Ratio Analysis – Walmart Vs Target

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Personal Project

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Executive Summary

This report compares Walmart and Target's financial performance from 2022 to 2024 using ratio analysis. The main categories of the analysis are profitability, liquidity, solvency, efficiency, and valuation.

Target demonstrates stronger profitability with overall higher margins and returns as compared to Walmart, as reflected in gross profit margin, operating margin, net profit margin, return on assets, and return on equity. In terms of liquidity, Target remains at a better position to meet its short-term obligations compared to Walmart, as indicated in current ratio, quick ratio, and cash ratio.

Regarding solvency, although Target is operating with a significantly heavier leverage, Target consistently shows improved ability to cover its interest expenses as compared to Walmart, reflecting a better ability to meet its interest payments on outstanding debt.

On the other hand, Walmart displays stronger asset efficiency and inventory management, indicating more effective operational strategies. In terms of valuation, although Target has consistently shown a significantly higher EPS compared to Walmart, Walmart's P/E ratio has a positive trend, indicating growing investor confidence and optimism about its future performance.

Introduction

The purpose of this report is to analyze and compare the financial health and performance of Walmart Inc. and Target Corporation using key financial ratios. By examining profitability, liquidity, valuation, efficiency, and solvency ratios over a three-year period, this report aims to provide insight into each company's financial strategy and stability in the retail industry.

The analysis is broken down into 5 core categories: profitability, liquidity, solvency, efficiency, and valuation. These ratios provide insight into how effectively each company manages its core operations, finances its obligations, and delivers value.

The financial data used in this analysis was obtained from the U.S. Securities and Exchange Commission (SEC) official site, and Yahoo Finance was used to obtain the yearly adjusted closing stock price.

Company Overview

Walmart Inc was officially founded in 1962 located at Arkansas, United States. It is one of the major key players in the retail industry and serves millions of customers with over 10,000 stores worldwide. Walmart focuses on home goods, groceries, clothing, and electronics. From FY22 to

FY24, Walmart displays strong operational efficiency and management but faced pressure in its margins due to various market factors.

Target Corporation was founded in 1902 in Minnesota, United States. It plays a major role in the retail industry and is known for its general merchandise, clothing, home goods, electronics, and groceries. Target operates 2,000 stores around the United States. Between FY22 to FY24, Target experienced overall slight growth in its margins despite facing various operational and market challenges.

Ratio Calculation

This section presents the key financial ratios calculated for Walmart and Target between the fiscal years 2022 to 2024. The ratios are structured into five key categories: profitability, liquidity, solvency, efficiency, and valuation. Detailed calculations and financial data used in this analysis are available in the Excel workbook named **Ratio_Analysis.xlsx**

