

Recommendation:

BUY

Target Price:

USD \$167.23 (+5.4%)

Current Price:

USD \$158.64



Group Members

James Huang

Low Haoron

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Our 3 Theses



**Addition of Market Fulfillment Centres (MFCs),
Reduces Operating Unit Cost**



**Greater Focus on Private Label Products (PLPs),
Increases Cost-Conscious Consumer Base**



**Opening of 30 New Sam's Club Stores,
Increases Membership-based Shoppers**



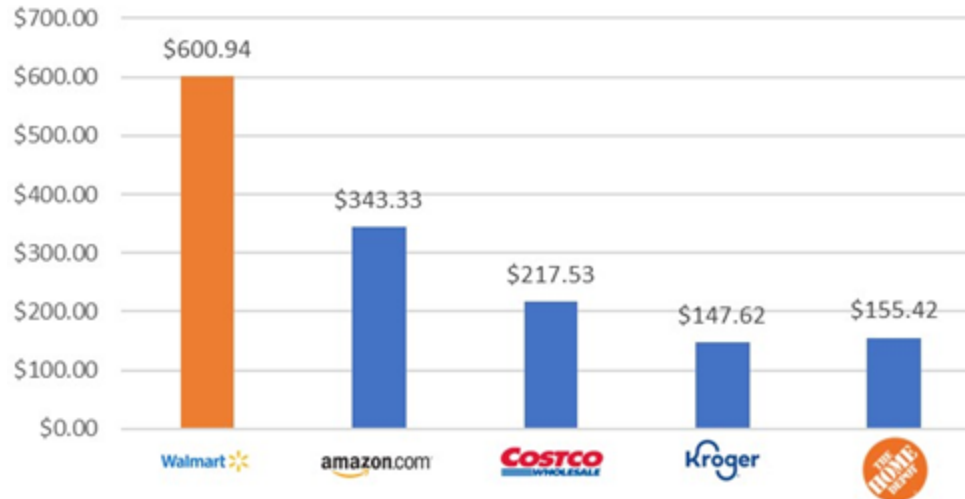
Walmart Business Overview

World's **largest**
multinational retailer

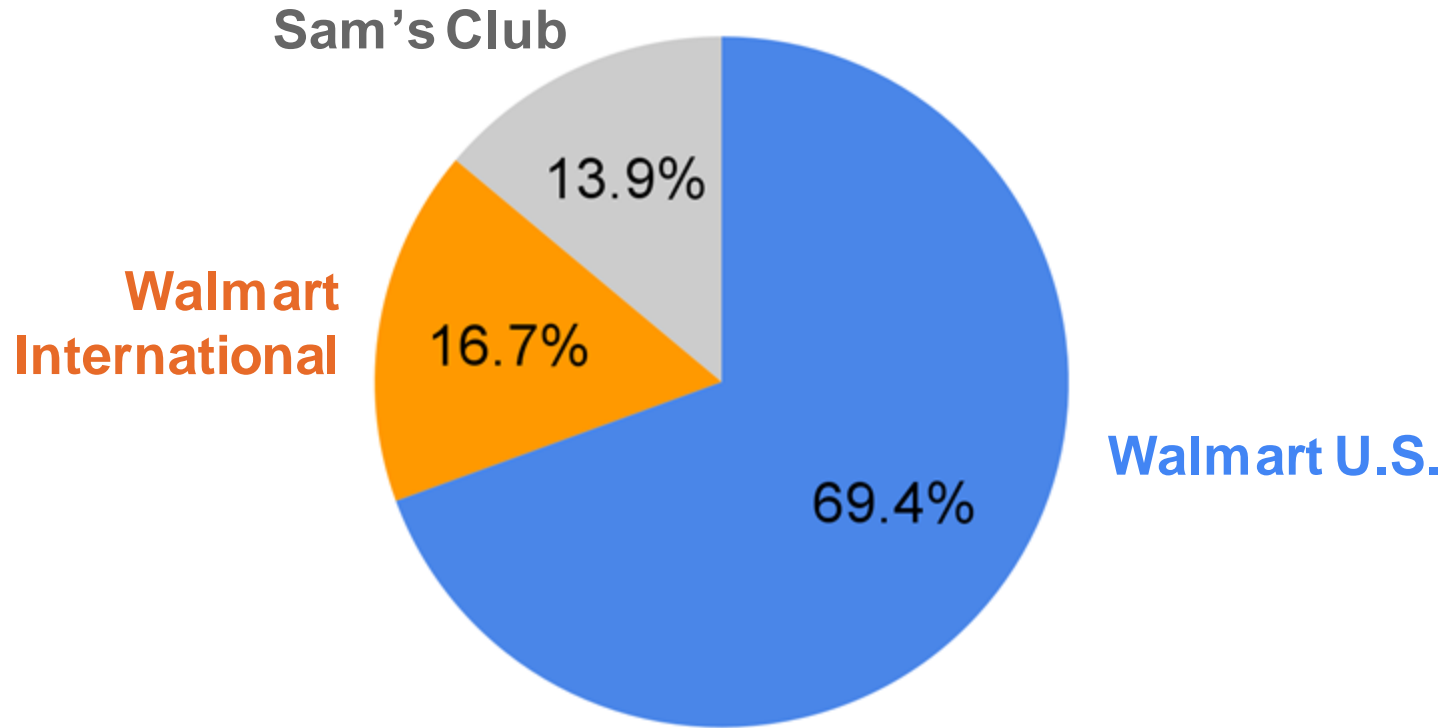
Operates
across **20 countries**

Serves
240 million customers
every week

Worldwide Retail Sales in 2022 (in billion USD)



Diversified Revenue (USD 611B) by Segment



Walmart Corporate Strategy

EDLC

(Everyday Low Cost)



Reduces operating costs

EDLP

(Everyday Low Price)



Keeps prices consistently low



1st Thesis



Addition of Market Fulfillment Centres (MFCs),
Reduces Operating Unit Cost



Greater Focus on Private Label Products (PLPs),
Increases Cost-Conscious Consumer Base



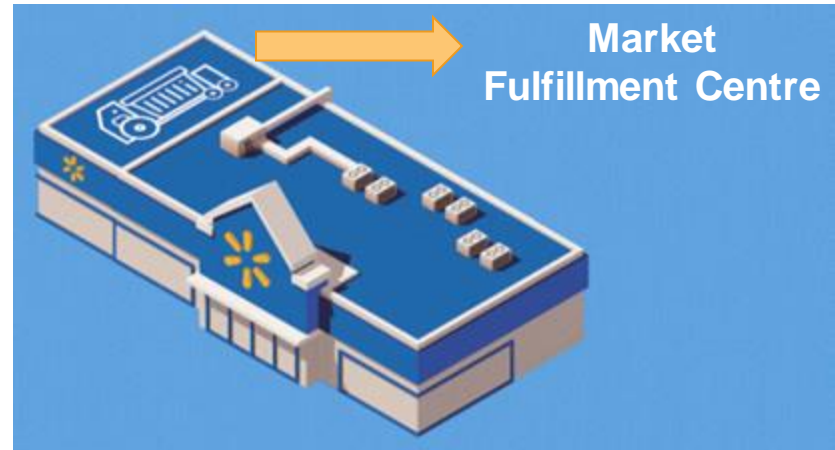
Opening of 30 New Sam's Club Stores,
Increases Membership-based Shoppers



Addition of Market Fulfillment Centres (MFC) will increase the average pick rate of online orders at Walmart stores and reduce Walmart's operating unit cost.

