

Wal-Mart Stores Inc. (WMT US Equity)

Change in Numbers

January 16, 2025

Near-term outperformance overdone

- Wal-Mart earnings outlook remains moderate with downside risks.
- Retail expansion plans have been scaled down for good reason.
- Time to book profits; given the strong performance over last year.

Investment Thesis

Walmart's commitment to grow its presence in Europe is a concern in the near-term; given demand sluggishness in the EU. However, in the near term its valuations are overstretched on account of the move over the last 6 months by investors to seek more defensive cover in the markets. We expect the stock remain range bound as the markets consolidate in the near term.

Business/Investment Risks

Walmart has laid down expansion plans into Europe that in our view are unlikely to impress the markets in the near-term. Concerns around execution risks and the risk associated with overpaying for assets will keep a lid on its share price in the near term. We believe the retail space is factoring in many of these risks which is why we are not outright bearish on prospects for share price performance in the near term.

Valuation

While we remain cautiously optimistic on the retail space in the United States, we believe there is better value in companies like Target (TP: US\$ 175.00; Buy) and Macy's over the next 12 months. The latter was badly impacted by the COVID-19 crisis and is once again making a recovery with strong earnings momentum over the last two quarters. We are supporters of Walmart but are not forecasting any further outperformance on its share price over the next 6-12 months. Our outlook on the retail sector is somewhat cautious on account of consumer confidence woes.

Y/E Jan, US\$ m	2023	2024	2025E	2026E
Revenue	500,356	510,363	530,777	547,762
Gross Profit	121,686	121,466	125,794	129,272
EBITDA	39,336	40,663	43,541	45,929
EBIT (Operating Profit)	29,771	30,622	32,933	34,753
Profit After Tax	19,108	19,695	21,298	22,554
EBITDA Mar.	7.9%	8.0%	8.2%	8.4%
EPS	5.41	5.57	5.61	5.94
BVPS	12.68	14.38	16.22	18.16
P/E (x)	17.0x	16.5x	15.2x	14.4x
EV/EBITDA (x)	19.5x	18.5x	17.1x	15.9x
P/BV (x)	7.2x	6.4x	5.6x	5.0x
Gross Dividend Yield (%)	1.9%	2.0%	2.1%	2.2%

Source: Company, ANALEC estimates

Recommendation: HOLD

Risk Profile

★ ★★ ★★★★★

ESG Rating

★ ★★ ★★★★★

Downside Scenario	Current Price	Price Target	Upside Scenario
US\$ 80.0 (12.4%)	US\$ 91.3	US\$ 95.0 4.1%	US\$ 125.0 36.9%

Company Highlights

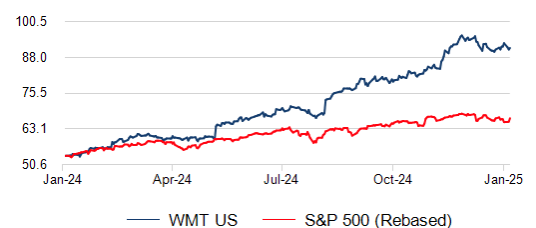
Market Cap	US\$736b
52W High - Low	US\$ 95.70 – US\$ 53.50
Outstanding Shares	8,053m
Avg. Daily Vol. (6M)	16.47m
SPX Index	5,949.9

Major Shareholders

Walton Enterprises LP	49.63%
Vanguard Group Inc	2.72%

Share Price Performance

WMT US share price history vs S&P 500



	3M	6M	12M
Absolute (%)	11.9	31.2	69.9
Relative (%)	9.6	25.6	45.5

Estimates Changes

US\$ m	FY25	Δ%	FY26	Δ%
EPS	5.61	0.0	5.94	0.0
Net DPS	2.47	0.0	2.63	0.0
BVPS	16.22	0.0	18.16	0.0
RoE (%)	16.5%	0.0	15.6%	0.0
Net Profit	20,341	0.0	21,540	0.0
FCF	17,720	0.0	22,316	0.0

**Indy Sarker**

+91 9811697472
indy.sarker@analec.com

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Company Overview

Walmart, in full Walmart, Inc., formerly Wal-Mart Stores, Inc., American operator of discount stores that was one of the world's biggest retailers and among the world's largest corporations. Company headquarters are in Bentonville, Arkansas. It operates through the following business segments: Walmart U.S., Walmart International, and Sam's Club. The Walmart U.S. segment operates as a merchandiser of consumer products, operating under the Walmart, Wal-Mart, and Walmart Neighborhood Market brands, as well as walmart.com and other eCommerce brands. The Walmart International segment manages supercenters, supermarkets, hypermarkets, warehouse clubs, and cash and carry outside of the United States. The Sam's Club segment consists of membership-only warehouse clubs and samsclubs.com.

