

Walmart's Market, Financial Analysis and Valuation Analysis Based on Absolute Valuation Method - Relative Valuation Method

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Abstract. After the short-term suspension of commercial activities under the COVID-19 influence, the retail industry has ushered in the rapid growth of demand, and the current growth rate has gradually returned to stability. During COVID-19, retail has become an indispensable part of life. As an essential participant in the retail industry, Walmart's development has attracted attention. However, there are few academic articles about Walmart's valuation. Therefore, the report will analyze Walmart's performance by market strategy, investment strategy, and financial. Then, use both relative and absolute valuations to value Walmart. For relative valuation, the report analyses three competitors to select comparable companies. And Absolute valuations are based on assumptions of future cash flows. The two approaches have different dimensions and can increase the informativeness of the results. After research, Walmart is undervalued, which reflects investors' expectations of the company. The report will provide investors and retail industry researchers with Walmart's developments and market value. However, people should pay attention to the impact of the economic and competitive environment on Walmart.

Keywords: Walmart; Relative Valuation; Absolute Valuation.

1. Introduction

1.1 Background

Walmart is a multinational retail corporation operating a chain of supermarkets and warehouse clubs. And the company has a wide range of products, from daily necessities to home appliances, clothing, toys, etc. The aim is to provide customers with a convenient service and lower price. Walmart has three branches: Walmart U.S., Walmart International and Sam's Club. Walmart U.S. focus on the United States market, Walmart International targets overseas markets, and Sam's Club operates globally [1]. The core market of Walmart is the United States, which accounts for 69% of total revenue [1]. In 2022, Walmart operating 10,500 stores and clubs in 23 countries, with 2.3 million employees [1]. Walmart already became the U.S. largest retailer, with a market capitalization of 382.37 billion [2].

1.2 Research Review

The retail industry is close to people's lives, especially during the COVID-19 period, people depend on retail, and rising demand has promoted the development of online retail. As a giant in the retail industry, Walmart has attracted the attention of many investors and analysts. A report on the valuation of Walmart analyzes the macroeconomy, industry performance, Walmart's business strategy, financial statements, and comparable companies [3]. Finally, use the discounted cash flow method to evaluate Walmart from January 2016 to June 2017 and compare the actual performance of Walmart in June 2017 [3]. The report concludes that the DCF model can provide a reliable valuation for Walmart [3].

There are two methods of enterprise valuation: The Relative valuation method and the Absolute valuation method. Relative valuation analysis of the company's value and competitors or industry peers to determine the financial value [4]. And it is based on the company's market value and the calculation of multiples, averages, ratios and benchmarks to determine the company value [5]. It also helps investors decide between buying a company's stock. However, the limitation of relative

valuation is the assumption market correctly reflects company value. The absolute calculation models value based on asset characteristics that predict future cash flow [6]. And use the information available in a company's financial statements to calculate its intrinsic or true value [6]. However, this approach has limitations because new technologies, mergers and acquisitions, regulatory changes, and new market entrants may affect the development of the company and the entire industry [6].

1.3 Research Themes and Methods

In recent years, most of the research on Walmart has been about the company's strategy and performance during COVID-19. And there are a few studies about Walmart's valuation. The company will develop over time based on the change in the environment and the market, especially with the rapid development of e-commerce and the COVID-19 period. The article will use the recent data to analyse and valuation the company. And aims is to provide decision-making references for investors and company development information for retail industry researchers. The report will be divided into three parts: Firstly, analysis company's strategy, investment, and financial analysis. Secondly, the company valuation part includes analysing the industry and competitors. After that, conduct a valuation on two methods (Relative and absolute valuation). Finally, make recommendations and conclusions.

2. Company Analysis

2.1 Development & Strategy

In 1945, Walmart founder Sam M. Walton opened a franchised grocery store, Ben Franklin [1]. Walmart's initial public offering was in 1969. That prompted the store expansion [1]. Company annual sales exceeded 100 million US dollars in 1980 and began hypermarkets and membership models [1]. By the 1990s, Walmart had become a giant in the United States and began to expand globally. Starting in the 2000s, with the rise of the e-commerce industry, the company invested heavily in the online platform [1]. To remain competitive during COVID-19, Walmart has also begun offering subscription services to Walmart+, including unlimited free shipping and delivery from its stores [1]. The company has maintained a strategy of providing convenience and saving money for customers in development. Walmart has followed four operations strategies. Firstly, Walmart provides omnichannel services for shopping both offline and online. Secondly, use Every day Low Price (EDLP) as the pricing concept to provide low-price products to fulfil the price leadership commitment. And let customers believe that the price will not change under frequent promotional activities. Thirdly, Walmart's commitment to Everyday low costs (EDLC) is to control expenses and pass on the cost savings to customers. Fourthly, Walmart's expanded business includes digital advertising, fulfilment services, health and wellness, and financial services. In 2022, Walmart strengthened the ecosystem through omnichannel functions, stores, service products, e-commerce sites and marketplaces, and a supply chain with approximately 2.3 million employees [1].

