



Walmart Inc.

Flow Through Elusive...For Now

While WMT's top line was exceptional, expectations were already high, and flow-through disappointed, however we believe the underlying business remains solid, and believe WMT's ability to navigate the challenging supply chain environment will ultimately prove to be a meaningful competitive advantage. Along these lines, WMT did not veer from its customer centric approach as: a) shelves have remained well stocked (U.S. inventories +11.5%, partly due to hiring ~200K associates); and b) price gaps have remained wider than pre-pandemic levels (WMT's cost inflation > pricing), despite the challenging freight/inflation backdrop. Staying the course resulted in a robust 9.2% 3Q22 U.S. comp (120 bps accel. in 2 yr compounded trends), unit share gains in grocery y/y (and vs. CY3Q19), and a strong start to F4Q22 with comp guidance set at ~5%. Still, WMT wasn't immune to the broader environment, posting a U.S. EBIT margin decline (cons. +10 bps), including a 12 bps GM decline. Certainly, much focus is on the supply chain/inflation, but we believe WMT is managing well given implied 4Q guidance reflects much better U.S. flow-through vs 3Q22 considering: 1) U.S. COVID costs should decline meaningfully more in F4Q22 reflecting the ~\$500M step up in F4Q21 vs. F3Q21; 2) WMT appears much better positioned from a holiday/feature mix perspective in F4Q22 vs F4Q21 –providing an extra sell-through/mix margin boost; and 3) we get the sense that supply chain costs, while onerous, aren't worsening given the F4Q22 guide.

Overall, while it is unclear how transitory the current backdrop will be, we continue to be confident in WMT's ability to execute and manage various P&L levers to drive ongoing U.S. growth – i.e. WMT can manage product mix, has scale to keep shelves stocked, has a suite of new high-growth/margin businesses to protect margins (WMT Connect, WMT+, WFS, GoLocal, Marketplace, etc.), and continues to stay true to its value promise. Accordingly, momentum should continue and FY23 consensus U.S. EBIT growth of ~3% could prove conservative. While some investors are reluctant to own WMT given the Walton family selling this year (primarily offsetting buybacks to keep % ownership constant) & low income consumer exposure in FY23, we think fundamentals will remain solid as consumers lean on WMT more than ever given its truly omni-channel, value focused proposition. Our FY23 ests. remain mostly intact. Our PT remains at \$170.

WMT: Quarterly and Annual EPS (USD)

	2021		2022		2023		Change y/y		
FY Jan	Actual	Old	New	Cons	Old	New	Cons	2022	2023
Q1	1.18A	1.69A	1.69A	1.69A	N/A	N/A	1.65E	43%	N/A
Q2	1.56A	1.78A	1.78A	1.78A	N/A	N/A	1.87E	14%	N/A
Q3	1.34A	1.36E	1.45A	1.40E	N/A	N/A	1.52E	8%	N/A
Q4	1.39A	1.49E	1.49E	1.49E	N/A	N/A	1.61E	7%	N/A
Year	5.48A	6.32E	6.40E	6.39E	6.74E	6.79E	6.67E	17%	6%
P/E	26.1		22.4			21.1			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 16-Nov-2021; 13:50 GMT

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Equity Research

Consumer | North America Food & Staples

Retailing

16 November 2021

Stock Rating **OVERWEIGHT**
Unchanged

Industry View **NEUTRAL**
Unchanged

Price Target **USD 170.00**
Unchanged

Price (16-Nov-2021) USD 143.17
Potential Upside/Downside +18.7%
Tickers WMT

Market Cap (USD mn) 399229
Shares Outstanding (mn) 2788.50
Free Float (%) 52.23
52 Wk Avg Daily Volume (mn) 7.9
Dividend Yield (%) 1.54
Return on Equity TTM (%) 9.80
Current BVPS (USD) 29.51

Source: Bloomberg

Price Performance Exchange-NYSE
52 Week range USD 153.66-126.28



Source: IDC; Link to Barclays Live for interactive charting

North America Food & Staples Retailing

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North America Food & Staples Retailing	Industry View: NEUTRAL
Walmart Inc. (WMT)	Stock Rating: OVERWEIGHT

