



Walmart

March 28, 2023

SIM Equity Research

Walmart (WMT)

Stock Price (as of 3/24/23)	Target Price	Upside	Recommendation
\$141.80	\$161.57	13.94%	BUY

Company Overview

Walmart, Inc. engages in the retail and wholesale business. The company offers an assortment of merchandise and services at everyday low prices. It operates through the following business segments: Walmart U.S., Walmart International, and Sam's Club. The company is ranked number 1 on the Fortune 500.

Investment Thesis

I recommend a BUY rating on WMT given the 13.94% upside when comparing its current stock price of \$141.80 to a target price of \$161.57. Potential Factors that make it a buy:

1. Walmart+ Membership
2. Great Value and other private-label brands of the company
3. Global expansion
4. Investments in Fintech
5. Cost Leadership

Risks

The BUY recommendation can come under risk due to the following factors:

1. Closing of stores due to theft and shoplifting
2. Lawsuits against Walmart
3. International Trade Disputes
4. Technical failures
5. Unavailability of debt / high cost of debt in the future

Market Data

Company	Walmart
Ticker	WMT
Sector	Consumer Staples
Industry	Retail
Market Cap	\$384,433 M
Shares Out.	2,751.77 M
Avg Vol	2,915,710
Beta (5Y)	0.7944

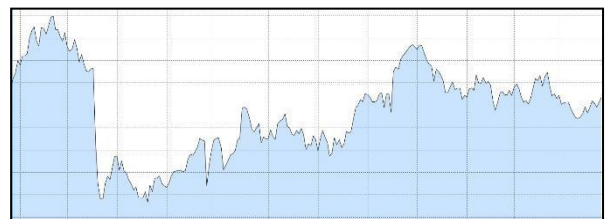
Performance History

52 Week High	\$160.77
52 Week Low	\$117.27
Dividend Yield	1.61%

Financial Data

Revenue (2022)	\$572,754 M
Rev. Growth (YoY)	2.433%
Earnings (2022)	\$13,940 M
Current EPS	5.23

Walmart's 52-week price chart



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Company Overview and business description

Walmart Inc. is an American multinational retail corporation that operates a chain of hypermarkets, discount department stores, and grocery stores in the United States. The company was founded by Sam Walton and James “Bud” Walton in nearby Rogers, Arkansas in 1962 and has its headquarters in Bentonville, Arkansas. Walmart ranked first in the 2022 Global Fortune 500 list, for the ninth consecutive year.

The Company offers merchandise such as apparel, housewares, small appliances, electronics, musical instruments, books, shoes, jewelry, toddler games, household essentials, pharmaceutical products, party supplies, automotive tools etc. Walmart serves customers worldwide and is currently operating from more than 10,500 stores and clubs under 46 banners in 24 countries and E-Commerce websites. By the end of 2022, the company employed approximately 2.3 million associates worldwide, with approximately 1.6 million of them in the U.S.

Business Segments

Walmart has three segments:

Walmart U.S. – This is the biggest segment of the company operating in all 50 states and Puerto Rico. Tailored to customer needs, the segment operates through a variety of store formats: Supercenters, Discount Stores, and Neighbourhood markets, and is focused on the strategy of “Every Day Low Prices”. Walmart U.S. reported a total revenue of \$393 Billion in 2022.

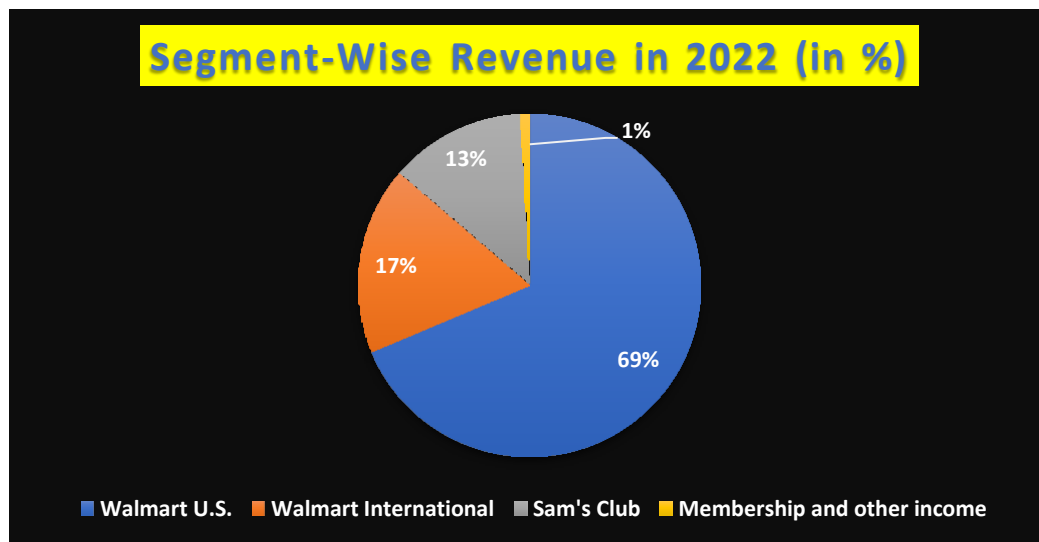


Sam’s Club – This is a membership warehouse club that offers its members quality products at an exceptional value. Known for maintaining a simple shopping environment, it provides a variety of member benefits such as free shipping on most of its items for its Plus Members, Cash Rewards, early shopping, savings on medication, and benefits of its Club Membership, etc. The segment also has an international presence with stores located in China, Mexico, and Brazil. The segment reported a total revenue of \$73.6 Billion in 2022.

