

WAL-MART STORES, INC.

BROKER NOTE 2017



About Walmart



Name	Wal-Mart Stores, Inc.		
Logo			
Industries served	Retail (discount department stores and warehouse stores)		
Geographic areas served	Worldwide (11,695 stores in 28 countries)		
Headquarters	Bentonville, Arkansas, U.S.		
Revenue (US\$)	485.873 billion (2017)	0.77%	482.130 billion (2016)
Profit (US\$)	13.643 billion (2017)	7.2%	14.694 billion (2016)
Employees	2.3 million (2016)		
Main Competitors	Costco Wholesale Corporation, Dollar General Corporation, Dollar Tree Inc., Target Corporation, Kohl's Corporation, Macy's, Inc., Sears Holdings Corporation, and many other retailers/wholesale companies.		
E-commerce Competitors	Amazon.com, Ebay, and Alibaba Group Holding Limited.		

Business description



Strategy:

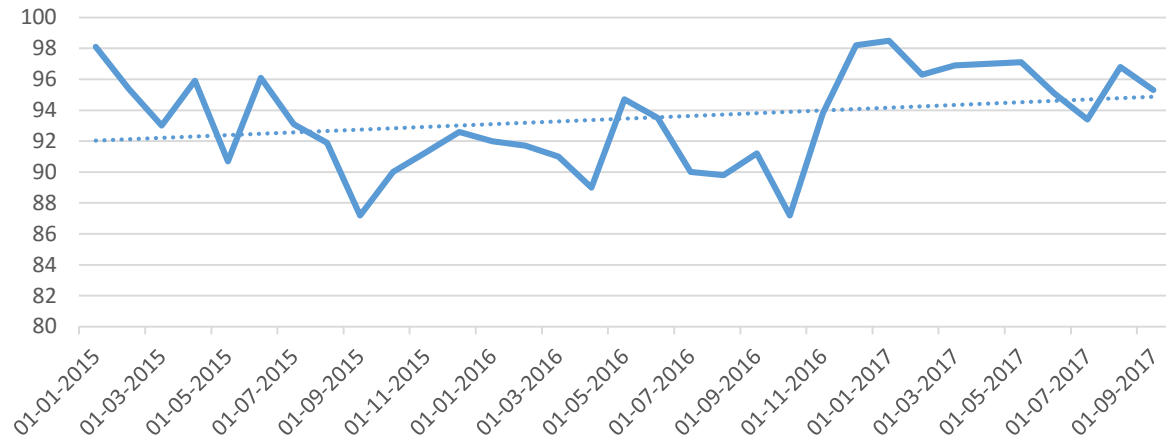
“Our strategy is to lead on price, differentiate on access, be competitive on assortment and deliver a great experience. Leading on price is designed to earn the trust of our customers every day by providing a broad assortment of quality merchandise and services at everyday low prices.”



