Research on Evaluation of Target Corporate and Its Stocks

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Abstract. Target Corporation was founded in 1902 in Minneapolis, Minnesota. According to the sales situation, it is one of the largest discount retailers in the United States and the world. Based on SWOT method, this paper studies the management status of Target, and makes multiple valuation analysis on the financial data of Target. The research concluded that Target is striving to become the leader of this enterprise in many aspects, and also has many advantages and development potential that other peers cannot match.

Keywords: Target Corporate; SWOT; Multiple Valuation Analysis

1. Introduction

Target Corporation is a general merchandise retailer via its physical stores and other digital platforms. These products include an assortment of general merchandise and food. Its headquarters is in Minneapolis, Minnesota, and it is listed among the largest retailers in America (Hoang et al., 2021). It was established in 1962 to act as the discount partition of the subdivision of the Dayton store in Minneapolis (Ajmal, 2019). Target Corporation would be the best fit for analysis to help explore the way products or services are offered to fit into a particular market of possible buyers and discover what they do that has enabled them to appear among the most competitive retailers in the United States, to assist other companies to grow (Deepak & Jeyakumar, 2019). With this type of data, various firms will be in a position to define the markets that are best and least valuable to their productions, establish correct customer identity, assess the feasibility of fresh products, and discover prevailing new markets to discover market openings where their products are likely to fit.

2. Company Analysis

2.1 SWOT Analysis

Figure 1. SWOT Analysis.

2.1.1 Strengths:

Target has a digital App called Cartwheel for its customers who prefer to reach them online. Through Cartwheel, buyers are in a position to place orders online, check store inventory and pricing, find products along walkways, scanning products, access offers, check out, and manage their credit cards. Besides, Target is currently on its 11 successive quarters of progressive sales development and strong presentation in in-store and virtual sales platforms (Hellen, 2020). Its net earnings increased to $ 3.28 Billion in 2019 from $ 2.94 Billion in 2018. In 20202, its virtual and physical store sales improved. Also, in the second quarter of the financial year 2020, the profits increased by 80.3%. Moreover, the corporation has established a maintainable business model that will endure catalyzing strong progression and, ultimately, its performance and profitability in the long run. Furthermore, it has a more robust market, particularly in the United States, with 1844 physical stores in 49 states, mainly in California, Florida, and Texas (Melissa, 2020).

2.1.2 Weaknesses:

With so many such retailers in the U.S., Target will inevitably be compared to its strong and stable peers in every way. The study carried out by Business Insider reveals that about 15% is charged by Target for groceries, equated to its most significant competitor, Walmart. Also, the corporation encountered so many incidences of data breaches. About 70 million debit and credit card information for customers that were stolen have adversely impacted its reputation, and the corporation faced so many lawsuits. Target mainly operates locally. It has failed to venture into international markets. When it opened about 133 in Canada from 2011 to 2015, all the stores were soon closed (Melissa, 2020).

2.1.3 Opportunities:

An increased number of Target stores has been observed, from 1844 to 1868 in 2020, indicating an increasing market presence. Its several stores are large shopping centers that stock almost every product. Most of its stores range between 50000 and 169,999 square feet in size. Besides, by the end of 2020, it was expected to have remodeled 300 stores (Davis, 2021. Though it might look like a small investment, each store remodeled is expected to improve sales by 2% in the first year and maintain sales to around 4% in the coming five years. For instance, if the sales in 1000 stores that are remodeled improve by around 3% each, the amount of revenue that will be generated will be high; hence remodeling the store is a more significant opportunity for Target. Also, the expansion of its program on loyalty rewards will allow Target to gain insight into customers' ever-changing behaviors and likings. Moreover, it will make the customer data available to help in marketing and elevations (Russell, 2020).

2.1.4 Threats:

Target functions in a highly competitive industry with a low margin. Its local competitors have stores suited to the locals, and this dramatically affects Target's market share. Due to the increasing online shopping trends, the corporation is likely to encounter extreme implications for its performance. Again, the rising costs in Target associated with the high costs of conducting business have wrinkled its profits and have led to a deterioration in its net earnings (Reuters, 2020).

