



Walmart Inc. (WMT)

Updated September 9th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$138	5 Year CAGR Estimate:	3.7%	Market Cap:	\$392 B
Fair Value Price:	\$118	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	12/10/20
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.2%	Dividend Payment Date:	01/04/21
Dividend Yield:	1.6%	5 Year Price Target	\$154	Years Of Dividend Growth:	47
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	1.9%

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 nearly 300 million customers each week. Revenue will be in excess of \$545 billion this year and the stock trades with a market capitalization of \$392 billion.

Walmart reported second quarter earnings on August 18th, with results coming in much better than expected on the top and bottom lines. Comparable sales were up 9.3% in the US, beating consensus by nearly half. E-commerce sales were up a staggering 97% from the comparable period last year as the company's heavy push into digital channels continues to pay off. Interestingly, transaction volumes declined -14% in Q2, but the average ticket size soared 27%. The net of this was a sizable gain, but the decline in traffic is notable.

Sam's Club saw comparable sales rise in the US by 13%, doubling consensus, while International sales fell once again, this time declining -6.8%. The international business was weak due to Flipkart's closing in India, as well as forex.

Gross margins were up 63bps year-over-year, the result of mix shift to higher-margin categories, fewer markdowns due to better inventory sell-through, and stronger fuel margins.

Adjusted earnings-per-share came to \$1.56 on very strong revenue gains, and we've boosted our estimate of earnings-per-share for this year to \$5.35.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$4.07	\$4.55	\$5.02	\$5.11	\$5.07	\$4.57	\$4.32	\$4.42	\$4.91	\$4.93	\$5.35	\$6.99
DPS	\$1.21	\$1.46	\$1.59	\$1.88	\$1.92	\$1.96	\$2.00	\$2.04	\$2.08	\$2.12	\$2.16	\$2.76
Shares¹	3,516	3,418	3,314	3,233	3,228	3,162	3,048	2,952	2,914	2,855	2,870	2,750

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, second quarter results included. 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. We note that some of Walmart's price investments in Q2 were more than offset by strong mix shift, driving margins higher, although Q2 is an outlier at this point. We remain cautious on Walmart's operating margins.

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. 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 note that revenue growth will be much better this year due to COVID-19, but that this year's performance should not be repeatable. We continue to be bullish on Walmart's ability to grow revenue, but its margins are suffering as a result. We have raised our share count estimate for this year and for the next few years as Walmart isn't buying back as much stock as it used to. This behavior could change, but for now, the priority is investing for growth, not reducing the float.

¹ Share count in millions

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.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.1	12.4	13.5	14.9	15.4	15.5	16.2	18.9	18.8	22.3	25.9	22.0
Avg. Yld.	2.3%	2.7%	2.3%	2.5%	2.5%	2.8%	2.9%	2.1%	2.3%	1.9%	1.6%	1.8%

Walmart's valuation is currently near its highest level of the past decade. Investors continue to bet heavily on the future of the eCommerce business, but it has made the stock quite expensive in our view. We are forecasting the price-to-earnings multiple to fall to 22, creating a modest headwind on a total return basis as a result of the revaluation of the stock. The yield is down to 1.6% thanks to the higher valuation, at the lower end of its historical range. We expect the yield to rise in the coming years back towards the area of 2%, commensurate with its historical norms.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	30%	30%	33%	32%	37%	38%	43%	46%	42%	43%	40%	39%