Company Management

The company was founded by Samuel Moore Walton and James Lawrence Walton in 1945 and is headquartered in Bentonville, AR. As it grew, the company developed new retail formats, including Sam's Club discount warehouses (1983) and Wal-Mart Supercenters (1988). By 1990, Walmart was the nation's number-one retailer. As the Walmart Supercenter redefined convenience and one-stop shopping, Every Day Low Prices went global. In 1997, we celebrated a year that brought in \$100 billion in sales. As CEO, Doug McMillon embodies the innovative spirit modeled by the founder Sam Walton. Since acquiring Jet.com in 2016, WMT welcomed several brands including Shoebuy, Hayneedle, Moosejaw, Modcloth, and more. WMT tech innovations are fueled by the research team @WalmartLabs and tech incubator Store 8.

Investment Summary

Headquarters

Bentonville, Arkansas

Chairman

S. Robson Walton

Number of Employees

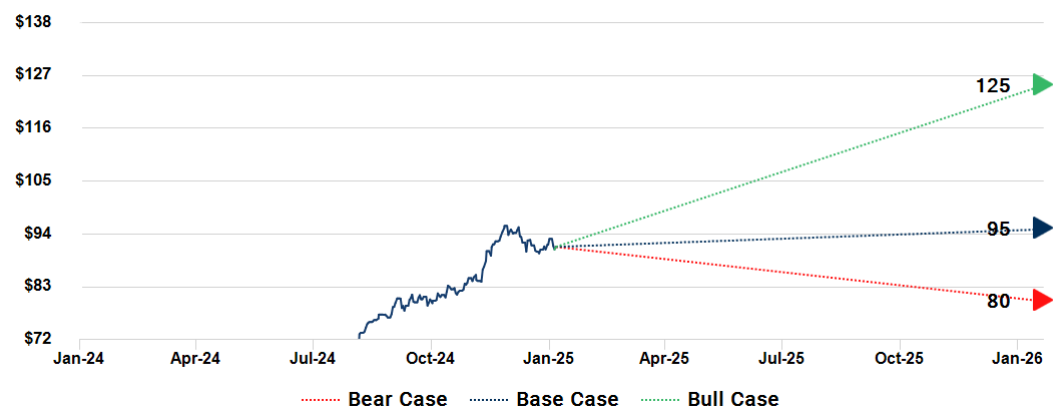
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GICS Classification

Consumer Staples

GICS Sub-Industry

Food & Staples Retailing



Environmental, Social and Governance (ESG) Ratings

Environment		Social		Governance	
GHG Emissions	5.6 out of 10	Health & Safety	5.9 out of 10	Ethical Standards	5.6 out of 10
Energy Efficiency	5.2 out of 10	Gender Equality	5.5 out of 10	BoD Composition	6.4 out of 10
Water Management	6.0 out of 10	Employee Benefits	6.3 out of 10	Stake Holder Engagement	5.3 out of 10
Waste Reduction	5.3 out of 10	Diversity & Inclusion	5.4 out of 10	Performance Pay	5.4 out of 10
Overall Rating – 5.7 out of 10					

ESG is a term used to describe various investing approaches that Emphasizes on environmental, social and governance factors in addition to risk and return. ESG ratings measure a company's exposure to long-term, financially relevant ESG risks so that investors can implement the ESG investing approach they choose.