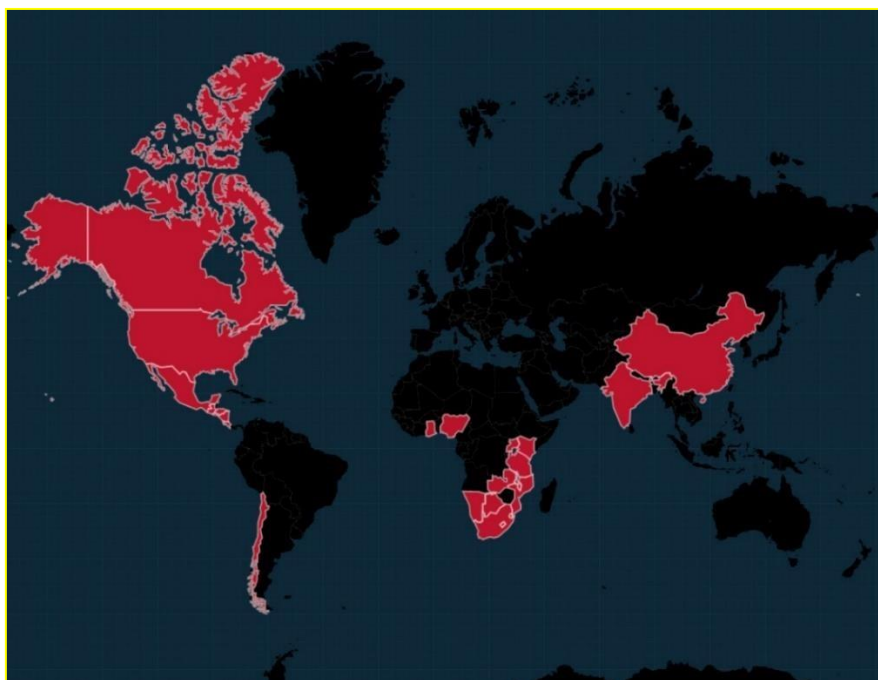
Walmart International – With more than 5,100 retail units and about 5,50,000 associates across the world, this is the second largest segment of Walmart operating in 24 countries and markets across Africa, Canada, Central America, Chile, China, India, and Mexico. The segment reported a total revenue of \$ 101 Billion in 2022.

In the last few years, Walmart International has made exits from the following markets

1. Argentina in November 2020. (Walmart Argentina)
2. United Kingdom in February 2021 (Asda Group)
3. Japan in March 2021. (Seiyu, Japan holding reduced from 100% to 15% with 65% equity sold to KKR and 20% to Rakuten)
4. Brazil in March 2021 (Walmart International and Advent International sold 80% of their stake in Walmart Brazil to Carrefour Brazil)



Geographical representation of the 24 countries in which Walmart operates (highlighted in red)



Environmental, Social, and Governance

Walmart has been involved in a variety of ESG activities over the years. The company is committed to achieving a 35% reduction in scope 1 and scope 2 emissions by 2025 and a 65% reduction in these emissions by 2030. It was successful in diverting 78% of its global waste from landfills and incineration in 2021. The company has made cash and in-kind donations of more than \$132 Million since 2016 to support communities and disaster relief. The company also achieved a 17% reduction in chemical footprint in 2020.

The company has been recognized for its initiatives over the years and got an “A-” rating in CDP 2021 climate ratings. The company was ranked number 15 in Fortune Change the World list in 2021.

Walmart Foundation, a philanthropic organization, was started in 1979 to give people access to a better life. During the pandemic, Walmart Foundation donated approximately \$2 Million to NGOs in India. The foundation also donated 3,000 oxygen concentrators to the country.

Walmart also started an initiative called Project Gigaton in 2017. The idea behind the project was that most of the emissions in the retail sector exist in the supply chain. To reduce these emissions, Walmart plans to work with suppliers to eliminate one billion metric tons of greenhouse gases from the global supply chain by 2030. The project was designed in partnership with CDP, Environmental Defense Fund (EDF), and the World Wildlife Fund (WWF). The initiative has already reduced cumulative emissions of more than 574 MMT between 2017 and 2021.

Corporate Governance

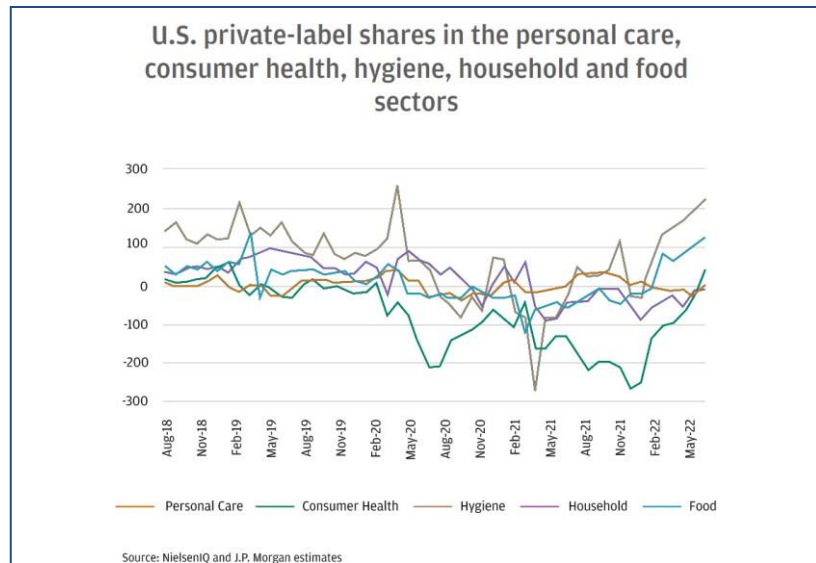
Walmart has a solid corporate governance structure in place. 27% of the board directors are females and 18% of the directors are racially/ethnically diverse. Independent directors have a 12-year term limit in place.

10 out of the 11 directors are non-management and 7 of the 11 directors are independent. The presence of independent and non-management directors can effectively safeguard the interests of stakeholders and prevent any potential conflicts of interest.

Competitive Advantages of Walmart

Private Label brands: Such brands generally have lower prices and given the rising inflation in consumer staples; consumers have been switching to private labels since 2022. As per PLMA (Private Label Manufacturers Association), revenue from private label products in all retail outlets increased by more than 11% in United States in 2022.

Walmart is well-positioned to benefit from its Private-label brand ‘Great Value’ in 2023. Around 72% of U.S. consumers purchased Great Value products last year. The graph given below demonstrates the % growth in share of how Private-label brands in different categories started performing well since the beginning of last year when prices were rising.

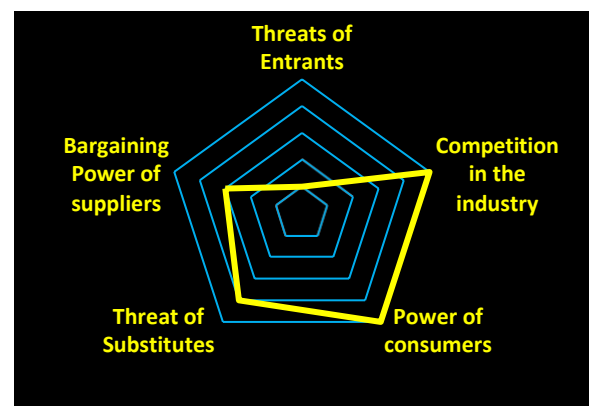


Cost Leadership: Walmart has been a leader in offering products at lower prices to consumers over the years. Their campaign, “Every Day low price” has played an important role in attracting consumers. Customers relish the option of purchasing daily goods at discounted prices, instead of having to wait for “sales.” The strategy of price differentiation gives the Company a competitive advantage over other retailers in the market.