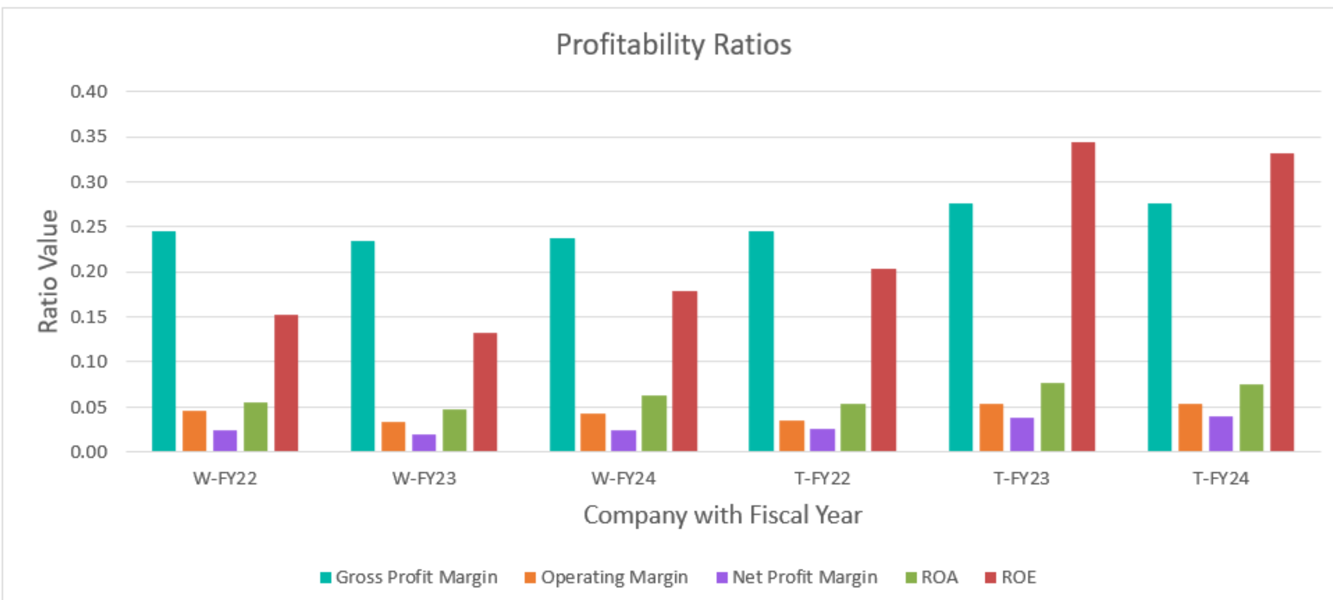
Category	Ratio	W-FY22	W-FY23	W-FY24	T-FY22	T-FY23	T-FY24
Profitability	Gross profit margin	0.244	0.235	0.237	0.246	0.275	0.275
	Operating profit margin	0.046	0.034	0.042	0.035	0.053	0.053
	Net profit margin	0.024	0.019	0.024	0.025	0.039	0.039
	Return on assets	0.055	0.048	0.063	0.053	0.077	0.075
	Return on equity	0.152	0.133	0.178	0.204	0.344	0.332
Liquidity	Current ratio	0.928	0.821	0.832	0.992	0.915	0.906
	Quick ratio	0.281	0.207	0.238	0.353	0.223	0.291
	Cash ratio	0.169	0.094	0.107	0.272	0.144	0.197
Solvency	Debt-to-Equity	1.665	1.904	1.794	3.195	3.748	3.121
	Interest coverage ratio	13.010	9.600	10.068	8.050	11.369	13.543
Efficiency	Asset turnover	2.283	2.483	2.593	2.077	2.005	1.942

	Inventory turnover	8.457	8.201	8.794	6.704	5.681	6.027
Valuation	Earnings per share	1.63	1.43	1.92	6.02	8.96	8.89
	Price to Earnings	28.080	36.126	46.818	26.738	16.238	14.907