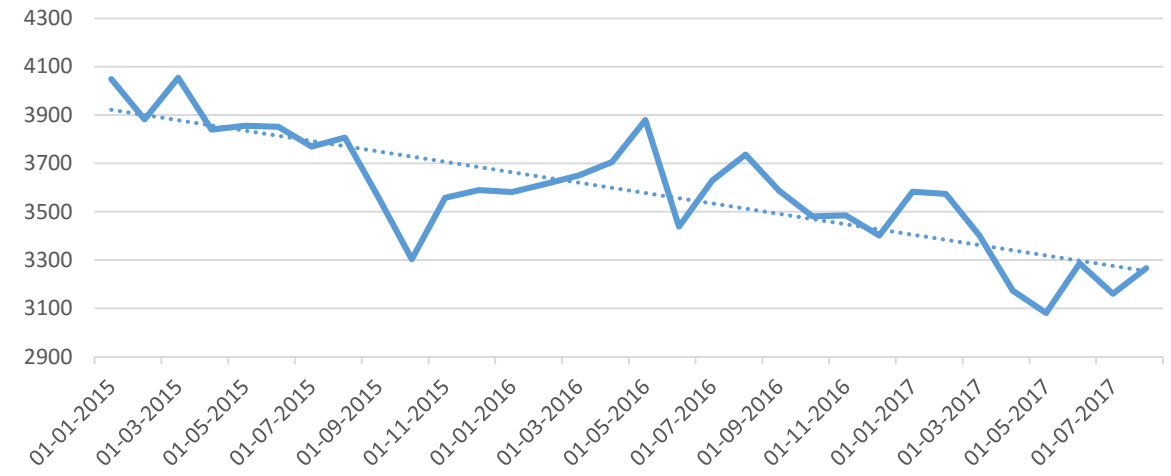
1. Macro environment and Price



Consumer Sentiment



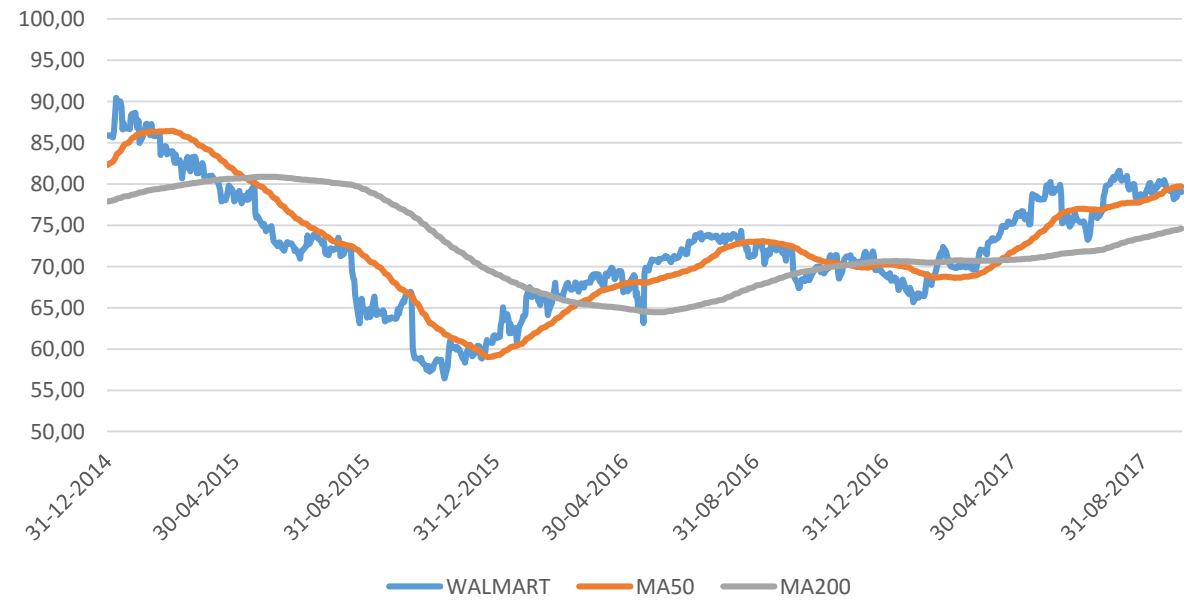
Unemployment



Relative performance



WALMART Absolute performance



2. Micro Analysis



STRENGTHS

1. Being the largest retailer in the world, with unmatched scale of operations and strong market power over suppliers and competitors
2. Cost leadership strategy
3. The combination of a developed distribution system and a well-managed information system
4. International presence
5. Large merchandise selection in its many physical stores helps it to develop e-commerce channel sales faster and with lower costs

WEAKNESSES

1. Overdependence on sales from the U.S. market
2. **Highly criticized employment policies, which result in high employee turnover and poor customer service**
3. Negative publicity and poor brand reputation

Wal-Mart SWOT 2017

OPPORTUNITIES

1. The e-commerce market is forecast to reach US\$4 trillion by 2020
2. Online U.S. grocery sales will peak over the next few years
3. Rising popularity of private label goods
4. The usage of mobile grocery apps to order items and to facilitate and enrich the shopping experience will increase significantly over the next few years

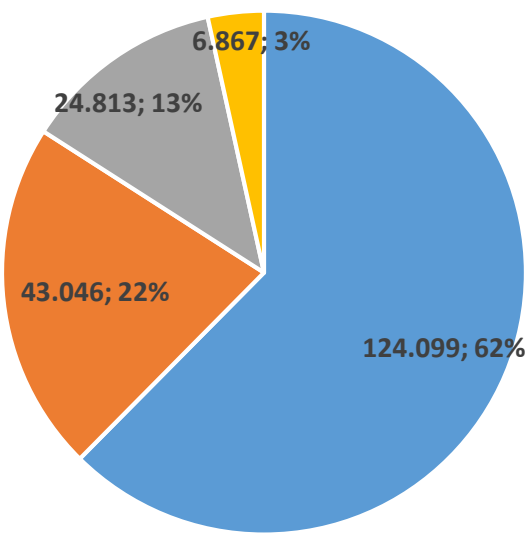
THREATS

1. Slowing growth of the China, Brazil, Japan and Chile retail markets
2. Risk of data breaches
3. The rising U.S. dollar exchange rate could negatively affect the company's revenue and profits
4. Increasing number of lawsuits, which would further damage brand reputation