Global Expansion: Walmart has been improving its global footprint over the years. Today, the retailer has a presence in 24 countries. The international presence is giving Walmart a solid advantage over its competitors by allowing it to look for growth avenues outside the United States. The company is acquiring new learnings as it identifies growth opportunities in other countries and prepares its strategy for expansion. Walmart is known for its strategy of inorganic growth by acquiring stakes in companies outside the US rather than starting its own international outlets. This allows it an opportunity to understand the nuances of international markets and gradually step into new markets. In the process, Walmart is adding substantial new revenue to its kitty.

Porter’s 5 forces analysis of Walmart

Threat of Entrants: Walmart faces a low threat from new entrants. Given the scale at which the retailer operates, it would be extremely difficult for a new entrant to give strong competition to Walmart. Today Walmart has stores all across the country and even has a strong international presence. The sheer scale of operations allows Walmart to price its products most competitively. Any new entrant will take years to match Walmart’s scale of operations and level of expansion. It is also important to understand that the giant retailer has years of experience and the new entrant may find it extremely tough to compete with Walmart in terms of reach, price, revenue, or profitability.



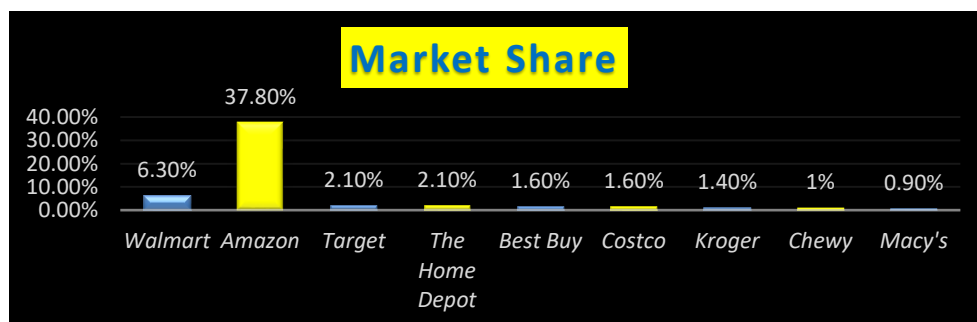
Competition in the industry: Notwithstanding its inherent strengths, and the high entry barriers for new entrants, Walmart is facing competition from its existing competitors. Many established players, especially in niche market segments are battling hard to capture market share.

Power of consumers: In the consumer staples sector, consumers have a significant advantage as they can easily switch between products if they feel a company is not delivering value for money. Given the increasing inflation in recent times, brand switching has become even more prevalent. As per McKinsey's research, 90% of US customers who reported brand switching in 2022 intend to continue this behavior in the future, as well

Threat of Substitutes: Walmart faces a high threat of substitutes from its competitors. Given the nature of the industry, it is very easy for competitors to come out with product substitutes. The availability of choices creates a pricing competition between the market players as consumers have the option of buying a similar product from other retailers especially when price is the ultimate deciding factor.

Bargaining Power of Suppliers: Walmart faces medium bargaining power of suppliers. It is important to understand that suppliers play an integral role in the success of retailers. Without a proper supply channel, retailers can lose sales and potential customers to rivals. It takes years for retailers to perfect their supply chain capabilities. While retailers always have the option to switch to newer suppliers, the transition comes with its own set of challenges.

Market Share in E-Commerce Retail Sales in the United States



Growth Drivers of the Company

Walmart+ membership: The retail giant started this membership service in September 2020, a time when the entire world was struggling with Covid-19. The service has been known to offer great benefits. At \$12.95/month or \$98/year, Walmart+ offers benefits such as free deliveries for orders over \$35, free subscriptions to Paramount+ and Spotify, early access to holiday discount events, and even discounts on gas stations.

The subscription-based plan has been successful in bringing busy families and high-income families to the platform. As per 2022 Q3 reports, the giant retailer saw its membership income rise by 8% YTD and Walmart+ had an integral role to play in this. As per an estimate by Consumers Intelligence Research Partners, in October 2022, approximately 11-11.5 million

subscribers are already using this membership service, which has the potential to add \$32-50 billion in revenue making it a primary source of revenue growth for the retail giant.

Investments in Fintech: Walmart has been constantly making inroads in the fintech segment over the years. The company along with Ribbit Capital started a fintech venture named Hazel. The venture is planning to develop a one-stop super app that will allow users to manage, save and grow their money. To move forward with the vision, the venture has acquired two startups: Even and ONE. Post-acquisition, the combined entity will operate under the brand name ONE. The retailer plans to make the app available to its consumer base which will further play an integral role in the revenue growth of the company.

Improvements in distribution centers: Walmart plans to renovate 42 regional distribution centers in a bid to improve its efficiency and services, with renovations already completed in Palestine, Texas. The retailer will introduce AI-powered systems in the distribution centers to reduce labor hours. The company has also partnered with Symbiotic, a Massachusetts based company, to deploy robots in distribution centers.

Omni-Channel Offering: Walmart has been known for its Omni-Channel services in the retail space over the years. The ideology behind Walmart's efforts to improve Omni-Channel offering is to allow consumers to choose between physical and online services at their convenience. As per an Accenture study, consumers using online services are likely to spend more than those shopping in physical stores. Continuous investments by Walmart in the Omni-Channel space have allowed the retailer to perform better than its competitors. Between 2021 and 2022, the company witnessed its digital sales as a percentage of total sales increase from 6% to 13%. As per the 10-K report, Walmart invested \$7.2 billion in its supply chain, technology, and omnichannel in 2022.

Recent Important events/news

1. Walmart has introduced drone delivery services in Pasco, Hillsborough, and Polk counties.
2. Walmart has invested \$200 million in the Indian fintech company PhonePe. The retailer is a majority shareholder in the fintech company.
3. Walmart stores in Washington and Oregon plan to end using paper and plastic bags. The motive behind the move is to reduce paper and plastic waste. The stores would instead be using recyclable bags.
4. The retail giant is planning to close down two stores in Portland. Excessive shoplifting and theft along with lower sales have been cited as reasons behind the move.
5. Walmart recently announced that it would be increasing the minimum wage for workers from \$12 to \$14 per hour.
6. Walmart, along with other retailers such as 7-eleven, and Ikea, to begin using AI robots on a trial basis in stores.