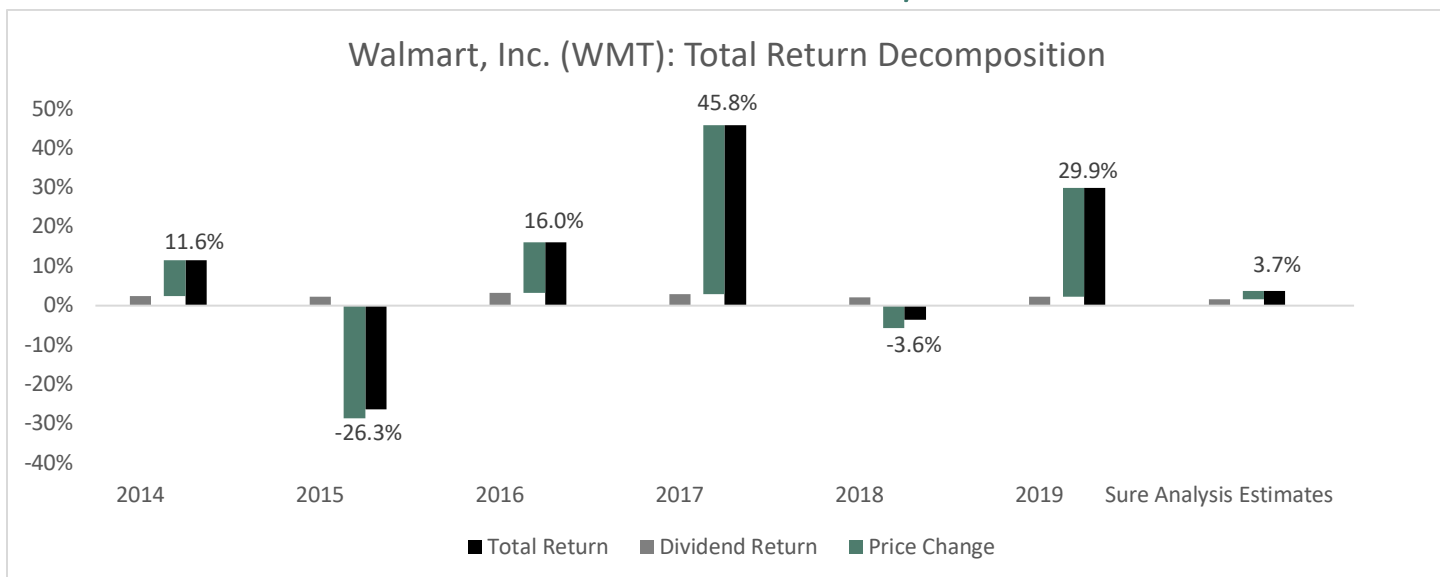
The company's payout ratio is quite low, around 40% of earnings, making for a conservative dividend policy. The dividend should be safe, even if earnings decline meaningfully.

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 as it continues to trade at a premium to our estimate of fair value. We are forecasting total five-year annual returns of 3.7%, as the yield has come down and the valuation is still quite high, despite some moderation of late. 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 our estimate of fair value. Given low projected total returns, the stock continues to earn a sell rating at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue (\$B)	421.85	446.5	468.65	476.3	485.65	482.13	485.87	500.3	514.41	524.0
Gross Profit (\$B)	106.90	111.5	116.35	118.2	120.57	121.15	124.62	127.0	129.10	129.4
Gross Margin	25.3%	25.0%	24.8%	24.8%	24.8%	25.1%	25.6%	25.4%	25.1%	24.7%
SG&A Exp. (\$B)	81.36	85.03	88.63	91.35	93.42	97.04	101.85	106.5	107.15	108.8
D&A Exp.	7641	8106	8478	8870	9173	9454	10080	10529	10678	10,987
Operating Profit	25542	26491	27725	26872	27147	24105	22764	20437	21957	20,568
Op. Margin	6.1%	5.9%	5.9%	5.6%	5.6%	5.0%	4.7%	4.1%	4.3%	3.9%
Net Profit	16389	15699	16999	16022	16363	14694	13643	9862	6670	14,881
Net Margin	3.9%	3.5%	3.6%	3.4%	3.4%	3.0%	2.8%	2.0%	1.3%	2.8%
Free Cash Flow	10944	10745	12693	10142	16390	16075	21054	18286	17409	14,550
Income Tax	7579	7924	7958	8105	7985	6558	6204	4600	4281	4,915

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	180.78	193.41	203.11	204.75	203.49	199.58	198.83	204.52	219.30	236.5
Cash & Equivalents	7395	6550	7781	7281	9135	8705	6867	6756	7722	9,465
Acc. Receivable	5089	5937	6768	6677	6778	5624	5835	5614	6283	6,284
Inventories	36437	40714	43803	44858	45141	44469	43046	43783	44269	44,435
Goodwill & Int.	16763	20651	20497	19510	18102	16695	17037	18242	31181	31,073
Total Liab. (\$B)	109.54	117.65	121.37	123.41	117.55	115.97	118.29	123.70	139.66	154.9
Accounts Payable	33676	36608	38080	37415	38410	38487	41433	46092	47060	46,973
Long-Term Debt	46378	50092	50786	53544	47272	43667	39370	39040	50621	49,651
Total Equity	68542	71315	76343	76255	81394	80546	77798	77869	72496	74,669
D/E Ratio	0.68	0.70	0.67	0.70	0.58	0.54	0.51	0.50	0.70	0.66

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	9.3%	8.4%	8.6%	7.9%	8.0%	7.3%	6.8%	4.9%	3.1%	6.5%
Return on Equity	23.6%	22.5%	23.0%	21.0%	20.8%	18.1%	17.2%	12.7%	8.9%	20.2%
ROIC	14.4%	12.9%	13.2%	12.0%	12.2%	11.3%	11.0%	8.2%	5.3%	11.4%
Shares Out.	3,516	3,418	3,314	3,233	3,228	3,162	3,048	2,952	2,914	2,855
Revenue/Share	105.26	114.95	128.53	138.29	145.08	149.75	149.87	156.13	166.23	182.69
FCF/Share	2.98	3.09	3.75	3.09	5.05	5.00	6.77	6.08	5.91	5.07

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

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