



Walmart Inc. (WMT)

Updated May 28th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$129	5 Year CAGR Estimate:	9.2%	Market Cap:	\$340 B
Fair Value Price:	\$141	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/17/22
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	04/04/22
Dividend Yield:	1.7%	5 Year Price Target	\$188	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 more than 230 million customers each week. Revenue will be around \$595 billion this year and the stock trades with a market capitalization of \$340 billion. Walmart is one of the largest employers in the world, counting 2.3 million people in its ranks.

Walmart reported first quarter earnings on May 17th, 2022, and results were much weaker than expected on margins and profits. Adjusted earnings-per-share came to \$1.30, which was 18 cents worse than expected. That was despite revenue growing 2.4% year-over-year to \$141.6 billion, which was \$3.55 billion better than expected.

Comparable sales were up 3% year-over-year in the US, and up 9% on a two-year stacked basis. eCommerce growth was 1% year-over-year, but up 38% on a two-year stacked basis. Sam's Club comparable sales rose 10.2% year-over-year, and the two-year value was +17.4%. Membership income at Sam's Club was up 10.5%

Gross profit rate was down 87bps, which was due to weak margins at both Sam's Club and Walmart due to elevated supply chain costs, as well as product mix. Operating expenses were up 45bps as a percentage of sales, primarily due to higher wages in the US. Operating income for Walmart US was \$4.5 billion, down from \$5.5 billion a year ago. Walmart International saw a drop from \$1.2 billion to \$0.8 billion, and Sam's Club was down from \$0.6 billion to \$0.5 billion.

The company lowered guidance for this year, and we've trimmed our estimate commensurately, which now stands at \$6.40 for earnings-per-share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$5.02	\$5.11	\$5.07	\$4.57	\$4.32	\$4.42	\$4.91	\$4.93	\$5.48	\$6.43	\$6.40	\$8.56
DPS	\$1.59	\$1.88	\$1.92	\$1.96	\$2.00	\$2.04	\$2.08	\$2.12	\$2.16	\$2.20	\$2.24	\$2.47
Shares¹	3,314	3,233	3,228	3,162	3,048	2,952	2,914	2,855	2,826	2,769	2,700	2,500

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, as well as dealing with labor cost inflation. Margins suffered again in Q4 of 2021, as the company grapples with rising supply chain and labor costs, both of which are being driven by constraints outside the company's control. The early part of 2022 is showing some exacerbation of higher costs and lower gross margins.

Looking forward, we are forecasting 6% 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 and 2021 due to COVID-19, but that this performance should not be repeatable. Guidance on this year's revenue supports this. We continue to be bullish on Walmart's ability to grow revenue, but with a watchful eye on margins, particularly after Q1 results. Walmart has also thus far successfully lapped the tough periods of the pandemic in terms of comparable sales.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.5	14.9	15.4	15.5	16.2	18.9	18.8	22.3	24.1	21.9	20.2	22.0
Avg. Yld.	2.3%	2.5%	2.5%	2.8%	2.9%	2.1%	2.3%	1.9%	1.6%	1.6%	1.7%	1.3%

Walmart's valuation has deteriorated slightly since our last report as earnings estimates have fallen. We are forecasting the price-to-earnings multiple to expand from the current 20.2 to 22, implying a decent tailwind to total annual returns from the valuation. The yield is 1.7% now, which is still below its historical range. Given small dividend increases in recent years, we've reduced our dividend growth forecast accordingly.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	33%	32%	37%	38%	43%	46%	42%	43%	39%	34%	35%	29%