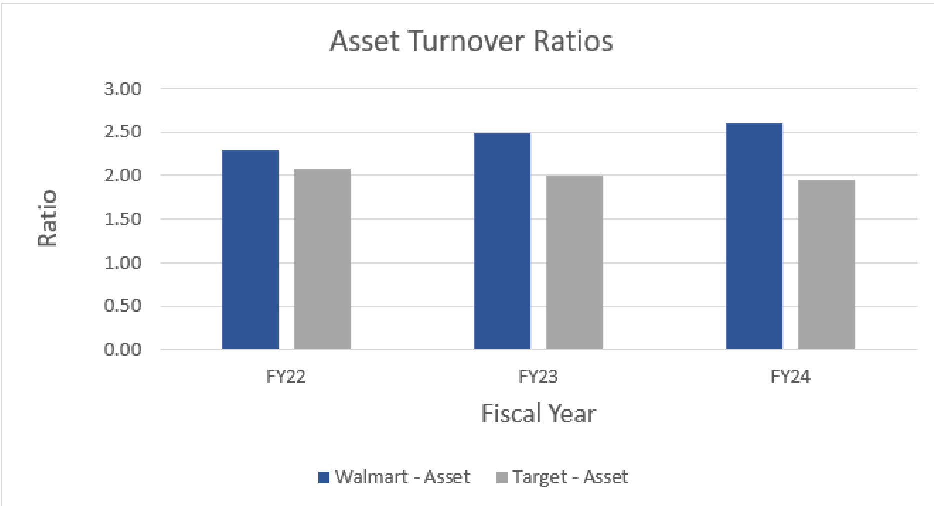
Graphical Analysis

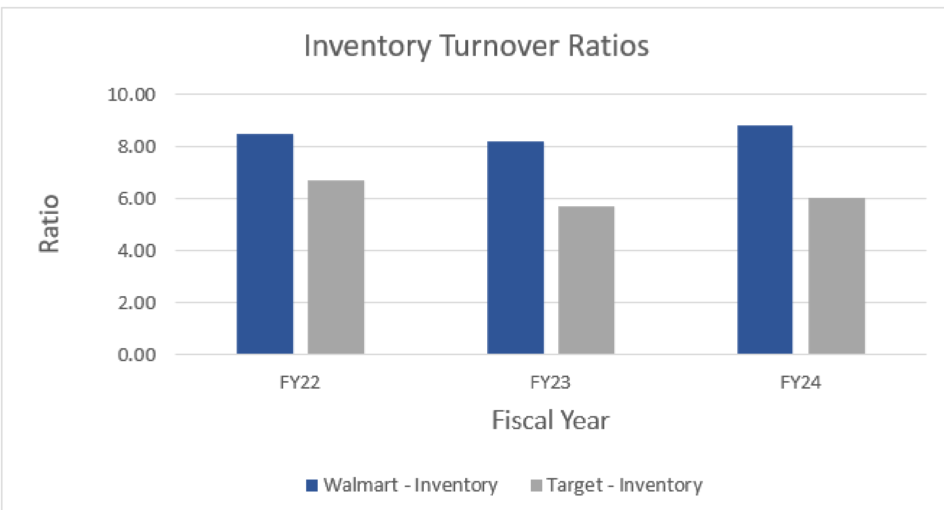
This section visualizes the data across the five categories to show trends and comparison between Walmart and Target for fiscal years 2022 to 2024.

