

Walmart Inc

2Q Beats Conservative Pre; 2H Guidance Unchanged;
BJ's Lateral

Neutral

WMT, WMT US

Price: \$132.60

15 Aug 2022

WMT's 2Q EPS came in 10% ahead the Street's expectation (-1% YOY vs. the pre of down 8-9%), while US comps came in at 6.5%, which was slightly ahead of [pre-announced](#) results and Consensus Metrix. General merchandise comps were expectedly down MSD while grocery rose +LDD. As expected, WMT called out a solid start to BTS, consistent with our preview and recent [note](#) citing a strong end of July for both WMT and TGT. WMT also called out ongoing strength in pet (lateral to TSCO), driven by inflation as well as autoparts.

US gross margin down with inventories still heavy. Gross margin declined 106 bps to 23.5%, falling short of our below-the-Street 23.6% forecast. Supply chain cost pressures, including fuel and ecommerce fulfillment, category mix shifts toward grocery, general merchandise markdowns, and price management actions, each contributed to the decline. Overall inventory increased 25% YOY a bit better than 1Q's 32% indicative of continued clearance through 3Q.

Guidance raised for 2Q upside with 2H intact. On the guidance front, WMT reiterated its FY23 *comp* guide with the US ~3% in 2H vs. Street +3.2% and ~+4% for the full year (vs. Consensus Metrix +4.25%). EPS were raised for the 2Q upside vs. its pre and implied at \$5.74-5.86 vs. \$5.66 per Consensus Metrix. In 3Q, the company expects U.S. comps ~+3%, operating income down 8 - 10%, and EPS down 9 - 11% (or ~\$1.31 at the midpoint vs. the Street's \$1.27).

Negative BJ lateral. Using the three-year CAGR trend from Sam's indicates a ~5.5% for BJ, slightly below our [raised](#) estimate and below the low end of the 6-8% expectation range we cited in our preview (based on our conversations). The margin performance is likely to concern the bulls with Sam's gross margin down 272 bps (related to higher supply chain costs, inflation, and elevated markdowns caused by inventory delays, in addition to a 56-bp LIFO charge). Gas profitability added 20 bps to GM.

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Figure 1: 2Q Results vs. Expectations

	2Q22 JPMe	2Q22 Consensus	2Q22 Actual	Actual Vs. Consensus	2Q21 Actual	Change
EPS	\$1.63	\$1.60	\$1.77	Beat	\$1.78	(0.6%)
Walmart US Comps	6.0%	6.0%	6.5%	Beat	5.2%	130
Sam's Comps	10.8%	10.3%	9.5%	Miss	7.7%	180
Total Sales (\$ millions)	\$151,977	\$150,253	\$152,859	Beat	\$141,048	8.4%
Gross Margin	23.5%	23.6%	23.5%	Miss	24.8%	(132.1)
SG&A as % of sales	20.2%	20.0%	19.9%	Beat	20.4%	(46)
Operating Margin	4.2%	4.2%	4.5%	Beat	5.2%	(73)
<i>Walmart</i>	4.8%	5.2%	5.4%		6.2%	(80)
<i>Sam's</i>	3.9%	3.0%	1.9%		3.5%	(159)
<i>International</i>	3.7%	3.6%	4.3%		3.7%	55
Inventory			59,921		47,754	25.5%
Category Growth (US)						
Food			+LDD		+MSD	
Health & Wellness			+HSD		+mid-teens	
General Merchandise			-MSD		+LSD	

Source: Company Reports, J.P. Morgan Estimates, and Consensus Metrix

Figure 2: 2023 Guidance

	FY22 Current	FY22 Prior
Sales	Increase 4.5% (ex-divestitures +5.5%)	Increase 4.5% (ex-divestitures +5.5%)
FX	\$2.1B headwind in 2H	\$1.8B headwind in 2H
WMT US Comp	~3% in 2H; ~4% for full-year	~3% in 2H
Operating Income	Decline 9-11% (ex-divestitures down 8-10%)	Decline 11-13% (ex-divestitures down 10-12%)
Op Margin		3.8-3.9%
EPS	Decline 9-11% (ex-divestitures down 8-10%)	Decline 11-13% (ex-divestitures down 10-12%)
	3Q Current	
Net Sales	+5%	
WMT US Comp	~3.0%	
Op Income	Decline 8-10%	
Op Margin		
EPS	Decline 9-11%	

Source: Company Reports

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Walmart Inc (WMT, WMT US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 21, 2000. All share prices are as of market close on the previous business day.

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