



Walmart Inc. (WMT)

Updated February 21st, 2019 by Josh Arnold

Key Metrics

Current Price:	\$100	5 Year CAGR Estimate:	2.4%	Volatility Percentile:	24.0%
Fair Value Price:	\$77	5 Year Growth Estimate:	5.5%	Momentum Percentile:	60.2%
% Fair Value:	131%	5 Year Valuation Multiple Estimate:	-5.2%	Growth Percentile:	48.9%
Dividend Yield:	2.1%	5 Year Price Target	\$100	Valuation Percentile:	15.4%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	10.4%

Overview & Current Events

Walmart traces its roots back to 1945 when Sam Walton opened his first discount store. The company has since grown into the largest retailer in the world, serving 270 million customers each week. Revenue will be well in excess of \$500 billion this year and the stock trades with a market capitalization of \$290 billion.

Walmart reported Q4 earnings on 2/19/19 and results were very strong. Total revenue was up 1.9% on a reported basis and 3.1% on a currency-neutral basis. The company saw strength from a variety of places, which helped to offset a 3.2% decline in the international business. US comparable sales rose a very impressive 4.2%, while Sam's Club, which has struggled in recent years, saw a 3.3% increase. The majority of the US comparable sales gain came from a 3.3% increase in average ticket, while traffic rose a tepid 0.9%. However, the strength the company is exhibiting is undeniable as it continues to boost revenue. Further, Walmart's e-commerce revenue rose 21% overall, with a 43% gain in the US. This is central to the company's long-term growth strategy given its recent slate of acquisitions, and it is working to boost revenue every quarter.

Gross margins declined slightly in Q4 and indeed for the full year in 2018. This is something Walmart has struggled with for a few years now as it invests in revenue growth at the expense of profitability. However, much lower SG&A spending saw operating earnings soar 36% in Q4 against the comparable period last year. Interest expense also moved 29% higher year-over-year as Walmart has financed the Flipkart acquisition with debt, so that is impacting net earnings as well. Overall, however, adjusted earnings-per-share rose from \$1.33 to \$1.41 year-over-year.

We're out with an initial estimate of \$5.10 in earnings-per-share for this year as management guided for a low to mid-single digit increase against 2018's \$4.91. That would represent a 4% gain in earnings-per-share as Walmart continues to boost revenue and buy back stock, offsetting gross margin declines.

Walmart returned a staggering \$13.5 billion to shareholders in 2018, consisting of \$6.1 billion in dividends and \$7.4 billion in share repurchases.

Separately, the Competition and Markets Authority in the UK says the merger between Walmart's Asda unit and Sainsbury is likely to be blocked. The deal would have given the two grocery chains 30% market share in the UK, but it appears it will not go through in a blow to Walmart.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.66	\$4.07	\$4.55	\$5.02	\$5.11	\$5.07	\$4.57	\$4.32	\$4.42	\$4.91	\$5.10	\$6.67
DPS	\$1.09	\$1.21	\$1.46	\$1.59	\$1.88	\$1.92	\$1.96	\$2.00	\$2.04	\$2.08	\$2.12	\$2.66
Shares	3,786	3,516	3,418	3,314	3,233	3,228	3,162	3,048	2,952	2,914	2,860	2,620

The largest concern for Walmart is operating margins as gross margins have remained flat while operating expenses have risen, something we've seen for a few quarters now. This is the product of Walmart's focus on building out its online business as well as integrating its acquisitions, both of which are expensive endeavors. While Q4 operating income was higher year-over-year, sales gains continue to outpace profitability gains because of this.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Walmart Inc. (WMT)

Updated February 21st, 2019 by Josh Arnold

Looking forward, we are forecasting 5.5% annual earnings growth for the next five years as Walmart continues to work through its margin issues. The company continues to buy back stock as well as we see low single digit sales growth each year, with its e-commerce business being the primary driver of top line growth. That combination should be good enough to create mid-single digit growth without the benefit of margin expansion. We continue to be bullish on Walmart's ability to grow revenue, but its margins are suffering as a result. Presumably, margins will bottom out and perhaps we are seeing the first signs of that, but for now, our base case is flat or slightly lower margins.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.9	13.1	12.4	13.5	14.9	15.4	15.5	16.2	18.9	18.8	19.6	15.0
Avg. Yld.	2.1%	2.3%	2.7%	2.3%	2.5%	2.5%	2.8%	2.9%	2.1%	2.3%	2.1%	2.7%

Walmart's valuation is currently at its highest level of the past decade. Investors continue to bet heavily on the future of the e-commerce business, but it has made the quite stock expensive. We are forecasting the price-to-earnings multiple to fall to 15, creating a 5.2% annual headwind on a total return basis as a result of the revaluation of the stock. The yield is back down to 2.1% thanks to the higher valuation, at the lower end of its historical range. We expect it to rise in the coming years back towards the mid-2% range, commensurate with its historical norms.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	28%	30%	30%	33%	32%	37%	38%	43%	46%	42%	42%	40%

