Walmart finacial analysis assignment

Assignment 1 Additional Background Information of Wal-Mart in 2005: * Sales Revenue: In 2005, Wal-Mart had $312. 4 billion in sales, more than 6, 200 facilities around the world—including 3, 800 stores in the United States and 2, 800 elsewhere, employing more than 1. 6 million “ associates” worldwide. * Other Innovations: Later in October Wal-Mart announced it would implement several environmental measures to increase energy efficiency.

The primary goals included spending $500 million a year to increase fuel efficiency in Wal-Mart’s truck fleet by 25% over three years and double it within ten, reduce greenhouse gas emissions by 20% in seven years, reduce energy use at stores by 30%. * Board Affairs: Tom Coughlin (Vice Chairman) left in December 2005 after pleading guilty to wire fraud and tax evasion for stealing hundreds of thousands of dollars from Wal-Mart. [1] Three Models: 1. DIVIDEND DISCOUNT MODEL

The constant growth DDM stated that the current value of a firm’s stock price was equal to next year’s expected dividend divided by the investor’s required rate of return minus the expected dividend growth rate. And the required return could be decomposed into two parts: the expected dividend plus the expected future growth in dividends. That is the stock price equals dividend divided by the indicated dividend yield. And Wal-Mart has an indicated dividend yield of 1. 2 percent. [2] Based on this model, the PV of stock price of 2006 should be dividend $0. 4/1. 2%=$53. 33, higher than the recent closing price of $49. 47. It reaches a conclusion that we’d better buy the Wal-Mart stocks. 2. CAPITAL ASSET PRICING MODEL We use CAPM to calculate the appropriate expected rate of return. Information related to the estimation of Wal-Mart’s beta is presented 0. 84. [3] The historical U. S.

market risk premium was estimated to be 5. 05 percent and the current long-term (10-year) government bond yield was 4. 40 percent. The estimation of Wal-Mart's risk premium is 0. 4*5. 05%= 4. 242%. The equity investor's expected return is 4. 40% plus risk premium, i. e. 8. 462%. The consensus annual Wal-Mart dividend for 2006 was anticipated to be $0. 64, and one estimate of the expected constant dividend growth (in perpetuity) was around 7. 5 percent. The current value of stock price of 2006 should be $0. 64/(8. 462%-7. 5%)=$56. 04, higher than the recent closing price of $49. 47. It reaches a conclusion that we'd better buy the Wal-Mart stocks. 3. PRICE/EARNINGS MULTIPLE APPROACH

The intrinsic value of the stock was often estimated as the projected earnings per share times an appropriate forward-looking P/E. Wal-Mart currently traded at a P/E ratio of 19. 3 times [4] and 2006 EPS was estimated as $3. 00 [5], so the current stock price for 2006 is $3. 00*19. 3=$57. 9, higher than the recent closing price of $49. 47. It also reaches the conclusion that we'd better buy the Wal-Mart stocks. Analysis of Income Statement: Net sales increases from 2004 to January 31, 2005, and according to the information from Wal-Mart, the total sales of 2005, Wal-Mart had $312. billion in sales. Due to the management plan, Wal-Mart would expand its market and would continue to be successful in consistently increasing profits, and the consensus annual earnings growth forecast for the next five years was 13. 7 percent. Besides, Wal-Mart announced it would implement several environmental measures to increase energy efficiency. The primary goals included spending $500 million a year to increase fuel efficiency in Wal-Mart's truck fleet by 25% over three years and double it within ten, reduce greenhouse gas emissions y 20% in seven years, reduce energy use at stores by 30% in the long term. The long term operating costs would decrease due to the increase in energy efficiency. And the net profit margin increases from 3% (9054/258681) to 3. 5% (10267/287989) the profitability ascends from year 2004 to year 2005. In conclusion, income of Wal-Mart would still grow for the next five years. And Wal-Mart profit ability is strong during this period. Analysis of Balance Sheet: Liquidity ratio= current assets/current liabilities= 38491/42888= 0. 974 Wal-Mart's ability to meet its short-term obligation is relatively weak. The higher the current ratio, the more capable the company is of paying its obligations. A ratio under 1 suggests that the company would be unable to pay off its obligations if they came due at that point. However, marl-mart huge size requires much more debts to finance it operations. Wal-Mart's 0. 89 is not the best financial position, because the company with huge warehouse of inventory and other current asset has a longer inventory turnover than Target. Solvency ration= total debt/total equity= 23669/49396= 0. 79 Wal-Mart's ability to avoid financial risks and financial leverage is strong. A low debt/equity ratio generally means a company has not been aggressive in financing its growth with debt. Wal-Mart's firm financial position shows its powerful competency in the retail market, and a positive upward trend of expanding marketing shares. Analysis of Cash Flow: Wal-Mart is one of the largest retailers in the world; the majority of cash income comes from the continuing sales operations. And in 2005, Wal-Mart spent 8 times money in international operations than year 2004.

Wal-Mart’s investments outside North America have had mixed results: its operations in the United Kingdom, South America and China are highly successful, while it was forced to pull out of Germany and South Korea when ventures there were unsuccessful. [6] However, it turns out to be a wise decision expanding the international market in the long term. Summary: Wal-Mart’s stock price is expected to rise in 2006, and it has great developing potentials in the future. In my opinion, Wal-Mart stock is worth buying in the next period. Reference: 1] Sales Revenue, Other Innovations and Board Affairs from Wikipedia—Wal-Mart http://en. wikipedia. org/wiki/Walmart [2] Page 2: “ Martin noticed that Wal-Mart shares had a price to trailing earnings (P/E) ratio of 19. 3 times (based on the last four quarters of earnings) and an indicated dividend yield (based on the current quarterly dividend and current stock price) of 1. 2 percent. ” [3] Page 3: “ Information related to the estimation of Wal-Mart’s beta is presented in Exhibit 6 and shows Bloomberg’s beta estimate of 0. 84. ” [4] Page 4: “ Wal-Mart currently traded at a P/E ratio of 19. times (based on trailing earnings). ” [5] Page 3: “ Martin assumed the following for Wal-Mart, which she categorized as an “ average” growth type: growth of earnings of 13. 7 percent during the growth period; 45 percent payout at maturity; the recently completed but not yet announced 2005 (i. e. calendar year) EPS was estimated to be $2. 63 and the 2005 dividend paid was $0. 58 per share; 2006 and 2007 EPS were estimated as $3. 00 and $3. 40, respectively; and the 2006 dividend per share was estimated to be $0. 64. ” [6] http://en. wikipedia. org/wiki/Walmart