

September 29, 2020 | Equity Research



Walmart, Inc.

WMT: Press Reports Company Looking to Double Down on India

Equal Weight/\$130

Food & Staples Retail

Company Note

- Wells Fargo View:** WMT's interest in India looks to be accelerating, as the company is reportedly in talks with conglomerate Tata Group for a potential investment of up to \$20-25 billion in its new "super app". The super app is expected to launch in December 2020/January 2021 and will combine Tata's consumer product offerings onto one platform (Tata's consumer businesses include watch and jewelry brand Titan, fashion retail chain Trent, consumer durables and electronics retailer Infiniti Retail, and various key food and beverage brands). News sources indicate that the super app may be launched as a joint venture that would leverage Tata's e-commerce business and Flipkart. Note that WMT made another \$1.2 billion investment in Flipkart in July, roughly two years after purchasing an almost 80% stake in 2018 for \$16 billion. It's clear that some initial operational and regulatory challenges have not deterred the company's interest in this massive market. We view the news as mixed for now. While a path to value creation in Flipkart looks to be evolving positively given the potential for a future IPO, and we applaud management's willingness to think outside the box (TikTok is another example here), doubling down on this complicated market is not without risk. Further assessment is difficult without more details. We continue to rate WMT Equal Weight.

\$	2019A	2020E	2021E
EPS		Curr. Prior	Curr. Prior
Q1 (Apr.)	1.13	1.18 A	NC 1.24 NC
Q2 (July)	1.27	1.56 A	NC 1.47 NC
Q3 (Oct.)	1.16	1.15	NC 1.22 NC
Q4 (Jan.)	1.38	1.35	NC 1.41 NC
FY	4.94	5.25	NC 5.35 NC
CY	4.94	5.25	5.35
FY P/EPS	27.8x	26.1x	25.6x
Rev.(MM)	523,964	548,747	555,653

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
 NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
 V = Volatile
 Non-GAAP excludes non-cash/1x charges.

Ticker	WMT
Price Target/Prior:	\$130/NC
Price (09/29/2020)	\$137.20
52-Week Range:	\$102-152
Shares Outstanding: (MM)	2,848.0
Market Cap.: (MM)	\$390,745.6
S&P 500:	3,355.42
Avg. Daily Vol.:	13,765,900
Dividend/Yield:	\$2.16/1.6%
LT Debt: (MM)	\$46,869.0
LT Debt/Total Cap.:	36.6%
ROE:	5.0%
3-5 Yr. Est. Growth Rate:	2.0%
CY 2020 Est. P/EPS-to-Growth:	13.1x
Last Reporting Date:	08/17/2020 Before Open

NC = No Change

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Edward J. Kelly, CFA
 Senior Analyst | 212-214-5304
 edward.j.kelly@wellsfargo.com

Zachary Fadem, CPA
 Senior Analyst | 212-214-8018
 zachary.fadem@wellsfargo.com

Stephanie S. Chang, CFA
 Associate Analyst | 212-214-5076
 stephanie.s.chang@wellsfargo.com

Anthony Bonadio, CFA
 Associate Analyst | 212-214-5072
 anthony.bonadio@wellsfargo.com

Please see page 3 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 09/29/20 unless otherwise stated. 09/29/20 10:25:51 ET

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Together we'll go far



Price Target

Price Target: \$130 from NC

Our \$130 price target reflects 25x our NTM earnings estimate. We see numerous upside and downside risks to our Equal Weight rating/target. 1.) Continued progress in digital could earn greater credibility with investors and a higher valuation. 2.) International divestitures would be positive for returns and the stock. 3.) Traffic and comps could slow as in-store initiatives mature, putting pressure on the stock. 4.) Margins could fall by more than expected if digital losses grow, competition intensifies, and costs rise.