Thesis Assumption:

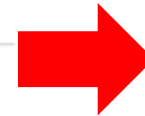
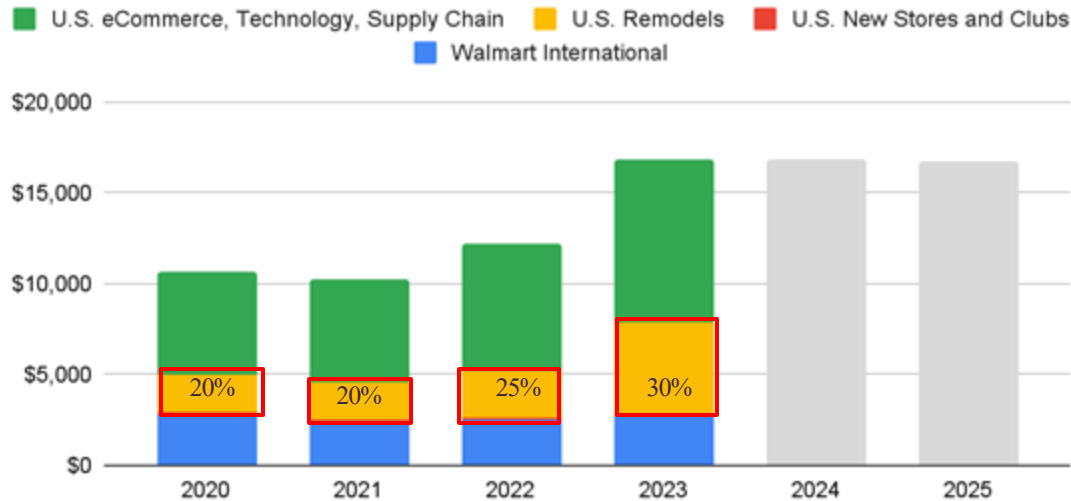
1. The **construction** process of MFC **will not affect sales** at Walmart stores.



Walmart's increasing investment in Market Fulfillment Centres (MFC)

Thesis Knowability:

Walmart Capital Expenditure Vs Year (\$ Millions)



2024 – 2025

\$9B

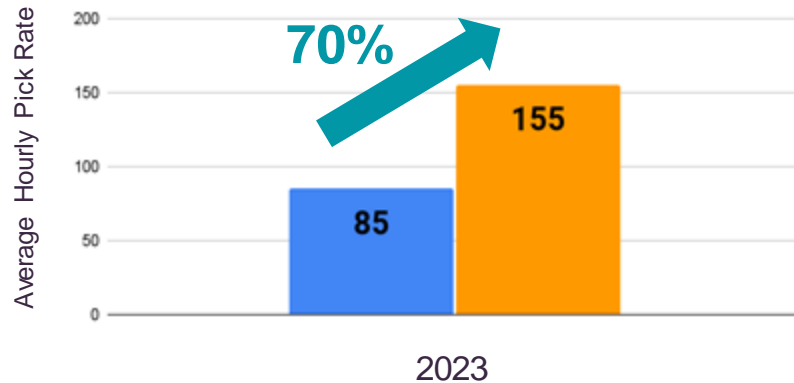


MFCs increase average pick rate of online orders, reducing operating unit cost

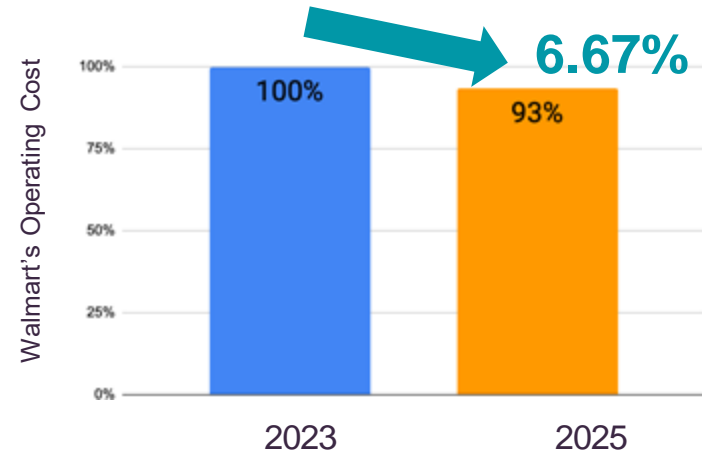
Thesis

Importance:

MFCs increase pick rate of online orders by 70%



By 2025, operating unit cost reduces by 6.67%

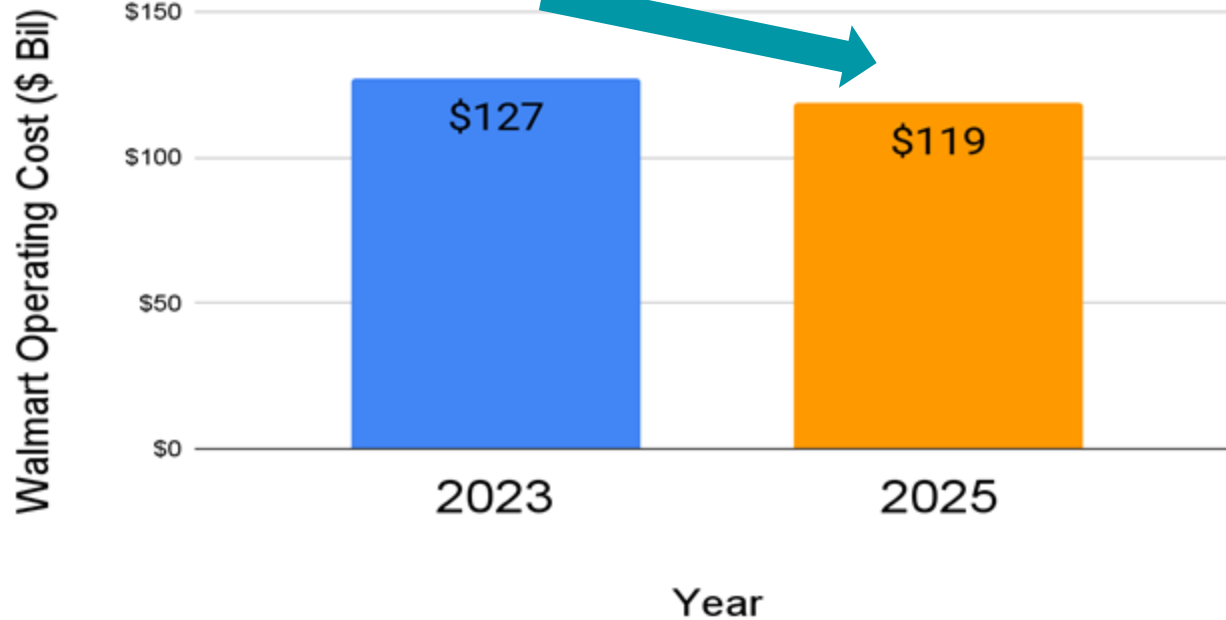


MFCs reduce operating unit cost by \$8.45B (6.67%)

Thesis

Valuation:

6.67%



2nd Thesis



**Addition of Market Fulfillment Centres (MFCs),
Reduces Operating Unit Cost**



**Greater Focus on Private Label Products (PLPs),
Increases Cost-Conscious Consumer Base**



**Opening of 30 New Sam's Club Stores,
Increases Membership-based Shoppers**



Walmart will be focusing more on private label products (PLP) to increase cost-conscious consumer base

Thesis Assumption:

1. Customers want **cheaper alternatives** to national brands
2. Prices of **private label products** will continue to be **priced lower than national brands**
3. There is **no significant shift** in consumer taste towards national brands products

Walmart's PLP **cheaper** than national brands



Walmart's PLP



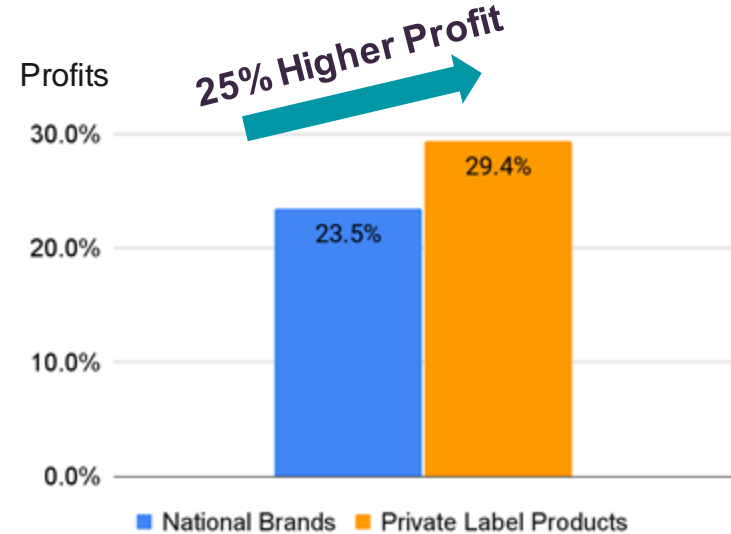
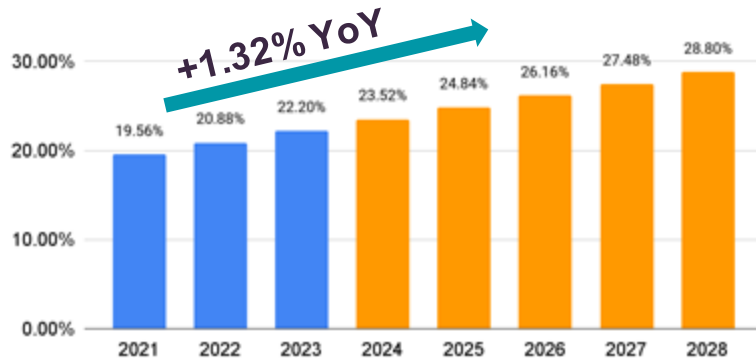
National Brand



Walmart's Increase in private Label Products Percentage & Profit Margin

Thesis Importance:

Walmart's US Grocery Private Label Product Percentage vs. Year



Increase in private label products results in increase revenue

PLP:
+1.32%
YoY Revenue



PLP vs National:
+25%
Profit Margin



Revenue
+\$1.87B



3rd Thesis



Addition of Market Fulfillment Centres (MFCs),
Reduces Operating Unit Cost



Greater Focus on Private Label Products (PLPs),
Increases Cost-Conscious Consumer Base



Opening of 30 New Sam's Club Stores,
Increases Membership-based Shoppers



Opening of 30 new Sam's Club stores will increase membership based shoppers

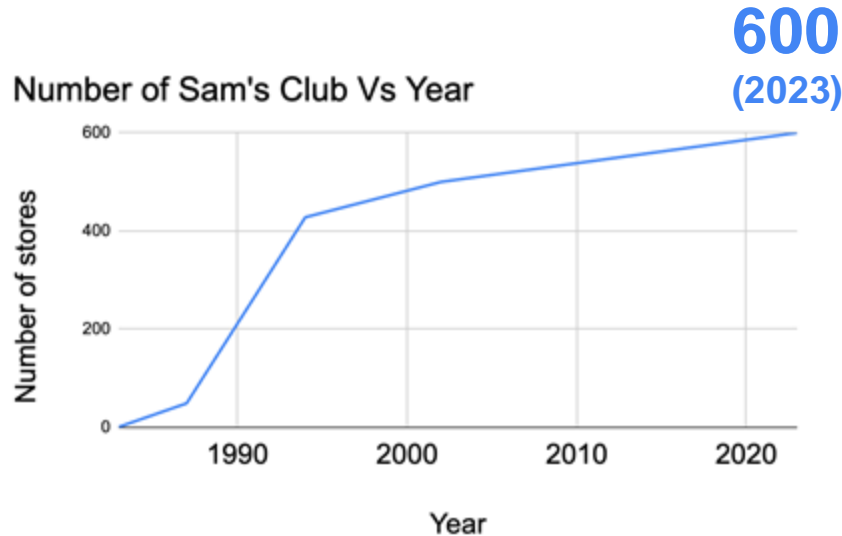
Thesis Assumption:

1. An **average of 6** new Sam's Club stores will **open every year**
2. Walmart **maintains** Sam's Club **membership prices** for the next 5 years
3. There is **no change in the business model** of Sam's Club for **new** stores

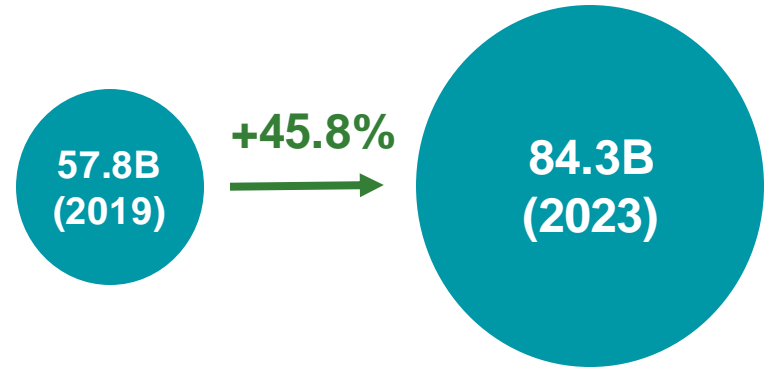


Increased Stores & Increased Net Sales

Thesis Knowability:



Sam's Club Net Sales



Net Sales Per Store → Expected Additional Revenue

Net Sales per Store

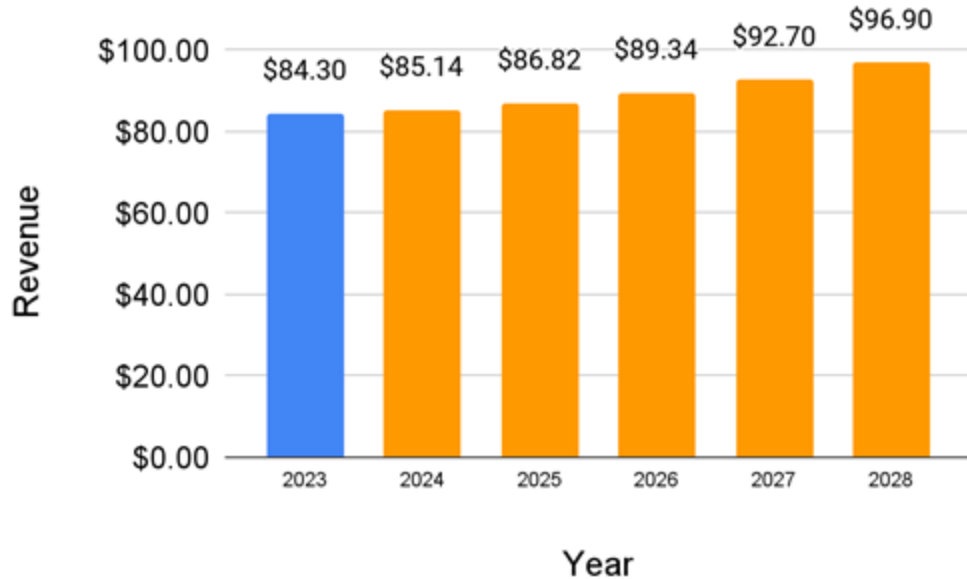
+\$140M

Per Year Increment

(6 new stores / yr)