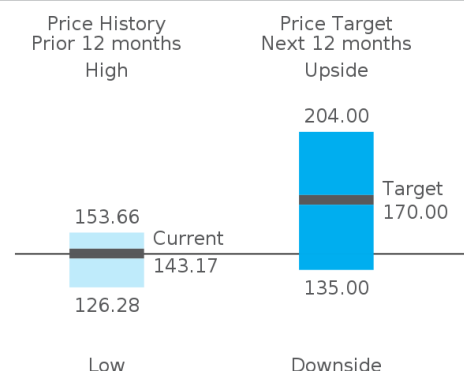
Income statement (\$mn)	2021A	2022E	2023E	2024E	CAGR	Price (16-Nov-2021)	USD 143.17
Revenue	559,151	569,772	591,018	N/A	N/A	Price Target	USD 170.00
EBITDA (adj)	34,157	36,939	38,366	N/A	N/A	Why Overweight? Rationale: A valuation slightly above "Staple-Type" companies under our coverage (in line when adjusted for Flipkart losses) that reflects: 1) a continuation of solid comps and traffic, 2) moderate EPS growth after adjusting for Flipkart losses, and 3) an above average FCF and dividend yield compared to "Staple-Type" companies.	
EBIT (adj)	23,005	26,149	27,173	N/A	N/A		
Pre-tax income (adj)	20,861	24,272	25,403	N/A	N/A		
Net income (adj)	15,571	17,980	18,807	N/A	N/A		
EPS (adj) (\$)	5.48	6.40	6.79	N/A	N/A		
Diluted shares (mn)	2,843.0	2,807.9	2,771.3	N/A	N/A		
DPS (\$)	2.16	2.20	2.24	N/A	N/A		

Margin and return data	Average					Upside case	USD 204.00
EBITDA (adj) margin (%)	6.1	6.5	6.5	N/A	6.4	Reflects: 1) Robust comps, 2) accelerating e-com growth, 3) strong EPS growth after adjusting for Flipkart losses, 4) improvement at Sam's Club, 5) a multiple closer to Staples peers, 6) an improvement in consumer spending, and 7) lower-than-expected Flipkart losses.	
EBIT (adj) margin (%)	4.1	4.6	4.6	N/A	4.4		
Pre-tax (adj) margin (%)	3.7	4.3	4.3	N/A	4.1		
Net (adj) margin (%)	2.8	3.2	3.2	N/A	3.0		
ROIC (%)	12.3	14.9	16.1	N/A	14.4		
ROE (%)	18.4	19.6	19.2	N/A	19.1		
ROA (lease-adjusted) (%)	7.6	9.2	9.2	N/A	8.7	Downside case	USD 135.00

Balance sheet and cash flow (\$mn)	CAGR					Reflects: 1) slowing comps, 2) a meaningful slowdown in e-com growth, 3) greater than expected margin contraction, 4) significant increase in capex to support e-commerce/technology, 5) a slowdown in consumer spending, and 6) larger-than-expected Flipkart losses.	
Tangible fixed assets	92,201	93,904	95,730	N/A	N/A		
Cash and equivalents	17,741	18,347	23,236	N/A	N/A		
Total assets	252,496	224,674	234,569	N/A	N/A		
Short and long-term debt	41,418	36,872	36,872	N/A	N/A		
Total liabilities	164,965	132,727	136,742	N/A	N/A		
Net debt/(funds)	26,792	20,100	15,211	N/A	N/A	Upside/Downside scenarios	
Shareholders' equity	87,531	91,947	97,827	N/A	N/A		
Change in working capital	7,972	-10,721	2,437	N/A	N/A		
Cash flow from operations	36,074	24,500	31,116	N/A	N/A		
Capital expenditure	-10,264	-13,088	-13,019	N/A	N/A		
Free cash flow	18,274	17,616	18,968	N/A	N/A		

Valuation and leverage metrics	Average				
P/E (adj) (x)	26.1	22.4	21.1	N/A	23.2
EV/EBITDA (adj) (x)	12.7	11.6	11.0	N/A	11.7
Equity FCF yield (%)	4.5	4.4	4.8	N/A	4.6
P/Sales (x)	0.7	0.7	0.7	N/A	0.7
P/BV (x)	4.7	4.4	4.1	N/A	4.4
Dividend yield (%)	1.5	1.5	1.6	N/A	1.5
Adj debt/EBITDAR (x)	1.3	1.1	0.9	N/A	1.1

