

Equity Research

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Earnings Revised — February 17, 2022

Food & Staples Retail

Walmart, Inc. (WMT)

WMT: Q4 Beats, but Hockey Stick Guidance Leaves Uncertainty

Our Call

WMT's stock has finally caught a break, as the company beat estimates and delivered 2022 guidance ahead of expectations in the face of low-end consumer concerns. The top line performed well with a US comp that was about expected. EBIT margin expanded in the quarter, with a surprisingly strong US gross margin offsetting higher-than-expected omicron costs. 2022 guidance of EPS growth of 5-6% was relatively good, but the cadence (down low-double digits in Q1/up high teens in Q4) is likely to leave residual questions. Overall, we came away positive from the update, but would note that broader macro risk remains. The company does look well positioned to see trade down, management seemed to express comfort with its ability to manage inflation given its price gaps, and alternative profit streams like advertising are growing. We continue to rate the stock Overweight since WMT should be better positioned than many of its peers in a more challenging 2022.

Q4 Highlights: Adj. EPS of \$1.53 beat the consensus expectation of \$1.50 and our \$1.48. Top-line beat as both demand and inflation remained strong, but was driven largely by the Sam's Club banner. US comp growth of 5.6% was in line with consensus, a touch ahead of guidance, and was paced by transaction growth of 3.1% and ticket growth of 2.4%. Costs remained a challenge (supply chain and wages), but were offset with price management, mix, and lower COVID costs. All-in, the US business EBIT margin deleveraged 27bps on GM expansion and opex deleverage. International sales grew by 6.4% excluding the impact of recent divestitures, driven by strength in Mexico, China, and Flipkart. Sam's Club comped 10.4% ex. fuel (7.0% transaction growth and 3.2% ticket growth), with membership income up 9.1%. Management set initial 2022 guidance of EPS growth in the MSD range paced by 3% sales growth.

Our Estimates: We are raising our 2022 EPS estimate to \$6.72 (from \$6.70), and are establishing a 2023 EPS estimate of \$7.10.

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Rating	Overweight
Ticker	WMT
Price Target/Prior:	\$165.00/NC
Upside/(Downside) to Target	23.6%
Price (02/16/2022)	\$133.53
52 Week Range	\$126.28 - 152.57
Shares Outstanding	2,773,878,458
Market Cap (MM)	\$370,396
Enterprise Value (MM)	\$401,465
Average Daily Volume	8,519,464
Average Daily Value (MM)	\$1,138
Dividend (NTM)	\$2.19
Dividend Yield	1.6%
Net Debt (MM) - last reported	\$31,069
ROIC - Current year est.	16%
3 Yr EPS CAGR from current year (unless otherwise noted)	11%

\$	2020A	2021A	2021A	2022E	2022E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Apr)	1.18 A	1.69 A	NC	1.45 E	1.70 E
Q2 (Jul)	1.56 A	1.78 A	NC	1.92 E	1.84 E
Q3 (Oct)	1.34 A	1.45 A	NC	1.54 E	1.55 E
Q4 (Jan)	1.39 A	1.53 A	1.48 E	1.81 E	1.62 E
FY	5.49 A	6.44 A	6.40 E	6.72 E	6.70 E
P/E	24.3x	20.7x		19.9x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

All estimates/forecasts are as of 2/17/2022 unless otherwise stated. 2/17/2022 17:01:52EST. Please see page 4 for rating definitions, important disclosures and required analyst certifications.