+\$840M

Sam's Club Net Sales Vs Year (\$ Billions)



Walmart Valuation Model

SELECTED WACC PARAMETERS

**Implied Equity
Risk Premium**

4.39%

WACC

9.25%

Terminal Growth
(10Y US Bond Yield)

4.32%

Bloomberg Mean Analyst Estimates (FSG)

5.33% (2024)

|

3.49% (2025)

|

3.55% (2026)

4.21% (2027)

|

3.96% (2028)

Note 1: FSG = Forecasted Sales Growth

Note 2: 10Y bond yield represents risk-free return expected long-term



Walmart Valuation Model

COMMON PARAMETERS (Constant Values Across All 4 Scenarios)

Market Value of Debt

\$54.1B

Cash

\$8.6B

Common Shares

2.693B

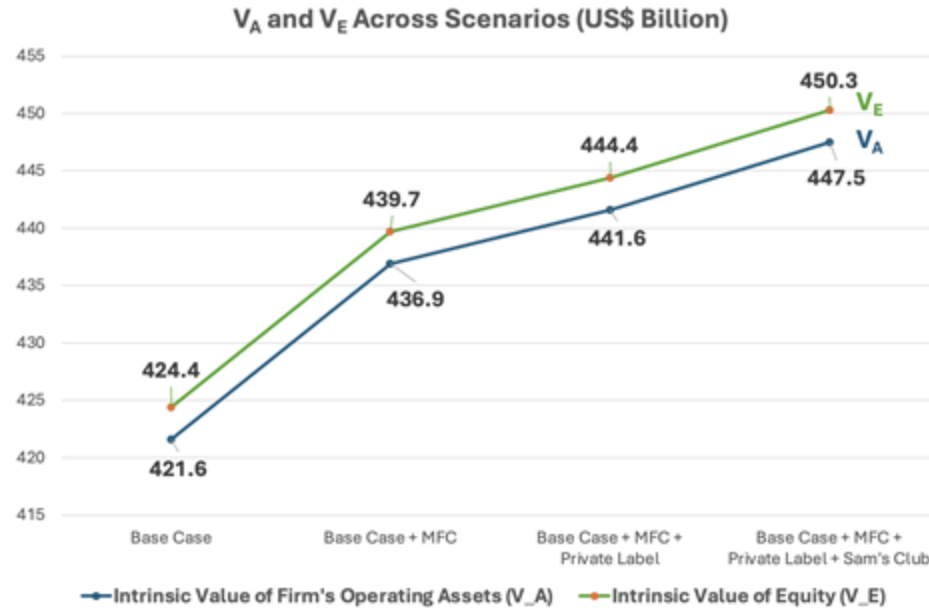
Short and Long Term Marketable Securities

\$48.3B



Walmart Valuation Model

Intrinsic Value of Firm's Operating Assets (V_A) & Equity (V_E)



Walmart Target Price

Based on Free Cash Flows of Firm DCF approach...

| SCENARIO | Target Price |
|--|-----------------|
| Base Case (BC) | \$157.59 |
| BC + Market Fulfilment Centres (MFCs) | \$163.27 |
| BC + MFCs + Private Label Products (PLPs) | \$165.02 |
| BC + MFCs + PLPs + Opening Sam's Club | \$167.23 |

\$158.64 (Nov 28 2023) >> **\$167.23 (+5.4%)**



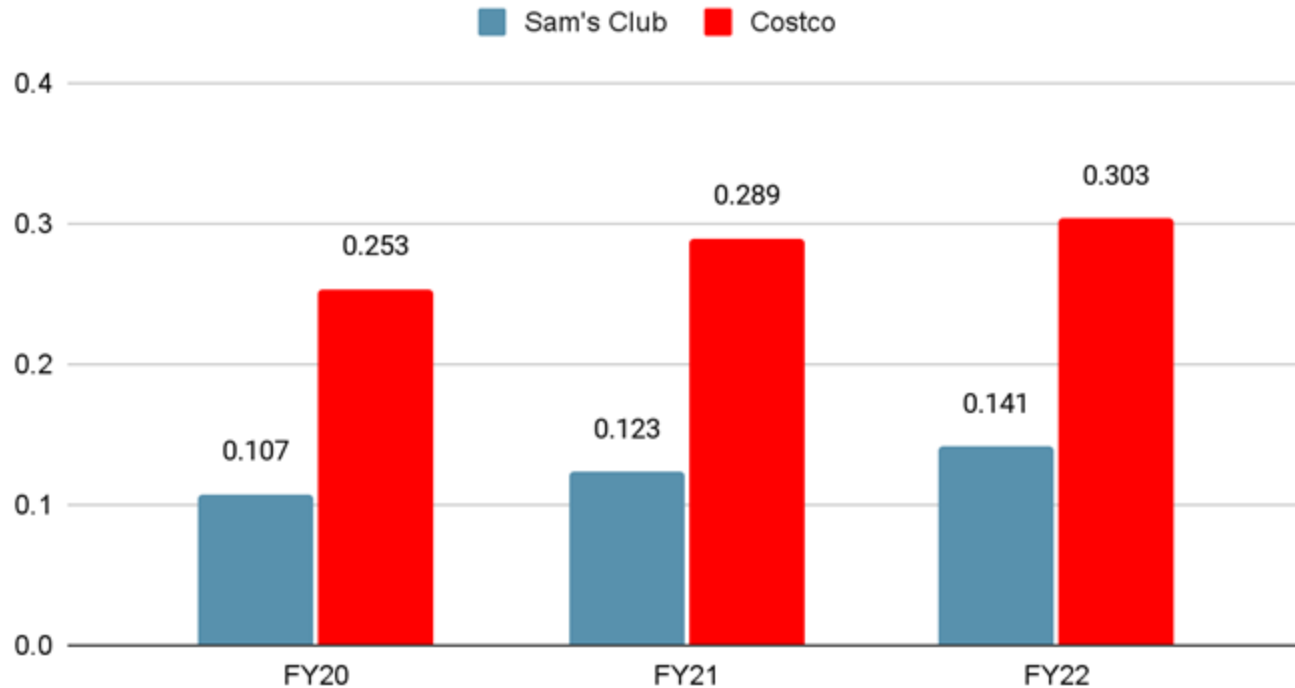
Investment risk 1:

Marginal Benefit from Opening New Sam's Club Stores in comparison to Costco





Costco achieves x2 revenue per Store than Walmart

USD Billion Revenue Generated per store



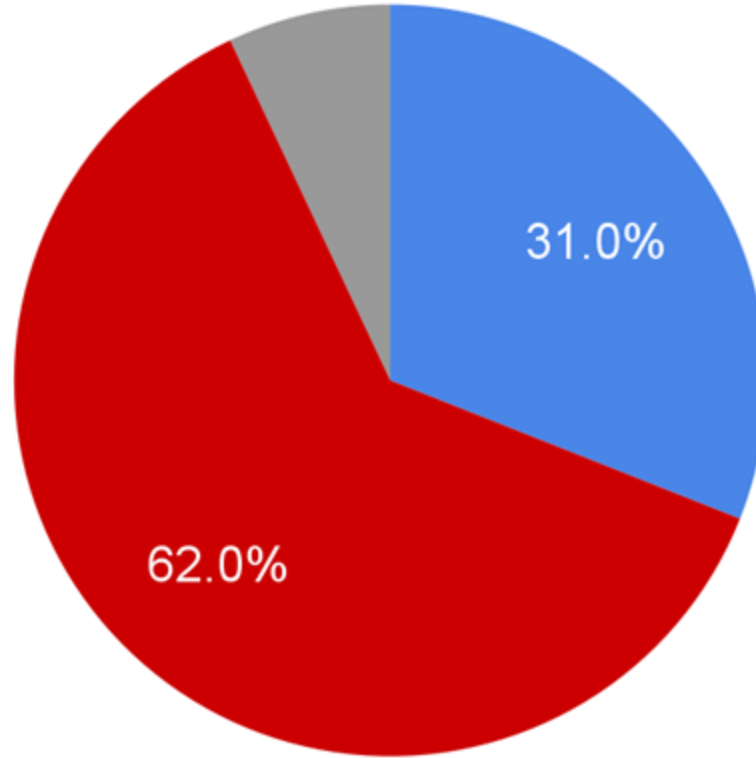
Costco is able to provide lower prices than Sam's Club for bulk purchases

| Items | sam's club  |  |
|-----------------|---|---|
| Chicken legs | \$1.42/lb | \$0.98/lb |
| Salted Butter | \$3.88/lb | \$1.42/lb |
| Shredded Cheese | \$17.68/lb | \$15.99/lb |
| Organic Pears | \$1.65/lb | \$1.60/lb |
| Cantaloupe | \$3.12 | \$2.75 |



Costco market share of US warehouse clubs 2x Sam's Club

● Walmart ● Costco ● Others



sam's club <>



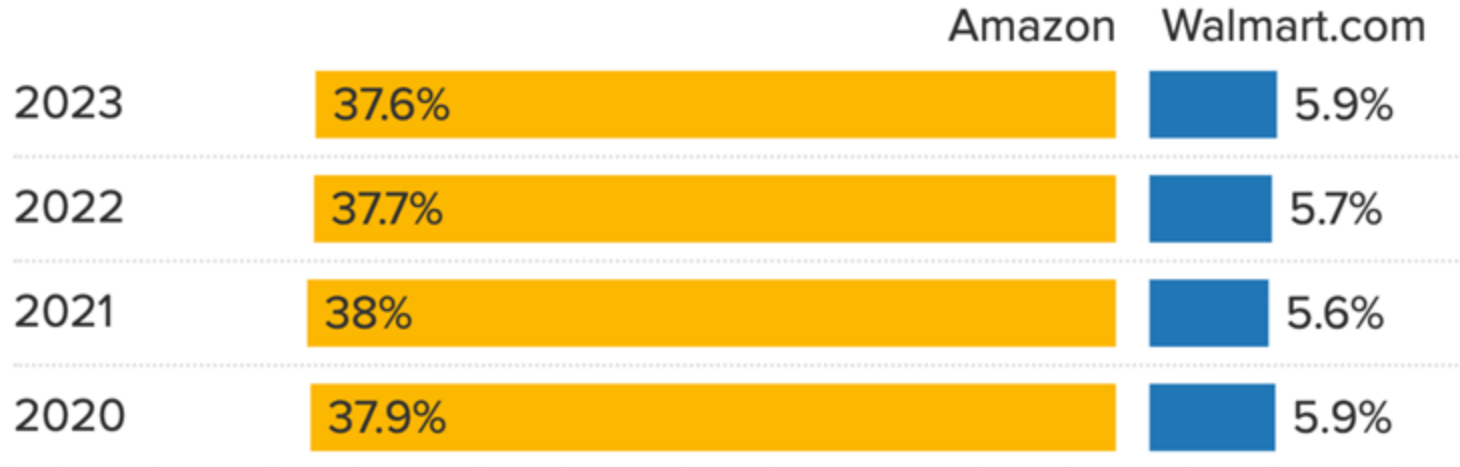
Investment Risk 2

Walmart's investment in the ecommerce space is unable to significantly increase market share in ecommerce



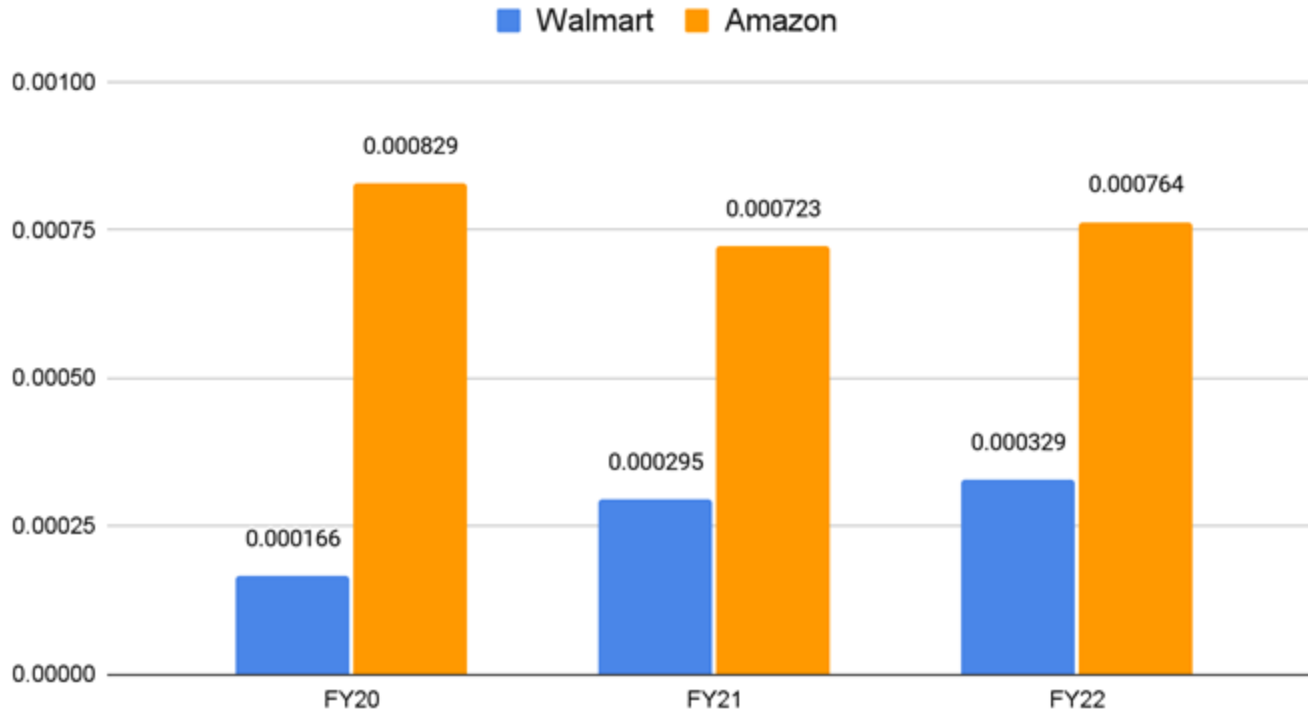
Amazon has around 6x Walmart's e-commerce market share

Total market share of e-commerce sales in the U.S.