<u>Profitability Ratio</u>

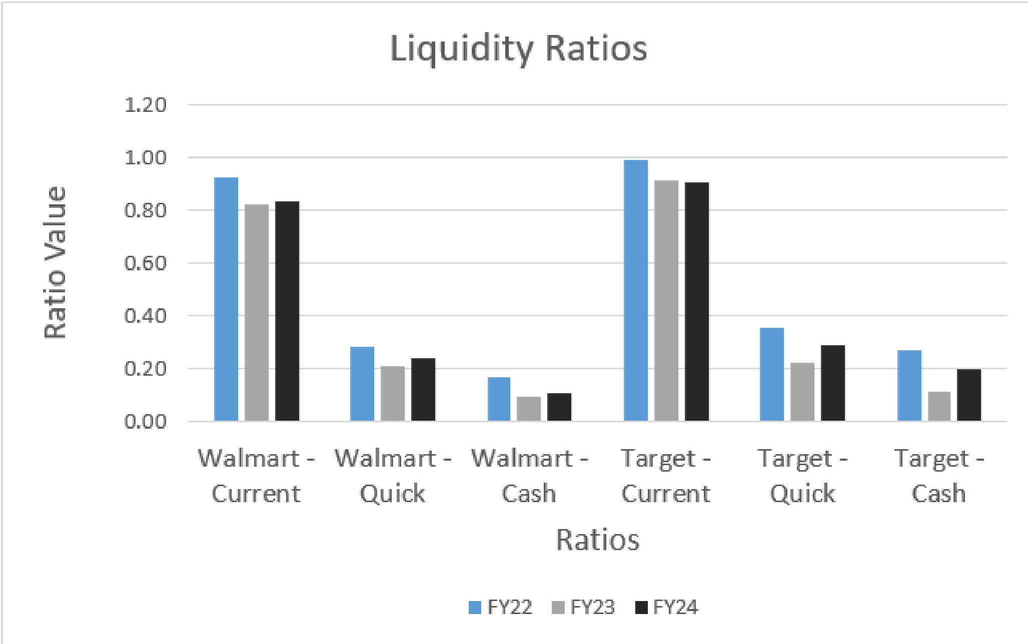


<u>Efficiency Ratio</u>

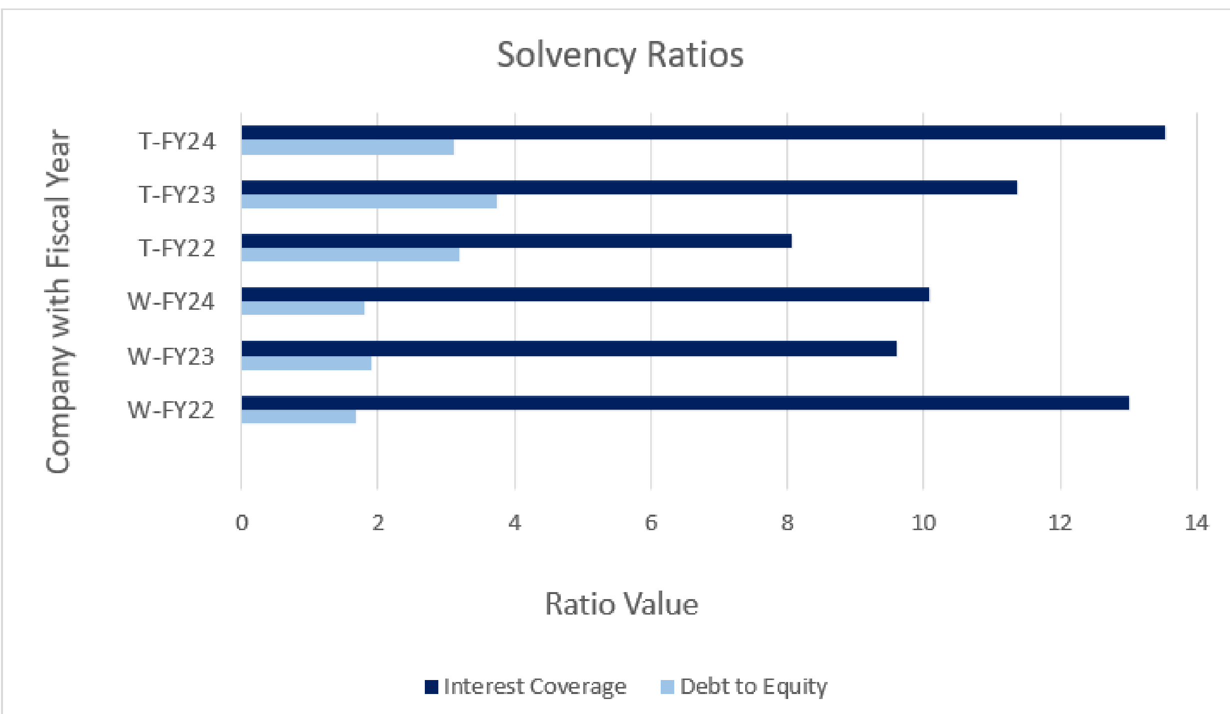




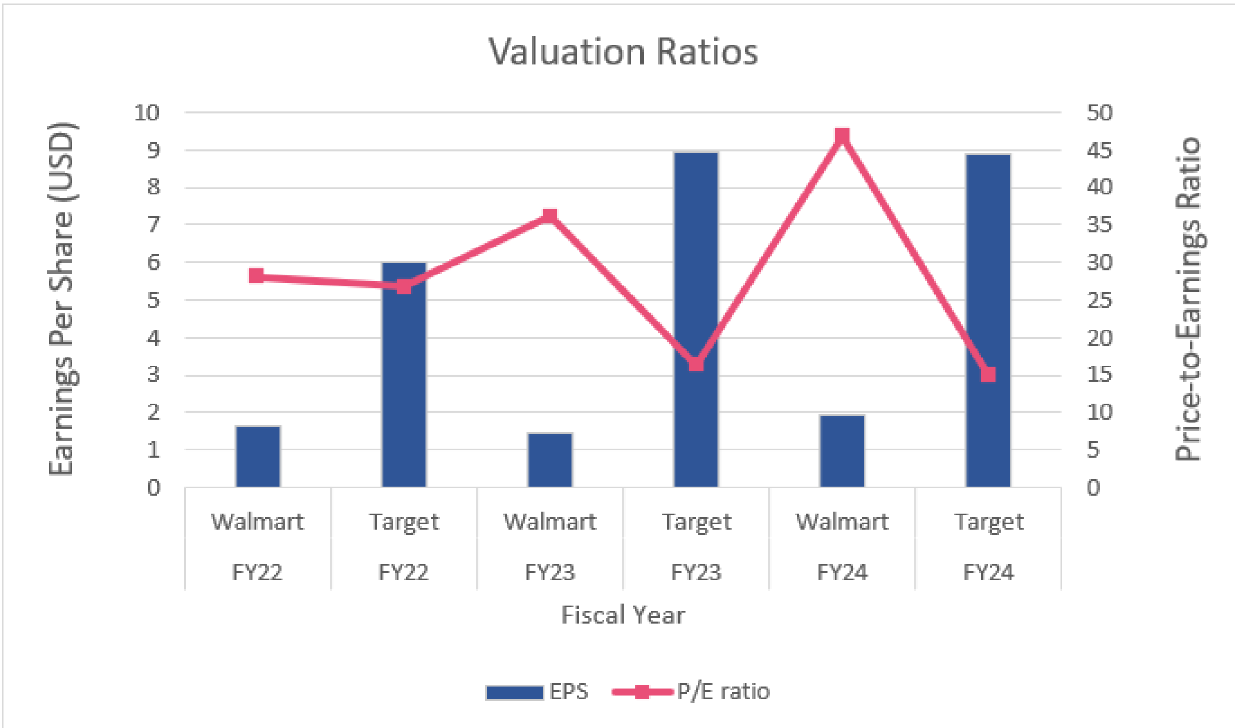
Liquidity Ratio



Solvency Ratio



Valuation Ratio



Interpretation and Insights

Profitability ratio

Gross Profit Margin: Both companies have similar gross profit margins ranging around 24% to 27%. Target's gross profit margin improved from 24.6% in FY22 to 27.5% in FY23 and remained stable for FY24, indicating better cost control or reduced or better pricing. Walmart's gross profit margin slightly declined, indicating increased costs on COGS.

Operating Profit Margin: Walmart's operating margin experienced a decline from 4.6% in FY22 to 3.4% in FY23, then a slight increase to 4.2% in FY24. This indicates that Walmart experienced increased operating expenses in its core operations resulting in the initial decline, possibly due to increased wages or higher logistic costs. The slight improvement indicates better operational efficiency. In contrast, Target experienced an increase from 3.5% in FY22 to 5.3% in FY23 and remained stable in FY24. This indicates that Target's operational efficiency has improved and has been maintained, likely through better expense control.

Net Profit Margin: Walmart's net profit margin declined from 2.4% in FY22 to 1.9% in FY23, then restabilizing at 2.4% whereas Target's net profit margin experienced a growth from 2.5% in

FY22 to 3.9% in FY23 & FY24. This indicates that Target has a higher profitability per dollar of revenue, possibly through better cost management.