2.1 Financial analysis of the company

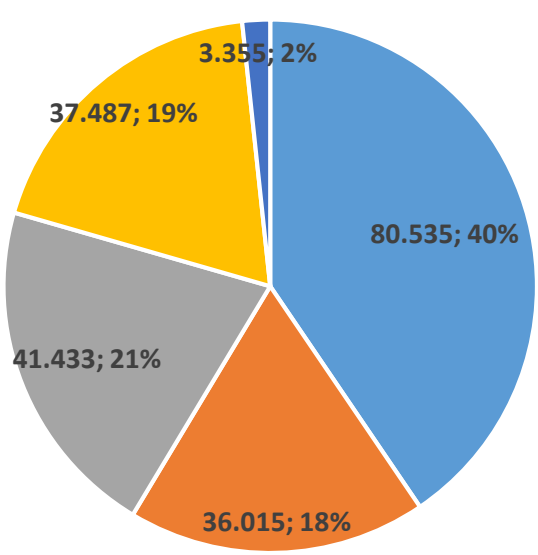
Balance Sheet & Income Statement

Assets

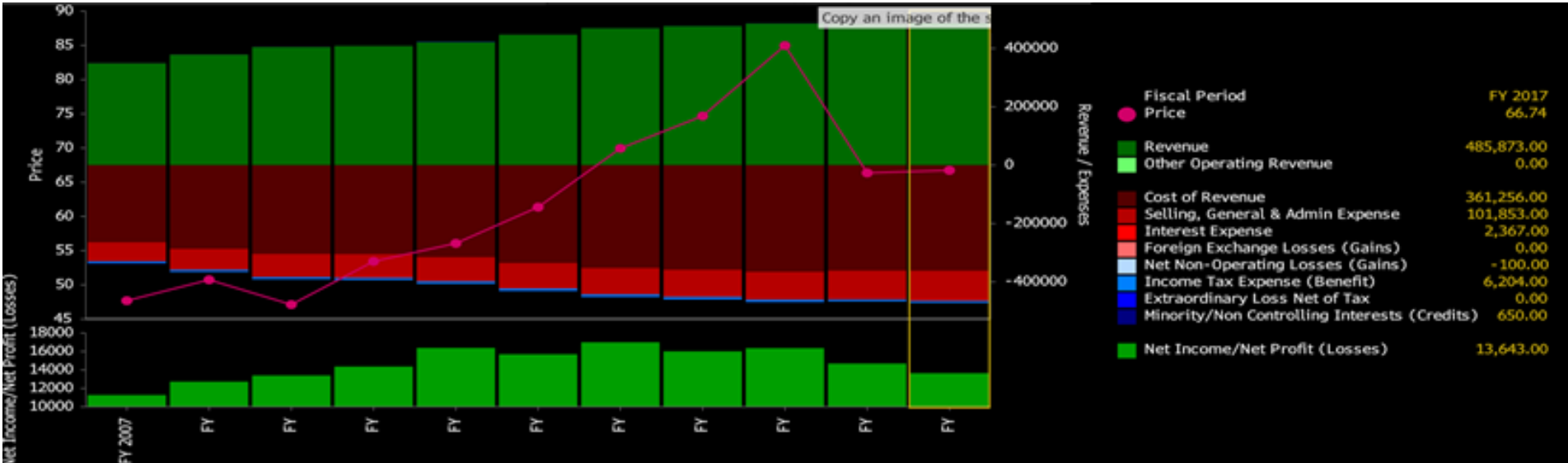


■ Fixed assets ■ Inventories ■ Accounts receivable ■ Cash

Liabilities

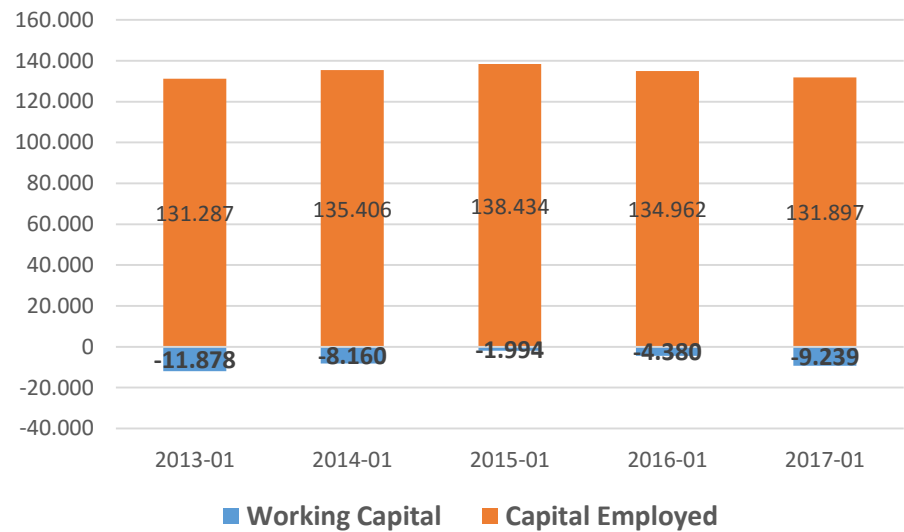


■ Equity ■ Long-term debt ■ Accounts payable ■ Others Liabilities ■ Short-term debt