Walmart does not utilise its e-commerce distribution centres as efficiently as Amazon

E-commerce Revenue to square foot for E-commerce (USD Million / square foot)



Amazon's Third-Party Sellers Dominate Walmart's



Number of
Sellers

0.155 million

1.9 million

Faster Seller
Approval



Better UI/UX



More
Products



Walmart's Competitor Analysis



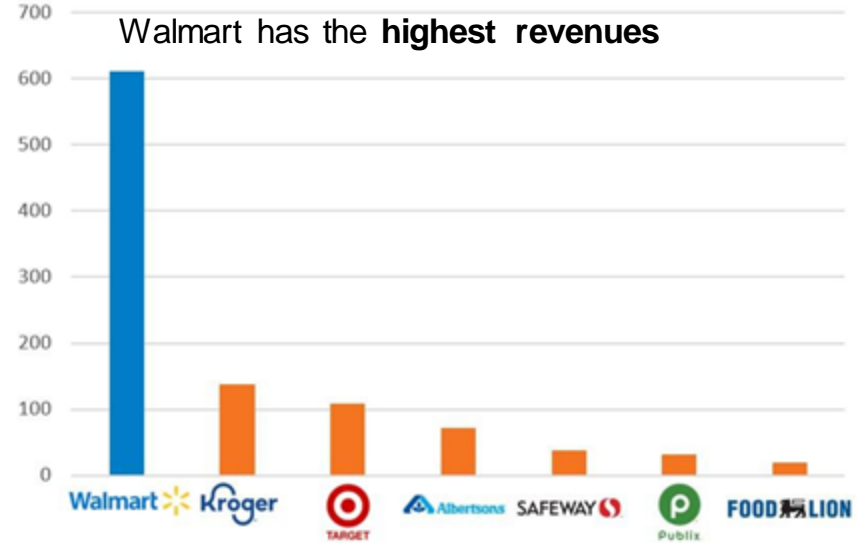
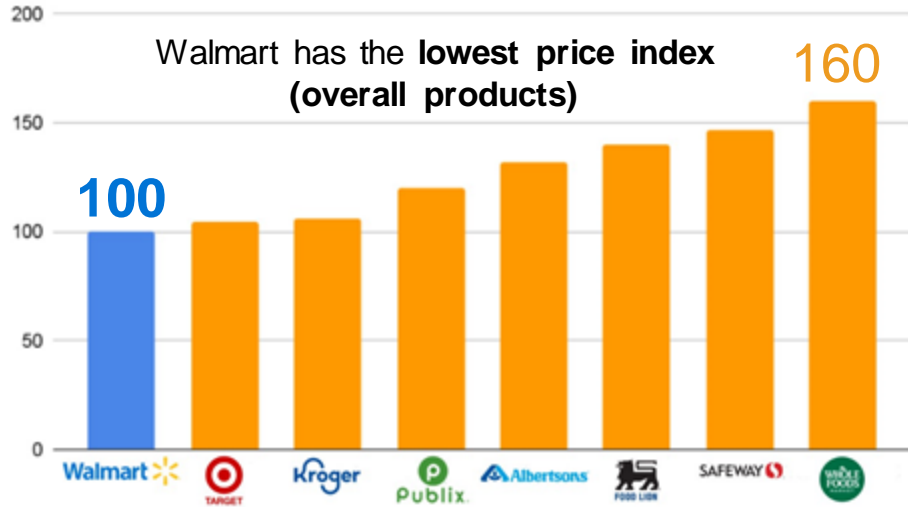
Walmart offering lowest prices among supermarket retail grocers



Walmart is leading in e-commerce grocery



Walmart Offers Lowest Prices, Driving Consumer Sales



Walmart's Competitor Analysis



Walmart offering lowest prices among supermarket retail grocers



Walmart is leading in e-commerce grocery



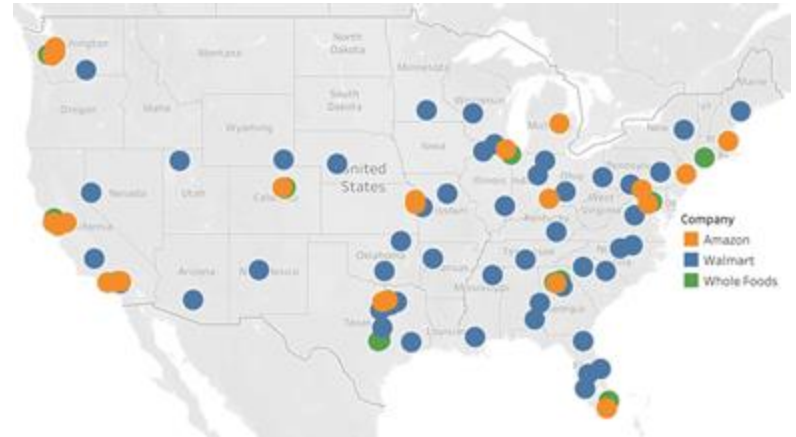
Walmart leading in e-commerce grocery

Walmart **consistently beats*** Amazon.



* in terms of Grocery e-commerce.

Walmart has **1.3x FDCs** of Amazon.



Note: FDC = Food Distribution Centre



Reiterating our **BUY** call



Addition of Market Fulfillment Centres (MFCs),
Reduces Operating Unit Cost



Greater Focus on Private Label Products (PLPs),
Increases Cost-Conscious Consumer Base



Opening of 30 New Sam's Club Stores, Increases Membership-based Shoppers

Walmart

BUY

Target price:

USD 167.23



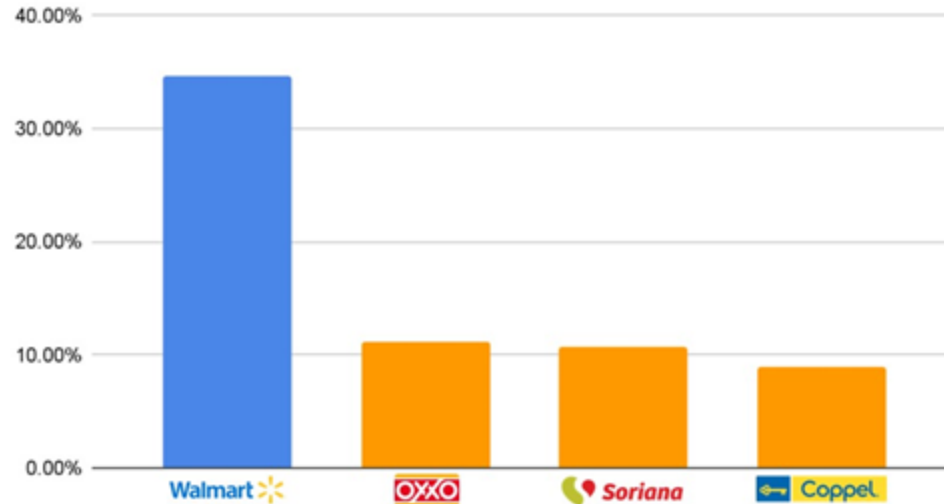
Appendix Slides From Here on



APPENDIX SLIDE

Walmart International: Walmex vs Mexican Supermarkets

Walmart holds majority on sales in Mexico



NET SALES IN MEXICO

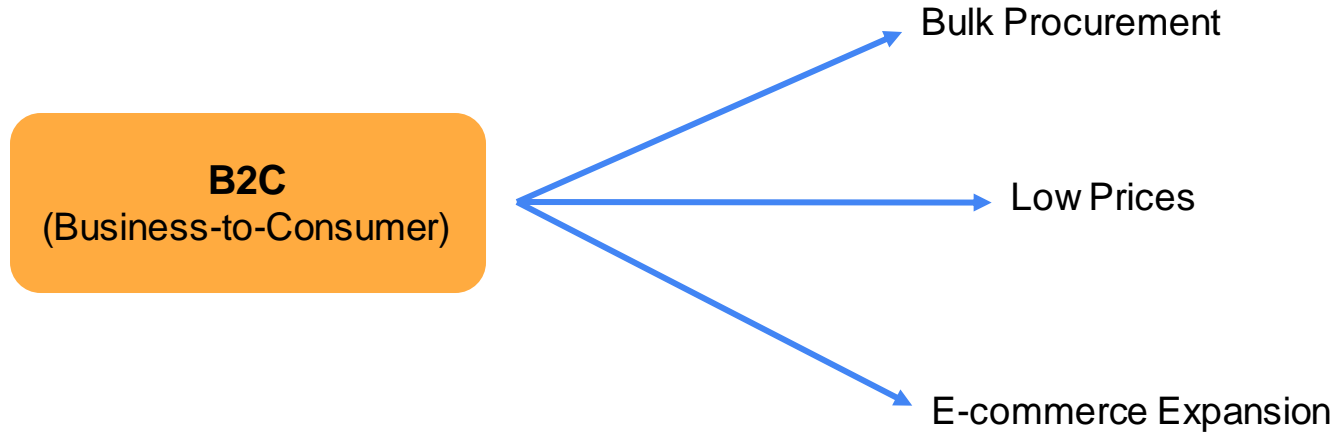
USD 10.7 billion in 2nd quarter of FY24

(39.6% of its international sales in 2nd quarter of FY24)



APPENDIX SLIDE

Walmart Business Model



APPENDIX SLIDE

Retail Industry Overview

Demand

Consumers value low prices
within the US market

Ongoing economic uncertainties
due to inflation & rising interest rates from 2022



Shift towards cost-conscious consumerism



Businesses integrate lower-cost alternatives &
budget options into their strategies

Supply

Companies are shifting their focus
to the rise of e-commerce

Exponential growth in e-commerce since
COVID-19 pandemic in 2020



e-commerce sector =
44.5% increase in year-over-year sales
retail sector =
3.5% decline in year-over-year sales



e-commerce is the future of business



APPENDIX SLIDE

Addition of Manual Market Fulfillment Centres (MFC) will increase average pick rate of online orders at Walmart stores and reduces Walmart's operation unit cost

| (Amounts in millions, except per share data) | Fiscal Years Ended January 31, | | |
|---|--------------------------------|------------|------------|
| | 2023 | 2022 | 2021 |
| Revenues: | | | |
| Net sales | \$ 605,881 | \$ 567,762 | \$ 555,233 |
| Membership and other income | 5,408 | 4,992 | 3,918 |
| Total revenues | 611,289 | 572,754 | 559,151 |
| Costs and expenses: | | | |
| Cost of sales | 463,721 | 429,000 | 420,315 |
| Operating, selling, general and administrative expenses | 127,140 | 117,812 | 116,288 |
| Operating income | 20,428 | 25,942 | 22,548 |

Walmart 2023 Annual Report

Thesis Valuation:

- **Assumption:** Unit cost reduction of 20% is evenly separated by Knapp, Symbotic and MFC implementation.
- **MFC implementation** would cause a unit cost reduction of **6.66%** in Walmart Operating Cost (SGA) in 2025.

Unit Cost reduction (6.66% in 2025)
= 6.66% * Operating Cost (SGA)
= 6.66% * \$127 Billion
= **\$8.4582 Billion**

(Change to Graph)

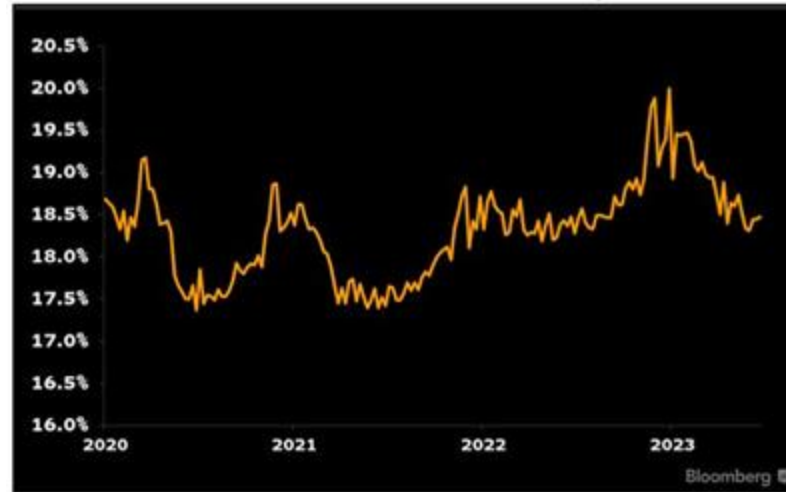


APPENDIX SLIDE

Walmart set to increase customer base among cost-conscious consumers by focusing more on private label products

Thesis Knowability:

U.S. Food industry's private-label penetration maintained between 17.5% and 20% between 2020 and 2023



Source: Bloomberg



APPENDIX SLIDE

Walmart set to increase customer base among cost-conscious consumers by focusing more on private label products

Thesis Valuation:

Total Increase in Revenue

= additional revenue from (1.32% annual increase in PLP)

+ additional profit from (25% increase in profit margin)

= \$1.8671 Billion



APPENDIX SLIDE

Walmart set to increase customer base among cost-conscious consumers by focusing more on private label products

Thesis Importance: (Data)

1. Private brand penetration in grocery categories increased an average of **1.32% annually between 2021 to 2023.**

~Source: Walmart Quarterly report 2021-2023

1. Private-label goods bring in around **25% higher profit margins for retailers than national brands**, according to Kusum Ailawadi, a professor at Dartmouth College who's been researching private labels for 25 years.

~Source: *Dartmouth*, n.d.

