

STOCK REPORT: WALMART (WMT)

Original report prepared by Jeff Allen Wang using available public data as of November 8th, 2019

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DATA OVERVIEW

Price	\$119.44
52-Week High	\$120.92
52-Week Low	\$85.78
Market Cap	\$339.7 B
YTD Price Change	28.20%
5 Year Price Change	51.82%
Beta	0.39-0.41
Dividend / Div. YLD	\$2.21
Dividend Yield	1.77%
P/E TTM	24.4
Next Earnings Report	11/14/2019
Industry	Retail

COMPANY OVERVIEW

Based in Bentonville, AR and founded in 1945, Walmart Inc. operates retail stores, restaurants, discount stores, supermarkets, supercenters, warehouse clubs, apparel stores, and Sam's Clubs. The current CEO is Doug McMillon (2014)

The company operates more than 11,600 retail units under 59 different banners in 28 countries and e-commerce websites in 11 countries. Walmart has operations in the U.S., Argentina, Brazil, Canada, Chile, China, India, Japan, Mexico and the United States.

BUY/SELL OVERVIEW

Short Term (1-3 months)

- Recommendation: Buy-Hold
- Outlook: Neutral / Outperform
- Dollar-cost average small positions

Long Term (6-12 months)

- Recommendation: Buy
- Outlook: Outperform market
- Income investment

YTD COMPARISONS

WALMART	28.20%
KROGER	(1.75%)
AMAZON	18.90%
S&P500 INDEX	23.39%
CONSUMER STAPLES	19.56%

RECOMMENDATION SUMMARY

Markets uncertainty continue to rise. The current global macroeconomic volatility (US-China trade war) and political unrest (Hong Kong, Venezuela, Brexit), and rising concerns of a potential US recession with already slowing economies in Germany, Europe, and China, my investment outlook right now is focused protecting our money for the next few months as we transition from the later stages of the US economic expansion to a contraction. To hedge one's investment portfolio we can do a few things: using financial derivatives to protect positions with more active management or move current positions into what we can refer to as 'recession-proof' and 'trade-war proof'.

Walmart (WMT) can act as a potential recession-proof through consumer staples goods, and trade-war proof given its diverse businesses. In an economic contraction, Walmart's sales will not see as large of an impact a luxury goods company. Walmart has a low beta of 0.39, dividend aristocracy status (**increasing dividends over past 25 years**). Walmart continues to impress with its international exposure in Asia and South America, and innovation in e-commerce, while maintaining same store-to-store growth in the United States. **YTD Walmart has shown impressive results, beating out the S&P500 market as well as other major competitors (Figure 1).**

Dividends can act perpetual income, inflation hedge, and recession hedge.

My personal recommendation on Walmart as a potential stock investment would be to investigate dollar-cost averaging small or sizeable positions within the next coming few months as we closely watch global economic data. I will explore my valuation and investment thesis points on the following page 2 for Walmart.

All opinions expressed in this report are of my own and should not be taken as professional investment advice. **All data** used are publicly available on Zacks.com, Yahoo Finance, and Bloomberg as of November 8th, 2019.



Figure 1 Source: ETrade

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INVESTMENT THEISIS

- Dividend Aristocrat** can provide us with perpetual income dividends to hedge against inflation as well as a slowing economy.
- Recession-proof** stocks are companies that historically have been able to survive past recessions and even potentially outperform the market.
- Trade-war-proof** are companies that are recession-proof with international exposure.

VALUATION

Price/Book (P/B)	4.42
P/E (TTM)	24.4
Price/Sales (P/S)	\$0.66
Debt/Equity	0.83
Debt/Capital	45.50%
Current Ratio	0.76
Total Cash (mrq)	\$9.28B
Return on Equity	18.23%
Return on Assets	6.16%
EPS (TTM)	\$4.42
Net Margin	2.48%
EV/EBITDA	16.13

POTENTIAL RISKS

- No company is immune to economic downturn risk
- Increasing competition in the retail space, posing risk to core business. Amazon is a main competitor.
- Walmart must continue to innovate in its progress in e-commerce
- International presence challenges
- Tightening net margins (2.48%)

CATALYSTS FOR GROWTH

- US Net-Sales Growth
- Flipkart India success
- Enhancing E-Commerce Initiatives and Delivery Systems

1) Dividends for perpetual income

Dividend aristocrat stocks are companies that have increased their dividends for 25 consecutive years. Some stocks which fit this description are plotted on this graph. Walmart has increased its dividend for over 40 years. The companies with the highest dividend ratio relative to their historical dividend yields are within the red circle in Figure 2.

