

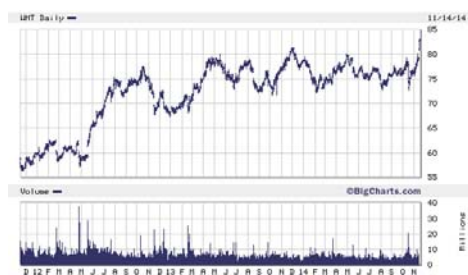
Walmart

BUY

A Little Bit Goes a Long Way

WMT-NYSE	\$82.25
52-Week Range	\$83-\$72
Market Cap.	\$252bn
Shares Outstdg.	3.2bn
Debt/Total Cap.	41.3%*
Divd. Yield	\$1.92/2.3%
Avg. Daily Vol.	8.20mm

	EPS:	P/E
2016E	5.72	14.4
2015E	5.27	15.6x
2014E	4.92	16.7x
2013	5.11	
2012	5.02	



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INVESTMENT OPINION: WMT's breakout from a trading range to a new high suggests that a move into the \$85-\$100 range is likely if its holiday season is successful.

3Q/14 EPS of \$1.15 vs. \$1.14 was in line with guidance, but a 0.5% same-store sales increase for US Walmart, the first in seven quarters, sent WMT surging to an all-time high.

Notable was US Walmart's ability to win on key selling occasions—back-to-school and Halloween, and a sales increase for apparel, when most apparel retailers struggled. The big drag was from electronics and entertainment, which provides an outsized portion of sales during the holiday season.

With intense Black Friday Week events, and a willingness to have its stores match Amazon's prices, Walmart is making a big push for sales in 4Q/14. Success selling food for Thanksgiving and Christmas Days will also be required.

It has been a dozen years since the CEOs of Corporate and US Walmart were imbued with store experience. Now we hear knowledgeable talk about details—such as the freshness of green vegetables and shopping experiences that mold shoppers' perceptions of stores. If as everyone says *retail is detail*, then Walmart is likely to be guided better to serve shoppers than in many years.

To achieve a 4Q/14 operating profit better than the 1.2% decline by US Walmart in 3Q/14, the cost of additional labor hours will need to be overcome. International operations and Sam's had gains in 3Q/14.

We stand behind our assumptions that:

- Walmart's growth rate will accelerate in 2015,
- Walmart will become formidable in e-commerce, and
- Walmart will be a winner in the consolidation of retailing.

Net income growth has been stymied in recent years but EPS has risen due a reduction in the share count. If net income growth resumes, as we believe it will, EPS would justify a price of \$85-\$100 per share.

