BUSINESS

INVESTOR'S EDGE

Growth makes Walmart issues a good choice

The retailer has become the world's largest grocery store.

"We sell for less." *Sam Walton, founder of Walmart*

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Guest columnist

In July of 2017, I recommended to valued readers of this column to snap up shares of Walmart (symbol: WMT). Since then, the common stock is up more than 110%, handily outperforming the S&P 500 Index by over 20%.

Today, I am recommending you buy Walmart shares again — even after their impressive run — because the company is experiencing accelerating growth in key areas of its business and will surely remain the world's dominant retailer.

Readers know that Walmart is the world's largest retail chain with more than 10,500 locations across the globe. In the United States, Walmart is a staple of our society with an estimated 90% of the population living within 10 miles of a Walmart location.

What you probably didn't know is that Walmart has quietly become the world's largest grocery store. In the U.S. alone, the company commands over 25% of the grocery market share with the nearest competitor, Costco, at only 7%.

Furthermore, Walmart has industry-leading profit margins in a notoriously low-margin business with a 15% lower cost per sale than their competitors online.

Put another way, Walmart's sheer size has allowed them to offer customers the lowest price for food and everyday goods. This makes Walmart the ultimate defensive stock; during the COVID-driven deflation of 2020, as well as 2022's sharp rise in inflation, Walmart was the go-to store for cost-conscious consumers looking to save money.

Interestingly, recent data shows Walmart has seen a significant increase in shoppers with income over $100,000 a year, which has never been their core customer. Walmart hopes to lure these high-end consumers, who might be still feeling the effects of inflation, to come for grocery offerings and ultimately adopt Walmart as their "core retailer."

Never a company to stand still, Walmart has invested heavily in its online and e-commerce business. Since 2020, Walmart has grown its U.S. e-commerce business by more than 122% with more than $53 billion in sales. Now the second largest e-commerce site on the web, Walmart's online sales are growing faster than top competitor Amazon.

Indeed, a recent survey found that 60% of Amazon Prime members have purchased groceries online from Walmart (as opposed to Amazon's Whole Foods store) showing that Walmart is winning the grocery aisle battle.

Walmart's surge in online sales has fueled demand for their relatively new online advertising platform: Walmart Connect, which saw global sales jump 30% last quarter. And there is more to come. Walmart's huge customer base allows it to gather massive amounts of data that will be used by advertisers to generate targeted ads.

SEE INVESTOR'S EDGE, E8

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Retailer consistently delivers

Continues from E1

Another catalyst has been the excellent reception of their Walmart+ membership, gaining more than 20 million members in less than three years.

The Walmart+ membership is similar to that of Costco or BJ's Wholesale Club. For an annual fee of $98, members receive free shipping, fuel discounts, access to the streaming service Paramount+ and unlimited deliveries of online orders of $35 or more from the store to their doorstep. This enhances both customer loyalty and store traffic, with a long runway for growth over the next decade or so.

There is nothing in the Walmart story that is flashy or sexy. This is a simple story of an entrenched, behemoth retailer who is consistently delivering to their customers the lowest price and best value. And that is its strength; as much as a stock can be — Walmart could be considered a "safe stock."

Walmart shares declined only 2% in the tough tape of 2022, whereas the S&P 500 Index lost almost 20%. Even more impressive, during the great financial crisis of 2008, when the broad market was down almost 38%, Walmart shares actually gained 17.9%. As I mentioned earlier, customers and investors tend to gravitate towards Walmart during stressful economic times due to the company's low prices and superb financial strength.

Walmart has a current yield of 1.4%, and has been increasing its dividend for an impressive 51 consecutive years. They have also increased their revenues for more than 20 consecutive years.

And, before I forget, let's talk about Sam's Club, Walmart's warehouse division that brought in $73.6 bullion in sales in 2022. Piper Sandler analyst Edward Yruma recently upgraded WMT, calling Sam's Club "Walmart's most underappreciated growth driver" and "a turnaround hidden in plain sight."

Specifically, Yruma pointed out that Member's Mark, Sam's Club private label brand, is a significantly lower-cost label than national brands, and it has been very well received by customers. Thus, more profits for Walmart.

Walmart does have risks, including continuing competition. But Walmart has more than held its own over the years. I'm not too worried.

Walmart is a strong, dependable company and stock. Conservative, long-term investors will do well here. Buy it.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com