



Walmart Inc. (WMT)

Updated February 27th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$142	5 Year CAGR Estimate:	7.3%	Market Cap:	\$384 B
Fair Value Price:	\$129	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	03/16/23
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Dividend Payment Date:	04/03/23
Dividend Yield:	1.6%	5 Year Price Target	\$190	Years Of Dividend Growth:	50
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 should be around \$625 billion this year and the stock trades with a market capitalization of \$384 billion. Walmart is one of the largest employers in the world, counting 2.3 million people in its ranks. Walmart has increased its dividend for 50 consecutive years, making it a new member of the prestigious Dividend Kings.

Walmart reported fourth quarter and full-year earnings on February 21st, 2023, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$1.71, which was 20 cents better than expected, and revenue was up 7% to \$164 billion. That was more than \$5 billion better than estimates.

US comparable sales rose 8.3%, which was 210bps better than expected. Comparable sales were up almost 14% on a two-year basis. Transactions rose 1.8%, and average ticket size rose 6.3%. Sam's Club saw a 12.2% comparable sales increase, as transaction growth was 6.7%, and ticket growth was 5.2%.

The company said grocery sales were strong but that consumers were seeing pressured spending on discretionary items, setting a cautious tone to start the year.

Consolidated gross profit fell 44bps, which was due to sales growth and lower COVID-related costs, partially offset by reorganization and restructuring charges. Adjusted operating income was up 6.9% to \$6.4 billion.

We start the year with an estimate of \$6.15 in earnings-per-share.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$5.11	\$5.07	\$4.57	\$4.32	\$4.42	\$4.91	\$4.93	\$5.48	\$6.43	\$6.29	\$6.15	\$9.04
DPS	\$1.88	\$1.92	\$1.96	\$2.00	\$2.04	\$2.08	\$2.12	\$2.16	\$2.20	\$2.24	\$2.28	\$2.52
Shares¹	3,233	3,228	3,162	3,048	2,952	2,914	2,855	2,826	2,769	2,696	2,650	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 have improved of late, 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 2021, as the company grappled with rising supply chain and labor costs, both of which were driven by constraints outside the company's control. While earnings may decline this year, we see outsized growth coming from continued strong comparable sales, and the margin gains that can drive. We also note that operating expenses seem to be coming under control, which is good news for margins going forward.

Looking forward, we are forecasting 8% annual earnings growth for the next five years as Walmart continues to work through its margin issues and caution on consumer spending. The company continues to buy back stock as well. We see

¹ Share count in millions

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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 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. Walmart has also thus far successfully lapped the tough periods of the pandemic in terms of comparable sales.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.9	15.4	15.5	16.2	18.9	18.8	22.3	24.1	21.9	22.5	23.1	21.0
Avg. Yld.	2.5%	2.5%	2.8%	2.9%	2.1%	2.3%	1.9%	1.6%	1.6%	1.6%	1.6%	1.3%

Walmart's valuation has improved since our last report as the share price has declined. We are forecasting the price-to-earnings multiple to decline from the current 23.1 to 21, implying a headwind to total annual returns from the valuation. The yield is 1.6%, 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32%	37%	38%	43%	46%	42%	43%	39%	34%	36%	37%	28%

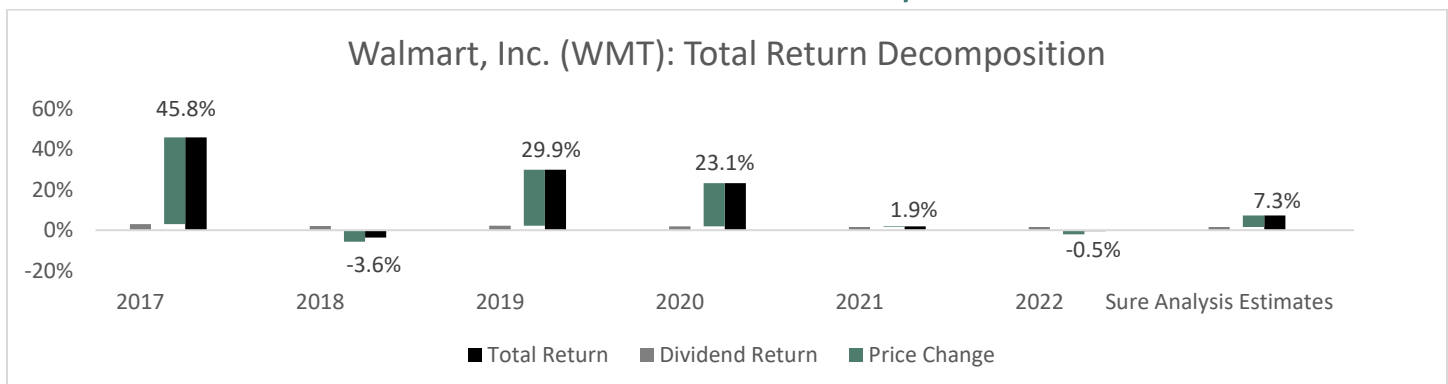
The company's payout ratio is quite low at 37% of earnings, making for a conservative dividend policy. The dividend should be very safe, even if earnings decline meaningfully.