2.2 Financial Statement:

	2021	2020	2019	2018	2017 [a]
FINANCIAL RESULTS (in millions)					
Sales	$ 104,611	$ 92,400	$ 77,130	$ 74,433	$ 71,786
Other revenue	1,394	1,161	982	923	928
Total revenue	106,005	93,561	78,112	75,356	72,714
Cost of sales	74,963	66,177	54,864	53,299	51,125
Selling, general and administrative expenses (SG&A)	19,752	18,615	16,233	15,723	15,140
Depreciation and amortization (exclusive of depreciation included in cost of sales)	2,344	2,230	2,357	2,224	2,225
Operating income	8,946	6,539	4,658	4,110	4,224
Net interest expense [b]	421	977	477	461	653
Net other (income) / expense	(382)	16	(9)	(27)	(59)
Earnings from continuing operations before income taxes	8,907	5,546	4,190	3,676	3,630
Provision for income taxes [c]	1,961	1,178	921	746	722
Net earnings from continuing operations	6,946	4,368	3,269	2,930	2,908
Discontinued operations, net of tax	—	—	12	7	6
Net earnings	$ 6,946	$ 4,368	$ 3,281	$ 2,937	$ 2,914
PER SHARE					
Basic earnings per share					
Continuing operations	$ 14.23	$ 8.72	$ 6.39	$ 5.54	$ 5.32
Discontinued operations	—	—	0.02	0.01	0.01
Net earnings per share	$ 14.23	$ 8.72	$ 6.42	$ 5.55	$ 5.32
Diluted earnings per share					
Continuing operations	$ 14.10	$ 8.64	$ 6.34	$ 5.50	$ 5.29
Discontinued operations	—	—	0.02	0.01	0.01
Net earnings per share	$ 14.10	$ 8.64	$ 6.36	$ 5.51	$ 5.29
Cash dividends declared	$ 3.38	$ 2.70	$ 2.62	$ 2.54	$ 2.46
FINANCIAL POSITION (in millions)					
Total assets	$ 53,811	$ 51,248	$ 42,779	$ 41,290	$ 40,303
Capital expenditures	$ 3,544	$ 2,649	$ 3,027	$ 3,516	$ 2,533
Long-term debt, including current portion	$ 13,720	$ 12,680	$ 11,499	$ 11,275	$ 11,398
Net debt [d]	$ 8,735	$ 5,036	$ 9,689	$ 10,506	$ 10,267
Shareholders' investment	$ 12,827	$ 14,440	$ 11,833	$ 11,297	$ 11,651
FINANCIAL RATIOS					
Comparable sales growth [e]	12.7%	19.3%	3.4%	5.0%	1.3%
Gross margin (% of sales)	28.3%	28.4%	28.9%	28.4%	28.8%
SG&A expenses (% of total revenue)	18.6%	19.9%	20.8%	20.9%	20.8%
Operating income margin (% of total revenue)	8.4%	7.0%	6.0%	5.5%	5.8%
OTHER					
Common shares outstanding (in millions)	471.3	500.9	504.2	517.8	541.7
Operating cash flow provided by continuing operations (in millions)	$ 8,625	$ 10,525	$ 7,099	$ 5,970	$ 6,861
Revenue per square foot [f]	$ 437	$ 388	$ 326	$ 314	$ 298
Retail square feet (in thousands)	243,284	241,648	240,516	239,581	239,355
Square footage growth	0.7%	0.5%	0.4%	0.1%	(0.1)%
Total number of stores	1,926	1,897	1,868	1,844	1,822
Total number of distribution centers	48	44	42	40	41

Figure 2. Financial statement.

Based on the indicated financial statement of the organization, Target has experienced a significant increase in its sales revenues, especially in the last five years. For example, the company realized a revenue of $71,788 in 2017, which increased by almost 30% to reach $104,611 in 2021. Such growth also supported its financial position, and ratios per share, increasing its market share in the industry. The total sales of $104,611 Million in 2021 were generated from different stores of the company, with Beauty & Household Essentials generating 26%, Food & Beverage generating 20%, Home Furnishings & Décor 19%, Hardlines contributing 18% and 17% from Apparel & Accessories (Target Corporation, 2021), as summarized in the figure below.

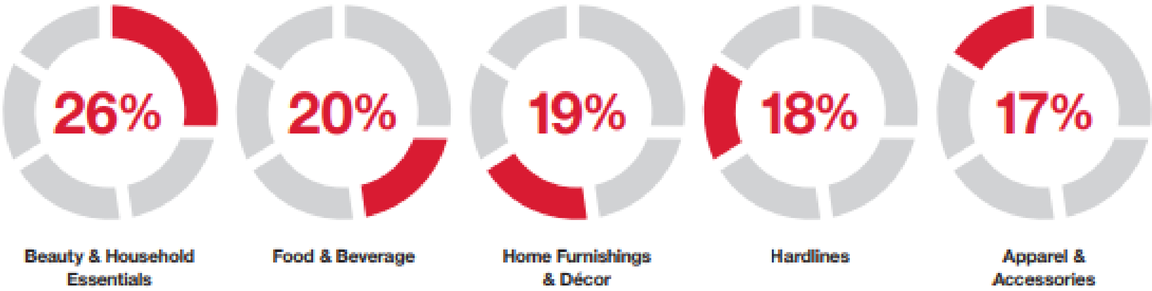

Figure 3. Market share of Target Company.

