

Equity Research

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Earnings Revised — February 18, 2021

Food & Staples Retail

Walmart, Inc. (WMT)

WMT: Outlook Disappoints as Investment Accelerates

Our Call

Wells Fargo View: WMT detailed a plan to accelerate investment in response to shifting habits created by the pandemic and a focus on ensuring omni-channel leadership. The implication is an outlook that disappointed the market, with EPS guidance modestly below consensus of \$5.75 and capex rising more than expected. Excluding divestitures, guidance of a low-single-digit increase in sales and flat to slightly up EPS is not terrible given the investments. The company is leaning into more efficient pick-up/delivery, higher wages (more than half its U.S. associates will earn at least \$15/hour), and alternative businesses like marketplace/advertising/financial services. In the end, the company sees the payoff to be 4% sales growth and slightly higher gains in operating earnings in the "medium-term". Overall it was encouraging message, but the lack of growth in the near-term is likely to weigh on the stock for the time being. Remain Equal Weight.

We lower our 2021E EPS to \$5.48 (from \$5.75) and 2022E EPS to \$5.85 (from \$6.15).

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Rating	Equal Weight
Ticker	WMT
Price Target/Prior:	\$150.00/NC
Upside/(Downside) to Target	7.7%
Price (02/18/2021)	\$139.27
52 Week Range	\$102.00 - 153.66
Shares Outstanding	2,829,285,926
Market Cap (MM)	\$394,040
Enterprise Value (MM)	\$425,109
Average Daily Volume	6,106,899
Average Daily Value (MM)	\$851
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)	6%

\$	2020A	2021E	2021E	2022E	2022E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Apr)	1.18 A	1.22 E	1.29E	1.29 E	1.37E
Q2 (Jul)	1.56 A	1.49 E	1.52E	1.66 E	1.72E
Q3 (Oct)	1.34 A	1.28 E	1.39E	1.34 E	1.45E
Q4 (Jan)	1.39 A	1.49 E	1.55E	1.56 E	1.62E
FY	5.49 A	5.48 E	5.75E	5.85 E	6.15E
P/E	25.4x	25.4x		23.8x	

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

All estimates/forecasts are as of 2/18/2021 unless otherwise stated. 2/18/2021 14:02:09 EST. Please see page 4 for rating definitions, important disclosures and required analyst certifications.

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Q4 Highlights: EPS of \$1.39 came in below consensus of \$1.51 and our estimate of \$1.50, but included a one-time UK tax payment of \$0.07. WMT U.S. comp growth of 8.6% was paced by a 21.9% increase in ticket and a 10.9% decline in transactions. Grocery was up HSD (vs. up MSD last quarter) as in-stocks improved and store hours expanded. U.S. gross margin improved by 20bps due to strategic sourcing, fewer markdowns, and progress in e-commerce, while opex deleveraged by 22bps despite lapping a \$450 million restructuring charge due to higher COVID costs. WMT International grew sales by 6.3% on a constant currency basis, with positive comp performance in 7/9 markets. The UK divestiture closed earlier this week and is expected to result in EPS dilution of \$0.25 in year one. Sam's Club saw comp growth excl. fuel of 10.8% including a 410bps headwind from tobacco. For 2021, management guided to WMT U.S. comps up LSD (excl. fuel), Sam's Club comps up LSD (excl. fuel and tobacco), and a slight decline in consolidated EPS.