INVESTMENT THESIS

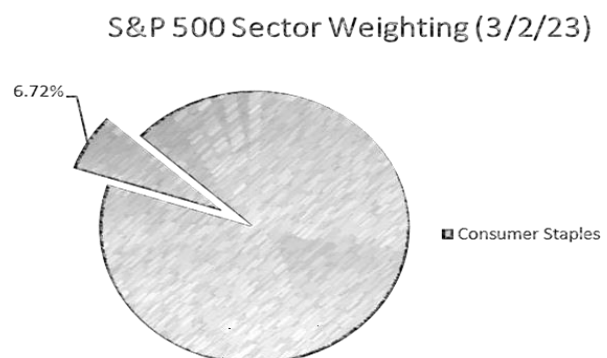
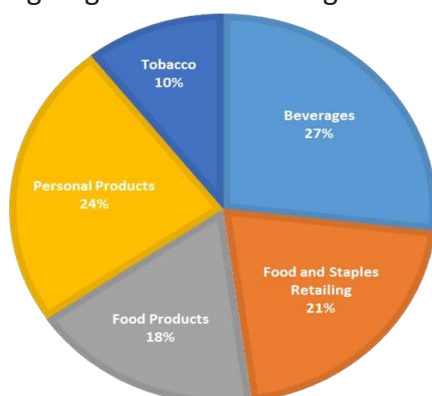
Fundamental Drivers

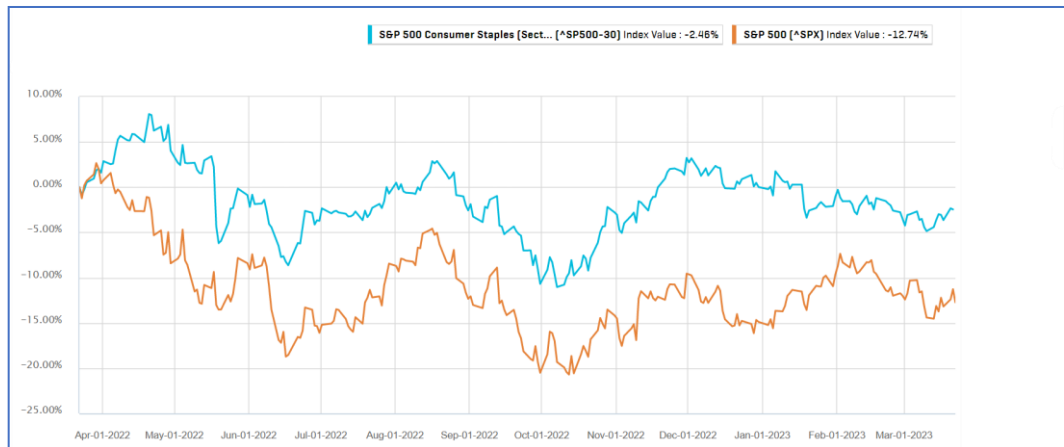
Supply Chain Capabilities: Supply chain problems have troubled retailers in the industry for a while. The key for companies in the consumer staples sector is to implement strategic supply chain channels which enable them to always have inventories in the right quantity. The supply chain capabilities need to be so efficient that companies are able to match any excess consumer demand easily by relying on their supply chain network for immediate supplies. Efficient supply chain channels will ensure that companies don't have the requirement to stock up additional inventories. The pandemic caused a sudden halt in sales for retailers which created backlogs for companies. Today companies are investing huge sums of money just to organize their supply chain capabilities. A good supply chain network goes hand in hand with a proper estimation of inventory requirements. An overestimation of inventory supply can lead to losses while an underestimation of inventory requirement can lead to lost sales to competitors.

E-Commerce: Post-pandemic there has been a dramatic change in the purchasing behavior of consumers. There has been a huge surge in the usage of online delivery channels post-covid. As per a McKinsey report, the total year-on-year growth in E-Commerce in March 2022 was 27%. It is important to understand that E-Commerce within itself brings many features of convenience and allows consumers to choose a wide variety of options just at the tip of their fingertips. Given the extensive variety, consumers are spending more in online shopping than they were spending in brick-and-mortar stores before the onset of the pandemic. Some consumers are returning to brick-and-mortar stores post-COVID but that does not undermine the potential of E-Commerce. Given the return of consumers to physical stores, companies now have the challenge of maintaining themselves both online and offline. Big retailers have already identified the recent trends in E-Commerce. While small players are making their debuts in the E-Commerce space, giant retailers such as Walmart, Target, etc. are making further investments in the space.

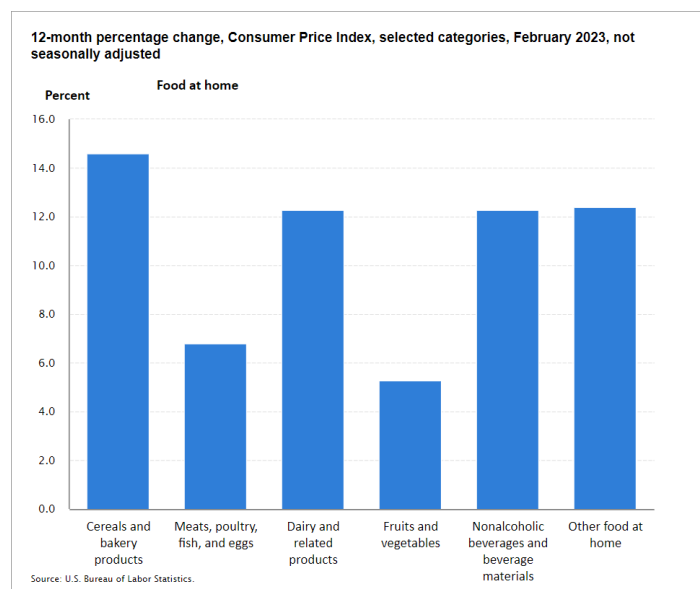
Macroeconomic and Sector Outlook

The Consumer Staples sector has a market capitalization of \$8.23 trillion as per GIC classification. Beverages have the highest weightage in the sector (27%) while Tobacco has the lowest share (10%). In terms of the S&P 500, Sector Weighting, Consumer Staples sector has a weightage of 6.72% making it the 7th largest sector.





The consumer staples sector had a good 2022 where it outperformed S&P 500. The S&P 500 Consumer Staples sector has a lower beta of 0.737 which makes it defensive. The graph given below represents a 12-month % change in the prices of food products in Consumer Staples. Cereals and bakery products witnessed the highest price increase (14.5%) whereas Fruits and vegetables witnessed the lowest price increase in the group (5%).