Selected operating metrics	Average				
Same store sales growth (%)	8.6	6.3	N/A	N/A	7.4
Square footage growth (%)	-0.7	-4.7	0.7	N/A	-1.6
Inventory growth (%)	1.2	3.0	3.0	N/A	2.4
Capex/sales (%)	1.8	2.3	2.2	N/A	2.1



Source: Company data, Bloomberg, Barclays Research
 Note: FY End Jan

Details on 3Q22 Results

WMT reported 3Q22 adjusted EPS of \$1.45 vs. consensus at \$1.40 and our estimate of \$1.36. Total revenue came in at \$140.5B, an increase of 4.3% y/y (or \$139.2B when excluding the effects of currency). Walmart U.S. comp transactions of +5.7% drove comp sales of +9.2%, which was higher than our estimate of 6.5% and Consensus of 6.8%. U.S. e-commerce sales grew 8% y/y and 87% on a 2 – year stack basis. Sam's Club comps increased 13.9% ex fuel and FX compared to our estimate of 8.5% and consensus at 7.2%. Membership income increased 11.3% y/y with the member count reaching an all – time high. Lastly, ecommerce sales grew 32% y/y at Sam's Club.

Consolidated gross margin declined ~51bps, reflecting increased supply chain costs and headwinds from fuel mix in the U.S. and format mix shifts in International. Consolidated SG&A expenses leveraged 13bps driven by strong sales, lower y/y COVID expenses, partially offset by wage investments in the U.S. Lastly, the EBIT margin decreased by 17bps y/y to 4.1% vs. Barc/Cons estimates of 4.2%/4.3%.

WMT U.S. gross margin decreased by ~12bps y/y due to increased supply chain costs partially offset by lower markdowns and increased contributions from Walmart Connect. U.S. operating income grew 5.9% y/y reflecting an EBIT margin of 5.03% compared to our estimate of 5.19% and consensus at 5.33%. Similar to WMT U.S., Sam's Club and WMT International operating incomes increased by 10.2% y/y and 23.9% y/y (excluding divestures of \$404M) respectively – underscoring the strength of WMT's broad based performance. Looking ahead, WMT is well positioned for 4Q from an inventory perspective given that WMT U.S. inventory was up 11.5% y/y at the end of 3Q.

Takeaways from Follow Up Call with Management

- WMT isn't seeing any metrics that would indicate that inflation has become a problem for consumers yet.
- Private label penetration has not increased as would typically happen when consumers become more budget conscious.
- The largest 4Q expense difference y/y for WMT will be the \$388M one-time COVID bonus from last year along with savings on other COVID related expenses.
- 2year stack comps improved sequentially each month of the quarter and 4Q comps to date have remained strong.
- WMT doesn't believe there has been significant pull forward of holiday demand based on the business trends they are experiencing.
- SNAP dollars have increased ~10-15% y/y currently at WMT and while there is an "emergency" component to this increase (which could be eliminated), in theory, this increase will benefit WMT through September 2022.
- Some capex was shifted into next year due to scarcity of labor to complete projects.
- WMT isn't anticipating much of a change in the promotional environment in the short term.
- WMT continues to gain unit market share in grocery – higher market share now vs. 2019 - and is seeing wider price gaps to competitors than pre-pandemic.
- While some bearish investors point to the Walton family selling as a reason to not own WMT, the family will always look to maintain ~50% ownership. Thus, as WMT buys back shares, the family only sells to maintain the same ownership percentage.