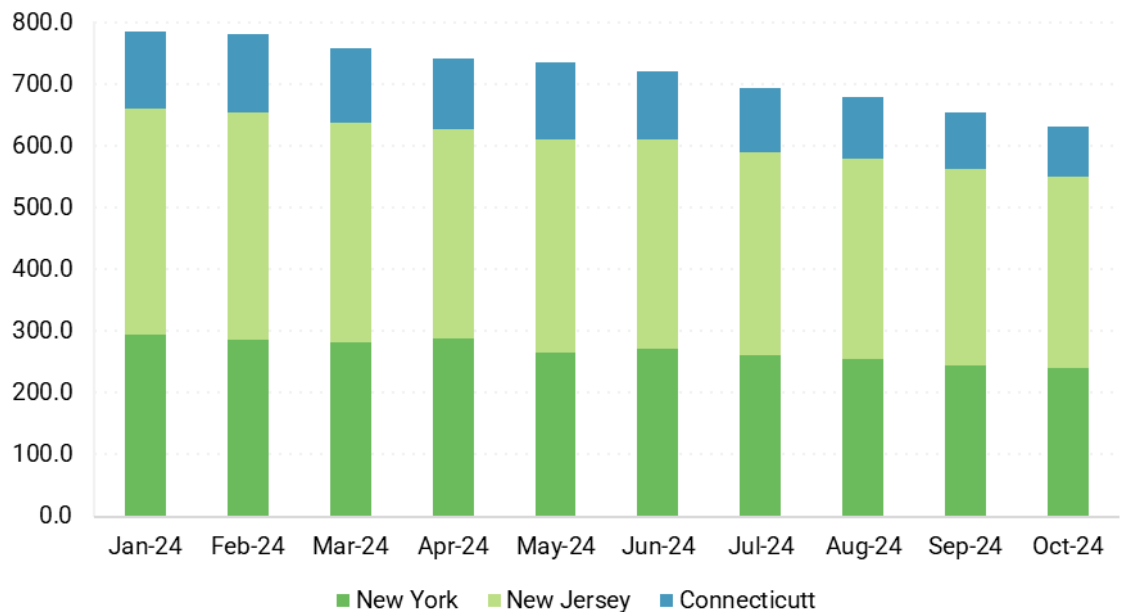
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Where do we go from here?

Walmart produced stellar earnings for the last 3 quarters in a row. We believe these numbers were driven by retail food inflation running high in the US on the back of the COVID-19 recovery as well as the geopolitical risks associated with the Russia-Ukraine conflict.

We have maintained over the last years that earnings rebound will remain strong and that has seen the stock perform exceptionally well over the last 6 months. Given the strong outperformance so far, we are turning more cautious at this stage given the risks associated on the valuation front as the interest rate cycle turns and more cyclical investment opportunities make a comeback.

Exhibit 1: Number of Stores (Tri-State Area)

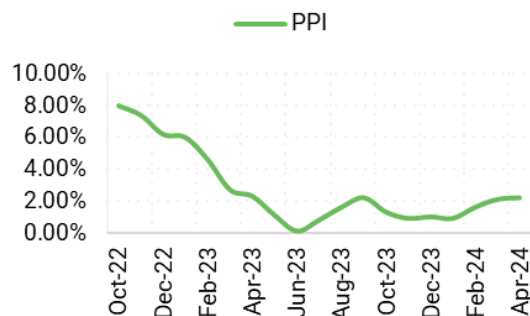


Source: Company

Wal-Mart's structural challenges remain

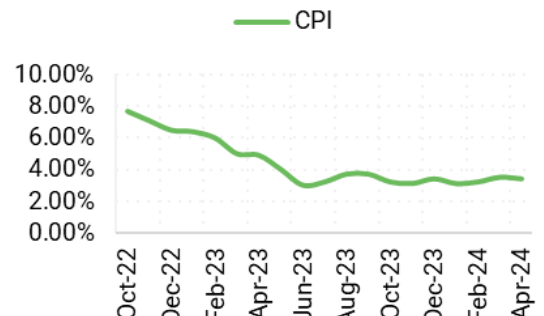
Macy's, one of Walmart's biggest competitors announced a partnership with Gap, bridging its rich heritage and industry expertise with Gap's legacy of modern American style. Whereas Walmart's U.S. e-commerce growth has been much faster than Amazon's retail sales growth. It is growing from a much lower base, however. The Walmart vs. Amazon battle for retail supremacy is raging along multiple fronts and is blurring the lines between online and offline. Walmart, Target (TGT), Costco (COST) and a few other retail giants are adopting a hybrid model to take on Amazon, leveraging their brick-and-mortar stores in conjunction with digital shopping. Walmart moved to rope in more customers by rolling out its Walmart+ membership program last year.

Exhibit 2: Producer Price Index



Source: Company

Exhibit 3: Consumer Price Index



Source: Company

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Third Quarter Earnings – A positive surprise

The company boosted its full-year 2025 earnings outlook to between \$2.42-\$2.47, up from \$2.35-\$2.43. Going into the report, analysts had targeted full-year EPS of \$2.45. Walmart's fiscal year ends in January. Walmart now expects net sales to grow 4.8%-5.1% for the full year vs. 3.75%-4.75% previously.

