



Walmart Inc. (WMT)

Updated February 24th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$136	5 Year CAGR Estimate:	4.2%	Market Cap:	\$383 B
Fair Value Price:	\$121	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/18/21
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	04/05/21
Dividend Yield:	1.6%	5 Year Price Target	\$154	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	B	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 around 230 million customers each week. Revenue will be around \$550 billion this year and the stock trades with a market capitalization of \$383 billion.

Walmart reported fourth quarter and full year earnings on February 18th, 2021. Revenue was up a very impressive 7.3% to \$152 billion during the quarter, driven by continued pandemic-fueled changes in consumer behaviors. Total comparable sales soared 8.5% in Q4, easily beating expectations. Walmart US, the largest segment, was up 8.6%, while Sam's Club saw a staggering 10.8% gain ex-fuel.

Revenue by segment equaled: Walmart US +7.9% to \$100 billion, International +5.5% to \$35 billion, Sam's Club +8.1% to \$16.5 billion. Walmart US ecommerce revenue was up 69%, and Sam's club ecommerce revenue was up 42%.

Gross margins remained very low at 23.7% of revenue, but that was up 30bps from the year-ago period. The company said COVID-related costs were \$1.1 billion in Q4, and that adjusted earnings-per-share came to \$1.39 in Q4.

The company guided for net sales, operating income, and earnings-per-share to decline this year, primarily due to anticipated divestitures. Without divestitures, Walmart expects low-single digit growth in earnings-per-share. Our initial estimate is for \$5.50 in earnings-per-share, which would be essentially flat year-over-year.

Walmart also raised its dividend by a penny per share per quarter, rising 1.9% to a new annualized payout of \$2.20 per share. This is also Walmart's 48th consecutive year of dividend increases as it closes in on Dividend King status. It also approved a new \$20 billion share repurchase program.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.55	\$5.02	\$5.11	\$5.07	\$4.57	\$4.32	\$4.42	\$4.91	\$4.93	\$5.48	\$5.50	\$7.02
DPS	\$1.46	\$1.59	\$1.88	\$1.92	\$1.96	\$2.00	\$2.04	\$2.08	\$2.12	\$2.16	\$2.20	\$2.81
Shares¹	3,418	3,314	3,233	3,228	3,162	3,048	2,952	2,914	2,855	2,826	2,775	2,650

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, although 2020 results were slightly better. 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 while operating margins did improve in the second half of 2020, given the pace of revenue growth, one would generally expect higher margins, but Walmart simply isn't delivering as it reinvests in pricing and digital channels. The company said this will likely not occur in 2021 either.

Looking forward, we are forecasting 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 was

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.



Walmart Inc. (WMT)

Updated February 24th, 2021 by Josh Arnold

much better in 2020 due to COVID-19, but that this 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.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.4	13.5	14.9	15.4	15.5	16.2	18.9	18.8	22.3	24.1	24.7	22.0
Avg. Yld.	2.7%	2.3%	2.5%	2.5%	2.8%	2.9%	2.1%	2.3%	1.9%	1.6%	1.6%	1.8%

Walmart's valuation is currently at 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 moderate headwind on a total return basis as a result of the revaluation of the stock. The yield is 1.6% thanks to the higher valuation, which is below 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30%	33%	32%	37%	38%	43%	46%	42%	43%	39%	40%	40%

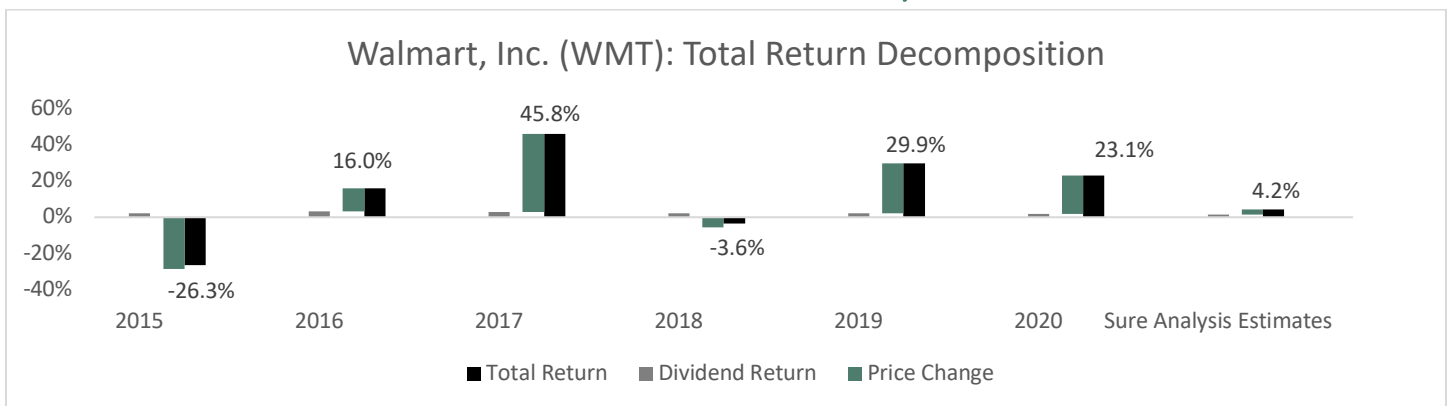
The company's payout ratio is quite low, around 40% of earnings, making for a conservative dividend policy. The dividend should be very safe, even if earnings decline meaningfully.

