



Position Close Update: Target Corporation (TGT)

Target Corporation (TGT: \$71/share) – Closing Long Position – down 13% vs. S&P up 24%

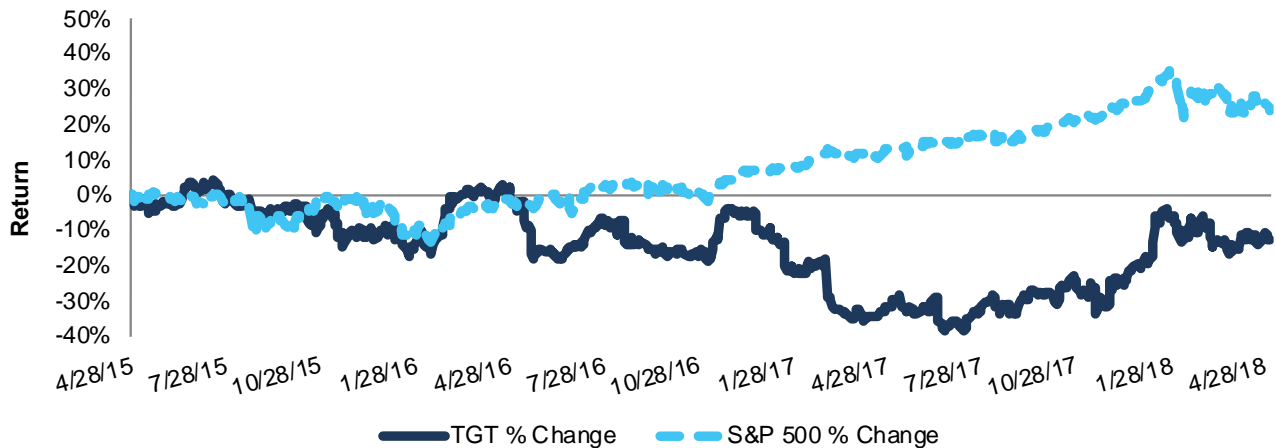
Target Corporation was originally selected as a [Long Idea on 4/28/15](#) and [reiterated](#) on 1/3/17. At the time of the report, the stock received an Attractive rating. Our investment thesis highlighted strong after-tax operating profit (NOPAT) growth, a rising return on invested capital (ROIC), and positive comparable store sales.

During the 1102-day holding period, TGT underperformed as a long position, falling 13% compared to a 24% gain for the S&P 500. TGT was downgraded to Neutral on 3/15/18 after we parsed its fiscal 2018 10-K. While TGT's stock remains undervalued (0.8 price to economic book value (PEBV) ratio and <1 year [growth appreciation period](#)), its fundamentals have deteriorated. TGT's ROIC fell from 10% in fiscal 2017 to 9% in fiscal 2018 while its NOPAT margin fell from 4.9% to 4.3% over the same time. In addition, Target's [economic earnings](#) fell 24% year over year.

The decline in fundamentals along with what appears to be a weakening competitive position versus Walmart (WMT) and Amazon (AMZN) lead us to close this position.

Figure 1: TGT vs. S&P 500 – Price Return

TGT Performance During Holding Period



Sources: New Constructs, LLC and company filings

Note: Gain/Decline performance analysis excludes transaction costs and dividends.

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Disclosure: David Trainer, Kyle Guske II, and Sam McBride receive no compensation to write about any specific stock, style, or theme.

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