



Walmart Inc. (WMT)

Updated August 26th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$76	5 Year CAGR Estimate:	7.2%	Market Cap:	\$609 B
Fair Value Price:	\$61	5 Year Growth Estimate:	11.0%	Ex-Dividend Date:	12/13/24
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Dividend Payment Date:	01/06/25
Dividend Yield:	1.1%	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 \$609 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 second quarter earnings on August 15th, 2024, and results were excellent, sending the stock soaring. Adjusted earnings-per-share beat estimates by two cents at 67 cents. Revenue was up almost 5% year-over-year to \$169.3 billion, and beat estimates by almost \$2 billion.

The company noted global ecommerce sales soared 21%, which was led by store fulfilled pickup and delivery, as well as strength in Marketplace. Comparable sales in the US rose 4.2%, which was 80 basis points ahead of estimates. Transactions were 3.6% higher, and the average ticket added a further 60 basis points. The gain in ecommerce sales amounted to 3% of the 4.2% gain, so the physical stores added only 1.2%. Walmart's burgeoning advertising business saw growth of 26% in the quarter, including 30% for Walmart Connect in the US.

Consolidated operating income was up 7.3% due to higher gross margins, and growth in membership income at Sam's Club. Gross profit was up 43 basis points to 24.1% of sales, led by Walmart US.

We've reiterated our estimate of \$2.45 in adjusted earnings-per-share for this year after Q2 results.

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.

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

¹ Share count in millions

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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. 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	31.0	25.0
Avg. Yld.	2.5%	2.8%	2.9%	2.1%	2.3%	1.9%	1.6%	1.6%	1.6%	1.4%	1.1%	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 31 to 25, implying a significant headwind to total annual returns from the valuation. The yield is 1.1%, which is still below its historical range. 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%

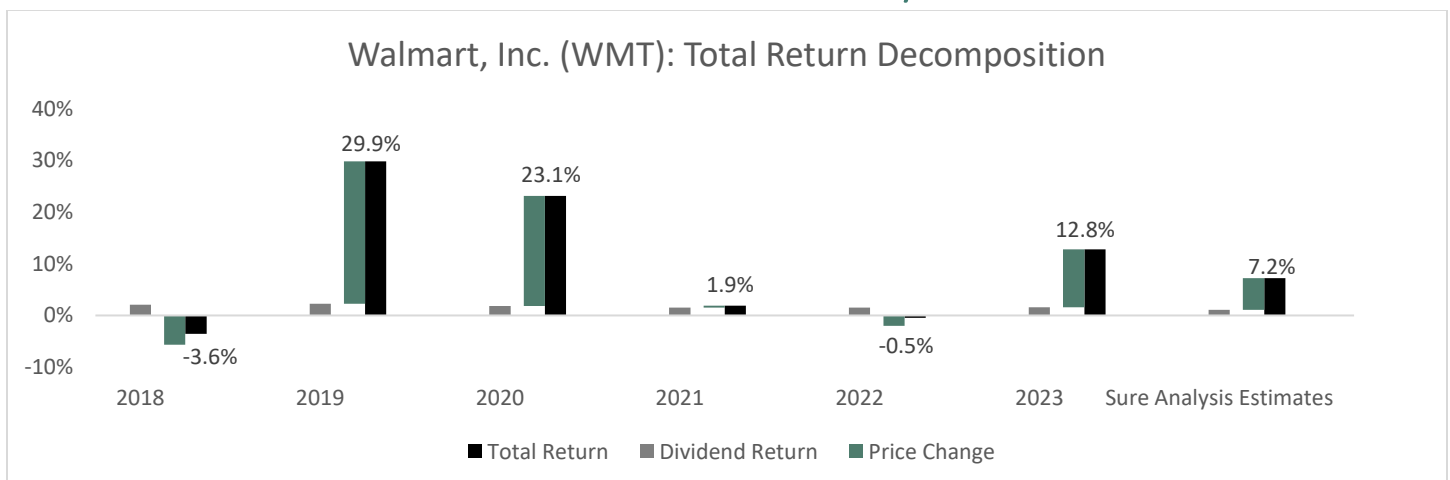
The company's payout ratio is quite low at 34% of earnings, making for a conservative dividend policy. The dividend should be very safe, even if earnings decline meaningfully.

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 decent returns in the coming years. We are forecasting total five-year annual returns of 7.2%, as the yield remains low at 1.1%, and the valuation is ahead of our fair value estimate, driving a 4.2% 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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