

B / S	P / C / S	Strike	Exp.	Premium
Sell	Put	60	DEC '15	\$2.35

# IOI Tear Sheet : Wal-Mart (WMT)

## Short Put Investment (High Conviction)

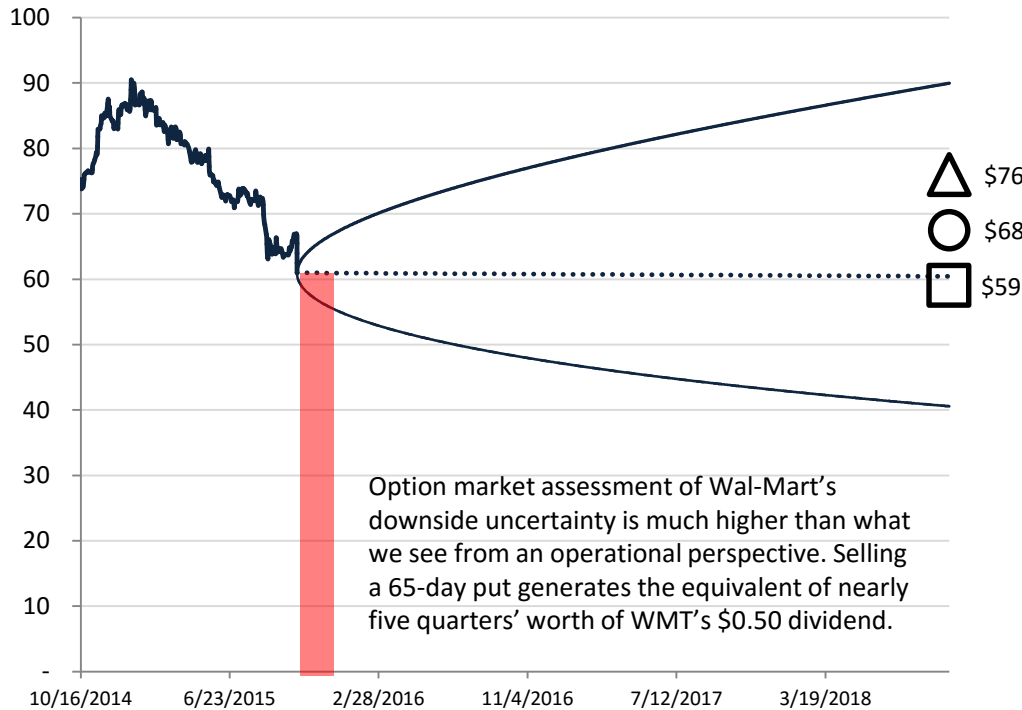
Data as of 14 October, 2015

### IOI's Take

WMT's investor day news shocked many: flat revenues this year (strong USD), lowered profits due to higher salaries and store improvements, increasing capex spend on web portal. All of these issues are factored into our model. Effective buy price (EBP) using this sold put strategy is \$57.65 and the dividend yield at that EBP works out to 3.5%--the highest for WMT over its history back to 1990. WMT has competitive issues, but it also has a very strong and certain recurring revenue base. Present market uncertainty is much higher than its operational uncertainty in our opinion.

### Drivers

<b>Revenues</b>	Revenue growth at WMT is tepid. More than half of revenues are groceries. Smaller footprint stores and online sales provide growth, but on a small base.
<b>Profitability</b>	WMT generates OCP margins of 3-4% each year. We are yet unsure of effect of workers' wage rise on OCP.
<b>Investment Level / Eff.</b>	High investments have yielded tepid OCP growth results. We're happy to see WMT focusing on web spending rather than enlarging the size of its big store footprint.
<b>Balance Sheet</b>	No hidden issues found in our analysis.



### Valuation & Return

**IOI Conviction Rating: High**

	Low	Likely	High
<b>Stock Fair Value (\$)</b>	59	68	76
<b>Stock Return (%)</b>	-3	13	26
<b>Option Period Return (%)</b>	2	4	4
<b>Option Annual Return (%)</b>	13	24	24

### Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	3	5
Profit Margin (%)	4	4
Med-term Growth	GDP	GDP

### Market Risk

WMT is trading at its lowest historical PSR going back to 1990. As such, market risk on this metric is low. Historical PSR times our revenue projections generate much higher stock price range than its present px.

**Scenarios Key**  
ST Rev Growth | ST OCP Margin | Med-Term Growth

Case / Scenario	Value
2%   3%   3%	58
<b>252-day Low</b>	<b>61</b>
2%   3%   5%	63
4%   3%   3%	63
4%   3%   5%	67
2%   4%   3%	67
2%   4%   5%	72
4%   4%   3%	72
PSR Implied Low	77
4%   4%   5%	78
<b>252-day High</b>	<b>90</b>
PSR Implied High	94

Probability / Materiality