As per J.P. Morgan estimates, input inflation is expected to continue at least till the first half of 2023 and consumers are curtailing their spending. People are willing to spend less on discretionary products than on consumer staples. The slowdown in consumer spending, the economic uncertainty, and the ongoing banking crisis are contributing to a change in consumer shopping habits. Given the current economic uncertainty caused by the struggling banking industry, the consumer staples sector is poised to outperform the other sectors as consumer staples are basic essentials needed by consumers irrespective of the conditions.

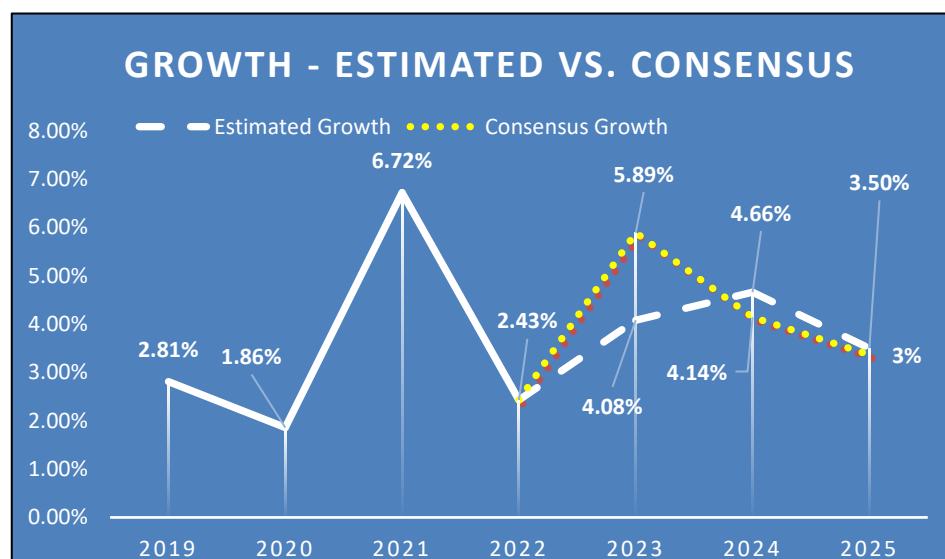
The unemployment rate has been historically lower in the country in 2023 and currently stands at 3.6%. The unemployment rate and the sector are inversely correlated. The lower the unemployment rate, the better it will be for consumer staples sector.

In December 2022, U.S. retailers saw their inventories reach two-year high levels. The month of January 2023 saw the inventory levels for wholesalers falling to 0.4% while retail sales witnessed an increase of 3%. The falling inventories with increasing sales in the sector saw the inventory-to-sales ratio fall to 1.23 in January 2023 from 1.26 in December 2022. The fall is a good signal that retailers are showing efficiency in optimizing inventory levels and that the sales are increasing.



Financials

Walmart witnessed a growth rate of 2.34% in 2022. The given graph gives a comparison between my estimated growth rates for the retailer versus the consensus growth rates. For 2023, a growth rate of 4.08% is taken which is more conservative than the consensus growth rate. The conservative estimation is in line with the company's recent earnings guidance. I have also accounted for economic uncertainty and consumer spending behavior with respect to inflation in my growth assumption for 2023. I believe the growth for Walmart to be more aggressive than consensus estimates for 2024 as markets would be recovering and there would be more room for growth for the company.



The dividend yield for the company is 1.61% and the market capitalization of the company is \$384.43 Billion. Looking at the segment-wise revenue growth of the company, Walmart international saw growth falling by 16.81% in 2022 as the company divested its Japan and UK operations. The segment is expected to be back on track in 2023 with an estimated growth rate of 1.2%. Flipkart (India), in which Walmart has a majority stake, is expected to play a key role in driving Walmart's international growth. In 2023, Walmart U.S. and Sam's Club are expected to have an estimated growth rate of 4.5% and 7% respectively.

Ratio Analysis: Walmart Vs. Peers

Name	Units	Walmart	Target	Krogers	Costco
Ticker	-	WMT	TGT	KR	COST
52 Week High	Dollars	160.77	254.87	62.78	612.27
52 Week Low	Dollars	117.27	137.16	41.81	406.51
Market Capitalisation	Millions	384,433	71,918	35,111	219,643
Profit Margin	%	2.43	6.55	1.2	2.57
Operating Margin	%	4.53	8.44	2.52	3.43
Return on Assets	%	5.5	13.22	3.39	9.47
P/E Ratio	Number	26.67	25.83	11.11	35.45
Inventory/sales ratio	%	9.9	13.11	4.91	7.89

The model estimates the inventory levels to decline from 2022 to 2023 by -1.8%. The model takes into account the measures the company plans to take to consider lowering the inventory levels in 2023. For working capital, the model estimates the working capital to fall from \$9.5 billion to \$6.6 billion in 2023 and a further fall to \$5.3 billion in 2024. The predicted capital expenditure for Walmart in 2023, 2024, and 2025 is \$13.6 Billion, \$14.2 Billion, and \$14.7 Billion.

The consensus EPS estimates for Walmart for 2023, 2024, and 2025 are 6.09, 6.58, and 7.19 respectively, and the model estimates for EPS to be 2023, 2024, and 2025 are 5.63, 5.73, and 6.52 respectively.

As per the 10-K report, the giant retailer has debt maturities of \$2,803 Million, \$4,224 Million, and \$3,565 Million in 2023, 2024, and 2025 respectively. The upcoming debt repayments can make it difficult for the retailer to make any strategic investment in case an opportunity presents itself.

Valuation and Price Target

In order to calculate the intrinsic value of Walmart, I have used two approaches, Discounted Cash Flow model (DCF) and Relative Valuation. Given below is the summary of how two methodologies have been used to arrive at the final target price. To arrive at my final price target for Walmart, I have assigned 80% weightage to DCF and 20% weightage to relative valuation.

Relative Valuation

The table given below gives a comparison between the high, low, median, and current multiple values of Walmart. The current valuation ratios of Walmart are higher than the median for P/E, P/B, and P/EBITDA ratios. Given my analysis and research, Walmart has been performing extremely well and their current multiples being higher than the median amply demonstrate the performance. The P/S multiple of the retailer is only marginally behind the median P/S. The exceptional performance of the retailer can be witnessed in the recent decade. (Returns in 10 years: **+136.23%**, 5 years: **+63.19%**, 2 years: **+5.81%**)

Absolute Basis	High	Low	Median	Current
P/E	25.42	14.46	23.04	26.67
P/B	5.50	2.51	4.70	4.89
P/S	0.78	0.42	0.65	0.62
P/EBITDA	10.95	6.30	10.18	12.87

In order to understand how Walmart is valued in comparison to its peers, I chose 6 peer companies to perform the relative valuation. The six companies chosen were: Target, Krogers, Albertsons, BJ'S Wholesale Club, Costco, and Dollar General.

