



Walmart Inc. (WMT)

Updated June 1st, 2021 by Josh Arnold

Key Metrics

Current Price:	\$143	5 Year CAGR Estimate:	4.5%	Market Cap:	\$400 B
Fair Value Price:	\$130	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	08/12/21
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Dividend Payment Date:	09/07/21
Dividend Yield:	1.5%	5 Year Price Target	\$166	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 \$400 billion.

Walmart reported first quarter earnings on May 18th, 2021, with results coming in ahead of expectations on both revenue and adjusted earnings. Total revenue was \$138 billion in Q1, up 2.7% year-over-year. The company said the top line was negatively impacted by \$4.2 billion in recent divestitures in Walmart International, but excluding that, as well as currency translation, revenue would have moved higher by 2.1%.

Comparable sales in the US were +6% as the company gained market share in the grocery segment, building upon strength gained during the pandemic last year. Operating income soared 27% at Walmart US thanks to a combination of higher revenue and operating cost leverage. Ecommerce sales in the US were up 37% as gains were made in all channels and made up more than half of the total comparable sales gain.

Sam's Club saw comparable sales of +7.2% in Q1 as ecommerce sales soared 47%. Reduced tobacco sales saw the comparable sales rate negatively impacted by 340bps. Membership income was up 12.7% and Sam's Club now has the highest ever total of active memberships.

Gross profit was up 104bps, led by strength in Walmart US, while operating expenses were flat, leading to an increase of 32% in consolidated operating income, which came to \$6.9 billion. Adjusted earnings-per-share came to \$1.69 in Q1, and we've boosted our estimate for this year to \$5.90 following a great start to the year.

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	\$5.90	\$7.53
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 in recent quarters. 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, but we note that Q1 saw gross margin expansion of ~100bps and operating leverage that drove operating margins higher. We'll wait to see if this becomes a new trend, but Q1 results were strong on this front.

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

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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. We also note that starting in Q2, comparables become much tougher for Walmart as it laps the pandemic period.

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	24.2	22.0
Avg. Yld.	2.7%	2.3%	2.5%	2.5%	2.8%	2.9%	2.1%	2.3%	1.9%	1.6%	1.5%	1.7%

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. The yield is 1.5% thanks to the higher valuation, which is below its historical range. We expect the yield to rise in the coming years, but only slightly.

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%	37%	37%

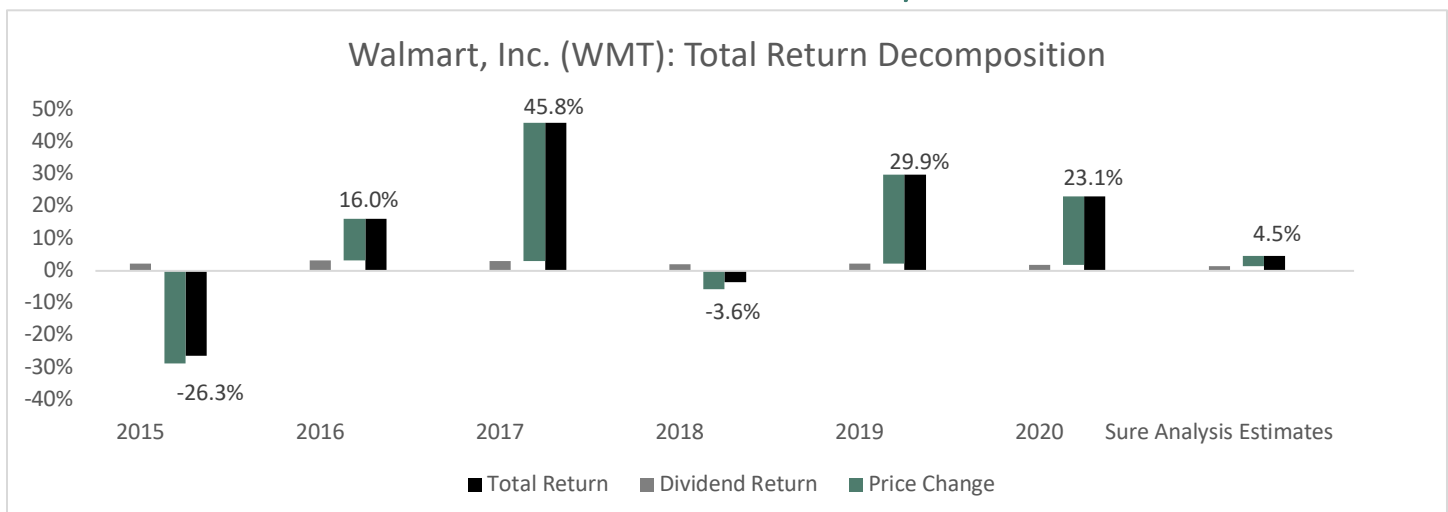
The company's payout ratio is quite low, less than 40% of earnings, making for a conservative dividend policy. The dividend should be very safe, even if earnings decline meaningfully.

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 4.5%, 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. We continue to rate Walmart a hold.

Total Return Breakdown by Year



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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.

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