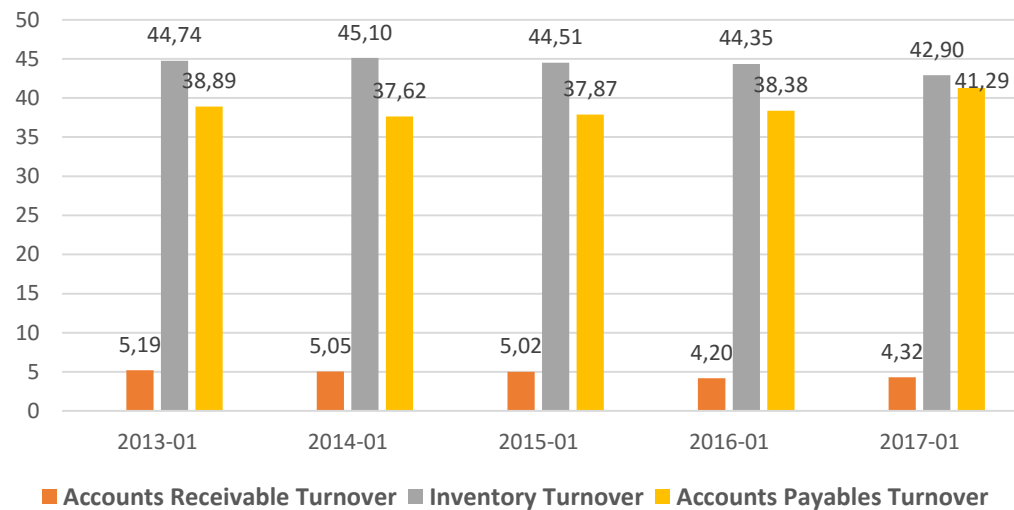


Ratios

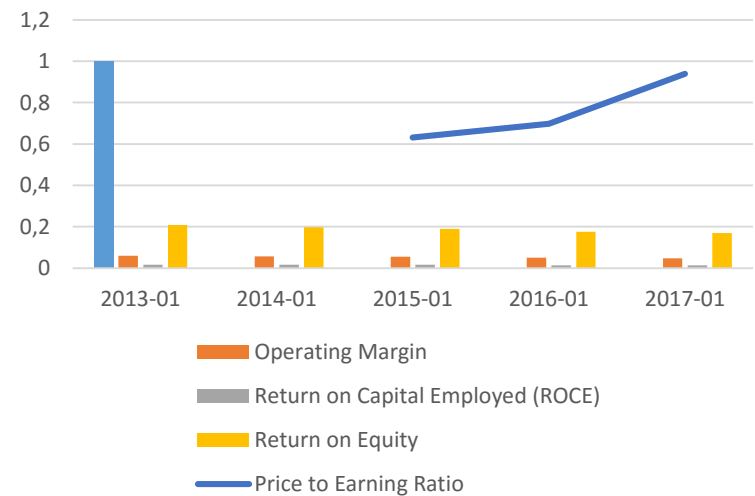
Working Capital / Capital employed



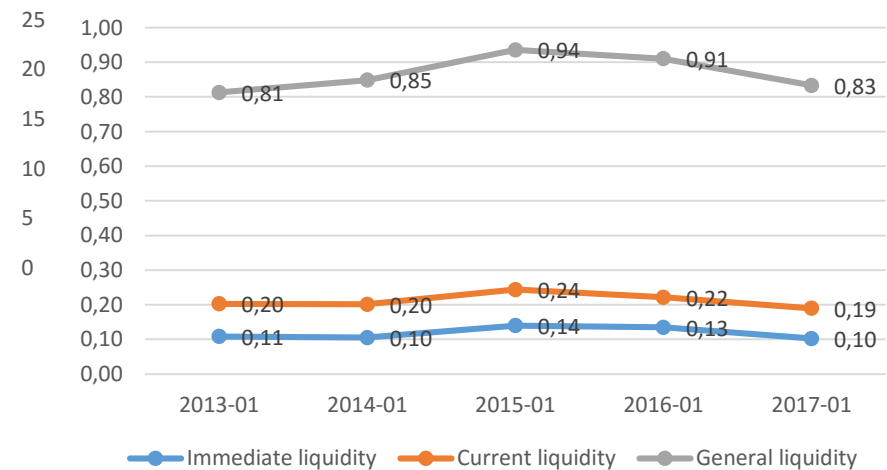
Working Capital (In days)



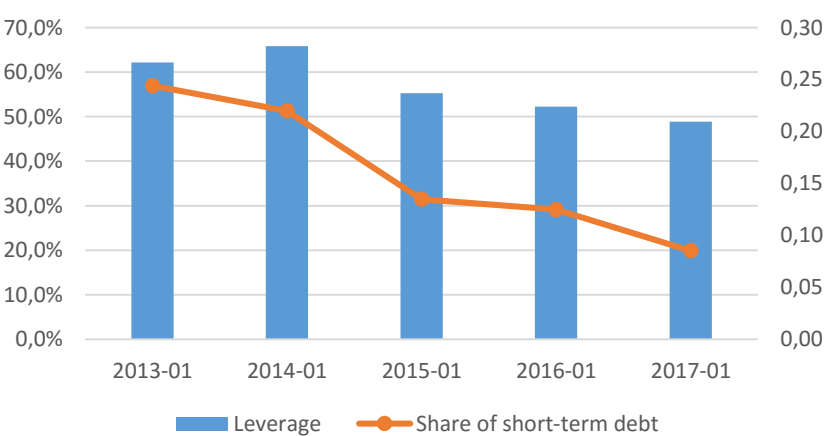
Returns



Risk



Debt

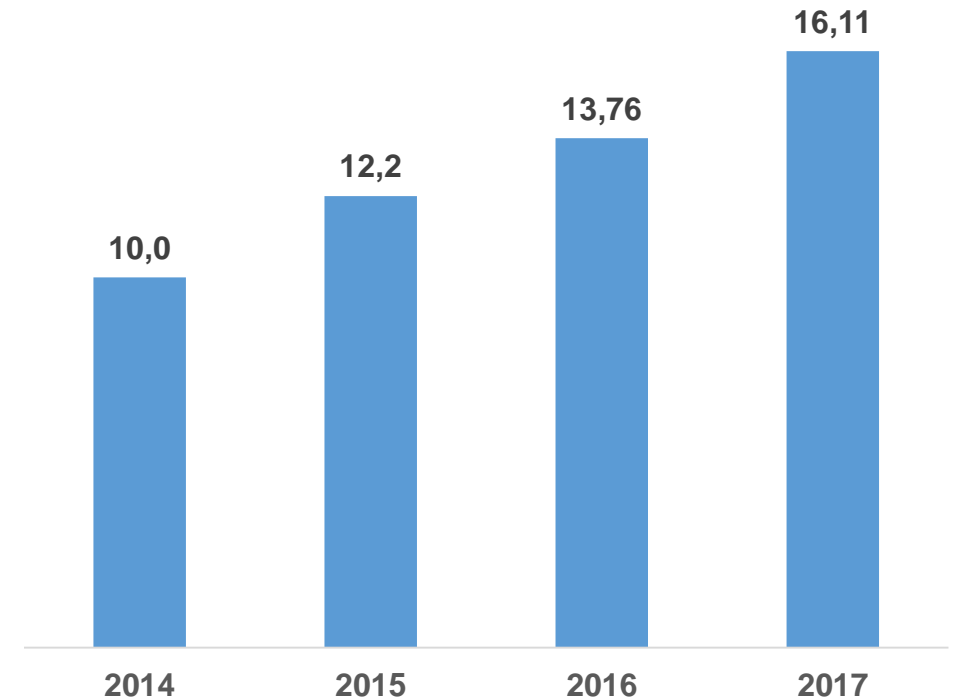


Driving the growth

Large merchandise selection in its many physical stores helps it to develop e-commerce channel sales faster and with lower costs

- Wal-Mart is focusing on establishing itself as an electronic commerce retailer.
- In 2017, Walmart e-commerce sales grew to over US\$16.11 billion.
- In addition to its low prices, Wal-Mart's existing assets such as its physical stores and wide merchandise selection help the company to expand its Internet sales with little additional cost.

