

Amazon.com

Bull/Bear debate: AWS in focus, investors expecting more retail leverage to come

Maintain Rating: BUY | PO: 185.00 USD | Price: 153.50 USD

Takeaways from our AMZN Bull/Bear debate

We hosted an Amazon 2024 Bull/Bear debate following our PM Level Outlook (see note [here](#)); discussion topics included: 1) AWS revenue expectations and quarterly cadence; 2) N.A. retail margin drivers & investor expectations; 3) potential headwinds to retail margin expansion in 2024; and 4) advertising opportunity. We also received feedback from investors on expectations for '24 peak quarterly AWS growth & N.A. retail margins.

AWS growth and positioning vs. Azure top of mind

AWS growth continues to be a big focus for investors given potential AI positioning, growing growth gap vs Azure, potentially easy comps, and recent Amazon mgmt. commentary (on the 3Q call, mgmt indicated strong contract signings in October and big AI cycle ahead). Investor feedback suggested peak quarterly AWS growth expectations close to 18% y/y in 2H'24, above our projected 17% y/y growth in 4Q'24 that assumes more normalized q/q revenue dollar additions in 2024. Call questions suggested investors will be closely watching reported q/q growth in 4Q'23, and looking for any indications of accelerating AWS growth in 1Q'24, which is expected on easy comps.

Investors expect N.A. retail margin expansion

Margin growth appears to be a core thesis for the stock, with investors asking on North America retail margin drivers, estimates & drivers for Int'l margins, and potential risks to continued margin expansion in 2024. Feedback suggests investors are bullish vs Street estimates, expecting full year 2024 N.A. retail margins at 5.7% (range of 4.1-8.0%), which compares to Street at 4.8%. Grocery investment and Chinese competition impact were top retail margin risks discussed on the call.

Prime ad ramp to contribute to margins

Advertising contribution from Prime Video was a potential positive discussed on the call. Amazon will start showing advertising on Prime Video on Jan. 29 in the US and several int'l markets soon thereafter (see [ad ramp in 2024](#)). Assuming a lower monetization rate than Netflix given lower time spent, ad loads, and estimated CPMs, we arrive at a \$3bn+ ad revenue opportunity, plus Amazon will see incremental subscription fees. Investors also asked for quantification of potential benefits from Snap & Pinterest partnerships.

Biggest near-term risk may be expectations

We think recent positive 3P data on Amazon retail sales is driving 4Q expectations for retail revenue upside and op. margins near or even above the high-end of guidance. We think 4Q AWS revenue expectations are more subdued, and in-line with Street at 12.5-13% growth in 4Q, but investors do see upside to Street ests. for 1Q AWS revenues. While 2024 retail margin upside and AWS acceleration are arguably "expected" in the stock, we think proof points of a positive multi-year AI cycle for the Cloud, greater visibility on Amazon's Logistics-as-a-Service model, progress with Amazon's proprietary LLM or AI chip technology, and more optimism on Amazon's long-term retail margins (ad growth, cost management, leverage from scale) can drive multiple expansion for the stock with P/S and EV/EBITDA valuations well below historical highs. Maintain Buy.

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Equity

Justin Post
Research Analyst
BofAS
+1 415 676 3547
justin.post@bofa.com

Michael McGovern
Research Analyst
BofAS
+1 415 676 3520
mmcgovern@bofa.com

Steven McDermott
Research Analyst
BofAS
+1 646 855 4472
steven.mcdermott@bofa.com

Stock Data

Price	153.50 USD
Price Objective	185.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-1-9
52-Week Range	88.12 USD - 157.17 USD
Mkrt Val (mn) / Shares Out (mn)	1,561,249 USD / 10,171.0
Free Float	87.7%
Average Daily Value (mn)	7113.27 USD
BofA Ticker / Exchange	AMZN / NAS
Bloomberg / Reuters	AMZN US / AMZN.OQ
ROE (2023E)	28.6%
Net Dbt to Eqty (Dec-2022A)	62.5%
ESGMeter™	High

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N.A.: North America

CPMs: Cost Per Thousands

AWS: Amazon web services

LLM: Large language models

Price objective basis & risk

Amazon.com (AMZN)

Our PO of \$185 is based on our SOTP analysis that values the 1P retail business at 1.0x 2025E Revenue (including subscription/Prime membership fees), 3P retail business at 2.5x 2025E Revenue, AWS at 7.5x 2025 Sales, and the advertising business at 4.0x 2025 Sales. For 2025E, our 7.5x AWS multiple is relatively below our SaaS comps at 8.4x, our 1.0x GMV multiple is a discount to our retail comps at 1.1x, and our 4.0x advertising multiple is a discount to our digital advertising comps at 5.3x. We think some conglomerate discount is warranted given current elevated regulatory/antitrust risk, but long-term we believe that in-line multiples are possible given growth rates in-excess of peers. Our PO of \$185 for Amazon implies 2.8x P/Sales, a multiple in the upper half of Amazon's historical range of 1.0-3.5x.

Downside risks to our price objective are increasing competition from offline and local retailers, elevated P/E multiple, AWS investments and/or price cuts and regulatory pressure on the 3P marketplace. The stock has been subject to heavy volatility in the past, based on margin trends, and this volatility could increase due to economic uncertainty.

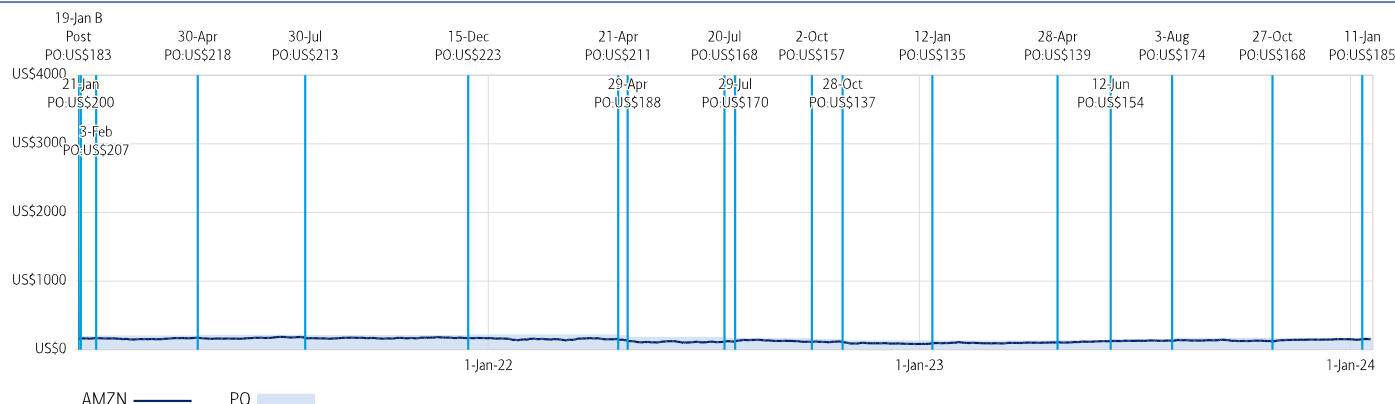
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Amazon.com (AMZN) Price Chart



AMZN — PO

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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