Thesis Valuation:

Additional revenue (2024) from (1.32% annual increase in PLP)
= $0.0132 \times \text{2023's revenue from PLP}$
= $0.0132 \times 0.2220 \times \247 Billion
= $\$0.72380 \text{ Billion}$

Additional Profit from (25% increase in profit margin)
= $0.25 \times (\text{profit from Private Label Products})$
= $0.25 \times (0.2220 \times \$20.6 \text{ Billion})$
= $\$1.1433 \text{ Billion}$

Total Increase in revenue
= $\$0.72380 \text{ Billion} + \1.1433 Billion
= **$\$1.8671 \text{ Billion}$**

Total Increase in Revenue

= additional revenue from (1.32% annual increase in PLP) + additional profit from (25% increase in profit margin)
= **$\$1.8671 \text{ Billion}$**



APPENDIX SLIDE

Walmart is opening 30 new Sam's Club stores attracting more membership based shoppers and boosting walmart's revenue

Thesis Importance: (Data)

Percentage of operating income from Sam's Club (2023)
= $1964 / (20620 + 2965 + 1964) * 100\%$
= **7.68%**

Percentage of operating income from Sam's Club (2022)
= $2259 / (21587 + 3758 + 2259) * 100\%$
= **8.18%**

Percentage of operating income from Sam's Club (2021)
= $1906 / (19116 + 3660 + 1906) * 100\%$
= **7.72%**

(show final result & put it in graph)

| (Amounts in millions) | Walmart U.S. | Walmart International | Sam's Club | Corporate and support | Consolidated |
|---|--------------|-----------------------|------------|-----------------------|--------------|
| Fiscal Year Ended January 31, 2023 | | | | | |
| Net sales | \$ 420,553 | \$ 100,983 | \$ 84,345 | \$ — | \$ 605,881 |
| Operating income (loss) | 20,620 | 2,965 | 1,964 | (5,121) | 20,428 |
| Interest, net | | | | | (1,874) |
| Other gains and (losses) | | | | | (1,538) |
| Income before income taxes | | | | | \$ 17,016 |
| Total assets | \$ 130,659 | \$ 86,766 | \$ 15,490 | \$ 10,282 | \$ 243,197 |
| Depreciation and amortization | 7,054 | 1,964 | 609 | 1,318 | 10,945 |
| Capital expenditures | 11,425 | 2,625 | 727 | 2,080 | 16,857 |
| Fiscal Year Ended January 31, 2022 | | | | | |
| Net sales | \$ 393,247 | \$ 100,959 | \$ 73,556 | \$ — | \$ 567,762 |
| Operating income (loss) | 21,587 | 3,758 | 2,259 | (1,662) | 25,942 |
| Interest, net | | | | | (1,836) |
| Loss on extinguishment of debt | | | | | (2,410) |
| Other gains and (losses) | | | | | (3,000) |
| Income before income taxes | | | | | \$ 18,696 |
| Total assets | \$ 125,044 | \$ 91,403 | \$ 14,678 | \$ 13,735 | \$ 244,860 |
| Depreciation and amortization | \$ 6,773 | \$ 1,963 | \$ 601 | \$ 1,321 | 10,658 |
| Capital expenditures | \$ 8,475 | \$ 2,497 | \$ 622 | \$ 1,512 | 13,106 |
| Fiscal Year Ended January 31, 2021 | | | | | |
| Net sales | \$ 369,963 | \$ 121,360 | \$ 63,910 | \$ — | \$ 555,233 |
| Operating income (loss) | 19,116 | 3,660 | 1,906 | (2,134) | 22,548 |
| Interest, net | | | | | (2,194) |
| Other gains and (losses) | | | | | 210 |
| Income before income taxes | | | | | \$ 20,564 |
| Total assets | \$ 113,490 | \$ 109,445 | \$ 13,415 | \$ 16,146 | \$ 252,496 |
| Depreciation and amortization | 6,561 | 2,633 | 599 | 1,359 | 11,152 |
| Capital expenditures | 6,131 | 2,436 | 488 | 1,209 | 10,264 |



APPENDIX SLIDE

Walmart is opening 30 new Sam's Club stores attracting more membership based shoppers and boosting walmart's revenue

Thesis Valuation:

Net sales in 2023

= 84,345 Million

Net sales per store

= 84,345 Million / 600

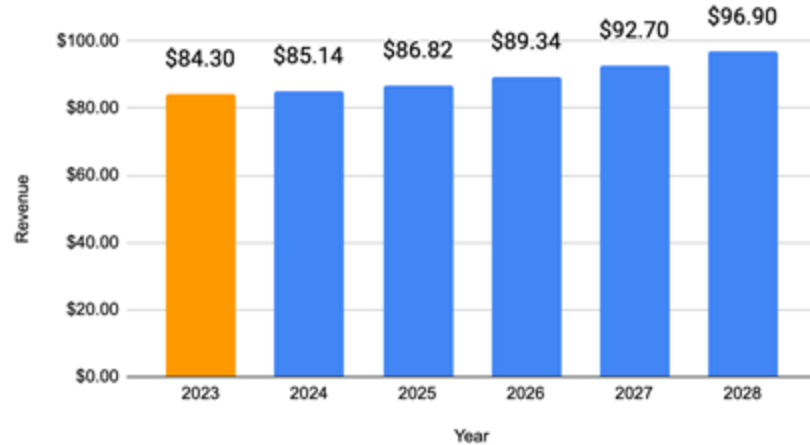
= 140 Million

Additional sales from 6 new stores (in 2024)

= 6 * 140 Million

= **840 Million**

Sam's Club Net Sales Vs Year (Billions)



APPENDIX SLIDE

4. Walmart Valuation Model Critical Parameters

Expected Equity Return
10.14%

Default Spread
0.80%

Implied Equity Risk Premium
4.39% (Nov 1 2023)

After-tax Cost of Debt
3.40%

w_E Ratio
0.8876

Long-run US Inflation (5-year)
2.25%

WACC
9.25%

w_D Ratio
0.1124

Bloomberg Market Consensus
5.33% (2024)
3.49% (2025)
3.55% (2026)
4.21% (2027)
3.96% (2028)

Terminal Growth
(as of 28 Nov 2023)
4.32%

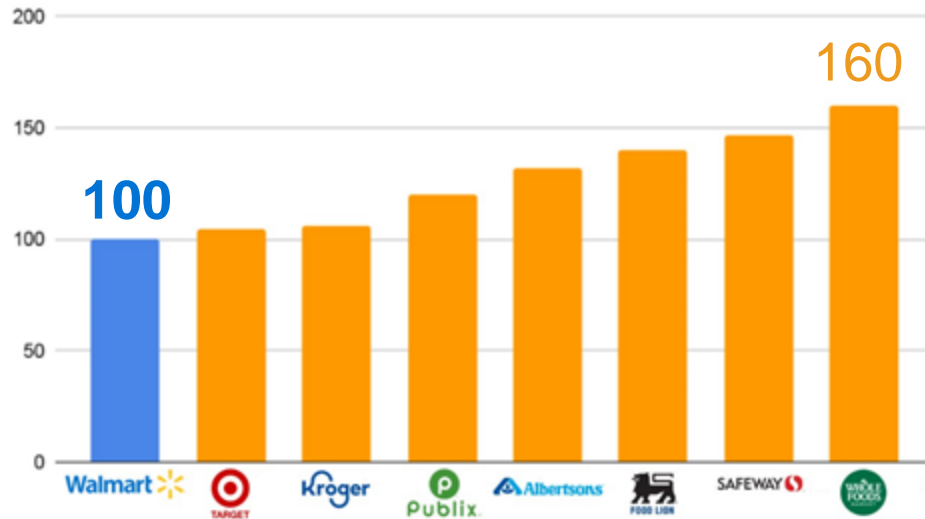
Tax Rate
33.64%



APPENDIX SLIDE

Higher Negotiation Ability → Likelihood of Lower Cost

Walmart has the **lowest pricing index**.



Walmart has **highest bargaining power**.

