



Walmart Inc. (WMT)

Updated November 21st, 2024, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$87 | 5 Year CAGR Estimate: | 4.3% | Market Cap: | \$701 B |
| Fair Value Price: | \$61 | 5 Year Growth Estimate: | 11.0% | Ex-Dividend Date: | 12/13/24 |
| % Fair Value: | 142% | 5 Year Valuation Multiple Estimate: | -6.8% | Dividend Payment Date: | 01/06/25 |
| Dividend Yield: | 1.0% | 5 Year Price Target | \$103 | Years Of Dividend Growth: | 51 |
| 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 \$668 billion this year and the stock trades with a market capitalization of \$701 billion. Walmart is one of the largest employers in the world, counting a staggering 2.1 million people in its ranks. Walmart has increased its dividend for 51 consecutive years, making it a new member of the prestigious Dividend Kings. Walmart began trading on a post-stock-split basis on February 26th, 2024, following a 3-for-1 split. Our numbers have been updated and adjusted accordingly.

Walmart posted third quarter earnings on November 19th, 2024, and results were better than expected on both the top and bottom lines, and by wide margins for both. Adjusted earnings-per-share came to 58 cents, which was a nickel ahead of estimates, or almost 10%. Revenue was up 5.5% to \$170 billion, which beat estimates by almost \$3 billion.

Comparable sales in the US were up 5.3%, 150 basis points better than expected. Transactions were 3.1% higher during the quarter, while average ticket was up 2.1%. E-commerce sales rose 27% during the quarter and was responsible for more than half of the total comparable sales gain.

Sam's Club saw 7% higher comparable sales, far ahead of estimates and a departure from recent years where that chain trailed the core Walmart brand. The advertising business also saw 28% higher revenue during the quarter.

Operating income was up 8.2% year-over-year on higher gross margins and growth in membership income. Free cash flow was \$6.2 billion, while inventory was down 1% year-over-year to \$63.3 billion.

Guidance for this year was in line with expectations, and we're leaving our estimate of \$2.45 in adjusted earnings-per-share unchanged as a result.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.69 | \$1.52 | \$1.44 | \$1.47 | \$1.64 | \$1.64 | \$1.83 | \$2.14 | \$2.10 | \$2.22 | \$2.45 | \$4.13 |
| DPS | \$0.64 | \$0.65 | \$0.67 | \$0.68 | \$0.69 | \$0.71 | \$0.72 | \$0.73 | \$0.75 | \$0.76 | \$0.83 | \$0.92 |
| Shares¹ | 9684 | 9486 | 9144 | 8856 | 8742 | 8565 | 8478 | 8307 | 8088 | 8070 | 8050 | 7900 |

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, and we're seeing a little more in the way of rising margins in 2024, which is a very good sign. Walmart said in the most recent quarter that losses at its ecommerce unit are declining but it's still a headwind. We see strength in comparable sales, as well as gross margins rising more quickly than operating expenses as supporting earnings growth. Revenue growth for 2024 is forecast to be subdued, so margins will be in focus once more, although operating margins were quite strong in the third quarter.

¹ Share count in millions

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Looking forward, we are forecasting 11% 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 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. 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. We note the fast-growing advertising business has extremely high margins, so as that grows as a percentage of revenue, we could see operating margins creep higher over time.

Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 15.4 | 15.5 | 16.2 | 18.9 | 18.8 | 22.3 | 24.1 | 21.9 | 22.5 | 23.7 | 35.5 | 25.0 |
| Avg. Yld. | 2.5% | 2.8% | 2.9% | 2.1% | 2.3% | 1.9% | 1.6% | 1.6% | 1.6% | 1.4% | 1.0% | 0.9% |

Walmart's valuation has deteriorated somewhat as the share price has risen. We are forecasting the price-to-earnings multiple to decline from the current 35.5 to 25, implying a significant headwind to total annual returns from the valuation. The yield is 1%, which is still below its historical range. We note an extreme overvaluation in shares today. Given small dividend increases in recent years, we've reduced our dividend growth forecast accordingly. The most recent increase of 9% was much higher than normal.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 37% | 38% | 43% | 46% | 42% | 43% | 39% | 34% | 36% | 34% | 34% | 22% |

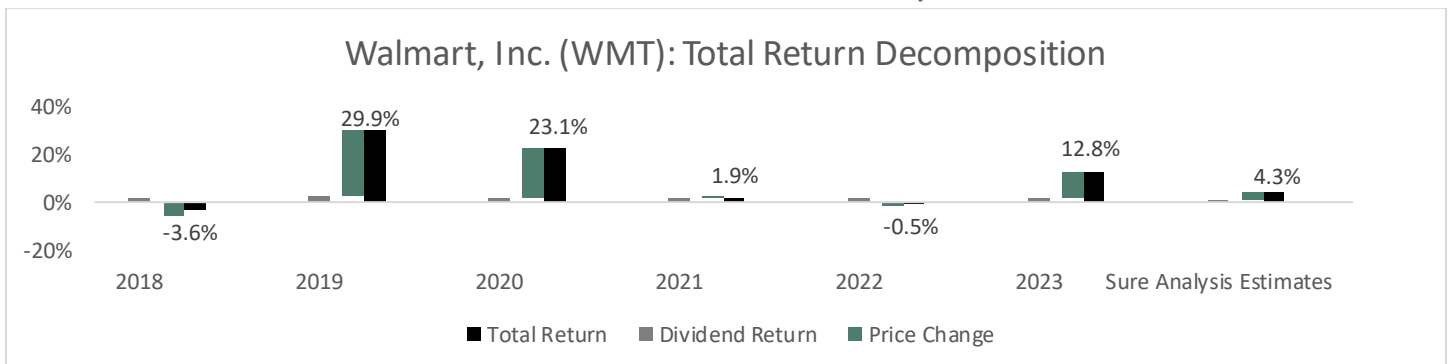
The company's payout ratio is quite low at 34% of earnings, making for a conservative dividend policy. The dividend should be very safe, even if earnings decline meaningfully.