3. Industry Analysis

3.1 Competitive Rivalry

The retail market in the US has attracted different national and international investors willing to start their businesses and grab the market share, hence the reason for many stores in this industry. Target Corporation is competing with eight major competitors in US retail sector, making the competition more intensive. Brands like Walmart have stayed ahead in the market with average revenue of $374.80 billion. Other competitors like Kroger Co, Walgreens, Amazon, Costco, and Target Corporation are about $115.89 billion, $82.75 billion, $102.96 billion, $93.08, and $71.88 billion, respectively (Adamkasi, 2022). Based on that, it is ideal that competitive rivalry in the US retail market is intense.

3.2 Bargaining power of the buyers

The retail industry in the US has several stores, and consumers can make their purchases from such stores without incurring any extra cost or benefit. There are no radical differences in the cost of offering for purchase in this sector, keeping the control high for consumers (Adamkasi, 2022). There is also a low switching cost, making the bargaining power of the buyers to be high in the US retail market.

3.3 Bargaining power of the suppliers

The product suppliers in the US retail markets are manufacturers or traders dealing with a particular product. There are more suppliers in the industry. However, the billion-dollar sales of the companies are making the suppliers dependent on sales agents to remain competitive while growing in the market (Adamkasi, 2022). Such suppliers offer different terms of sales to the retailers, thus increasing their bargaining power.

3.4 Threats of New Entrants

The retail market mainly appeals to local decoration levels and has always been a convenience store concept. Although the target of this retail is groceries, it is also classified as retail. It becomes easy to open a small retail store with less capital investment. It also has few legal requirements or even skills (Adamkasi, 2022). These factors are making the threat of new entrants to be high.

3.5 Threat of substitutes

Based on current technological developments and the current situation, the threat of alternatives in the retail industry is low. People are still more biased and accustomed to the traditional retail industry. Therefore, the threat of alternatives cannot be a matter of great consideration.

4. Multiple Valuation Analysis

4.1 P/E Ratio

The historical and current P/E ratio for Target Corp indicates that the company has realized significant positive growth in the market. Generally, the PE ratio is the most straightforward approach to assess whether the stock is under or overvalued based on its widely used valuation measure. As indicated in the figure below, the current PE ratio of Target Corp is 18.98 as of August 22, 2022. The figure has also highlighted the historical PE ratio for the last few years ranging from 2010 to 2022. In those years, Target realized the highest PE ratio of 25.29 on April 30, 2016.

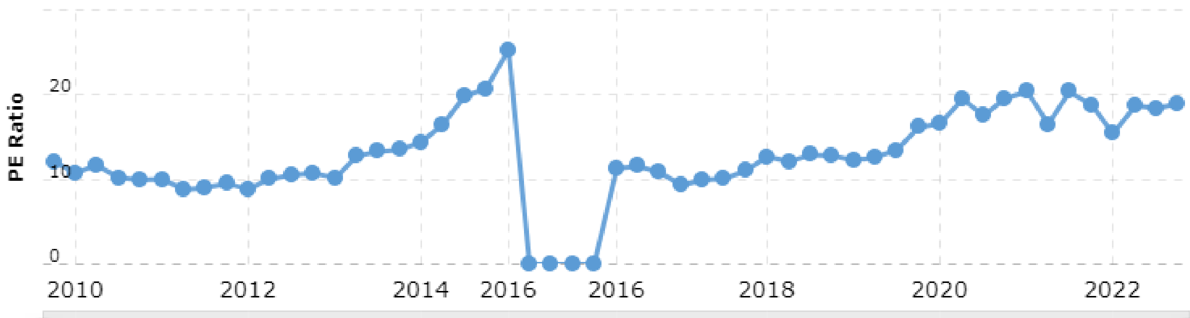

Figure 4. The historical and current P/E ratio for Target Corp.