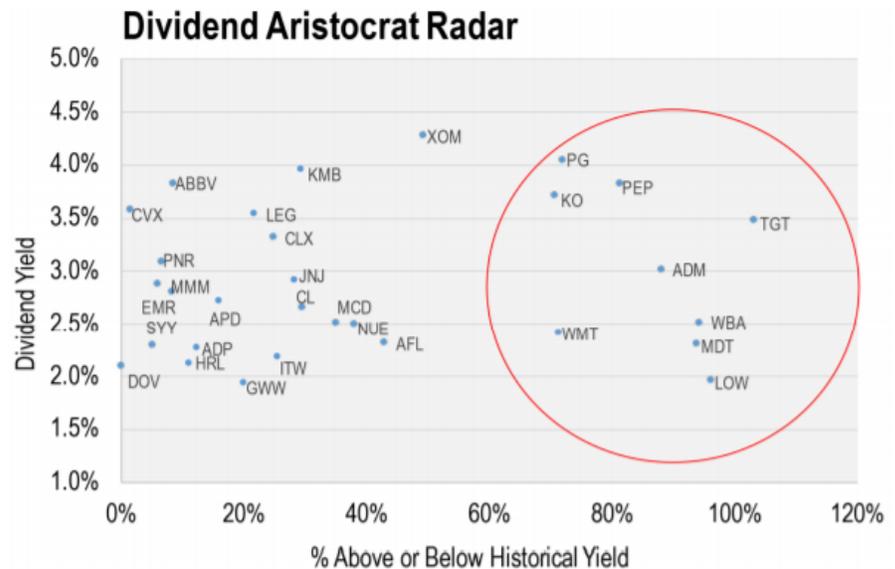


Figure 2 Source: Bloomberg

2) Recession outperformance from 1998-2015

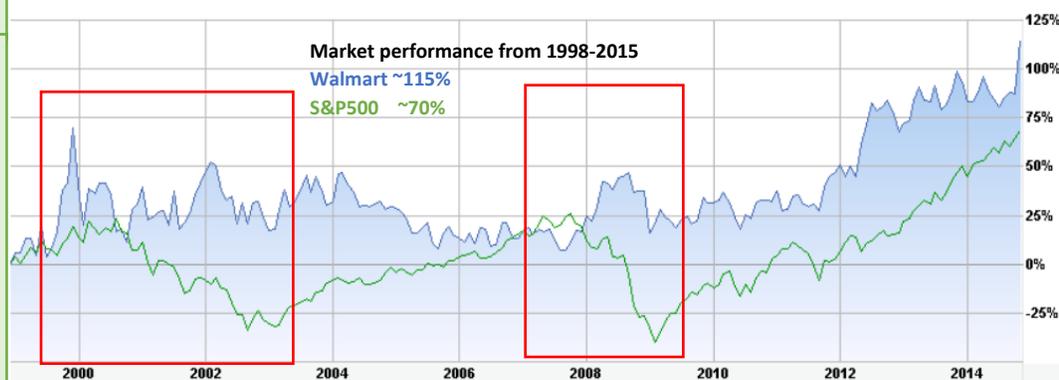


Figure 3 Source: ETrade

3) Trade-war-proof international exposure

Dominance in the United States. Nearly 90% of the US population lives within 10 miles of a Walmart or Sam's Club. Walmart is the largest grocer in the US (accounting for roughly half of Walmart's revenue). Walmart has more physical locations than any other retailer with 5,358 storefronts. (Amazon has 470 including Whole Foods). **The grocery business is generally recession-proof.**

International exposure and investments in e-commerce. Walmart purchased e-commerce company Jet.com in 2016 for \$3.3B. Walmart has a 10% stake in JD.com, China's 2nd largest online retailer, and a majority 77% stake in Flipkart, India's leading online retailer ahead of Amazon.