In Q3, general merchandise sales grew for the second quarter in a row after declines for 11 straight quarters. Sam's Club, Walmart's membership warehouse chain, reported gains in apparel and consumer electronics. Justin McAuliffe, a Gabelli Funds research analyst, called growth outside the grocery and household consumables aisles "the highlight of this quarter." Sales of general merchandise grew in the low single digits even as prices deflated by 4%, Walmart said.

Among other Q3 highlights, Walmart's global e-commerce sales surged 27%. Its global advertising sales grew 28%. U.S. membership income also grew by double digits.

"In the U.S., in-store volumes grew, pickup from store grew faster, and delivery from store grew even faster than that," Walmart CEO Doug McMillon said in an earnings release.

The continued onslaught of online retail

We have seen over the last few months in the US that retailers have scaled back their store's footprint due to the onslaught of online retail. However, we believe there is an opportunity for many of the larger retailers to evolve their business model in a hybrid way wherein they continue to have a profitable stores footprint but also proactively build out a credible online retail strategy.

Several retail giants report strong quarterly performance

Several discount retailers, including Walmart and Costco, turned into inflation winners. They benefited as consumers shifted to lower-cost groceries, household consumables and value deals in general. The latest consumer prices data point to lingering inflation.

Looking ahead, Donald Trump's Nov. 5 U.S. election win could spur these retail stocks further. Analysts call the president-elect's tariff proposals inflationary, while his tax cuts could boost consumer spending.

At least eight analysts raised price targets on Walmart stock on Tuesday after earnings, FactSet shows. No one cut. WMT stock now sits on a year-to-date gain of almost 65%.

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Financial

Y/E Jan	2023	2024	2025E	2026E
Income Statement (US\$ m)				
Total Revenue	500,356	510,363	530,777	547,762
Other Operating Income	0	0	0	0
Operating Expenses	(461,020)	(469,700)	(487,261)	(501,859)
EBITDA	39,336	40,663	43,541	45,929
Depreciation & Amortisation	9,565	10,041	10,608	11,176
EBIT	29,771	30,622	32,933	34,753
Net Interest Income/(Exp.)	(1,804)	(1,804)	(1,804)	(1,804)
Other Income/(Expense)	(274)	(274)	(274)	(274)
Income from Associates	0	0	0	0
Non Recurring Items	0	0	0	0
Profit/(Loss) Before Tax	27,693	28,544	30,855	32,675
Taxes on Profit	(8,585)	(8,849)	(9,557)	(10,122)
Minority Interests	(860)	(886)	(957)	(1,014)
Other Items	0	0	0	0
Net Profit/(Loss)	18,248	18,809	20,341	21,540

Balance sheet (US\$ m)

Fixed Assets	114,548	117,052	118,989	120,359
Long-term Investments	0	0	0	0
Associates	0	0	0	0
Goodwill & Intangible Assets	20,497	20,497	20,497	20,497
Total Non-Current Assets	150,379	153,267	155,587	157,340
Total Current Assets	84,471	98,809	115,389	131,378
Total Assets	234,851	252,076	270,976	288,718
Total Equity	109,730	124,292	140,022	156,679
Long Term Debt	41,417	41,417	41,417	41,417
Total Non-Current Liabilities	49,030	49,030	49,030	49,030
Total Current Liabilities	76,091	78,754	81,924	83,009
Total Equity & Liabilities	234,851	252,076	270,976	288,718

Cash Flow Statement (US\$ m)

Profit/(Loss) Before Tax	27,693	28,544	30,855	32,675
Depreciation & Amortisation	(9,565)	(10,041)	(10,608)	(11,176)
Tax Paid	(8,585)	(8,849)	(9,557)	(10,122)
Working Capital Changes	(1,648)	1,523	(2,118)	598
Other Items	860	886	932	989
Cash Flow from Operations	27,885	32,145	30,720	35,316
Capital Expenditure	(13,000)	(13,000)	(13,000)	(13,000)
Acq./ (Disp.) of Investments	72	72	72	72
Other Items	0	0	0	0
Cash Flow from Investing	(12,928)	(12,928)	(12,928)	(12,928)
Debt Raised/(Repaid)	0	0	0	0
Share Issue/(Buyback), Net	0	0	0	0
Dividend Paid	(5,840)	(6,019)	(6,501)	(6,885)
Other Items	0	0	0	0
Cash Flow from Financing	(5,840)	(6,019)	(6,501)	(6,885)