Results vs Expectations

FIGURE 1

WMT 3Q Results vs. Expectations

	3Q21A	Barclays 3Q22E	3Q22A	YOY growth	3Q22 Consensus
Sales	\$133,752.0	\$133,684.3	\$139,207.0	4.1%	\$134,441.5
Other income	\$956.0	\$994.2	\$1,318.0	37.9%	\$1,102.1
Total Revenue	\$134,708.0	\$134,678.5	\$140,525.0	4.3%	\$135,543.6
Cost of Goods Sold	<u>100,339.0</u>	<u>100,384.4</u>	<u>105,023.0</u>		<u>101,090.3</u>
Gross Profit	34,369.0	34,294.1	35,502.0	3.3%	34,453.3
Gross Profit Margins	25.5%	25.5%	25.3%	-25bp	25.4%
SG&A	28,591.0	28,577.6	29,710.0	3.9%	28,619.2
SG&A Ratio	21.2%	21.2%	21.1%	-8bp	21.1%
Operating Income	5,778.0	<u>5,716.5</u>	5,792.0	0.2%	5,834.2
EBIT Margins	4.3%	4.2%	4.1%	-17bp	4.3%
EBITDA	8,549.0	8,635.1	8,442.0	-1.3%	8,614.7
Interest Expense	516.0	480.0	442.0	-14.3%	485.2
Other (Income) Expense	<u>55.8</u>	<u>(10.0)</u>	<u>(27.7)</u>		<u>0.0</u>
Pretax Income	5,206.2	5,246.5	5,377.7	3.3%	5,349.0
Income Taxes	1,315.7	<u>1,348.8</u>	1,294.7	-1.6%	1,362.1
Tax Rate	25.3%	25.7%	24.1%		25.5%
Non-Controlling Interest	(66.0)	(77.8)	(27.0)		(75.9)
Net Income	3,824.5	3,819.9	4,056.0	6.1%	3,911.1
Operating EPS	\$1.34	\$1.36	\$1.45	8.0%	\$1.40
Shares O/S	2,849.0	2,806.5	2,797.0		2,797.9
Margin Summary (ex charges)					
Gross Profit Margins	25.5%	25.5%	25.3%	-25bp	25.4%
SG&A Ratio	21.2%	21.2%	21.1%	-8bp	21.1%
EBIT Margin	4.3%	4.2%	4.1%	-17bp	4.3%
Tax Rate	25.3%	25.7%	24.1%		25.5%

Source: Barclays Research; Company Data

FIGURE 2

WMT 3Q Segment Results vs. Expectations

	3Q21A	Barclays 3Q22E	3Q22A	y/y % growth	3Q22 Consensus
Walmart U.S.					
Revenue	88,353	94,060	96,609	9.3%	94,288
SSS ex gas/FX	6.4%	6.5%	9.2%		6.8%
Adjusted EBIT	4,589	4,885	4,860	5.9%	5,030
EBIT Margin %	5.2%	5.19%	5.03%	-16.3bp	5.33%
Sam's Club					
Revenue	15,845	17,198	18,971	19.7%	18,169
SSS ex gas/FX	11.1%	8.5%	13.9%		7.2%
Adjusted EBIT	431	442	475	10.2%	453
EBIT Margin %	2.7%	2.6%	2.5%	-22bp	2.5%
Walmart International					
Revenue	29,554	22,426	23,627	-20.1%	22,190
Adjusted EBIT	1,078	844	932	-13.5%	783
EBIT Margin %	3.6%	3.8%	3.9%	30bp	3.5%
Corporate					
Operating income (expense)	-320	-455	-414		-391
Total					
Revenue	134,708	134,679	140,525		
EBIT	5,778	5,717	5,853		5,875

Source: Barclays Research; Company Data

FIGURE 3
Updated FY22 Guidance

Metric	FY22 Guidance
Comp sales growth	Walmart U.S.: above 6% ex fuel.
Adjusted EPS	Around \$6.40
Capital expenditures	Around \$13 billion
Metric	F4Q22 Guidance
Comp sales growth	Walmart U.S., around 5%, ex fuel
Implied EPS	Around \$1.48

Source: Barclays Research, Company Reports

Estimate Changes & Valuation

We are adjusting our EPS estimates to reflect new guidance and recent trends. We are now forecasting FY22E/FY23E EPS and EBITDA of \$6.40/\$6.79 and \$36.9B/\$38.4B, respectively.

We maintain our PT of \$170 reflecting a ~13x EV/EBITDA multiple (unchanged) on our new FY23E EBITDA estimate of \$38.4B (from \$38.7B).