Figure 3. Walmart's e-commerce revenue 2014-2017 (in US\$ billions)



Source: Walmart's quarterly earnings ^[12]

Pairs Analysis

	Wal-Mart	Carrefour	Costco	Tesco	Amazon.com
Revenue (US\$ billions)	485.873	80.645	116.073	66.963	114.424
Locations	11,695	11,935	715	6,665	34
Countries served	28	35	9	11	13
Employees	2.3 million	380,000	218,000	476,000	341,400

Wal-Mart is the world's largest company by revenue and the largest retailer in the world.

Company	Ticker	Current Share Price	% of 52-wk. High	Equity Value	Enterprise Value	Enterprise Value /						LTM			Total Debt / EBITDA	LTM EBITDA Margin	Price /			LT EPS Growth
						LTM Sales	2017E Sales	2018E Sales	LTM EBITDA	2017E EBITDA	2018E EBITDA	LTM EBIT	2017E EBIT	2018E EBIT			LTM EPS	2017E EPS	2018E EPS	
Wal-Mart Stores	WMT	\$85,74	99%	\$265 880	\$295 532	0,6x	0,6x	0,6x	8,9x	8,9x	8,7x	12,9x	13,0x	12,7x	7%	1,0,x	19,2x	19,5x	18,5x	0%
Tier I: Large-Cap																				
Costco Wholesale Corp	COST	\$158,81	112%	\$69 559	\$67 376	0,6x	0,5x	0,5x	13,7x	11,6x	10,6x	18,4x	15,1x	13,8x	4%	0,8,x	29,8x	24,7x	22,7x	0%
Dollar Tree Inc	DLTR	91,95	100%	21 792	26 765	1,3x	1,2x	1,2x	11,2x	10,3x	9,5x	15,3x	13,5x	12,3x	11%	2,6,x	23,5x	19,7x	17,8x	0%
Dollar General Corp	DG	82,12	99%	22 583	25 009	1,1x	1,1x	1,0x	9,9x	10,2x	9,4x	11,7x	12,1x	11,2x	11%	1,0,x	17,5x	18,0x	16,5x	0%
Target Corp	TGT	60,15	76%	33 203	41 609	0,6x	0,6x	0,6x	5,6x	6,3x	6,5x	8,2x	9,8x	10,2x	11%	1,5,x	12,3x	13,3x	13,7x	0%
Amazon.com Inc	AMZN	1 006,34	93%	480 024	466 184	3,4x	2,7x	2,2x	35,6x	25,8x	19,1x	101,0x	132,4x	70,0x	9%	0,6,x	159,5x	239,0x	114,1x	0%
Mean						1,4x	1,2x	1,1x	15,2x	12,8x	11,0x	30,9x	36,6x	23,5x	9%	1,3x	48,5x	63,0x	37,0x	0%
Median						1,1x	1,1x	1,0x	11,2x	10,3x	9,5x	15,3x	13,5x	12,3x	11%	1,0x	23,5x	19,7x	17,8x	0%

Drivers

Income Statement

	Option A	Option B	Option C
Revenue	Analist forecast	% Growth (YoY) (3 years)	% Growth (YoY) (4 years) 2013-2017
Gross Margin	Gross Profit (3 years)	Analist forecast	
Operating Expenses	% of Sales (3 years)	Analist forecast	
Depreciation	% of Gross PP&E (3 years)		
Amortization	% of Total Intangibles		
Interest Expense Rate	% Interest Expense (3 years)	Interest Expense (3 years)	
Other Operating Expenses (income)	% of Sales (3 years)	% of Income from Cont. Ops. (3 years)	
Tax Rate	Income Tax Expense (5 years)		
Minority Interest	% of Income from Cont. Ops.		
Weighted average shares outstanding	Last year		