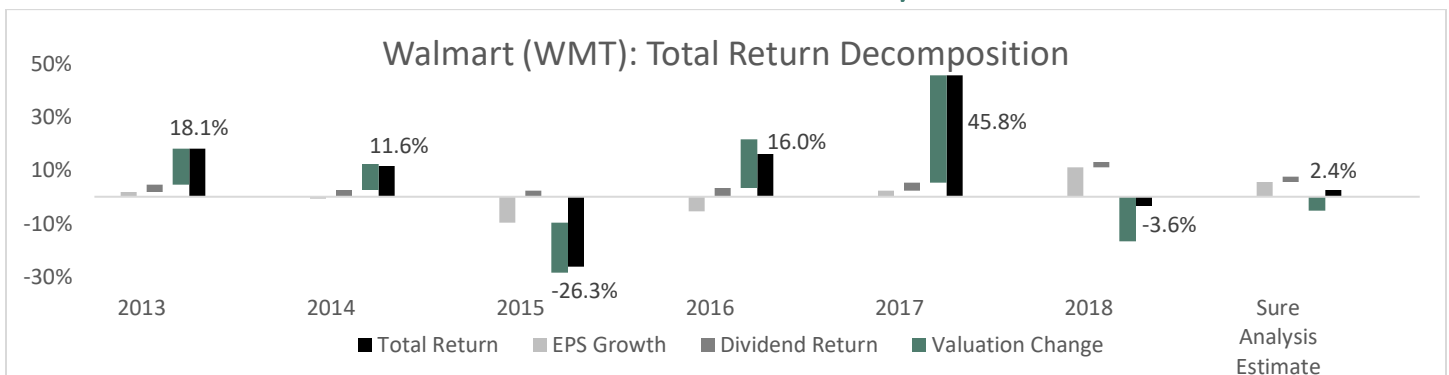
The company's payout ratio is quite conservative around 40% of earnings, making for a conservative dividend policy.

Walmart's competitive advantage is in its enormous size as it can buy and ship product at scales no other company can rival. This allows it to operate with low prices to consumers and as more than half of its revenue comes from groceries, its recession performance is excellent. The company managed to increase earnings steadily during and after the Great Recession. Hard economic conditions tend to send consumers on the margins to Walmart, which is also an advantage.

Final Thoughts & Recommendation

Overall, Walmart looks overvalued here as it continues to trade at a significant premium to its fair value. We are forecasting total five-year annual returns of just 2.4%, comprised of the 2.1% current yield, 5.5% earnings growth and a 5.2% headwind from the valuation that we think will continue to come down. Walmart is a safe, defensive stock in times of economic hardship, but growth is going to be limited as it works through its margin issues and a stock price that is in excess of fair value. Given low projected total returns, the stock earns a sell recommendation at current prices.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Walmart Inc. (WMT)

Updated February 21st, 2019 by Josh Arnold

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue (\$B)	408.09	421.85	446.51	468.65	476.29	485.65	482.13	485.87	500.34	514.41
Gross Profit (\$B)	103.98	106.90	111.52	116.35	118.23	120.57	121.15	124.62	126.95	129.10
Gross Margin	25.5%	25.3%	25.0%	24.8%	24.8%	24.8%	25.1%	25.6%	25.4%	25.1%
SG&A Exp. (\$B)	79.98	81.36	85.03	88.63	91.35	93.42	97.04	101.85	106.51	107.15
D&A Exp.	7157	7641	8106	8478	8870	9173	9454	10080	10529	10678
Operating Profit	24002	25542	26491	27725	26872	27147	24105	22764	20437	21957
Op. Margin	5.9%	6.1%	5.9%	5.9%	5.6%	5.6%	5.0%	4.7%	4.1%	4.3%
Net Profit	14370	16389	15699	16999	16022	16363	14694	13643	9862	6670
Net Margin	3.5%	3.9%	3.5%	3.6%	3.4%	3.4%	3.0%	2.8%	2.0%	1.3%
Free Cash Flow	14065	10944	10745	12693	10142	16390	16075	21054	18286	17409
Income Tax	7156	7579	7924	7958	8105	7985	6558	6204	4600	4281

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	170.41	180.78	193.41	203.11	204.75	203.49	199.58	198.83	204.52	219.30
Cash & Equivalents	7907	7395	6550	7781	7281	9135	8705	6867	6756	7722
Acc. Receivable	N/A	5089	5937	6768	6677	6778	5624	5835	5614	6283
Inventories	32713	36437	40714	43803	44858	45141	44469	43046	43783	44269
Goodwill & Int.	16126	16763	20651	20497	19510	18102	16695	17037	18242	31181
Total Liab. (\$B)	97.45	109.54	117.65	121.37	123.41	117.55	115.97	118.29	123.70	139.66
Accounts Payable	30451	33676	36608	38080	37415	38410	38487	41433	46092	47060
Long-Term Debt	37804	46378	50092	50786	53544	47272	43667	39370	39040	50621
Total Equity	70468	68542	71315	76343	76255	81394	80546	77798	77869	72496
D/E Ratio	0.54	0.68	0.70	0.67	0.70	0.58	0.54	0.51	0.50	0.70

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	8.6%	9.3%	8.4%	8.6%	7.9%	8.0%	7.3%	6.8%	4.9%	3.1%
Return on Equity	21.2%	23.6%	22.5%	23.0%	21.0%	20.8%	18.1%	17.2%	12.7%	8.9%
ROIC	13.3%	14.4%	12.9%	13.2%	12.0%	12.2%	11.3%	11.0%	8.2%	5.3%
Shares Out.	3,786	3,516	3,418	3,314	3,233	3,228	3,162	3,048	2,952	2,914
Revenue/Share	105.26	114.95	128.53	138.29	145.08	149.75	149.87	156.13	166.23	174.67
FCF/Share	3.63	2.98	3.09	3.75	3.09	5.05	5.00	6.77	6.08	5.91

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.