Walmart		Annual Income					
FY end Jan. 31 of following year.		2011	2012	2013	2014E	2015E	2016E
Sales							
Total Net Sales		\$443,854	\$465,604	\$473,076	\$484,229	\$503,598	\$526,763
Cost of Goods		<u>335,127</u>	<u>352,297</u>	<u>358,069</u>	<u>366,387</u>	<u>381,777</u>	<u>400,340</u>
Gross Profit		108,727	113,307	115,007	117,842	121,820	126,423
Operating and SG&A		<u>85,265</u>	<u>88,629</u>	<u>91,353</u>	<u>94,012</u>	<u>96,833</u>	<u>99,931</u>
Operating Profit		23,462	24,678	23,654	23,830	24,988	26,492
Interest: Debt		1,872	1,791	1,953	2,065	2,000	2,000
Capital Leases		288	272	263	352	360	370
Membership and Other Inc.		<u>(3,096)</u>	<u>(3,047)</u>	<u>(3,218)</u>	<u>(3,482)</u>	<u>(3,600)</u>	<u>(3,700)</u>
Pretax Income		24,398	25,662	24,656	24,895	26,228	27,822
Taxes		<u>7,944</u>	<u>7,958</u>	<u>8,105</u>	<u>8,294</u>	<u>8,734</u>	<u>9,459</u>
Inc. before Minority Interest		16,454	17,704	16,551	16,601	17,494	18,362
Minority Interest		<u>(688)</u>	<u>(757)</u>	<u>(673)</u>	<u>(714)</u>	<u>(645)</u>	<u>(675)</u>
Net Income-Continuing Ops.		15,766	16,999	15,878	15,887	16,849	17,687
Discontinued Ops.		<u>(67)</u>	<u>52</u>	<u>144</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Income		15,699	16,999	16,022	15,887	16,849	17,687
EPS Continuing Ops		\$4.52	\$5.01	\$4.85	\$4.92	\$5.27	\$5.72
Discontinued Ops.		\$0.02	\$0.01	\$0.26			
EPS Underlying Cont Ops		\$4.54	\$5.02	\$5.11	\$4.92	\$5.27	\$5.72
Shares Outstanding		3,474	3,389	3,283	3,232	3,200	3,090
Growth Analysis:							
Total Sales		5.9%	4.9%	1.6%	2.4%	4.0%	4.6%
SG&A		5.2	3.9	3.1	2.9	3.0	3.2
Operating Profit		3.6	5.2	(4.1)	0.7	4.9	6.0
Net Income		2.7	7.8	(6.6)	0.1	6.1	5.0
Share Count		(5.3)	(2.4)	(3.1)	(1.5)	(1.0)	(3.4)
Margin Analysis:							
LIFO Gross Margin		24.5	24.3	24.3	24.3	24.2	24.0
SG&A Ratio		19.2	19.0	19.3	19.4	19.2	19.0
Operating Margin		5.3	5.3	5.0	4.9	5.0	5.0
Interest Expense, net		0.5	0.4	0.5	0.5	0.5	0.4
Other Income		(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Pretax Margin		5.5	5.5	5.2	5.1	5.2	5.3
Tax Rate		32.6	31.0	32.9	33.3	33.3	34.0
Net Margin		3.6	3.7	3.4	3.3	3.3	3.4
Source: Company data and estimates by Gilford Securities							

Risks to Earnings and Appreciation Expectations

This is a dangerous time for Walmart because it no longer in sole possession of advantages that made it great. It cannot afford slip-ups as retailing in the US and globally change rapidly due to changes in shopping preferences influenced by the growth of e-commerce.

Walmart, with operations across the globe, is exposed to a myriad of economic, political, legal and operational risks. A copy of the risk recitation can be obtained at www.walmartstores.com/investors.

Economic uncertainties and currency risks may cause a shortfall in operating results relative to expectations.

Bigger efforts to generate sales, such as Black Friday events, are required to keep US Walmart's same-store sales from falling.

The company has significant exposure to legal matters.

At a P/E of 14X our EPS estimate for 2015, WMT already reflects a degree of optimism about future prospects and is vulnerable to a pullback if sales or profits should disappoint in upcoming quarters.

ANALYST CERTIFICATION

I, Bernard Sosnick, certify that all the views expressed in this research report accurately reflect my personal views of the subject company (ies). I also certify that I have not and will not receive compensation with respect to the issuance of this report.

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POTENTIAL RISKS

As the largest retailer in the US, Mexico and Canada and with representation in Latin America, UK, and Asia, the company faces numerous risks based on economic and political conditions and currency exchange rates. Legislation in the U.S. that might ease union organizing methods and trade and currency issues with China represent the major risks, in our opinion. Gilford Securities, Inc. has prepared the information and opinions in this report based on our analysis of public information. Gilford Securities, Inc. makes every effort to use reliable, comprehensive information, but we make no representation that the information is accurate or complete. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments.

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- Buy** The stock should outperform its industry or peer group by 20% or greater within a 12-18 month time frame.
- Sell** The stock is expected to under-perform its industry or peer group by 20% or greater within a 12-18 month time frame, or where fundamentals of a company have deteriorated significantly and the stock is expected to materially depreciate.
- Neutral** Performance in-line relative to broad market indexes and/or a representative peer-group return over 12-18 months; a potential source of funds.

Distribution of Gilford Ratings (As of 10-21-14)

Category	Coverage	IB Services*
Buy	55%	20%
Neutral	35%	0%
Sell	5%	0%
Not Rated	5%	0%

* Percentage of companies within this category for whom Gilford has provided investment banking (IB) Services within the last 12 months.

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ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

