

Internet, Entertainment & Consumer
Amazon.com, Inc. (AMZN)

RATING
BUY

PRICE TARGET
\$3,700.00

PRICE
\$3,135.66

52-WEEK RANGE
\$1,626.03 -
\$3,552.25

AMZN Gaining Share and Momentum

Following the favorable efficacy news of Pfizer and Moderna's Covid-19 vaccines, we surveyed ~330 consumers on shopping habits and upcoming plans. Our key conclusions relating to AMZN from this work include: 1) 80% of the respondents stated that they'd shop the same or more online post-pandemic, with AMZN a clear beneficiary; 2) ~44% of survey respondents stated that 50%-100% of their holiday shopping is already finished, implying that Amazon's Prime Day pulled forward shopping calendars and spending; 3) 85% of those surveyed stated they'd shop as much or more on AMZN after the pandemic ends, with about 50% saying they prefer AMZN because it sells everything; and, 4) Only 24% of respondents said they'd return to offline retail stores on the other side of the pandemic.

Vaccine for Covid-19 won't disrupt growing e-commerce loyalty: Following news of Pfizer's and Moderna's Covid-19 vaccines' effectiveness, we asked consumers how a vaccine would impact their online shopping behavior. About 63.8% of respondents indicated that they'd shop the online channel the same as they did during the pandemic, which supports our industry thesis that digital commerce will remain strong on the other side of Covid-19. Another 16.4% of consumers indicated they'd shop online even more. About 16% indicated they'd shop more in stores and less online. Net, 80% of those surveyed said they'd shop the same or more online than they did during the pandemic. With AMZN being the e-commerce market share leader, we see it as the biggest beneficiary of this trend.

Because of AMZN, Holiday shopping well underway: We asked consumers when they'd shop for Holiday. About 18.5% indicated they completed most of their shopping in October through mid-November, and another 25% indicated they were about half way done. In other words, ~44% of consumers are 50-100% complete with their Holiday shopping already. Another 18% indicated they purchased less than half. About 27% plan to begin shopping around Thanksgiving/Black Friday and only 11% plan to begin shopping in December. In our view, Amazon's Prime Day in October pulled forward the shopping calendar. Given it had first mover advantage, we expect AMZN be the largest beneficiary of spending moving earlier on the calendar.

AMZN momentum should continue after the pandemic: We asked how shopping on Amazon would change if/when the Covid-19 vaccine comes out. About 69% indicated they'd shop Amazon the same as they did during the pandemic (when AMZN's demand surged) while another >15% indicated they'd shop it even more. Another 1.5% indicated they don't shop Amazon but planned to do so. Net, >85% of those surveyed planned to shop AMZN the same or more going forward.

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KEY DATA

Market Cap (MM)	\$1,573,321.1
Price (11/17/2020)	\$3,135.66
52-Week Range	\$1,626.03 - \$3,552.25
Shares Outstanding	501.75
Avg. Daily Volume	5,325,085.5
Total Debt/Cap.	45.58%

ESTIMATES

FY (Dec)	2019A	2020E	2021E
EPS			
Q1	7.09A	5.01A	-
Q2	5.22A	10.30A	-
Q3	4.23A	12.37A	-
Q4	6.47A	6.50E	-
Year	23.02A	34.18E	43.66E
Rev. (MM)(\$)			
Year	280,522.0A	378,074.0E	434,423.0E
Growth Rev	20.5%	34.8%	14.9%

At a Glance

OUR INVESTMENT THESIS

Our investment thesis is that AMZN has several hidden value multipliers that suggest it is worth between \$4,500 and \$5,000/share. We call these AMZN's: 1) TAM Expansion Multiplier; 2) Services Company (not Product) Multiplier; 3) \$600B of Media Asset Value (largely hidden) Multiplier; and 4) Ecosystem Value Multiplier. We believe that Services Segment revenue and margins (including advertising and subscription) are growing faster than AMZN's ecommerce assets, which implies valuation multiple expansion over time. Also, we believe that AMZN invests billions of dollars every quarter in growth initiatives, which understates the normalized economic power of its assets. Additionally, AMZN has an outstanding 15-year track record of turning its growth investments into new businesses with high ROIs, such as AWS and Advertising.

BULL CASE ASSUMPTIONS

AMZN's Service Sales continue to report robust profit growth that drives higher ROICs and funds new TAM-expanding adjacencies.

OUR CASE ASSUMPTIONS

We assume that COVID-19 accelerates consumer adoption of AMZN's Product sales near term and Services Sales (at much higher margins) longer term, which results in strong over-delivery of FCF and ROIC growth between 2021-2023.

BEAR CASE ASSUMPTIONS

Extra COVID-19 costs have no long-term benefit to AMZN and merely offset the extra revenue recognized during COVID-19. Competitors are forced to catch up with AMZN, thereby lowering AMZN's ROICs.

PRICE PERFORMANCE



KEY DATA

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Consumers have changed not just where they shop but how they transact: We asked which new habit formed during the pandemic would remain after it's over. Over 41% of consumers indicated they'd shop for most products online and have products delivered to them; we see this as a positive for Amazon (AMZN) in particular and it should reinforce Prime membership. About 19% indicated they'd buy online and do curbside pickup while 15.5% indicated they'd buy online and pick up in store. Only 24% of respondents voted to go back to their old habits by visiting stores. For most retailers, foot traffic has been cut in half or worse during the pandemic, and our survey results keep us cautious on the timing and magnitude of their recovery.

Why drives AMZN's loyalty? We also asked the biggest reason for shopping Amazon. About 49% voted that it's because Amazon sells virtually everything, >31% preferred its fast and free shipping for Prime members, 14% like it for its low prices, and 6% liked having access to Prime Video and other benefits. In our view, AMZN's scale and industry-leading shipping abilities will remain competitive moats that'll be difficult for competitors to replicate.

VALUATION (PRICE TARGET: \$3,700.00)

- Our AMZN price target is based on a DCF valuation. We use a WACC of 6.5% and a long-term nominal growth rate of 2%. The standard DCF is widely used on Wall Street because it is rigorous bottom-up valuation of the enterprise based on discounting its long-term cash flows and removing the impact of non-cash accounting conventions.
- Our AMZN price target embeds a 10-year growth rate of 12.5% annually beginning in FY21, and represents a 26.5x multiple of forward year (FY22E) EBITDA.

POTENTIAL UPSIDE DRIVERS

AMZN's investment positives include an enormous TAM, rapidly growing market share of e-commerce gaining revenue from offline retail, Services revenue raises profit margins and ROICs, a strong balance sheet and a best-in-class consumer brand.

RISKS TO TARGET

Risks to our AMZN target price include significant extra COVID-19 costs in 2Q20, regulatory risks, competition, investment ROIs, and/or economic weakness/recession.



ANALYST CERTIFICATION

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Rating Suspended	< 1	100
Restricted	0	0

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