Analyst Day Highlights: (1) WMT is raising the average associate wage to above \$15/hour. On 3/13, the company will raise pay for 425,000 store associates (roughly half of total), with starting rates moving to \$13-19 based on location. WMT's overall minimum wage will remain at \$11. Cost discipline should resume in 2022, with expense leverage expected to continue at 20bps or more annually. (2) Capex is expected to jump to \$14 billion in 2021 (from \$10 billion in 2020) and 2.5-3% of sales going forward. Management plans to invest aggressively in areas such as supply chain/ fulfillment, automation, and technology, positioning the company for 4%+ sales growth and EBIT margin expansion in the coming years. (3) International growth should exceed U.S. levels in 2021 (excluding recent divestitures, i.e. Argentina in November 2020, UK in February 2021, and Japan in 1Q21), led by India, Mexico, and China. (4) Sam's Club seems to be gaining momentum, with merchandise improvements in fresh and private label. (5) E-commerce growth remains strong, with global sales approaching \$100 billion over the next few years. Guidance for 2021 was not provided. (6) The company is scaling new capabilities, ranging from pickup/delivery and healthcare/financial services to digital media and third-party fulfillment, in an attempt to transform itself into a next-generation retailer. (7) WMT increased its annual dividend to \$2.20 and authorized a new \$20 billion share repo program, which will be used over the next three years.

Price Target Basis and Risk

Price Target for WMT: \$150.00 from NC

Our \$150 price target reflects 28x our NTM earnings estimate.

Risk for 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.

Investment Thesis

WMT

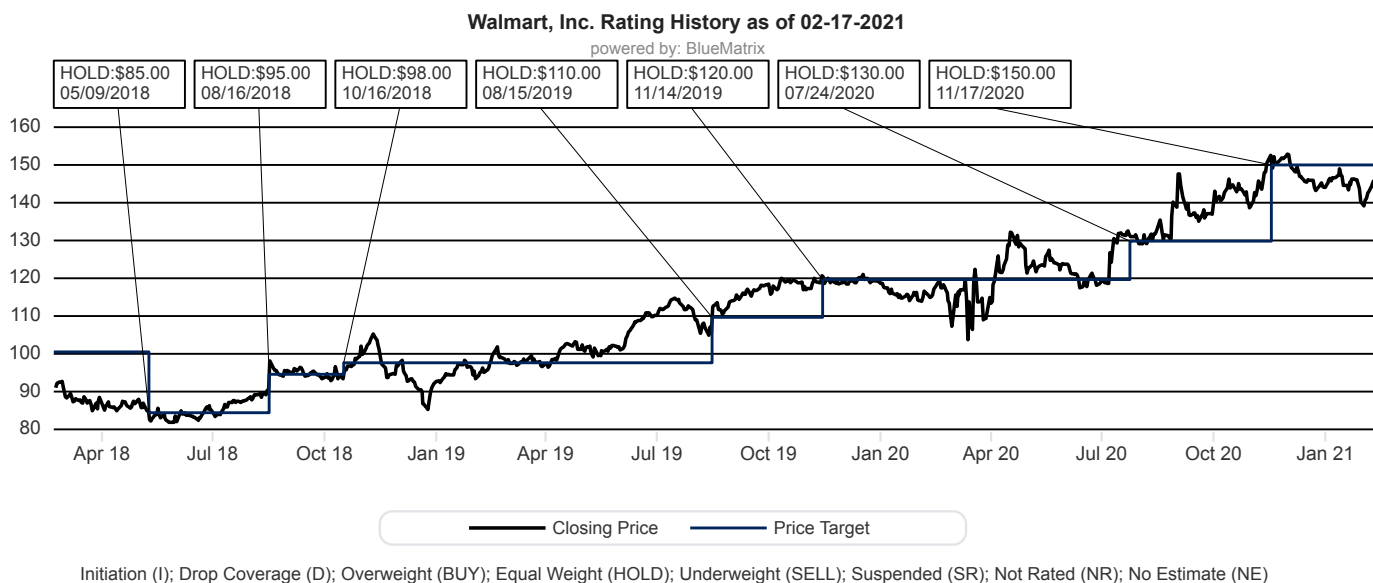
WMT has made strong progress in its repositioning against high initial skepticism, and the pace of change should be applauded. The company has essentially turned itself into Amazon's biggest online retail competitor while returning its stores to positive traffic growth. We have been impressed with the 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 in the U.S. (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. We remain Equal Weight.

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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.

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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

As of February 17, 2021

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