2.2 Investment Strategy Analysis

In recent years, Walmart's strategy has focused on investing in e-commerce innovations. Walmart's acquisitions the Flipkart's e-commerce platform, Myntra and PhonePe's digital transaction platform [1]. These investments enable Walmart to enhance expertise and knowledge to incubate digital brands and expand product categories. In the future, Walmart will strengthen its e-commerce plans internationally [1].

3. Financial Analysis

3.1 Profitability Analysis

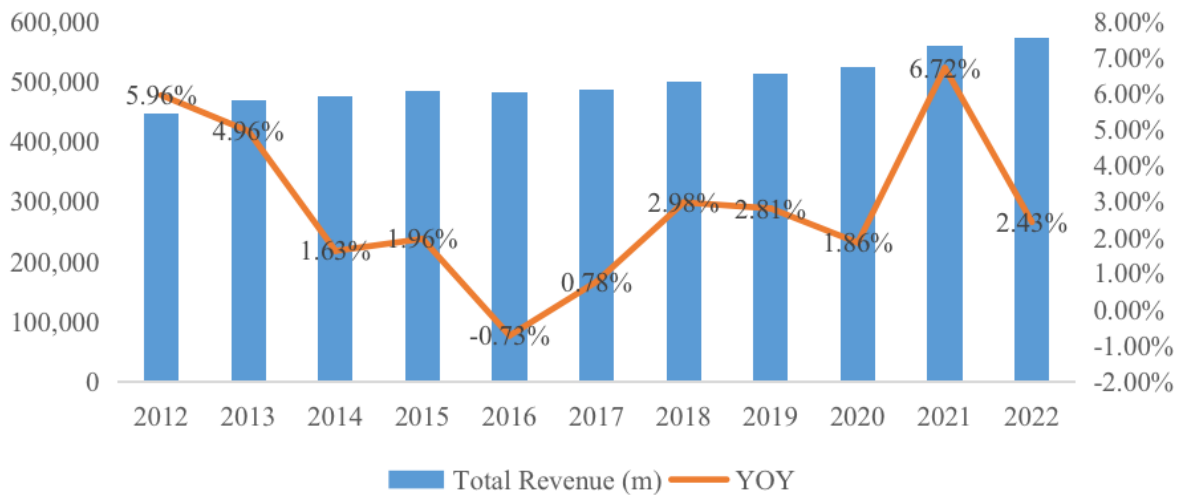


Figure 1. Walmart's revenue from 2012-2022 (Photo credit: Original)

Fig. 1 shows that Walmart's revenue has grown steadily over the past ten years. It reflects the company's good sales and service capabilities [7]. In 2016, the revenue decreased slightly by 0.73% compared to 2015. Because of foreign exchange fluctuations affect a net sales loss of \$17.1 billion [8]. From 2020 to 2021, under the influence of COVID-19, the increase in people's demand for food and daily necessities has brought about a 6.74% increase in revenue.

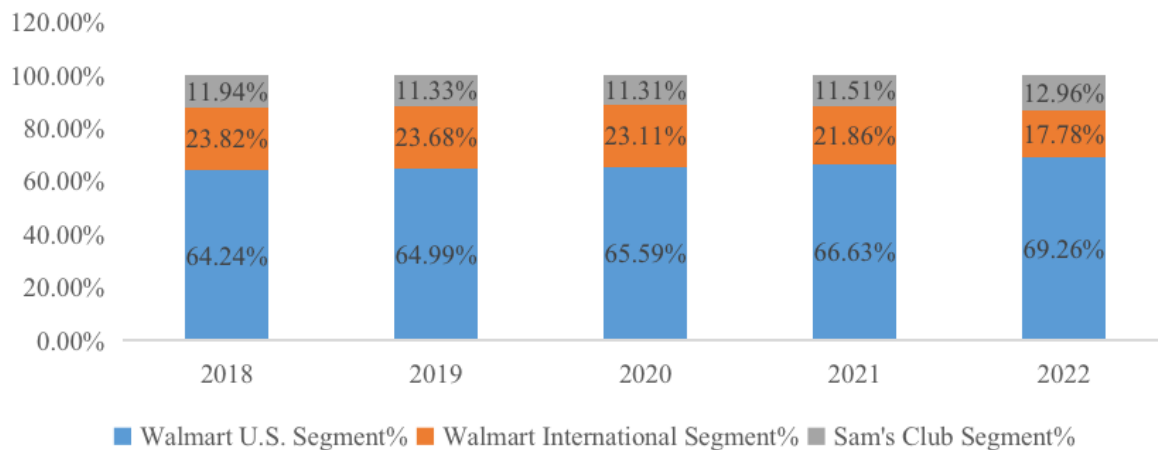


Figure 2. Net sales from 2018-2022 (Photo credit: Original)

Fig. 2 shows that the core source of net sales is Walmart U.S., and stable growth is close to 70% of total net sales in 2022. And Walmart International's net sales are declining, from 23.82% in 2018 to 17.78% in 2022. The net sales proportion of Sam's Club was stable at around 12% over the past five years. That reflects Walmart's dependence on the United States market and the gradual decline in international market share.