4.2 EV/EBITDAR

The latest twelve months of Target's EV/EBITDAR is 10.3x. The company's EV/EBITDAR for fiscal years ending February 2018 to 2022 averaged 9.2x, while the organization was operating at a medium EV/EBITDAR of 9.6x from fiscal years ending February 2018 to 2022. For the last five years of Target's operation in the market, its EV/EBITDAR peaked in January 2021 at 11.4x. The lowest of their EV/EBITDAR in these five years was in February 2018 at 7.3x. Further, its EV/EBITDAR reduced in 2012 by -11.2% but later increased in by +12.4%, +4.7%, +26.6% and +18.7% from 2018 to 2021 respectively (NYSE, 2022). The figure below indicates the summary of Target's EV/EBITDAR.

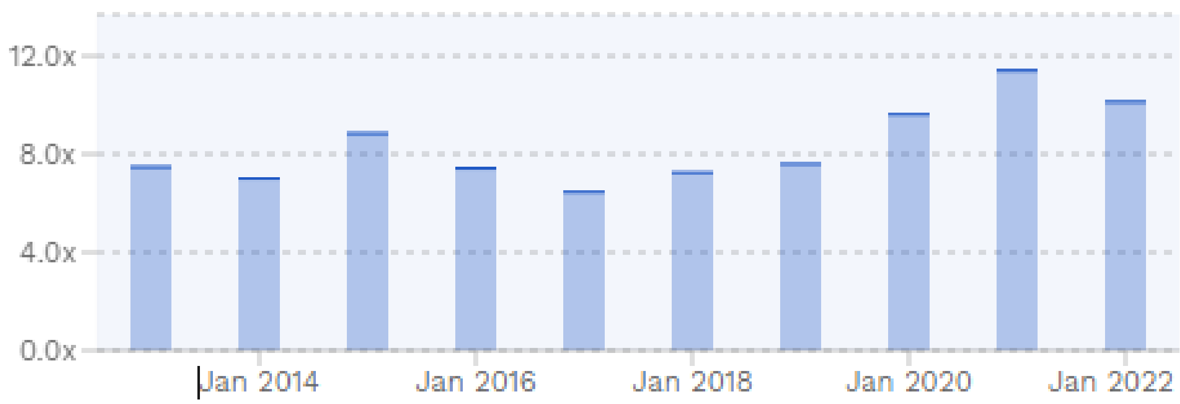

Figure 5. Target's EV/EBITDAR.

4.3 Price/Sales

As indicated in the figure below, the historical P/Sales ratio value for Target Corp has been varying across different years, especially for the last ten years. The current P/Sales ratio for this company, as of August 22, 2022, is 0.74.

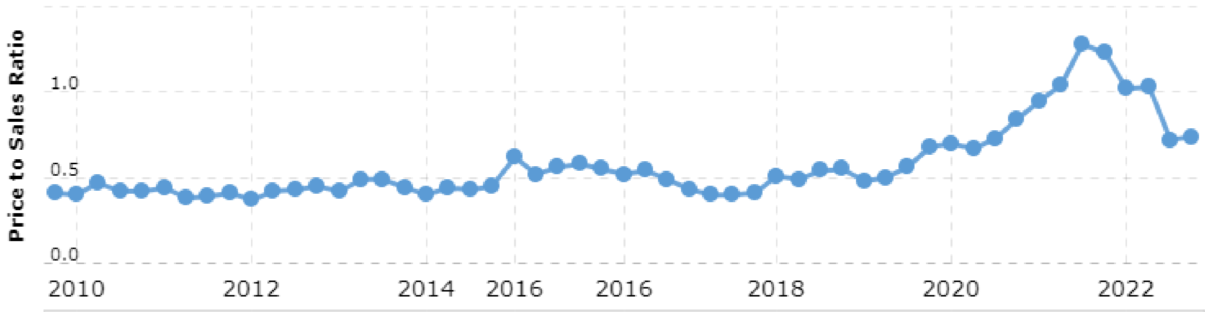

Figure 6. The historical P/Sales ratio value for Target Corp.

5. Conclusion

In a summarized perspective, Target has of late developed into one of the most excellent prevalent retail stores in the United States. It has a persistent progression in its performance and production. A lot of competition is faced by Target, with companies in the same industry, such as Walmart. They are all regarded as the leaders in retail mechanization, and they have all equated reasonably even though their products are relatively different. However, in terms of disposable consumer income, they are considered great market rivals.

In conclusion, it can be seen from the above analysis and research that Target is striving to become the leader of this enterprise in many aspects, and also has many advantages and development potential that other peers cannot match.

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