Drivers

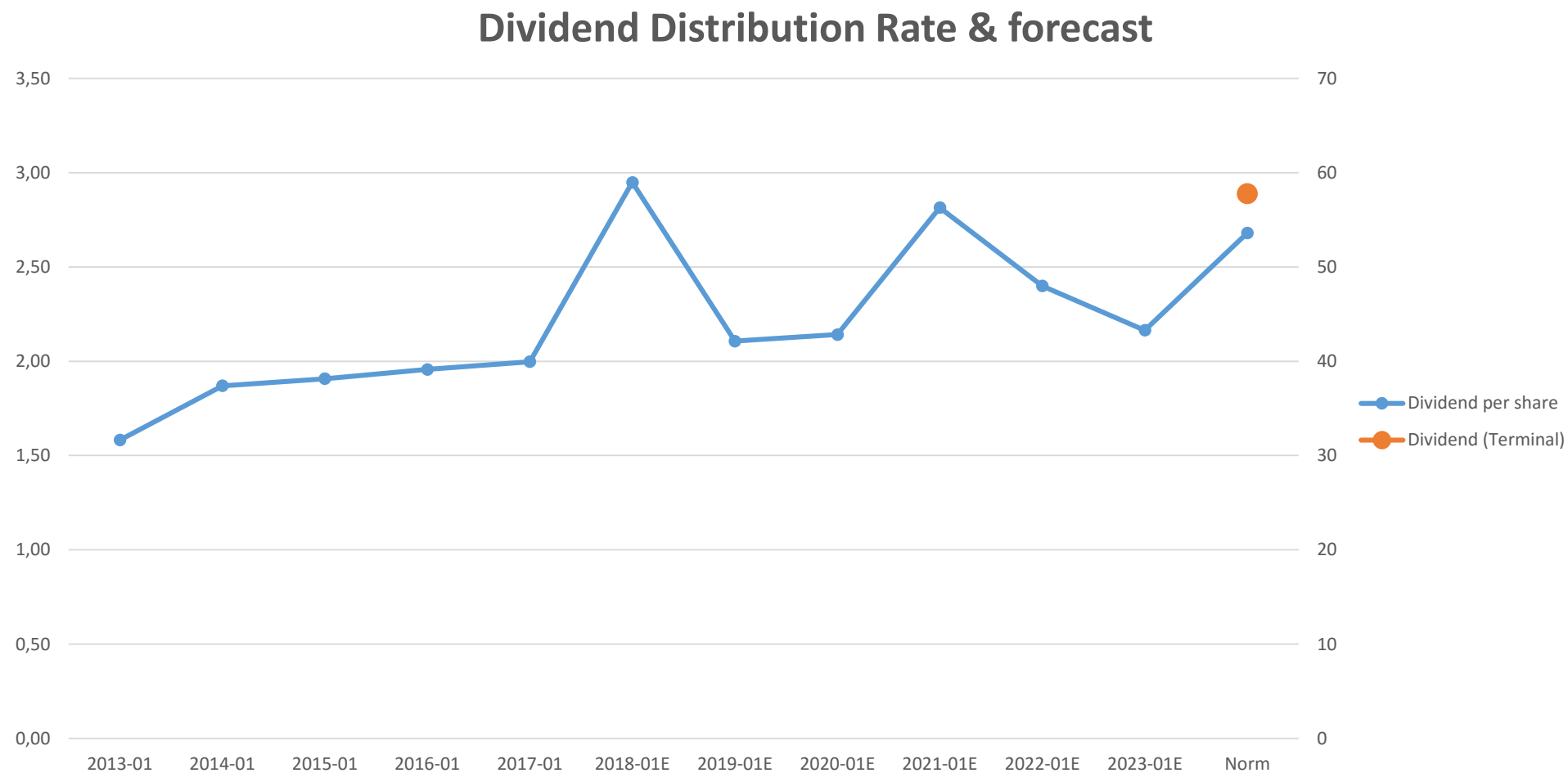
Balance Sheet

Account	Option A	Option B
Cash and cash equivalents	% of Sales (3Y)	
Accounts Receivable	Days Sales Outstanding (3Y)	
Inventories	Days Inventory Outstanding (3Y)	
Accounts Payable	Days Payable Outstanding (3Y)	
Accruals & Other	Accrual Days (3Y)	
ST Debt	% Cost of revenue (3Y)	
LT Debt	Emission/Maturity evolution	% of Sales (3Y)
Other LT Liabilities	% of Sales (3Y)	

Cash Flow

Account	Option A	Option B	Option C
Capex (Disp of Fixed Asset)	% of Sales (3Y)		
Acquisitions & (Divestitures)	Jet.com for 3billions	% of Sales (3Y)	
Other Investing Activity	% of Sales (3Y)		
Dividends	Historical Total Amount	Yield(2 years)	DPS Growth(2 years)

Dividend Discount Model (DDM)



PV: \$ 44.87

CONCLUSION?