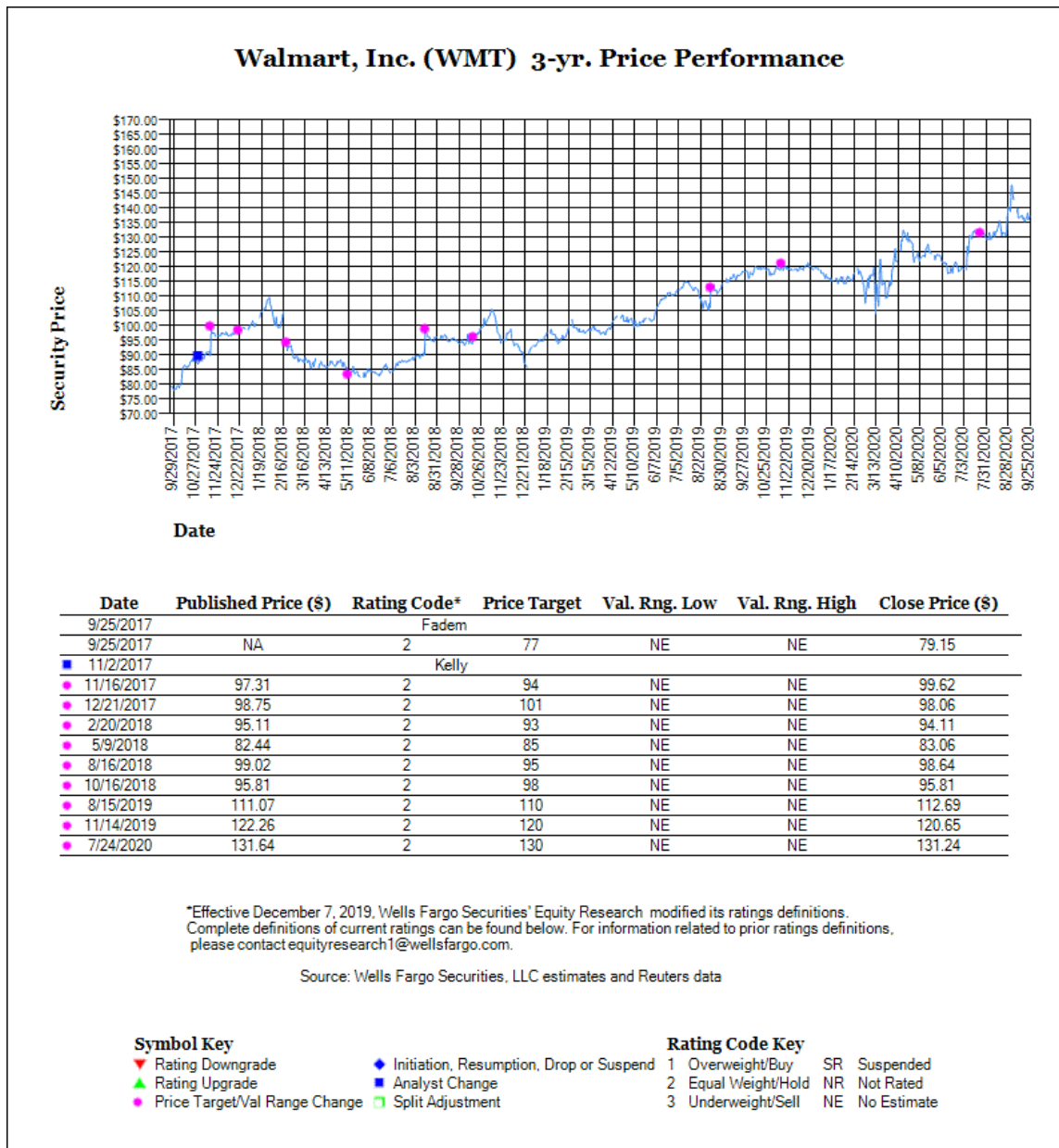
Investment Thesis

WMT has made strong progress in its repositioning against high initial skepticism, and the pace of change should be applauded. The company has essentially turned itself into Amazon's biggest on-line retail competitor while returning its stores to positive traffic growth. We have been impressed with the effort, but simply cannot get behind the stock after its recent run given that structural issues still loom large. E-commerce risk is shifting to food/consumables, hard discount poses a threat, traditional competitors are beginning to fight harder, and the cost of doing business in retail continues to rise. We also find it difficult to ignore the fact that WMT still operates 700 million sq. ft. of selling space (3x its closest peer) at a time when retail is under siege, and is the country's largest grocery store during the most challenging period in the industry's history. As we assess the company's progress against our concerns and the stock's improved valuation, the risk/reward appears balanced at current levels.

Company Description

Walmart, Inc. is the world's largest retailer, operating stores in various formats around the world and providing a broad assortment of merchandise and services at every day low prices ("EDLP"). The U.S. segment represents the largest segment of the business and consists primarily of three retail formats, including: (1) supercenters, which offer a wide assortment of general merchandise and a full-line supermarket; (2) discount stores, which offer a wide assortment of general merchandise and a limited variety of food products; and (3) neighborhood markets, which offer a full-line supermarket and limited assortment of general merchandise. The Sam's Club segment consists of membership warehouse clubs and provides brand-name merchandise at "members-only" prices for both business and personal use. The International segment consists of retail operations throughout the world.