Source: Company, ANALEC estimates

Y/E Jan	2023	2024	2025E	2026E
Valuation (x)				
P/E (Diluted EPS)	17.0	16.5	15.2	14.4
P/FCFE	20.7	16.1	18.7	14.8
P/Sales	0.6	0.6	0.6	0.6
P/BV	7.2	6.4	5.6	5.0
EV/EBITDA	19.5	18.5	17.1	15.9
EV/Invested Capital	5.5	5.3	5.1	5.0
EV/NOPAT	37.3	35.6	32.7	30.4
Dividend Yield (Net) (%)	1.9	2.0	2.7	2.9
Per Share Data (US\$)				
EPS (Diluted)	5.38	5.55	6.00	6.36
DPS (Net)	1.73	1.78	2.47	2.63
Net Tangible Assets	10.1	11.8	13.7	15.6
Book Value	12.7	14.4	16.2	18.2
FCF to Equity	4.4	5.7	4.9	6.2

Return Ratios (%)

Return on Capital Employed	13.6	12.8	12.6	12.2
Return on Assets (Pre-Tax)	13.2	12.7	12.7	12.5
Return on Equity	19.1	17.3	16.5	15.6

Profitability Ratios (%)

EBITDA Margin	7.9	8.0	8.2	8.4
EBIT Margin	6.0	6.0	6.2	6.3
Net Profit Margin	3.6	3.7	3.8	3.9

Growth Metrics (YoY, %)

Revenue Growth	4.0	2.0	4.0	3.2
EBIT Growth	4.9	2.9	7.5	5.5
EBITDA Growth	5.0%	3.4%	7.1%	5.5%
Net Profit Growth	5.9	3.1	8.1	5.9

Gearing Ratios (%)

Gross Debt/Total Equity	43.9	38.8	34.4	30.8
Net Debt/Total Equity	20.3	7.3	-	-
Gross Gearing	30.5	28.0	25.6	23.5

Liquidity Ratios (%)

Cash Ratio	34.1	49.7	61.5	79.4
Current Ratio	111.0	125.5	140.8	158.3
Quick Ratio	47.2	62.6	75.3	93.1

Coverage Ratios (x)

EBIT/Net Interest	16.5	17.0	18.3	19.3
Average Gross Debt/EBITDA	1.2	1.2	1.1	1.0
EBITDA Net Interest Cover	21.8	22.5	24.1	25.5

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Analyst Certification

The following analyst(s) hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: **Indy Sarker**

The information and opinions in this report were prepared by ANALEC Securities (US) Limited, ANALEC Securities (Hong Kong) Limited, ANALEC Securities (India) Limited, ANALEC Securities Korea Limited and/or one or more of its affiliates (together with its group of companies, "ANALEC") and the research analyst(s) named in this report.