☐ HOLD

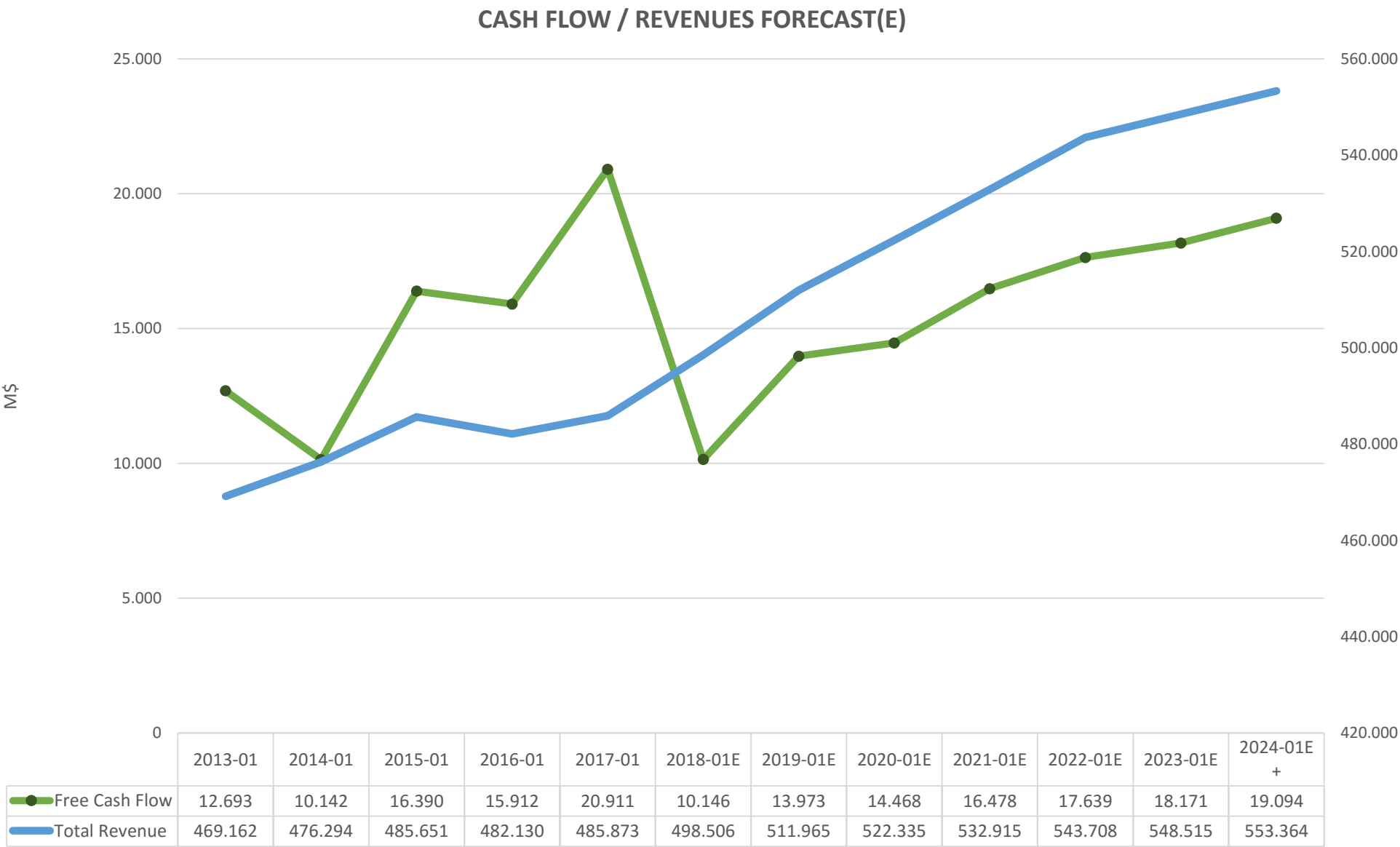
☐ BUY

☒ SELL

Price 18/10/2017
\$83.26

Target Price
\$44.87

Discounted Cash Flow (DCF)



Discounted Cash Flow (DCF)

Weighted Average Cost Of Capital (WACC)

Cost of Debt (after tax)	2.69%
Debt Interest rate	3.92%
Tax	31.33%
Cost of Capital	7.02%
Risk Free Rate	2.37%
Risk Premium	8.00%
Beta Levered 5Y	0.58
Financial Structure	
Financial Net Debt (M\$)	39,370
Shareholders' Equity (M\$)	77,798
Financial Net Debt (%)	33.60%
Shareholders' Equity (%)	66.40%
WACC	5.57%

Terminal Value

Gordon Shapiro Method

Normative Cash Flow	19,094
Infinite Growth Rate	0.08%
Discount rate	5.57%
Terminal Value at N+5	348,056
Discount rate	5.57%
Terminal Value at N	258,387

DCF implied Valorization

Valorization

+ Sum of discounted Cash Flows	76,339
+ Discounted Terminal Value	258,387
= Enterprise Value (M\$)	334,726
- Financial Net debt	28,792
- Minority Interests	2,737
= Implied Market capitalization (M\$)	303,197
Number of Shares (Diluted)	2,986
Implied Price per Share	\$ 101.54

Discounted Cash Flow (DCF)

Sensibility

		EBIT Margin (Enterprise Value)				
334,726		3.81%	4.31%	4.81%	5.31%	5.81%
WACC	4.57%	345,372	378,504	411,636	444,768	477,901
	5.07%	311,234	340,272	369,309	398,347	427,384
	5.57%	283,304	309,015	334,726	360,437	386,147
	6.07%	260,027	282,986	305,945	328,903	351,862
	6.57%	240,328	260,976	281,623	302,271	322,919

		EBIT Margin (Share price)					
	\$	101.54	3.81%	4.31%	4.81%	5.31%	5.81%
WACC	4.57%	105.10	116.20	127.30	138.39	149.49	
	5.07%	93.67	103.40	113.12	122.85	132.57	
	5.57%	84.32	92.93	101.54	110.15	118.76	
	6.07%	76.52	84.21	91.90	99.59	107.28	
	6.57%	69.93	76.84	83.76	90.67	97.59	

		Investments rate (Enterprise Value)				
334,726		1.36%	1.86%	2.36%	2.86%	3.36%
WACC	4.57%	508,135	459,886	411,636	363,387	315,138
	5.07%	453,882	411,596	369,309	327,023	284,737
	5.57%	409,609	372,168	334,726	297,284	259,842
	6.07%	372,813	339,379	305,945	272,511	239,077
	6.57%	341,761	311,692	281,623	251,555	221,486

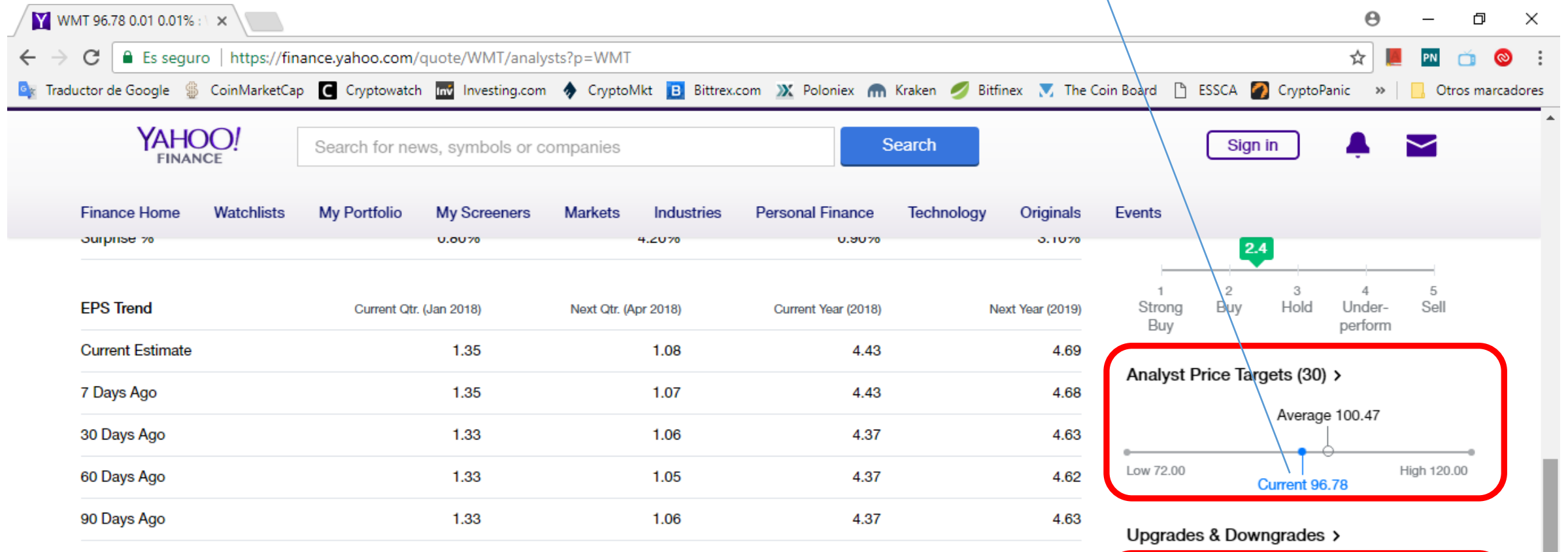
		Investments rate (Share price)					
	\$	101.54	1.36%	1.86%	2.36%	2.86%	3.36%
WACC	4.57%	159.61	143.45	127.30	111.14	94.98	
	5.07%	141.44	127.28	113.12	98.96	84.80	
	5.57%	126.62	114.08	101.54	89.00	76.46	
	6.07%	114.29	103.10	91.90	80.70	69.51	
	6.57%	103.90	93.83	83.76	73.69	63.62	