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. We note that Walmart's strength during the COVID-19 crisis highlights its recession resistance.

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 4.2%, as the yield remains low and the valuation is very high. Walmart is a safe, defensive stock in times of economic hardship, but growth is going to be limited as it works through its longer-term margin issues and a stock price that is in excess of our estimate of fair value. With returns slightly improved from our last update, we're upgrading Walmart from sell to hold.

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 24th, 2021 by Josh Arnold

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	446.5	468.65	476.3	485.65	482.13	485.87	500.3	514.41	524.0	559.2
Gross Profit (\$B)	111.5	116.35	118.2	120.57	121.15	124.62	127.0	129.10	129.4	138.8
Gross Margin	25.0%	24.8%	24.8%	24.8%	25.1%	25.6%	25.4%	25.1%	24.7%	24.8%
SG&A Exp. (\$B)	85.03	88.63	91.35	93.42	97.04	101.85	106.5	107.15	108.8	116.3
D&A Exp.	8106	8478	8870	9173	9454	10080	10529	10678	10,987	11,152
Operating Profit	26491	27725	26872	27147	24105	22764	20437	21957	20,568	22,548
Op. Margin	5.9%	5.9%	5.6%	5.6%	5.0%	4.7%	4.1%	4.3%	3.9%	4.0%
Net Profit	15699	16999	16022	16363	14694	13643	9862	6670	14,881	13,510
Net Margin	3.5%	3.6%	3.4%	3.4%	3.0%	2.8%	2.0%	1.3%	2.8%	2.4%
Free Cash Flow	10745	12693	10142	16390	16075	21054	18286	17409	14,550	25,810
Income Tax	7924	7958	8105	7985	6558	6204	4600	4281	4,915	6,858

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	193.41	203.11	204.75	203.49	199.58	198.83	204.52	219.30	236.5	252.5
Cash & Equivalents	6550	7781	7281	9135	8705	6867	6756	7722	9,465	17,741
Acc. Receivable	5937	6768	6677	6778	5624	5835	5614	6283	6,284	6,516
Inventories	40714	43803	44858	45141	44469	43046	43783	44269	44,435	44,949
Goodwill & Int.	20651	20497	19510	18102	16695	17037	18242	31181	31,073	28,983
Total Liab. (\$B)	117.65	121.37	123.41	117.55	115.97	118.29	123.70	139.66	154.9	1645.0
Accounts Payable	36608	38080	37415	38410	38487	41433	46092	47060	46,973	49,141
Long-Term Debt	50092	50786	53544	47272	43667	39370	39040	50621	49,651	44,533
Total Equity	71315	76343	76255	81394	80546	77798	77869	72496	74,669	81,298
D/E Ratio	0.70	0.67	0.70	0.58	0.54	0.51	0.50	0.70	0.66	0.55

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.4%	8.6%	7.9%	8.0%	7.3%	6.8%	4.9%	3.1%	6.5%	5.5%
Return on Equity	22.5%	23.0%	21.0%	20.8%	18.1%	17.2%	12.7%	8.9%	20.2%	17.3%
ROIC	12.9%	13.2%	12.0%	12.2%	11.3%	11.0%	8.2%	5.3%	11.4%	10.3%
Shares Out.	3,418	3,314	3,233	3,228	3,162	3,048	2,952	2,914	2,855	2,826
Revenue/Share	114.95	128.53	138.29	145.08	149.75	149.87	156.13	166.23	182.69	196.40
FCF/Share	3.09	3.75	3.09	5.05	5.00	6.77	6.08	5.91	5.07	9.07

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.