FIGURE 4
Walmart Current Valuation

Walmart Current Valuation			
Data Points (for year end January)			
<i>\$ in MM, except per share</i>	FY21	FY22E	FY23E
Shares	2,843	2,808	2,771
Stock	\$143.17	\$143.17	\$143.17
Market Cap	\$407,032	\$402,008	\$396,773
Net Debt Estimate	\$26,792	\$20,100	\$15,211
Enterprise Value ex Leases	\$433,824	\$422,108	\$411,984
Enterprise Value incl. Leases	\$454,832	\$445,100	\$434,497
Valuation Excluding Rent			
	FY21	FY22E	FY23E
EV	\$433,824	\$422,108	\$411,984
EV/Sales	0.78x	0.74x	0.70x
EV/EBITDA	12.7x	11.4x	10.7x
PE	26.1x	22.4x	21.1x
PEG	2.4x	1.3x	3.5x
FCF Current Yield	4.5%	4.4%	4.8%
P/FCF	22.3x	22.8x	20.9x
EV/FCFF	21.2x	21.6x	19.8x
Valuation Including Rent			
	FY21	FY22E	FY23E
EV including rent	\$454,832	\$445,100	\$434,497
EV+Leases/Sales	0.81x	0.78x	0.74x
EV+Leases/EBITDAR	12.4x	11.2x	10.6x

Source: Barclays Research, Bloomberg Priced at 3:35PM ET 8/17/2021

FIGURE 5
Walmart Price Target Valuation

Walmart Price Target Valuation			
Data Points (for year end January)			
<i>\$ in MM, except per share</i>	FY21	FY22E	FY23E
Shares	2,843	2,808	2,771
Stock	\$170.00	\$170.00	\$170.00
Market Cap	\$483,310	\$477,344	\$471,128
Net Debt Estimate	\$26,792	\$20,100	\$15,211
Enterprise Value ex Leases	\$510,102	\$497,444	\$486,339
Enterprise Value incl. Leases	\$531,110	\$520,436	\$508,852
Valuation Excluding Rent			
	FY21	FY22E	FY23E
EV	\$510,102	\$497,444	\$486,339
EV/Sales	0.91x	0.87x	0.82x
EV/EBITDA	14.9x	13.5x	12.7x
PE	31.0x	26.5x	25.1x
PEG	2.8x	1.6x	4.2x
FCF Price Target Yield	3.8%	3.7%	4.0%
P/FCF	26.4x	27.1x	24.8x
EV/FCFF	24.9x	25.5x	23.4x
Valuation Including Rent			
	FY21	FY22E	FY23E
EV including rent	\$531,110	\$520,436	\$508,852
EV+Leases/Sales	0.95x	0.91x	0.86x
EV+Leases/EBITDAR	14.4x	13.1x	12.4x

Source: Barclays Research

Estimates vs Consensus

FIGURE 6

Barclays vs Consensus

	Barclays	Consensus	Barclays	Consensus	Barclays	Consensus	Barclays	Consensus
INCOME STATEMENT (\$ mm)	4Q22E	4Q22E	1Q23E	1Q23E	FY22E	FY22E	FY23E	FY23E
Total Sales	149,888.5	148,477.3	143,381.0	140,237.7	569,771.5	564,508.0	591,017.9	580,813.7
COGS	113,750.7	113,366.8	107,058.4	104,973.1	427,228.7	422,700.8	443,161.3	435,153.8
Gross Profit	36,137.8	35,246.0	36,322.6	34,077.7	142,542.8	137,317.0	147,856.6	141,047.2
SG&A Expenses	30,044.2	30,305.2	29,308.6	28,479.1	116,394.2	115,594.4	120,683.6	118,610.9
Operating Income	6,093.6	6,112.4	7,014.0	6,785.6	26,148.6	26,212.9	27,173.0	27,049.0
Net Interest Expense (Income)	450.0	481.2	450.0	535.1	1,906.0	1,982.1	1,800.0	2,013.0
EBT	5,653.6	5,631.1	6,552.8	6,250.5	24,272.2	24,230.8	25,402.5	25,036.0
Income Taxes	1,427.4	1,421.8	1,650.4	1,584.5	6,020.0	6,092.0	6,314.5	6,307.6
Tax Rate (%)	25.2%	25.2%	25.2%	25.3%	24.8%	25.1%	24.9%	25.2%
Net Income from Cont. Ops.	4,149.8	4,126.3	4,829.2	4,602.1	17,979.8	17,816.6	18,806.7	18,426.5
EPS	\$1.49	\$1.48	\$1.73	\$1.66	\$6.40	\$6.35	\$6.79	\$6.67
Diluted WASO	2,793.6	2,787.4	2,784.9	2,772.7	2,807.9	2,806.2	2,771.3	2,759.7
EBITDA	8,931.9	8,945.6	9,772.6	9,478.1	36,938.9	37,117.7	38,365.7	38,334.7
EBIT growth	11.06%	11.40%	1.52%	-1.79%	13.66%	13.94%	3.92%	3.19%