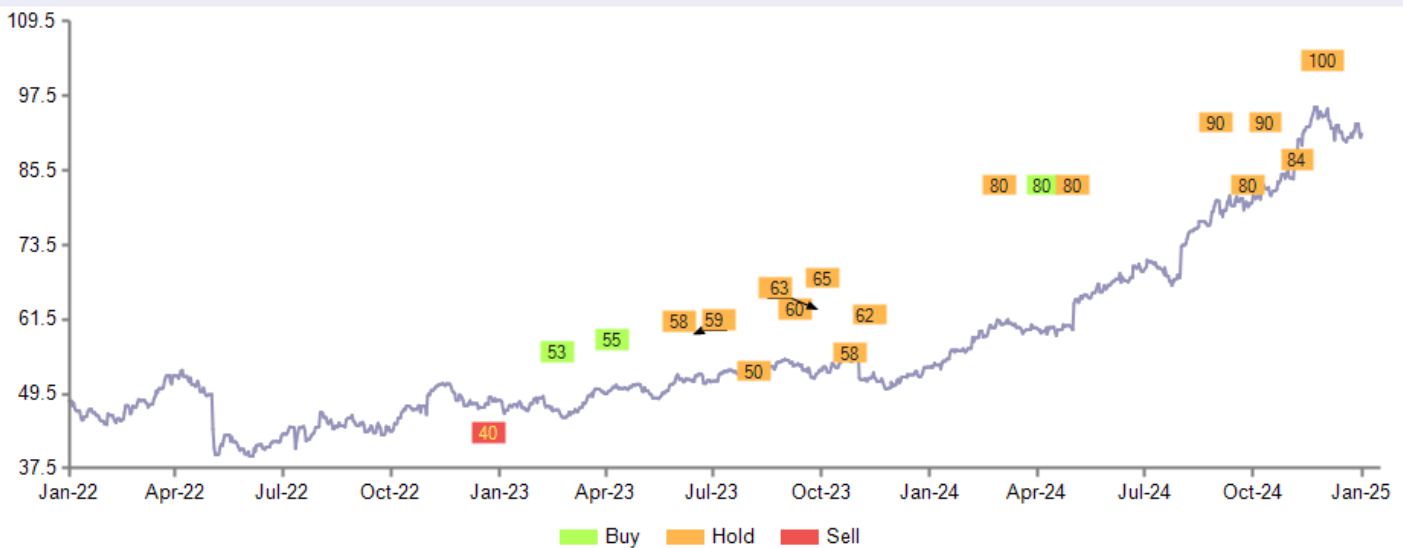
Analyst Compensation

The research analysts, strategists, or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Ratings and/or Recommendation Change History as on 17 January 2025

Wal-Mart Stores Inc. (WMT US Equity)

Share Price Vs. Rating's Chart - (WMT US)



S.No.	Date	Closing Price (US\$)	Target Price (US\$)	Rating	Analyst
1	13-Mar-24	61.3	80.0	Hold	Indy Sarker
2	19-Apr-24	59.5	80.0	Buy	Indy Sarker
3	14-May-24	59.9	80.0	Hold	Indy Sarker
4	13-Sep-24	80.6	90.0	Hold	Indy Sarker
5	10-Oct-24	79.6	80.0	Hold	Indy Sarker
6	25-Oct-24	82.5	90.0	Hold	Indy Sarker
7	21-Nov-24	88.4	84.0	Hold	Indy Sarker
8	12-Dec-24	94.1	100	Hold	Indy Sarker

Note: Closing Price and Target Price have been adjusted for corporate actions. Table presents the data for last 1 year and the chart plots the data for last 3 years.

Source: Company; ANALEC forecasts

Stock price charts and rating histories for companies discussed in this report are available at

<https://app.resonateworkflows.com/researchportal/Disclosure/DisclosureDetails> or from your local investment representative.

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Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. For example, ANALEC uses a rating system including terms such as Buy, Hold or Sell (see definitions below). A rating system using terms such as Overweight, Equal-weight or Underweight is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Terminology	Definition
Buy (B)	The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Hold (H)	The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Sell (S)	The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Global Stock Ratings Distribution

(as of January 16, 2025)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Overweight, Equal-weight and Underweight alongside our ratings of Buy, Neutral or Sell. ANALEC does not assign ratings of Overweight, Equal-weight, and Underweight to the stocks we cover. Buy, Neutral, and Sell are not the equivalent of Overweight, Equal-weight, and Underweight but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond with Buy, our most positive stock rating, with an Overweight recommendation; we correspond Neutral and Sell to Equal-weight and Underweight recommendations, respectively.

An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom ANALEC or an affiliate received investment banking compensation in the last 12 months.

Recommendation Distribution and Investment Banking Relationships		
	% of covered companies currently assigned this rating	% of companies assigned this rating with which Analec has provided Investment banking services over the past 12 months
Buy (B)	25.3%	1.0%
Hold (H)	68.3%	0.4%
Sell (S)	6.5%	0.0%

Other Important Disclosures

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks. Research is available through our sales representative or on client link at www.analec.com and other electronic systems.

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ESG Ratings

ESG - Environmental, social and governance (ESG) ratings given to publicly traded companies are currently subject to inconsistent industry definitions and standards for the measurement and evaluation of ESG factors; therefore, such factors may differ significantly across each ESG ratings provider. As a result, it may be difficult to compare ESG ratings.

A stock's ESG rating may or may not significantly influence its performance. Because stocks are evaluated based on ESG factors rather than other investment criteria, the stock's performance may differ (either higher or lower) from its ESG rating(s), the overall market or comparable stocks that have different ESG ratings. Environmental ("E") factors can include climate change, pollution, waste, and how a company protects and/or conserves natural resources. Social ("S") factors can include how a company manages its relationships with individuals, such as its employees, shareholders, and customers as well as its community. Governance ("G") factors can include how a company operates, such as its leadership composition, pay and incentive structures, internal controls, and the rights of equity and debt holders. Carefully review the ESG rating provider's methodology and framework to learn more about how they incorporate ESG factors into their overall rating.