Buy, Hold or Sell: Target (TGT) vs. Walmart (WMT)

US retail sales rebounded in April as consumers showed resiliency. The strength in the retail market should bode well for retail giants Target (TGT) and Walmart (WMT). But should one buy, hold, or sell these stocks? Read more to find out.

The retail industry has showcased remarkable resilience and stability despite the macroeconomic headwinds. Factors such as moderated price levels, strength in the labor market, and wage growth have bolstered consumers' purchasing power, thereby benefiting retail businesses and driving up their stock prices.

Retail behemoths Target Corporation (TGT) and Walmart Inc. (WMT) are both among the largest retail businesses in the US. However, after carefully examining their fundamental aspects, I conclude that WMT might be an ideal buy, while investors might wait for a better entry point in TGT. The reasons supporting this conclusion are explained throughout the article.

As per the latest data from the US Census Bureau, the US overall retail sales last month were up 0.4% from March and up 1.6% year over year. NRF chief economist Jack Kleinhenz added, "Shoppers are being selective and price-sensitive, but we continue to expect that spending will see modest gains through the course of the year."

Greater internet accessibility and governmental emphasis on digitalization are poised to create attractive opportunities for retail investment in emerging markets.

While TGT has declined 6.8% year-to-date, WMT has gained 3.3% over the same time period. Moreover, TGT has declined 14.9% over the past year, but WMT has gained 16.2% over the same

year. TGT closed its last trading session at $138.93, and WMT closed at $146.42.

Here are the reasons why I believe WMT could be a better pick:

Recent Financial Results

During the fiscal first quarter that ended April 29, 2023, TGT's total revenue rose marginally year-over-year to $25.32 billion. Its selling, general and administrative expenses grew 5.5% from the previous-year quarter to $5.03 billion

Its operating income declined 1.4% year-over-year to $1.33 billion. Additionally, its adjusted EPS decreased 6.2% from the prior-year quarter to $2.05.

On the other side, WMT's total revenue increased 7.6% year-over-year to $152.30 billion in the fiscal first quarter that ended April 30, 2023. Its operating income increased 17.3% from the previous-year quarter to $6.24 billion. WMT's adjusted EPS grew 13.1% year-over-year to $1.47.

Analysts Expectations

TGT's revenue is expected to decline 1.1% year-over-year to $25.76 billion in the fiscal second quarter ending July 2023. However, WMT's revenue is expected to increase 4.6% year-over-year to $158.35 billion in the same quarter.

Moreover, both the companies' revenue is expected to rise marginally and 3.2% year-over-year to $26.58 billion and $156.28 billion in the fiscal third quarter ending October 2023.

Past Performance

While TGT's EBIT and EBITDA have declined at CAGRs of 1.3% and 2.8% over the past three years, WMT's EBIT and EBITDA have increased at CAGRs of 3.7% and 5.4% in the same period.

Profitability

TGT’s 3.61% trailing-12-month EBIT margin is lower than WMT’s 4.09%. TGT’s trailing-12-month levered FCF margin of negative 0.74% is lower than WMT’s 3.38%. Moreover, TGT’s trailing-12-month cash from operations of $6.68 billion is lower than WMT’s $32.23 billion.

Valuation

In terms of forward EV/Sales, TGT is currently trading at 0.74x, which is higher than WMT’s 0.72x. TGT’s 5.00 forward Price/Book multiple is higher than WMT’s 4.82.

POWR Ratings

WMT has an overall rating of A, which equates to a Strong Buy in our proprietary POWR Ratings system. On the other hand, TGT has an overall rating of C, translating to a Neutral. The POWR Ratings are calculated considering 118 different factors, each weighted to an optimal degree.

Our proprietary rating system also evaluates each stock based on eight distinct categories. While TGT’s 24-month beta of 1.21 complements its D grade in Stability, WMT’s 24-month beta of 0.64 justifies its B grade in Stability.

Moreover, TGT has a C grade for Sentiment, in sync with its mixed analyst estimates. On the other side, WMT has an A grade for the same, consistent with its optimistic analysts’ estimates.

Among the 37 stocks in the A-rated Grocery/Big Box Retailers industry, TGT is ranked #31, while WMT is ranked #7.

Beyond what we’ve stated above, we have also rated both stocks for Value, Momentum, Sentiment, and Quality. Click here to view TGT’s ratings. Access all the ratings of WMT here.

The Winner

The US retail industry seems resilient in the face of uncertainties. Both companies operating in this sector are well-positioned to capitalize on the growing market opportunities.

However, as discussed above, rising expenses and declining profits might weigh further on TGT's performance. So, I think one could wait for a better entry point for TGT.

On the other hand, considering WMT's superior year-to-date performance, the impressive one-year gain, and the higher closing price, WMT is a better buy here.

Our research shows that the odds of success increase when one invests in stocks with an Overall Rating of Strong Buy or Buy. View all the top-rated stocks in the Grocery/Big Box Retailers industry here.

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10 Stocks to SELL NOW! >

WMT shares were trading at $146.42 per share on Monday afternoon, up $0.26 (+0.18%). Year-to-date, WMT has gained 4.08%, versus a 10.25% rise in the benchmark S&P 500 index during the same period.

About the Author: Kritika Sarmah

Her interest in risky instruments and passion for writing made Kritika an analyst and financial journalist. She earned her bachelor’s degree in commerce and is currently pursuing the CFA program. With her fundamental approach, she aims to help investors identify untapped investment opportunities.

More…

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