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Exhibits

Exhibit 1 - Select WMT Financials

	Quarterly Results and Estimates														
Income Statement	2021A				2022E								2021A	2022E	2023E
	Q1A	Q2A	Q3A	Q4A	Q1E	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E			
Total Revenue	\$138,310	\$141,048	\$140,525	\$152,871	\$139,163	\$145,834	\$145,083	\$159,310	\$140,702	\$147,239	\$146,481	\$161,581	\$572,754	\$589,391	\$596,002
Gross Profit	35,038	35,865	35,502	37,349	34,558	36,790	36,509	38,489	34,659	36,850	36,567	38,715	143,754	146,346	146,791
Gross Profit (ex Membership Fees)	33,887	34,688	34,184	36,003	33,384	35,590	35,164	37,116	33,461	35,626	35,196	37,314	138,762	141,254	141,597
SG&A	28,129	28,511	29,710	31,462	28,623	29,141	30,397	31,368	28,512	28,971	30,235	31,327	117,812	119,529	119,046
GAAP EBIT	6,909	7,354	5,792	5,887	5,936	7,649	6,111	7,121	6,147	7,879	6,332	7,387	25,942	26,817	27,745
Interest Expense, Net	536	478	442	380	429	437	430	427	429	437	430	427	1,836	1,724	1,724
Pre-Tax Income	3,844	5,923	4,147	4,782	5,506	7,212	5,681	6,694	5,718	7,442	5,902	6,960	18,696	25,093	26,021
Taxes	1,033	1,559	1,015	1,149	1,404	1,839	1,449	1,707	1,458	1,898	1,505	1,775	4,756	6,399	6,635
GAAP Net Income	2,730	4,276	3,105	3,562	4,021	5,285	4,205	4,916	4,179	5,456	4,370	5,114	13,673	18,428	19,119
GAAP EPS	\$0.97	\$1.52	\$1.11	\$1.28	\$1.45	\$1.92	\$1.54	\$1.81	\$1.55	\$2.02	\$1.62	\$1.91	\$4.87	\$6.72	\$7.10
Adj. EPS	\$1.69	\$1.78	\$1.45	\$1.53	\$1.45	\$1.92	\$1.54	\$1.81	\$1.55	\$2.02	\$1.62	\$1.91	\$6.44	\$6.72	\$7.10
Average Shares	2,829	2,812	2,797	2,782	2,766	2,751	2,733	2,716	2,704	2,697	2,691	2,684	2,805	2,741	2,694
D&A	\$2,661	\$2,641	\$2,650	\$2,706	\$2,741	\$2,720	\$2,730	\$2,787	\$2,823	\$2,802	\$2,811	\$2,871	\$10,658	\$10,978	\$11,307
EBITDA	9,570	9,995	8,442	8,593	8,677	10,370	8,841	9,908	8,970	10,681	9,144	10,258	36,600	37,795	39,052
Margin Analysis															
Gross Profit	25.3%	25.4%	25.3%	24.4%	24.8%	25.2%	25.2%	24.2%	24.6%	25.0%	25.0%	24.0%	25.1%	24.8%	24.6%
SG&A	20.3%	20.2%	21.1%	20.6%	20.6%	20.0%	21.0%	19.7%	20.3%	19.7%	20.6%	19.4%	20.6%	20.3%	20.0%
EBIT	5.0%	5.2%	4.1%	3.9%	4.3%	5.2%	4.2%	4.5%	4.4%	5.4%	4.3%	4.6%	4.5%	4.5%	4.7%
Pre-Tax Income	2.8%	4.2%	3.0%	3.1%	4.0%	4.9%	3.9%	4.2%	4.1%	5.1%	4.0%	4.3%	3.3%	4.3%	4.4%
Tax Rate	26.9%	26.3%	24.5%	24.0%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.4%	25.5%	25.5%
Net Income	2.0%	3.0%	2.2%	2.3%	2.9%	3.6%	2.9%	3.1%	3.0%	3.7%	3.0%	3.2%	2.4%	3.1%	3.2%
D&A	1.9%	1.9%	1.9%	1.8%	2.0%	1.9%	1.9%	1.7%	2.0%	1.9%	1.9%	1.8%	1.9%	1.9%	1.9%
EBITDA	6.9%	7.1%	6.0%	5.6%	6.2%	7.1%	6.1%	6.2%	6.4%	7.3%	6.2%	6.3%	6.4%	6.4%	6.6%
Y/Y Growth															
U.S. Comp Growth	6.0%	5.2%	9.2%	5.6%	1.5%	3.5%	3.5%	4.3%	2.5%	2.5%	2.5%	2.5%	6.5%	3.2%	2.5%
U.S. Square Footage Growth	16.0%	14.5%	15.6%	14.2%	7.5%	8.7%	12.7%	9.9%	4.0%	6.0%	6.0%	6.7%	15.1%	9.7%	5.6%
Total Square Footage Growth	-5.6%	-5.7%	-5.6%	-5.4%	-0.3%	-0.1%	-0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	-5.4%	0.1%	0.1%
Total Revenue	2.7%	2.4%	4.3%	0.5%	0.6%	3.4%	3.2%	4.2%	1.1%	1.0%	1.0%	1.4%	2.4%	2.9%	1.1%
Gross Profit	7.5%	2.3%	3.3%	1.4%	-1.4%	2.6%	2.8%	3.1%	0.3%	0.2%	0.2%	0.6%	3.5%	1.8%	0.3%
SG&A	2.8%	-1.7%	3.9%	0.4%	1.8%	2.2%	2.3%	-0.3%	-0.4%	-0.6%	-0.5%	-0.1%	1.3%	1.5%	-0.4%
GAAP EBIT	32.3%	21.4%	0.2%	7.3%	-14.1%	4.0%	5.5%	21.0%	3.6%	3.0%	3.6%	3.7%	15.1%	3.4%	3.5%
GAAP Net Income	-31.6%	-34.0%	-39.5%	-270.3%	47.3%	23.6%	35.4%	38.0%	3.9%	3.2%	3.9%	4.0%	1.2%	34.8%	3.8%
Adj. EPS	42.7%	13.9%	8.0%	10.1%	-13.7%	7.9%	6.1%	18.3%	6.3%	5.3%	5.6%	5.2%	17.3%	4.3%	5.6%
EBITDA	19.4%	13.2%	-1.3%	3.5%	-9.3%	3.7%	4.7%	15.3%	3.4%	3.0%	3.4%	3.5%	8.6%	3.3%	3.3%
Key Operating Statistics															
Total Stores	10,526	10,536	10,578	10,605	10,637	10,635	10,643	10,632	10,664	10,662	10,670	10,659	10,605	10,632	10,659
Total Sq. Ft.	1,065	1,063	1,065	1,060	1,062	1,062	1,062	1,062	1,063	1,063	1,064	1,063	1,060	1,062	1,063
Sales/Sq. Ft.	\$130	\$133	\$132	\$144	\$131	\$137	\$137	\$150	\$132	\$138	\$138	\$152	\$540	\$555	\$560