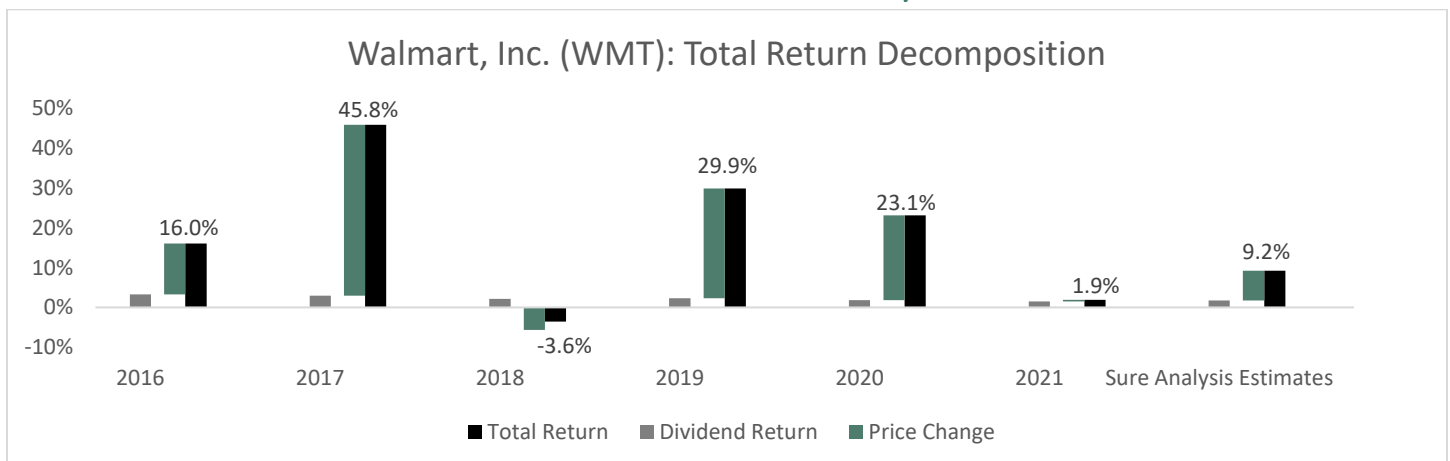
The company's payout ratio is quite low at 35% of earnings, making for a conservative dividend policy. The dividend should be very safe, even if earnings decline meaningfully.

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 poised to deliver good returns in the coming years. We are forecasting total five-year annual returns of 9.2%, as the yield remains low, but the valuation is meaningfully below our estimate of fair value. 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. We're downgrading the stock from buy to hold after Q1 results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue (\$B)	468.65	476.3	485.65	482.13	485.87	500.3	514.41	524.0	559.2	572.7
Gross Profit (\$B)	116.35	118.2	120.57	121.15	124.62	127.0	129.10	129.4	138.8	143.8
Gross Margin	24.8%	24.8%	24.8%	25.1%	25.6%	25.4%	25.1%	24.7%	24.8%	25.1%
SG&A Exp. (\$B)	88.63	91.35	93.42	97.04	101.85	106.5	107.15	108.8	116.3	117.8
D&A Exp.	8478	8870	9173	9454	10080	10529	10678	10,987	11,152	10,658
Operating Profit	27725	26872	27147	24105	22764	20437	21957	20,568	22,548	25,942
Op. Margin	5.9%	5.6%	5.6%	5.0%	4.7%	4.1%	4.3%	3.9%	4.0%	4.5%
Net Profit	16999	16022	16363	14694	13643	9862	6670	14,881	13,510	13,673
Net Margin	3.6%	3.4%	3.4%	3.0%	2.8%	2.0%	1.3%	2.8%	2.4%	2.4%
Free Cash Flow	12693	10142	16390	16075	21054	18286	17409	14,550	25,810	11,075
Income Tax	7958	8105	7985	6558	6204	4600	4281	4,915	6,858	4,756

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	203.11	204.75	203.49	199.58	198.83	204.52	219.30	236.5	252.5	244.9
Cash & Equivalents	7781	7281	9135	8705	6867	6756	7722	9,465	17,741	14,760
Acc. Receivable	6768	6677	6778	5624	5835	5614	6283	6,284	6,516	8,280
Inventories	43803	44858	45141	44469	43046	43783	44269	44,435	44,949	56,511
Goodwill & Int.	20497	19510	18102	16695	17037	18242	31181	31,073	28,983	29,014
Total Liab. (\$B)	121.37	123.41	117.55	115.97	118.29	123.70	139.66	154.9	164.5	153.0
Accounts Payable	38080	37415	38410	38487	41433	46092	47060	46,973	49,141	55,261
Long-Term Debt	50786	53544	47272	43667	39370	39040	50621	49,651	44,533	38,077
Total Equity	76343	76255	81394	80546	77798	77869	72496	74,669	81,298	83,253
LTD/E Ratio	0.67	0.70	0.58	0.54	0.51	0.50	0.70	0.66	0.55	0.46

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.6%	7.9%	8.0%	7.3%	6.8%	4.9%	3.1%	6.5%	5.5%	5.5%
Return on Equity	23.0%	21.0%	20.8%	18.1%	17.2%	12.7%	8.9%	20.2%	17.3%	16.7%
ROIC	13.2%	12.0%	12.2%	11.3%	11.0%	8.2%	5.3%	11.4%	10.3%	10.4%
Shares Out.	3,314	3,233	3,228	3,162	3,048	2,952	2,914	2,855	2,826	2,769
Revenue/Share	128.53	138.29	145.08	149.75	149.87	156.13	166.23	182.69	196.40	204.19
FCF/Share	3.75	3.09	5.05	5.00	6.77	6.08	5.91	5.07	9.07	3.95

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

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