The relative valuation was done using the following 4 multiples: P/E, P/S, P/B, P/CF, and EV/EBITDA.

Ticker	P/E	P/S	P/B	P/CF	EV/EBITDA
WMT	26.67	0.62	4.89	13.1	12.87
ACI	6.70	0.13	20.53	5.91	3.67
KR	11.11	0.23	3.34	7.79	7.57
TGT	25.83	0.67	6.53	18.22	12.89
BJ	18.51	0.52	9.61	12.78	10.12
COST	35.45	0.92	9.48	22.67	21.38
DG	19.55	1.24	8.42	23.65	15.78
Average	19.53	0.62	9.65	15.17	11.90

The averages calculated in the table are equally weighted for all the peer firms. For P/B and P/CF ratios, Walmart multiples are lower than the peer averages. For EV/EBITDA, Walmart's multiple is only marginally ahead of the peer average value of 11.90. Walmart's P/E multiple of 26.67 is significantly higher than the peer average of 19.53.

In the table given below, I have assumed the target multiples in line with my expectations and the peer averages calculated above. Using the current stock price of \$141.80 and the current multiples, I calculated the target price of Walmart to be **\$169.09**. The current price of Walmart and the multiples are as of 3/24/23. The average value taken in the table has given equal weightage to all the multiples.

Absolute Valuation	Current Stock Price	Current Multiple	Target Multiple	Target/Current	Target Price	Implied Return
P/E	141.80	26.67	24	0.90	127.62	-10%
P/B	141.80	4.89	6.12	1.25	177.25	25%
P/S	141.80	0.62	0.98	1.58	224.04	58%
EV/EBITDA	141.80	12.87	13.33	1.04	147.47	4%
Average					169.09	

Discounted Cash Flow Model

In the DCF valuation model, I used the terminal growth rate of 1.5% and WACC OF 7.198%. The calculation of the WACC can be seen in the table below. While the beta for the company has been sourced from Bloomberg, the Risk-free rate has been taken as the 30-year treasury rate. I arrived at the Re (Cost of Equity) using the CAPM formula.

Particulars	Values	Weights	W*C
Beta (adjusted beta)	0.79		
Risk-free rate	3.63%		
Risk Premium	5%		
Re (CAPM Formula)	7.600%		
Cost of debt	3.10%		
Market Capitalisation (in millions)	3,84,433.30	91%	6.92%
Book value of debt (Long term and short-term) (in millions)	37667	9%	0.28%
WACC			7.198%

The terminal growth of the company has been taken as 1.5% as Walmart is a mature company and I expect the company's growth to gradually come down to 1.5% in the future. In the short run, I have considered the company's latest earnings guidance on growth. The retailer has a cautious outlook and expects a growth of 2.5-3%. I have taken my growth rates to be marginally higher than the guidance as I expect the company and the consumer staples sector to perform well in times of uncertainty. The retailer also had an excellent performance last year in the international markets, especially in India and China.

I get a target price of **\$159.69** if I go ahead with my WACC and terminal growth rate assumptions. My DCF target price has an upside of 12.61% over the current share price of \$141.80 (as of 03/24/23). The DCF calculations can be found in the Appendix.

I also performed a sensitivity analysis to understand the changes in target price if changes were made in WACC and terminal growth rate assumptions.

		WACC								
Terminal Growth Rate	\$ 159.68	4.50%	5.20%	5.50%	6.20%	6.95%	7.198%	8.50%	9.20%	10.50%
	1.0%	248.34	213.28	201.46	178.93	160.43	155.12	132.96	123.72	109.82
	1.5%	271.53	227.59	213.30	186.78	165.66	159.69	135.28	125.31	110.53
	2.0%	304.59	246.81	228.94	196.84	172.23	165.43	138.18	127.32	111.50
	3.0%	439.56	313.35	280.63	227.69	191.41	181.96	146.31	132.99	114.37
	4.0%	1124.34	494.93	404.55	288.84	225.31	210.39	159.17	141.79	118.89

The table below also highlights the potential upsides/downsides over the current share price using different combinations of WACC and terminal growth rates.

		WACC								
Terminal Growth Rate	\$ 159.68	4.50%	5.20%	5.50%	6.20%	6.95%	7.198%	8.50%	9.20%	10.50%
	1.0%	75.1%	50.4%	42.1%	26.2%	13.1%	9.4%	-6.2%	-12.8%	-22.6%
	1.5%	91.5%	60.5%	50.4%	31.7%	16.8%	12.6%	-4.6%	-11.6%	-22.0%
	2.0%	114.8%	74.1%	61.5%	38.8%	21.5%	16.7%	-2.6%	-10.2%	-21.4%
	3.0%	210.0%	121.0%	97.9%	60.6%	35.0%	28.3%	3.2%	-6.2%	-19.3%
	4.0%	692.9%	249.0%	185.3%	103.7%	58.9%	48.4%	12.2%	0.0%	-16.2%

Technical Analysis

The MACD indicator is a useful tool for assessing both the momentum and trend of an asset's price movement. It achieves this by plotting two moving averages, known as the MACD line and Signal line, which are derived from different time periods. The MACD line is calculated by subtracting the 26-period moving average from the 12-period moving average. The Signal line, on the other hand, is a 9-period moving average of the MACD line.

The MACD indicator for Walmart gives us a bullish signal. The MACD line (blue) is crossing the signal line (orange) from below in the graph, thus indicating a buy signal for the stock.



Final Price Target

I assigned 20% weightage to the relative valuation price of \$169.09 and 80% weightage to the discounted cash flow model approach price of \$159.69. The final target price is **\$161.57**. The final target price has a **13.94%** upside over the current share price of \$141.80 (as of 03/24/2023).

