TheStreet

No Worries, Bullseye; Target Unlikely to Join Amazon's Fold

Target's stock price could rise as much as 5% this year, according to an analyst.

By Michelle Lodge

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Hold on there, Gene Munster! The famed tech analyst is predicting that Amazon.com Inc. (**AMZN** - *Get Report*) could buy Target Corp. (**TGT** - *Get Report*) in 2018. Not everyone agrees. Benjamin Lau of Apriem Advisors, which covers retail stocks, says Target is much more likely to be an acquirer rather than the acquired one this year.

"I don't know what Amazon would get out of the deal or how Amazon would pay for Target," Lau told TheStreet.

Munster, a well-know tech analyst and founder of Loup Ventures, wrote this week in his annual predictions note that he thought Amazon and Target would be a hand-in-glove fit.

"Seeing the value of the combination is easy," he wrote. "Amazon believes the future of retail is a mix of mostly online and some offline. Target is the ideal offline partner for Amazon for two reasons, shared demographic and manageable-but-comprehensive store count. As for the demographic, Target's focus on moms is central to Amazon's approach to win wallet share. Amazon has, over the years, aggressively pursued moms through promotions around Prime along with loading Prime Video with kid-friendly content."

Target and Amazon both declined to comment on Munster's prediction, and Lau, who serves as Apriem Advisors' chief investment officer, thinks such a deal makes no sense. For openers, he said Amazon already raised its debt to $40 billion in 2017 from a previous $20 billion — in part due to buying Whole Foods for $13.7 billion, which it's still digesting. To bite off a company the size of Target, "they would double the debt again," Lau said.

The expert said that some more likely scenarios for Target include:

- Buying a home-furnishing company like Overstock.com (**OSTK** - *Get Report*) , which is on the block. Overstock CEO Patrick M. Bryne told TheStreet recently that a decision on a sale would come in March.

- Purchasing a smaller clothing company that would complement what Target already sells.

What else is in store for Target this year? Lau foresees:

A 5% to 6% Boost in Stock Price

"Target is forecasting 6% revenue growth this year, and, that's where we see share price going," Lau said.

While a company's revenue growth doesn't always correspond with share-price growth, in Target's case now, Lau believes it will.

Stock Buybacks

The expert believes that Target will save on federal taxes under the new GOP tax law, which could lead to stock buybacks.

Lau said that for at least the past three years, the company's effective tax rate has been about 31%, not the "official" U.S. corporate tax rate of 35%. Lau predicts that under the new U.S. corporate-tax law, the retailer's effective rate will be 21%.

That money will more than likely go into stock buybacks, not something like a dividend increase, he said. "Target's dividend yield is at 3.6%, while Walmart's (**WMT** - *Get Report*) is 2% and Costco's (**COST** - *Get Report*) is 1%," Lau said.

Target already spent $757 million on 2017 share buybacks through Oct. 28. For 2016, the company shelled out much more — $3 billion for stocks.