Required Disclosures



Additional Information Available Upon Request

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Walmart, Inc. currently is, or during the 12 month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to Walmart, Inc..
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from Walmart, Inc. in the past 12 months.
- Wells Fargo Securities, LLC, or any of its affiliates, intends to seek or expects to receive compensation for investment banking

services from Walmart, Inc. in the next three months.

- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from an affiliate of Walmart, Inc..
- Wells Fargo Securities, LLC maintains a market in the common stock of Walmart, Inc..
- Wells Fargo Securities, LLC received compensation for products or services other than investment banking services from Walmart, Inc. in the past 12 months.
- Walmart, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided non-investment banking securities-related services to Walmart, Inc..
- Wells Fargo Securities, LLC or its affiliates has a significant financial interest in Walmart, Inc..

WMT: We see numerous upside and downside risks to our Equal Weight rating/target. 1.) Continued progress in digital could earn greater credibility with investors and a higher valuation. 2.) International divestitures would be positive for returns and the stock. 3.) Traffic and comps could slow as in-store initiatives mature, putting pressure on the stock. 4.) Margins could fall by more than expected if digital losses grow, competition intensifies, and costs rise.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: September 29, 2020

51% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight.

Wells Fargo Securities, LLC has provided investment banking services for 49% of its Equity Research Overweight-rated companies.

39% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight.

Wells Fargo Securities, LLC has provided investment banking services for 35% of its Equity Research Equal Weight-rated companies.

10% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underweight.

Wells Fargo Securities, LLC has provided investment banking services for 30% of its Equity Research Underweight-rated companies.

Important Disclosure for U.S. Clients

This report was prepared by Wells Fargo Securities Global Research Department ("WFS Research") personnel associated with Wells Fargo Securities and Structured Asset Investors, LLC ("SAI"), an investment adviser subsidiary of Wells Fargo & Co. If you are paying directly for this research, it is being provided by SAI. For all other recipients in the U.S. this report is being provided by Wells Fargo Securities.

Important Disclosure for International Clients

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC, Wells Fargo Securities International Limited and Wells Fargo Securities Asia Limited are exempt from the requirements to hold an Australian financial services license in respect of the financial services they provide to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under the laws of the United States, Wells Fargo Securities International Limited is regulated under laws of the United Kingdom, and Wells Fargo Securities Asia Limited is regulated under the laws of Hong Kong. All such laws differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC, Wells Fargo Securities International Limited or Wells Fargo Securities Asia Limited in the course of providing the financial services will be prepared in accordance with the laws of the United States, United Kingdom or Hong Kong and not Australian laws.

Canada – This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Investor Protection Fund (CIPF). Wells Fargo Securities, LLC's research analysts may participate in company events such as site visits but are generally prohibited from accepting payment or reimbursement by the subject companies for associated expenses unless pre-authorized by members of Research Management.

Hong Kong – This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited ("WFSAL"), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance (Cap. 571 The Laws of Hong Kong), "the SFO"). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO). The author or authors of this report is or are not licensed by the Securities and Futures Commission. Professional investors who receive this report should direct any queries regarding its contents to Kelly Chiang and Mandy Wan at WFSAL (email: wfsalresearch@wellsfargo.com).

Japan – This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Touseika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Touseika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody's Investors Services Inc., Standard & Poor's Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies' websites.

About Wells Fargo Securities

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Securities Canada, Ltd., a member of IIROC and CIPF, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information or they wish to effect transactions in the securities discussed in this report. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities Global Research Department ("WFS Research"), to be reliable, but WFS Research does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of WFS Research, at this time, and are subject to change without notice. Certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by third parties (collectively, "Third Party Content"). Third Party Content is made available to clients by Wells Fargo under license or otherwise in accordance with applicable law. Any use or publication of Third Party Content included in this report for purposes other than fair use requires permission from the copyright owner. Any external website links included in this publication are not maintained, controlled or operated by Wells Fargo Securities. Wells Fargo Securities does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of Wells Fargo Securities. Please review the applicable privacy and security policies and terms and conditions for the website you are visiting. All Wells Fargo Securities and SAI research reports published by WFS Research are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Additional distribution may be done by sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Not all research content is redistributed to our clients or available to third-party aggregators, nor is WFS Research responsible for the redistribution of our research by third party aggregators. Equity Strategists focus on investment themes across the equity markets and sectors. Any discussion within an Equity Strategy report of specific securities is not intended to provide a fundamental analysis of any individual company described therein. The information provided in Equity Strategy reports is subject to change without notice, and investors should not expect continuing information or additional reports relating to any security described therein. For research or other data available on a particular security, please contact your sales representative or go to <http://www.wellsfargoresearch.com>. For the purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2020 Wells Fargo Securities, LLC

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE