

B / S	P / C / S	Strike	Exp.	Premium
BUY	Stock	-	-	(\$61.08)
SELL	Call	60	DEC '15	\$3.24

IOI Tear Sheet : Wal-Mart (WMT)

Bond Replacement (High Conviction)

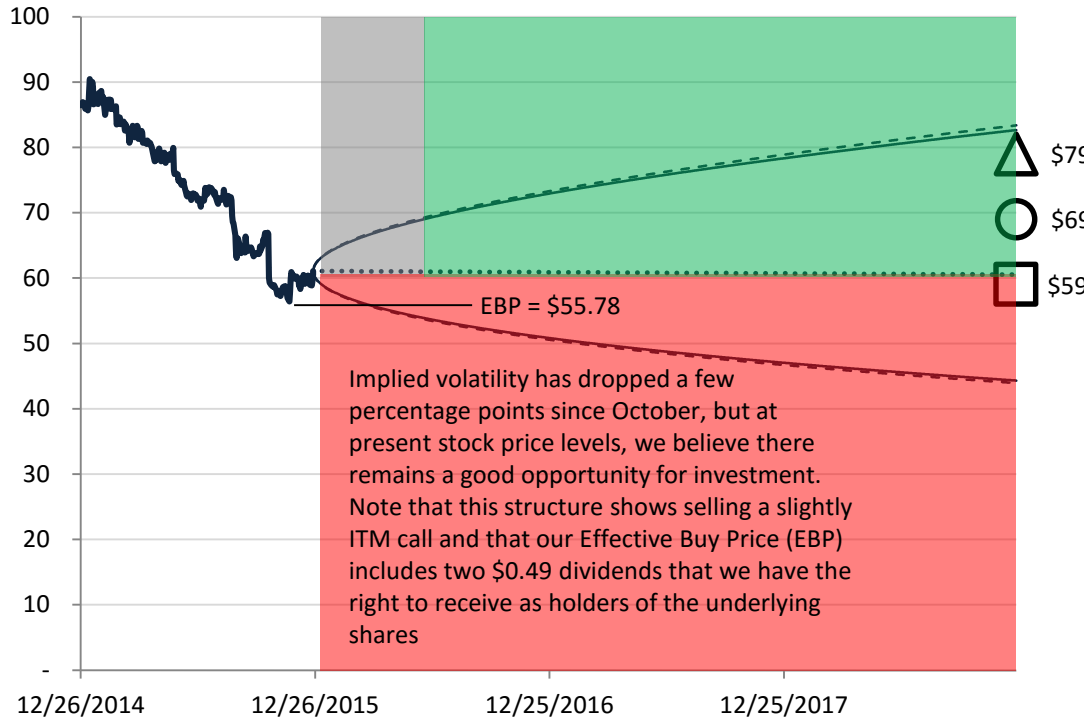
Data as of 23 December, 2015

IOI's Take

We published a Tear Sheet in October recommending a short put "bond replacement" strategy after Wal-Mart disappointed the market with its outlook during its annual investor day meeting. Articles appeared talking about how WMT was falling apart. Three weeks later, WMT announced the details of a new investment plan and the shares soared. These are the irrational moves that option investors can profit from. WMT's share price has moved up, but it is still trading near the bottom of our valuation range and at an historically low Price-to-Sales ratio. It remains an opportunity.

Drivers

Revenues	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.
Profitability	WMT generates OCP margins of 3-4% each year. We are yet unsure of effect of workers' wage rise on OCP.
Investment Level / Eff.	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.
Balance Sheet	No hidden issues found in our analysis.



Valuation & Return

IOI Conviction Rating: High

	Low	Likely	High
Stock Fair Value (\$)	59	68	79
Stock Return (%)	-3	11	29
Option Period Return (%)*	3	8	8
Option Annual Return (%)*	7	16	16

* Includes dividend

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 still trading at a low level vis-à-vis its historical PSR, so market risk on this metric remains low. Historical PSR (1st and 4th quartile) times avg. revenue projections generate much higher stock price range.

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

Case / Scenario	Value
252-day Low	56
2% 3% 3%	59
2% 3% 5%	64
4% 3% 3%	64
4% 3% 5%	68
2% 4% 3%	69
2% 4% 5%	74
4% 4% 3%	74
PSR Implied Low	77
4% 4% 5%	79
252-day High	90
PSR Implied High	93

Probability / Materiality