Source: Company data, Wells Fargo Securities, LLC estimates

Investment Thesis, Valuation and Risks

Walmart, Inc. (WMT)

Investment Thesis

WMT has made strong progress in its repositioning in recent years against high initial skepticism, and the pace of change should be applauded. The company has essentially turned itself into Amazon's biggest online retail competitor while returning its stores to positive traffic growth. Overall, we have been impressed with the effort. Though the company lost share during COVID, we expect momentum to reaccelerate given normalizing consumer behavior, tailwinds from monthly CTC payments, and easier comparisons relative to other retail peers. While concerns around investment and the magnitude of medium-term growth remain, WMT looks like a good name to own in consumer at the moment. We rate WMT shares Overweight.

Target Price Valuation for WMT: \$165.00 from NC

Our \$165 price target reflects 25x our 2022 earnings estimate.

Risks to Our Price Target and Rating for WMT

Risks include: 1) Traffic/comps could slow as in-store initiatives mature. Some COVID-related behavior could stick, causing consumers to prefer local grocers. 2) Food cost inflation could pressure margins if pass-through becomes difficult. 3) Higher digital mix could permanently dilute the company's margin profile if efforts to curb losses through improved fulfillment, automation, technology, etc. are unsuccessful. 4) Ongoing cost pressure (e.g., labor, freight) could offset top-line gains. 5) The company operates in an intensely competitive environment.

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