ROA (Return on Assets): Walmart's average return on asset (5.53% avg) is overall lower than Target's (6.83% avg), this is likely due to Target's more efficient use of its assets to generate profits. This indicates that Target has better resource management and efficiency.

ROE (Return on Equity): Walmart's return on equity peaked at 17.8% in FY24, whereas Target's return on equity peaked at 34.4% in FY23. This indicates that Target is generating more optimal returns on shareholders' investments, suggesting stronger profitability.

Liquidity ratio

Current Ratio: Both companies have a current ratio below 1 which indicates that both companies could potentially have difficulty meeting short term obligations. However, due to the nature of the retail industry, a current ratio below 1 is not necessarily alarming. This is because high inventory turnover provides a strong cash flow.

Quick Ratio: Target's average quick ratio of 28.9% is overall higher than Walmart's average of 24.2%, indicating that Target has stronger liquidity and a better ability to meet short term obligations.

Cash Ratio: Target's peak cash ratio stood at 27.2% in FY22 whereas Walmart's peak cash ratio stands at 16.9% in FY22, indicating that Target has more cash available relative to its current liabilities. This suggests stronger immediate liquidity for Target to cover short term obligations without relying on other current assets.

Solvency ratio

Debt-to-Equity: Walmart's debt to equity remained between 1.6 to 1.9 whereas Target's debt to equity is between 3.1 to 3.8, suggesting that Target has a much higher leverage. This indicates that Target relies more on debt financing, which could increase financial risk compared to Walmart.

Interest Coverage: Walmart continued to display strong interest coverage (around 9.5 to 13), suggesting that it can comfortably cover its interest expenses. Whereas Target's interest coverage improved significantly from 8.05 in FY22 to 13.5 in FY24, indicating an improved ability to cover its interest expenses despite high leverage.

Efficiency ratio

Asset Turnover: Walmart shows a positive trend with asset turnover increasing from 2.28 in FY22 to 2.59 in FY24, indicating a better use of their assets to generate revenue. In contrast, Target shows a slight negative trend with asset turnover decreasing from 2.07 in FY22 to 1.94 in FY24, indicating reduced efficiency in use of assets to generate sales.

Inventory Turnover: Walmart's inventory turnover (8.2 – 8.8) is significantly higher than Target's (5.7 – 6.7), suggesting that Walmart sells its inventory more quickly, this reduces holding cost risk and indicates better inventory management.

Valuation ratio

EPS / P/E Ratio: Target's EPS (6.02 – 8.89) is significantly higher than Walmart's (1.43 – 1.92) indicating that Target is generating more net income per share. This suggests stronger profitability on a per share basis, which could seem attractive to investors if it sustains the earnings growth. However, despite having a lower EPS, Walmart's P/E ratio is higher than Target's and shows a positive trend, indicating that investors are more optimistic and confident about Walmart's growth compared to Target. In contrast, Target's P/E ratio shows a declining trend, indicating a reduction in investor confidence, despite its higher EPS.

Conclusion/Recommendation

To conclude, both Target and Walmart demonstrate strengths in different areas of financial performance. Target shows stronger profitability and liquidity, as reflected in higher margins and a better short term financial position. Despite having higher leverage, Target has improved its interest coverage, indicating it can handle its interest debt obligations.

On the other hand, Walmart demonstrates stronger operational efficiencies and inventory management, as indicated in its higher asset turnover ratio and inventory turnover ratio. Although Target's earnings per share is lower, the consistent improvement in P/E ratio suggests growing investor confidence and market optimism.

For investors seeking higher profitability and stronger short-term financial health, they may find Target appealing, provided it maintains its margin growth and manages its leverage carefully. In contrast, investors seeking operational efficiency and long-term market confidence will find Walmart attractive, provided it continues to improve its core efficiency.

Ultimately, it would depend on the risk aversion of the investor, Target offers higher potential returns but is a riskier investment, whereas Walmart would be favourable for risk averse or conservative investors.

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