenditures of \$3.1 billion during fiscal 2019 attributable to remodel program, other investments in store assets, new store openings and supply chain and technology capabilities.

For fiscal 2020, Target anticipates capital expenditures of \$3.5 billion as it expects to remodel about 300 more stores. However, beyond fiscal 2020 the company plans to remodel 150-200 stores a year. As a result, capital expenditures for fiscal 2021 is projected to be in the range of \$2.5-\$3 billion.

Quarter Ending **10/2019**

Report Date	Nov 20, 2019
Sales Surprise	1.07%
EPS Surprise	14.29%
Quarterly EPS	1.36
Annual EPS (TTM)	6.24

Recent News

Target Reports Holiday Sales – January 15, 2020

Comparable sales in the combined November/December period increased 1.4%. This shows a sharp deceleration from growth rate of 5.7% registered in the year-ago period. Notably, comparable digital sales rose 19% during the festive period buoyed by same-day fulfillment services. Clearly, the figure does not look as outstanding when compared with 29% growth witnessed during the 2018 holiday season.

Management said that softer-than-expected performance across Electronics, Toys and portions of Home assortment hurt the company's overall holiday sales. Together these categories account for roughly one-third of the season's sales. We note that comparable sales were down more than 6% at Electronics and by 1% at Home category. Toy sales were flat compared with the prior-year period. Nonetheless, Target continued to gain market share across its core merchandise categories, namely Apparel, Essentials & Beauty and Food & Beverage with comparable sales increasing 5%, 6% and 3%, respectively, during the holiday season.

Target Declares Quarterly Dividend – January 9, 2020

Target declared a quarterly dividend of 66 cents per share. The dividend is payable March 10, 2020 to shareholders of record at the close of business February 19, 2020.

Valuation

Target shares are down 8.7% in the year-to-date period and nearly 60.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 3.9% and 5.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 38.8% and 16.4%, respectively.

The S&P 500 index is up 3.6% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 17.01X forward 12-month earnings, which compares to 24.5X for the Zacks sub-industry, 25.79X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.65X and as low as 10.88X, with a 5-year median of 14.19X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$124 price target reflects 18.03X forward 12-month earnings.

The table below shows summary valuation data for TGT

Valuation Multiples - TGT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.01	24.5	25.79	19.09
	5-Year High	19.65	24.5	26.2	19.34
	5-Year Low	10.88	17.95	19.07	15.18
	5-Year Median	14.19	20.07	23	17.47
P/S F12M	Current	0.73	1.46	1.08	3.51
	5-Year High	0.81	1.46	1.11	3.51
	5-Year Low	0.4	0.95	0.8	2.54
	5-Year Median	0.57	1.13	0.92	3
EV/EBITDA TTM	Current	10.13	19.73	15.1	12
	5-Year High	11	19.73	15.28	12.87
	5-Year Low	5.41	11.11	10.79	8.48
	5-Year Median	7.87	13.82	12.41	10.77

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Top 24% (60 out of 255)



Top Peers

Big Lots, Inc. (BIG)	Neutral
Burlington Stores, Inc. (BURL)	Neutral
Costco Wholesale Corporation (COST)	Neutral
Dollar General Corporation (DG)	Neutral
Dollar Tree, Inc. (DLTR)	Neutral
Ross Stores, Inc. (ROST)	Neutral
The TJX Companies, Inc. (TJX)	Neutral
Tuesday Morning Corp. (TUES)	Neutral

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	TGT Neutral	X Industry	S&P 500	DG Neutral	DLTR Neutral	TJX Neutral
VGM Score	A	-	-	B	B	C
Market Cap	59.29 B	19.10 B	24.03 B	42.49 B	22.22 B	76.17 B
# of Analysts	12	9	13	23	6	12
Dividend Yield	2.26%	0.79%	1.76%	0.77%	0.00%	1.45%
Value Score	B	-	-	C	B	C
Cash/Price	0.02	0.03	0.04	0.01	0.02	0.03
EV/EBITDA	10.75	18.11	14.08	20.50	12.14	16.83
PEG Ratio	2.42	2.03	2.08	1.91	1.96	2.09
Price/Book (P/B)	5.14	5.77	3.29	6.39	3.63	13.74
Price/Cash Flow (P/CF)	11.41	17.27	13.42	21.47	4.75	22.46
P/E (F1)	17.11	22.35	19.00	22.48	18.00	22.22
Price/Sales (P/S)	0.76	0.92	2.64	1.56	0.95	1.87
Earnings Yield	5.85%	4.45%	5.26%	4.45%	5.56%	4.50%
Debt/Equity	1.10	1.45	0.70	1.57	1.33	1.81
Cash Flow (\$/share)	10.25	6.08	7.03	7.77	19.78	2.82
Growth Score	B	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	7.70%	11.35%	10.84%	13.32%	18.83%	11.16%
Proj. EPS Growth (F1/F0)	7.66%	7.66%	7.09%	11.59%	10.55%	8.26%
Curr. Cash Flow Growth	5.59%	14.92%	6.72%	25.19%	163.96%	1.26%
Hist. Cash Flow Growth (3-5 yrs)	2.16%	7.44%	8.25%	8.34%	43.00%	5.93%
Current Ratio	0.83	1.15	1.22	1.12	1.09	1.22
Debt/Capital	52.42%	59.12%	42.37%	61.12%	57.13%	64.47%
Net Margin	4.18%	4.51%	11.56%	6.09%	-6.82%	7.70%
Return on Equity	28.22%	24.88%	16.80%	25.53%	20.85%	57.63%
Sales/Assets	1.86	1.84	0.55	1.38	1.30	1.94
Proj. Sales Growth (F1/F0)	3.69%	5.16%	3.90%	7.63%	4.37%	5.94%
Momentum Score	B	-	-	D	F	D
Daily Price Chg	-1.06%	-0.77%	-0.83%	0.69%	0.72%	-0.88%
1 Week Price Chg	0.88%	1.87%	1.65%	1.97%	1.77%	3.26%
4 Week Price Chg	1.28%	3.58%	-0.37%	7.57%	6.77%	1.38%
12 Week Price Chg	-7.06%	5.64%	3.74%	5.34%	0.92%	3.84%
52 Week Price Chg	62.45%	11.13%	14.14%	40.87%	-4.31%	26.29%
20 Day Average Volume	3,819,591	1,066,834	1,992,841	1,160,945	1,960,714	4,134,376
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.20%	0.00%	-0.02%	-0.04%	-0.41%	0.00%
(F1) EPS Est 12 week change	-0.16%	0.04%	-0.17%	0.71%	-11.63%	0.07%
(Q1) EPS Est Mthly Chg	0.00%	-0.13%	-0.48%	0.00%	-0.80%	-0.49%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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