Risks to the investment Thesis

1. **Closing of Stores:** Walmart's growth can be curtailed if physical stores start closing. Theft and shoplifting have been responsible for a number of stores closing in the U.S. recently. The retailer has already reported the closure of stores in Portland, Oregon, and Everett this year. Closing of stores can lead to a loss of sales and market share to rivals in the industry.
2. **Lawsuits:** It is important for the retailer to comply with all necessary rules and regulations. Being unable to do so can bring lawsuits against the company that can tarnish the corporate image and destroy the goodwill that Walmart has created over the years. In the event of any lawsuit, the public can also stop trusting the brand which can bring a significant downfall in the growth of the company.
3. **International Trade disputes:** Trade disputes between the countries, in which Walmart operates, and the U.S. can make it difficult for the retailer to continue its international operations. Walmart International has been making a significant contribution to the giant retailer's total revenue and any restrictions on its operations can bring a significant fall in the projections and can lead to a change in the recommendation.
4. **Unavailability of debt/ High cost of debt:** Walmart has significant debt maturities in the upcoming years. Servicing the debt can bring a significant financial burden on the company, preventing it from making strategic investments. This may also impair the capability of the Company to raise fresh debt easily, leading to huge losses due to debt extinguishment. Obtaining debt with higher interest rates is another threat. Higher cost of debt can bring significant changes to the calculated WACC and can bring a change to the estimated final target price of the company.
5. **Technology Failures:** Walmart has a huge reliance on technology and digitalization to run its E-Commerce business. Technology is also important for the company in managing its supply channels across the country and conducting its international business. In the event of any technical failure, the company can face serious issues in the smooth conduct of business. Technical glitches on the company's retail website can cause significant losses as well. The company can lose touch with its suppliers and its international business partners, leading to disastrous consequences.

Conclusion

Buy Walmart (WMT) with a target price of \$161.57 with an implied upside of 13.94% over the current share price (as of 3/24/23). Given the analysis, Walmart is currently undervalued and its competitive advantages along with fundamental drivers have the potential to increase the share price. The Retailer is a major E-Commerce player and continues to invest in this space aggressively. E-Commerce has witnessed a major surge in recent times and Walmart is bound to reap benefits from its investments. The Company owns high-performing private-label brands and consumers are switching to these brands due to rising inflation. Walmart's cost leadership, international presence, and investments in supply chain capabilities will make ensure robust growth. Overall, it is safe to say that the company and its think tank are headed in the right direction, and the company Walmart is a screaming buy.

Appendix

Walmart's Income Statement Model

WMT								
Shares outstanding (in millions)		2751.779629						
FISCAL Year		FY	FY	FY	FY	FY	FY	FY
(000,000s)		2025E	2024E	2023E	2022	2021	2020	2019
Consensus		6,52,875	6,31,569	6,06,481				
Net Sales		6,45,775	6,23,916	5,96,140	5,72,754	5,59,151	5,23,964	5,14,405
		3.37%	4.14%	5.89%				
Walmart U.S.		4,45,316	4,30,257	4,10,943	3,93,247	3,69,963	3,41,004	3,31,666
Walmart International		1,04,637	1,03,601	1,02,171	1,00,959	1,21,360	1,20,130	1,20,824
Sam's Club		91,794	85,788	78,705	73,556	63,910	58,792	57,839
Membership and other income		4,028	4,269	4,321	4,992	3,918	4,038	4,076
Cost of Goods Sold		4,74,645	4,60,450	4,41,143	4,29,000	4,20,315	3,94,605	3,85,301
Gross Profit		1,71,130	1,63,466	1,54,996	1,43,754	1,38,836	1,29,359	1,29,104
		4.7%	5.5%	7.8%	3.5%	7.3%	0.2%	1.7%
Selling, general and administrative expenses		1,42,070	1,37,261	1,28,850	1,17,812	1,16,288	1,08,791	1,07,147
Operating Income		29,060	26,204	26,146	25,942	22,548	20,568	21,957
Walmart U.S. Operating Profit		24,181	21,805	21,757	21,587	19,116	17,380	17,386
Walmart International Operating Profit		4,210	3,796	3,788	3,758	3,660	3,370	4,883
Sam's Club Operating Profit		2,531	2,282	2,277	2,259	1,906	1,642	1,520
Membership and other income Operating Profit		(1,862)	(1,679)	(1,675)	(1,662)	(2,134)	(1,824)	(1,832)
Interest Income, Net		(2,147)	(2,144)	(2,149)	(1,836)	(2,194)	(2,410)	(2,129)
Loss on extinguishment of debt		-	-	-	(2,410)			(3,136)
Other expense, net		(3,000)	(3,000)	(3,000)		210	1,958	(8,368)
Income Before Income Taxes		23,913	21,061	20,997	18,696	20,564	20,116	11,460
Taxes		(6,224)	(5,483)	(5,399)	(4,756)	(6,858)	(4,915)	(4,281)
		14%	0%	12%	-9%	2%	76%	-24%
Net Income		18,242	16,070	15,824	13,940	13,706	15,201	7,179
Consolidated Net Income attributable to noncontrolling interest		(391)	(391)	(391)	(267)	(196)	(320)	(661)
Consolidated net income attributable to Walmart		17,851	15,679	15,433	13,673	13,510	14,881	6,670

EPS								
Basic		6.52	5.73	5.63	4.90	4.77	5.22	3.29
Diluted		6.49	5.70	5.60	4.87	4.75	5.19	3.28
Consensus EPS Adj+		7.19	6.58	6.09				
Shares Outstanding								
Basic		2,799	2,805	2,810	2,792	2,831	2,850	2,929
Diluted		2,812	2,818	2,823	2,805	2,847	2,868	2,945
Tax Rate		-25.4%	-25.4%	-25.4%	-25.4%	-33.3%	-24.4%	-37.4%
D&A		12,082	11,387	10,588	11,152	10,658	10,987	10,529
% of Sales		1.9%	1.8%	1.8%	1.9%	1.9%	2.1%	2.1%
CapEx		14,777	14,277	13,641				
% of Sales		2.3%	2.3%	2.3%				
Receivables		9,336	9,020	8,618	8,280	6,516	6,284	6,283
% of Sales		1.4%	1.4%	1.4%	1.4%	1.2%	1.2%	1.2%
Inventory		57,000	56,511	55,511	56,511	44,949	44,435	44,269
% of Sales		8.8%	9.1%	9.3%	9.9%	8.0%	8.5%	8.6%
Payables		62,306	60,197	57,517	55,261	49,141	46,973	47,060
% of Sales		9.6%	9.6%	9.6%	9.6%	8.8%	9.0%	9.1%
WC		4,029	5,333	6,612	9,530	2,324	3,746	3,492
Change in WC		1,304	1,278	2,918	(7,206)	1,422	(254)	(187)
COGS growth		3.08%	4.38%	2.83%				
Revenue Growth		3.50%	4.66%	4.08%	2.43%	6.72%	1.86%	2.81%
Walmart U.S.		3.50%	4.70%	4.50%	6.29%	8.49%	2.82%	4.14%
Walmart International		1.00%	1.40%	1.20%	-16.81%	1.02%	-0.57%	2.33%
Sam's Club		7.00%	9.00%	7.00%	15.09%	8.71%	1.65%	-2.33%
Expenses as % of Sales								
Gross Margin		26.5%	26.2%	26.0%	25.1%	24.8%	24.7%	25.1%
Selling, general and administrative expenses		22.0%	22.0%	21.5%	20.6%	20.8%	20.8%	21.3%
Interest Income, Net		-0.3%	-0.3%	-0.4%	-0.3%	-0.4%	-0.5%	-0.4%
Operating Margin		4.5%	4.2%	4.4%	4.5%	4.0%	3.9%	4.1%