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 modest returns in the coming years. We are forecasting total five-year annual returns of 4.3%, as the yield remains low at 1%, and the valuation is ahead of our fair value estimate, driving a 6.8% headwind, despite 11% projected growth. Walmart is a safe, defensive stock in times of economic hardship, and the stock remains a hold.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------------------|--------|--------|--------|-------|--------|--------|--------|--------|--------|--------|
| Revenue (\$B) | 485.65 | 482.13 | 485.87 | 500.3 | 514.41 | 524.0 | 559.2 | 572.7 | 611.3 | 648.1 |
| Gross Profit (\$B) | 120.57 | 121.15 | 124.62 | 127.0 | 129.10 | 129.4 | 138.8 | 143.8 | 147.6 | 158.0 |
| Gross Margin | 24.8% | 25.1% | 25.6% | 25.4% | 25.1% | 24.7% | 24.8% | 25.1% | 24.1% | 24.4% |
| SG&A Exp. (\$B) | 93.42 | 97.04 | 101.85 | 106.5 | 107.15 | 108.8 | 116.3 | 117.8 | 127.1 | 131.0 |
| D&A Exp. | 9173 | 9454 | 10080 | 10529 | 10678 | 10,987 | 11,152 | 10,658 | 10,945 | 11,853 |
| Operating Profit | 27147 | 24105 | 22764 | 20437 | 21957 | 20,568 | 22,548 | 25,942 | 20,428 | 27,012 |
| Op. Margin | 5.6% | 5.0% | 4.7% | 4.1% | 4.3% | 3.9% | 4.0% | 4.5% | 3.3% | 4.2% |
| Net Profit | 16363 | 14694 | 13643 | 9862 | 6670 | 14,881 | 13,510 | 13,673 | 11,680 | 15,511 |
| Net Margin | 3.4% | 3.0% | 2.8% | 2.0% | 1.3% | 2.8% | 2.4% | 2.4% | 1.9% | 2.4% |
| Free Cash Flow | 16390 | 16075 | 21054 | 18286 | 17409 | 14,550 | 25,810 | 11,075 | 11,984 | 15,120 |
| Income Tax | 7985 | 6558 | 6204 | 4600 | 4281 | 4,915 | 6,858 | 4,756 | 5,724 | 5,578 |

Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets (\$B) | 203.49 | 199.58 | 198.83 | 204.52 | 219.30 | 236.5 | 252.5 | 244.9 | 243.5 | 252.4 |
| Cash & Equivalents | 9135 | 8705 | 6867 | 6756 | 7722 | 9,465 | 17,741 | 14,760 | 8,885 | 9,867 |
| Acc. Receivable | 6778 | 5624 | 5835 | 5614 | 6283 | 6,284 | 6,516 | 8,280 | 7,933 | 8,796 |
| Inventories | 45141 | 44469 | 43046 | 43783 | 44269 | 44,435 | 44,949 | 56,511 | 56,576 | 54,892 |
| Goodwill & Int. | 18102 | 16695 | 17037 | 18242 | 31181 | 31,073 | 28,983 | 29,014 | 28,174 | 28,113 |
| Total Liab. (\$B) | 117.55 | 115.97 | 118.29 | 123.70 | 139.66 | 154.9 | 164.5 | 153.0 | 159.5 | 161.8 |
| Accounts Payable | 38410 | 38487 | 41433 | 46092 | 47060 | 46,973 | 49,141 | 55,261 | 54,002 | 56,812 |
| Long-Term Debt | 47272 | 43667 | 39370 | 39040 | 50621 | 49,651 | 44,533 | 38,077 | 39,212 | 40,457 |
| Total Equity | 81394 | 80546 | 77798 | 77869 | 72496 | 74,669 | 81,298 | 83,253 | 76,693 | 83,861 |
| LTD/E Ratio | 0.58 | 0.54 | 0.51 | 0.50 | 0.70 | 0.66 | 0.55 | 0.46 | 0.51 | 0.48 |

Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Return on Assets | 8.0% | 7.3% | 6.8% | 4.9% | 3.1% | 6.5% | 5.5% | 5.5% | 4.8% | 6.3% |
| Return on Equity | 20.8% | 18.1% | 17.2% | 12.7% | 8.9% | 20.2% | 17.3% | 16.7% | 14.6% | 17.8% |
| ROIC | 12.2% | 11.3% | 11.0% | 8.2% | 5.3% | 11.4% | 10.3% | 10.4% | 9.2% | 12.2% |
| Shares Out. | 3,228 | 3,162 | 3,048 | 2,952 | 2,914 | 2,855 | 2,826 | 2,769 | 2,734 | 2,703 |
| Revenue/Share | 145.08 | 149.75 | 149.87 | 156.13 | 166.23 | 182.69 | 196.40 | 204.19 | 223.59 | 239.78 |
| FCF/Share | 5.05 | 5.00 | 6.77 | 6.08 | 5.91 | 5.07 | 9.07 | 3.95 | 4.38 | 5.59 |

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

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