Walmart financial analysis

Finance, Financial Analysis

Walmart Stores, Inc. branded as Walmart since 2008 and Walmart before then, is an American multinational retailer corporation that runs chains of large discount department stores and warehouse stores. It is the biggest private employer in the world with over 2 million employees, and is the largest retailer in the world. Walmart operates retail stores in various formats around the world and is committed to saving peoplemoneyso they can live better and more comfortable.

Walmart earns the trust of their customers every day by providing a broad assortment of quality merchandise and services at everyday low prices, while fostering aculturethat rewards and embraces mutualrespect, integrity, and diversity. The company is controlled by the Waltonfamily, which owns 48% stake in Walmart. The company was founded by Sam Walton in 1962, incorporated on October 31, 1969, and publicly traded on the New York Stock Exchange in 1972. It is headquartered in Bentonville, Arkansas. In May 1971, Walmart stock experienced its first 100 percent split, at a market price of $47.

At that time, the company operated in five states: Arkansas, Kansas, Louisiana, Missouri, and Oklahoma. In 1972, after being approved and listed on the New York Stock Exchange, Walmart stock split 100 percent for a second time, with a market price of $47. 50. Liquidity In 2011, Walmart's current ratio is . 89, and the industry average for the year is 1. 19 (Stock-analysis) When comparing Walmart's current ratio to the range of comparability it is substantially different in a negative way. The quick ratio for Walmart's is . 21 and the industry average is . 45(stock-analysis).

The quick ratio also falls on the positive side of the range of comparability that is shown in appendix B. While viewing the historical values for both the current ratio and the quick ratio it became apparent that Walmart has shown weaknesses in its liquidity for some time now. All of the values calculated were pretty much consistent for all three years. These values show that Walmart may or may not be able to meet all of it current obligations, which could or could not be fatal. They may have some good long term prospects that they can borrow against to meet their current obligations.

Overall, liquidity is not a strength for Walmart due to both low quick ratio and current ratio. Asset management In 2011, Walmart's inventory turnover was 11. 62 and the industry average was 10. 4(stock-analysis). It's fixed asset turnover was 3. 88 and the industry average was 3. 56, and it's total asset turnover was 2. 34 and the industry average was 1. 56(Stock-analysis). The values calculated for all three ratios mentioned all resulted in substantially different values in a positive way (Appendix B). Historically the values of each ratio have maintained relatively constant, which in this case is not a weakness.

Asset management is a strength for Walmart, which ultimately means that they are maintaining their assets in the correct manner in order to have an efficient way of business. Debt Management In 2011, Walmart's debt to equity ratio was that of 72. 75 while the industry average was 55 and it exceeded the range of comparability by a significant amount(Stock-analysis) (Appendix B). The debt to equity ratio indicates how much debt a company has for every dollar of shareholders' equity. Walmart's value of 72. 75 is high especially when considering the trend for the past three years. Read also Johnson and Johnson financial analysis

One reason for Walmart's high debt to equity ratio could be that they have been aggressive in financing their growth with debt. Walmart's debt ratio for 2011 is 60. 16; and this value indicates the percentage of Walmart's assets that are provided from debt. The industry average was not available through Reuters, stock analysis online, or any other database. Although, when thinking about their debt ratio in the past it seems to be a on the high side. Historically, Walmart has always had a debt ratio higher than the industry average.

Walmart does not show very good strengths when it comes to debt management. Profitability When looking at a companies profitability there are many ratios that need to be analyzed. Also, there are two groups of measures within the profitability which are the returns and the margins. These ratios include basic earning power, return on common equity, operating profit margin, return on total assets, gross profit margin, and net profit margin. Each of these ratios have something in common when referring to Walmart and that is that they are all drastically different in a positive sense.

For instance, net profit margin, which indicates how much profit a company makes for every dollar it generates in revenue or sales, is 4. 06 for Walmart in 2011(Stock-analysis). This is greatly different from the industry average and the range of comparability, once again in a negative way. The range of comparability is 4. 008 to 6. 012, Walmart's net profit margin falls just short of the range of comparability(Appendix B). Walmart has lower than normal profitability measures which could be due to lack of control over the expenses. Market Based Measures

Market based measures are a little more tricky to analyze than the rest. Price per earnings and price per cash flow are both on a per share basis. Companies do not make per share basis figures easily attainable. Companies try to hide these values because it shows the company's true performance. Walmart's price per earnings ratio 11. 16 and the industry average is 13. 65. This value falls within the range of comparability which is alright, but it should be improved (Appendix B). Walmart's price per cash flow is 9. 86 while the industry average is 11. 77(stock-analysis).

This value also falls into the range of comparability. This means that they are still doing well in the cash flow spectrum, but not as well as they are when looking at earnings. Overall, when looking at market based measures for Walmart, they are very strong competitors within their industry. DuPont Analysis Overall, Walmart continues to stand slightly above its competitors Target andCostcowithin its industry. Walmart's return on equity (24. 79) and their return on assets (9. 07) are both much greater when compared to their industry benchmarks of 17. 2 and 7. 82, respectively (Stock-analysis).

When analyzing the return on equity for Walmart, their total asset turnover and profit margin are both substantially different in a positive way. Walmart's profit margin and total asset turnover are both substantially high, which indicates that it only makes sense for their return on assets to behave in the same way. Since the return on assets is greater than that of the benchmark, this indicates that the company does not have cost control problems on the income statement.