		Long-Term Growth Forecast				
	\$ 101.54	-0.12%	0.38%	0.88%	1.38%	1.88%
WACC	4.57%	126.99	127.14	127.30	127.45	127.60
	5.07%	112.86	112.99	113.12	113.25	113.39
	5.57%	101.30	101.42	101.54	101.66	101.78
	6.07%	91.69	91.80	91.90	92.01	92.11
	6.57%	83.57	83.66	83.76	83.85	83.94

Discounted Cash Flow (DCF)

How does it fit?

08/12/2017

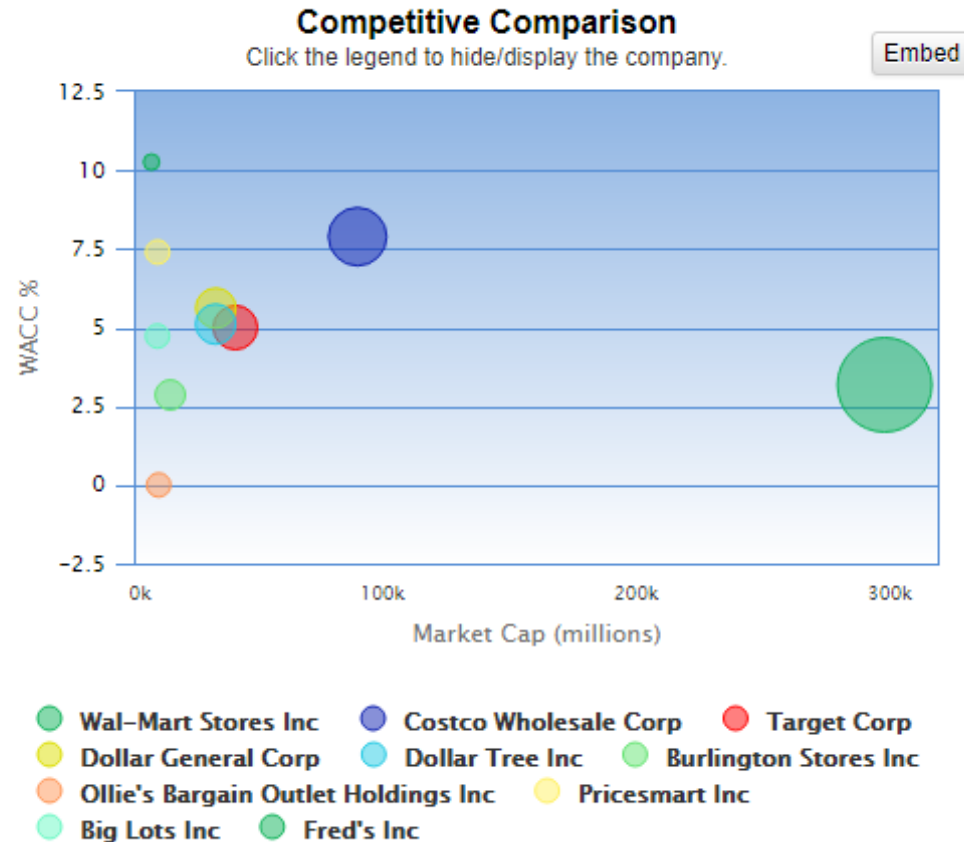


Target Price (DCF MODEL)

\$ 101.54

Discounted Cash Flow (DCF)

How does it fit?



Competitive Comparison Data

Ticker	Company	Market Cap	WACC %
WMT	Wal-Mart Stores Inc	\$289,101.40	3.18
COST	Costco Wholesale Corp	\$81,367.46	7.89
TGT	Target Corp	\$33,206.85	5.00
DG	Dollar General Corp	\$25,514.16	5.62
DLTR	Dollar Tree Inc	\$25,442.80	5.11
BURL	Burlington Stores Inc	\$7,541.42	2.86
OLLI	Ollie's Bargain Outlet Holdings Inc	\$2,993.87	0.00
PSMT	Pricesmart Inc	\$2,573.42	7.40
BIG	Big Lots Inc	\$2,502.98	4.73
FRED	Fred's Inc	\$156.10	10.26

WACC ESTIMATED BY DCF

5.57%

CONCLUSION?

☒ HOLD

☒ BUY

☐ SELL

Price 18/10/2017
\$83.26

Target Price
\$101.54

MERCI



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