Key Metrics

Total Revenue % Δ y/y	-1.44%	-2.37%	3.67%	1.39%	1.90%	0.96%	3.73%	2.89%
US Sales % Δ y/y	4.98%	4.70%	3.07%	2.28%	6.09%	5.44%	3.21%	2.91%
Walmart U.S. Stores comps	5.00%	4.80%	3.00%	2.50%	6.29%	5.70%	3.00%	2.70%
Flipkart Net Sales - \$	3,638.2	3,326.2	4,897.6	3,449.2	13,778.6	11,833.0	17,223.3	12,900.3

Margin Analysis

Gross Profit Margin	24.1%	23.7%	25.3%	24.3%	25.0%	24.3%	25.0%	24.3%
SG&A Margin	20.0%	20.4%	20.4%	20.3%	20.4%	20.5%	20.4%	20.4%
Operating Income Margin	4.1%	4.1%	4.9%	4.8%	4.6%	4.6%	4.6%	4.7%
EBITDA Margin	6.0%	6.0%	6.8%	6.8%	6.5%	6.6%	6.5%	6.6%
Pretax Margin	3.8%	3.8%	4.6%	4.5%	4.3%	4.3%	4.3%	4.3%
Net Margin	2.8%	2.8%	3.4%	3.3%	3.2%	3.2%	3.2%	3.2%

Margin Change

Gross Profit Margin	(10)	(47)	0	(103)	19	(50)	(0)	(4)
Operating Income Margin	46	51	(10)	(16)	48	53	1	1
EBITDA Margin	50	56	(10)	(16)	40	47	0	2
Net Margin	19	20	(8)	(16)	37	37	3	2

Source: Barclays Research; Consensus Metrix

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Primary Stocks (Ticker, Date, Price)

Walmart Inc. (WMT, 16-Nov-2021, USD 143.17), Overweight/Neutral, A/CD/CE/D/J/K/L/M/N

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Stock Rating

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North America Food & Staples Retailing

Albertsons Companies Inc (ACI)

Alimentation Couche-Tard Inc. (ATD-B.TO)

Big Lots, Inc. (BIG)

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Sprouts Farmers Market Inc (SFM)	Target Corp. (TGT)	Walmart Inc. (WMT)

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Walmart Inc. (WMT / WMT)

USD 143.17 (16-Nov-2021)

Stock Rating

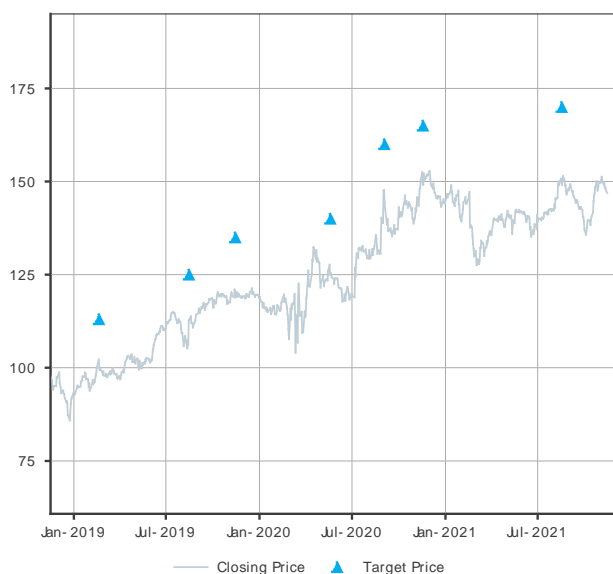
OVERWEIGHT

Industry View

NEUTRAL

Rating and Price Target Chart - USD (as of 16-Nov-2021)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
17-Aug-2021	150.70		170.00
17-Nov-2020	149.37		165.00
02-Sep-2020	147.68		160.00
19-May-2020	124.95		140.00
14-Nov-2019	120.65		135.00
15-Aug-2019	112.69		125.00
19-Feb-2019	102.20		113.00

On 16-Nov-2018, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 110.00.

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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Valuation Methodology: Our \$170 price target is based on a 13x EV/EBITDA multiple and FY23 EBITDA of ~\$38.4 billion.

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