Street Takeaways - Target Q3 Earnings
Wednesday, November 19, 2014 11:09:01 PM (GMT)

- **Overview**:
  - Stock closed today up 7.4% following this morning's Q3 earnings release with a $0.07 EPS beat driven by a lower tax rate and better than expected US retail segment results, including strong comps growth, 10bp of gross margin upside, and 30bp of favorable SG&A relative to consensus. Reaction to the print was generally positive as analysts primarily highlighted impressive US retail comps growth of 1.2%, coming in 70bp ahead of consensus and guidance of flat to up 1%, despite a challenging retail backdrop.
  - While US retail traffic remained negative for the eighth consecutive quarter at (0.4%), analysts were encouraged to see a 90bp sequential acceleration and also consistently pointed out strong digital sales growth, up 30%. Canadian comps growth of 1.6% missed consensus expectations of 3.7%. Though analysts were pleased to see more in-line margin and profitability metrics in Canada, most remain cautious on the segment and expect the upcoming holiday season will be crucial to determining its long-term potential.
  - Initial Q4 comps guidance of 2% came in slightly above consensus 1.7%, while analysts suggested the target could prove conservative given promising trends exiting the quarter such as improving traffic and digital contribution. Analysts also note that easing comparisons against last year's data breach should provide a comps tailwind for the next several quarters. Looking further ahead, analysts were fairly constructive around the company's growth initiatives, including build out of omni-channel capabilities, merchandising focus on key categories, localization and personalization, and SG&A expense optimization.
  - We tracked a number of upward price target revisions driven by both higher out year earnings estimates as well as some modest multiple expansion. A quick look at sell-side sentiment shows 31% of firms keeping Buy-equivalent ratings compared to a 51% average for the S&P 500; average price target of $63 represents a 13% discount to today's close.
- **Analyst Commentary**:
  - **Deutsche Bank** analyst Paul Trussell - raises target
    - Highlights solid progress in Q3, regardless of macro, lower gas prices, or company-specific initiatives driving stronger comps; notes that lower than expected taxes drove the majority of the beat; not surprised by positive reaction as sales are now confirmed on the upswing and both gross margins and the Canada segment are relatively in-line with Street expectations; raised; more encouraged about trends, raises F15 and F16 EPS estimates
    - Target to $59 from $55
    - Maintains Hold rating
  - **Barclays** analyst Matthew McClintock - raises target
    - Primarily encouraged by improvement in US transaction trends as well as the continuation of strong digital sales growth, which they believe are indicative that TGT's longer-term strategic initiatives are beginning to take hold; notes merchandising changes appear to be gaining momentum in key categories as TGT had its best combined home/apparel comp in two years; expects higher Q4 GMs given easy compares and expenses to be flat to slightly down due to expense optimization
    - Target to $75 from $70
    - Maintains Overweight rating
  - **Credit Suisse** analyst Michael Exstein - raises target
    - Notes moderate top-line growth came at the cost of continued intense promotions; as growing full-margin volumes and controlling expenses remains challenging, believe management recognizes the need to reassess the longer-term potential in Canada - thinks strategic alternatives may become imperative after Holiday; expects US business to be even more challenging in 2015 as company faces a dilemma between sustaining sales or recovering GMs; expects merchandising turnaround is likely to take significant time
    - Target to $63 from $55
    - Maintains Neutral rating
  - **Janney** analyst David Strasser - raises target

        - Highlights US top-line outperformance in Q3 and 50bp GM decline in-line with expectations - expects a similar strategy going forward; expects Holiday will be a key test for Canada after a soft Q3 and several changes over the past few quarters; suggests most of the company's new ideas and strategies seem logical and straightforward - assuming execution follows, TGT should be back on track; believes valuation reflects a lot of improvement and plenty of successful execution
        - Target to $64 from $54
        - Maintains Neutral rating
    - **Nomura** analyst Robert Drbul
        - Notes US market continues to be affected by heavy promotional strategies implemented to drive traffic and expects intense price competition during Holiday to weigh on margins in Q4 despite stated objectives to normalize levels; remains quite cautious on slow progress in the Canadian market and continues to expect sustained EPS dilution in the near-term; expects growth in digital sales in Q4 and optimistic that strategies to grow the channel through personalization and flexible fulfillment prove lucrative
        - Target is $62
        - Maintains Neutral rating

Industries: Retail (Department & Discount)
Primary Identifiers: TGT-US
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