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 decent returns in the coming years. We are forecasting total five-year annual returns of 7.3%, as the yield remains low at 1.6%, and the valuation is ahead of our fair value estimate, driving a 1.9% headwind, despite 8% projected growth. Walmart is a safe, defensive stock in times of economic hardship, and we see strong growth in the years to come from what should be a trough earnings value this year. The stock remains a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (\$B)	476.3	485.65	482.13	485.87	500.3	514.41	524.0	559.2	572.7	611.3
Gross Profit (\$B)	118.2	120.57	121.15	124.62	127.0	129.10	129.4	138.8	143.8	147.6
Gross Margin	24.8%	24.8%	25.1%	25.6%	25.4%	25.1%	24.7%	24.8%	25.1%	24.1%
SG&A Exp. (\$B)	91.35	93.42	97.04	101.85	106.5	107.15	108.8	116.3	117.8	127.1
D&A Exp.	8870	9173	9454	10080	10529	10678	10,987	11,152	10,658	10,945
Operating Profit	26872	27147	24105	22764	20437	21957	20,568	22,548	25,942	20,428
Op. Margin	5.6%	5.6%	5.0%	4.7%	4.1%	4.3%	3.9%	4.0%	4.5%	3.3%
Net Profit	16022	16363	14694	13643	9862	6670	14,881	13,510	13,673	11,680
Net Margin	3.4%	3.4%	3.0%	2.8%	2.0%	1.3%	2.8%	2.4%	2.4%	1.9%
Free Cash Flow	10142	16390	16075	21054	18286	17409	14,550	25,810	11,075	12,244
Income Tax	8105	7985	6558	6204	4600	4281	4,915	6,858	4,756	5,724

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	204.75	203.49	199.58	198.83	204.52	219.30	236.5	252.5	244.9	243.5
Cash & Equivalents	7281	9135	8705	6867	6756	7722	9,465	17,741	14,760	8,885
Acc. Receivable	6677	6778	5624	5835	5614	6283	6,284	6,516	8,280	7,933
Inventories	44858	45141	44469	43046	43783	44269	44,435	44,949	56,511	56,576
Goodwill & Int.	19510	18102	16695	17037	18242	31181	31,073	28,983	29,014	28,174
Total Liab. (\$B)	123.41	117.55	115.97	118.29	123.70	139.66	154.9	164.5	153.0	159.5
Accounts Payable	37415	38410	38487	41433	46092	47060	46,973	49,141	55,261	54,002
Long-Term Debt	53544	47272	43667	39370	39040	50621	49,651	44,533	38,077	39,212
Total Equity	76255	81394	80546	77798	77869	72496	74,669	81,298	83,253	76,693
LTD/E Ratio	0.70	0.58	0.54	0.51	0.50	0.70	0.66	0.55	0.46	0.51

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.9%	8.0%	7.3%	6.8%	4.9%	3.1%	6.5%	5.5%	5.5%	4.8%
Return on Equity	21.0%	20.8%	18.1%	17.2%	12.7%	8.9%	20.2%	17.3%	16.7%	14.6%
ROIC	12.0%	12.2%	11.3%	11.0%	8.2%	5.3%	11.4%	10.3%	10.4%	9.2%
Shares Out.	3,233	3,228	3,162	3,048	2,952	2,914	2,855	2,826	2,769	2,734
Revenue/Share	138.29	145.08	149.75	149.87	156.13	166.23	182.69	196.40	204.19	223.59
FCF/Share	3.09	5.05	5.00	6.77	6.08	5.91	5.07	9.07	3.95	4.48

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

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