PROPERTY, PLANT & EQUIPMENT								
Fiscal Year	2025E	2024E	2023E	2022	2021	2020	2019	2018
Beginning of period	1,10,497	1,02,474	94,515					
Plus: Capital expenditures	14,777	14,277	13,641	13,106	10,264	10,705	10,344	10,051
Less: Depreciation	(6,768)	(6,253)	(5,682)	(6,439)	1,450	(8,327)	(4,014)	(5,697)
End of period	1,18,506	1,10,497	1,02,474	94,515	92,201	1,05,208	1,04,317	1,07,675
D&A related to PP&E as a % of capex	-45.8%	-43.8%	-41.7%	-49.1%	14.1%	-77.8%	-38.8%	-56.7%
IMPUTING TOTAL DEPRECIATION & AMORTIZATION								
D&A not related to PP&E	5,314	5,134	4,905	4,713	12,108	2,660	6,664	4,832
as % of revenue	0.82%	0.82%	0.82%	0.82%	2.17%	0.51%	1.30%	0.97%
Depreciation & Amortization - Total	12,082	11,387	10,588	11,152	10,658	10,987	10,678	10,529
DEBT MATURITIES								
Long term debt maturing in the year	3,565	4,224	2,803					
RETAINED EARNINGS								
Beginning of period	86,218	86,306	86,904					
Plus: Net income	18,242	16,070	15,824	13,940	13,706	15,201	7,179	10,523
Less: Dividends	(8,051)	(7,092)	(6,983)	(6,152)	(6,116)	(6,048)	(6,102)	(6,124)
Less: Repurchases	(8,674)	(9,066)	(9,438)	(9,375)	(2,559)	(5,436)	(7,234)	(7,975)
End of period	87,736	86,218	86,306	86,904	88,763	83,943	80,785	85,107
Dividend payout ratio	44.1%	44.1%	44.1%	44.1%	44.6%	39.8%	85.0%	58.2%
Repurchases as % of net income	47.5%	56.4%	59.6%	67.3%	18.7%	35.8%	100.8%	75.8%
\$ amount of shares repurchased	8,674	9,066	9,438					
\$ amount of new shares issued	1,298	1,240	1,191					
Average share price (in\$)	156.93	148.05	141					
Share price increase	6.0%	5.0%						
Stock Based Compensation	1298	1240	1191	1163	1169	854	773	626

Discounted Cash Flow Model

Walmart (WMT)

Analyst: Sparsh Dhamija
27-03-2023

Terminal Discount Rate = 7.198%
Terminal FCF Growth = 1.5%

(000s)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue	5,96,140	6,23,916	6,45,775	6,65,148	6,85,103	6,98,805	7,12,781	7,27,036	7,41,577	7,52,701	7,63,991
% Growth				3.0%	3.0%	2.0%	2.0%	2.0%	2.0%	1.5%	1.5%
Operating Income	26,146	26,204	29,060	29,014	29,829	30,785	31,175	31,827	32,523	32,961	33,469
Operating Margin	4.4%	4.2%	4.5%	4.36%	4.35%	4.41%	4.37%	4.38%	4.39%	4.38%	4.38%
Interest Income	(2,149)	(2,144)	(2,147)	(1,995)	(2,055)	(2,096)	(2,138)	(2,181)	(2,225)	(2,258)	(2,292)
Interest % of Sales	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
Other Expenses, Net	(3,000)	(3,000)	(3,000)	(3,090)	(3,183)	(3,246)	(3,311)	(3,378)	(3,445)	(3,497)	(3,549)
Other expenses % of sales	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
Taxes	(5,399)	(5,483)	(6,224)	(6,863)	(7,055)	(7,287)	(7,375)	(7,530)	(7,696)	(7,799)	(7,919)
Tax Rate	25.4%	25.4%	25.4%	25.4%	25.4%	25.4%	25.4%	25.4%	25.4%	25.4%	25.4%
Net Income	15,824	16,070	18,242	17,066	17,537	18,155	18,350	18,739	19,157	19,408	19,709
% Growth		1.6%	13.5%	-6.4%	2.8%	3.5%	1.1%	2.1%	2.2%	1.3%	1.6%
Add Depreciation/Amort	10,588	11,387	12,082	11,973	12,332	12,578	12,830	13,087	13,348	13,549	13,752
% of Sales	1.8%	1.8%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Plus/(minus) Changes WC	2,918	1,278	1,304	1,987	1,611	1,714	1,852	1,794	1,858	1,900	1,909
% of Sales	0.5%	0.2%	0.2%	0.30%	0.24%	0.25%	0.26%	0.25%	0.25%	0.25%	0.25%
Subtract Cap Ex	13,641	14,277	14,777	15,220	15,677	15,990	15,681	15,995	15,573	15,054	13,752
Capex % of sales	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.2%	2.2%	2.1%	2.0%	1.8%
Free Cash Flow	15,689	14,459	16,861	16,805	15,803	16,457	17,351	17,625	18,791	19,802	21,618
% Growth											
NPV of Cash Flows	1,18,999	26%									
NPV of terminal value	3,31,791	74%									
Projected Equity Value	4,50,790										
Free Cash Flow Yield	3.92%										
Current P/E	26.3	24.9	21.9								
Projected P/E	28.5	28.1	24.7								
Current EV/EBITDA	11.3	11.0	10.1								
Projected EV/EBITDA	12.7	12.4	11.3								
Shares Outstanding	2,823										
Current Price	\$ 141.80										
Implied equity value/share	\$ 159.68										
Upside/(Downside) to DCF	12.6%										
Debt	37,667										
Cash	23,398										
Cash/share	8.29										

Terminal Value	3,85,057
Free Cash Yield	5.61%
Terminal P/E	19.6
Terminal EV/EBITDA	8.6

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