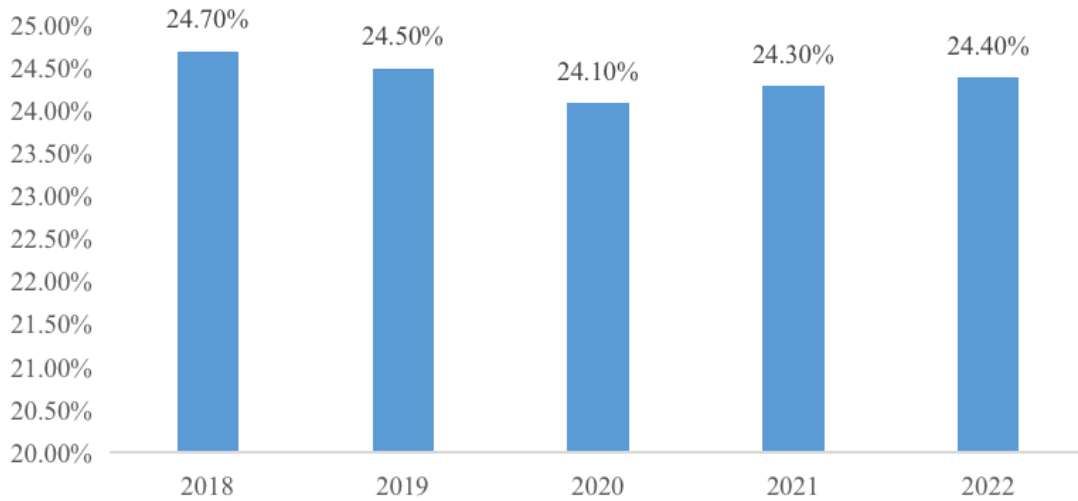


Figure 3. Gross profit margin from 2018-2022 (Photo credit: Original)

Gross Profit Margin can reflect whether the enterprise effectively manages its inventory cost and product manufacturing. Fig. 3 shows that Walmart's Gross Profit Margin remains stable at around 24% and close to the retail industry average of 23.25% [9]. The rate represents the good profitability and cost-control ability of Walmart.

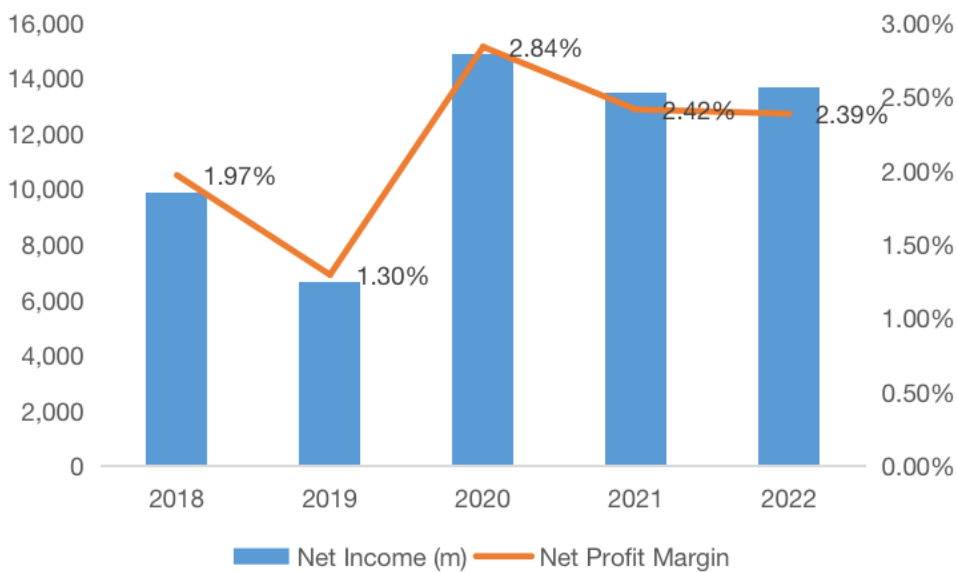


Figure 4. Net profit margin from 2018-2022 (Photo credit: Original)

Net profit margin reflects the company's real profitability. Fig. 4 shows that Net income in 2019 has dropped significantly compared to 2018 because Walmart acquired a majority stake in Flipkart in 2018 [10]. Walmart's average net profit margin is 2.18%, and the industry level is 2.35% [9]. That reflects that Walmart's ability to turn sales into actual profit is slightly below the industry level. However, this may be affected by strategic investment in 2019 [10].

3.2 Cash Flow Analysis

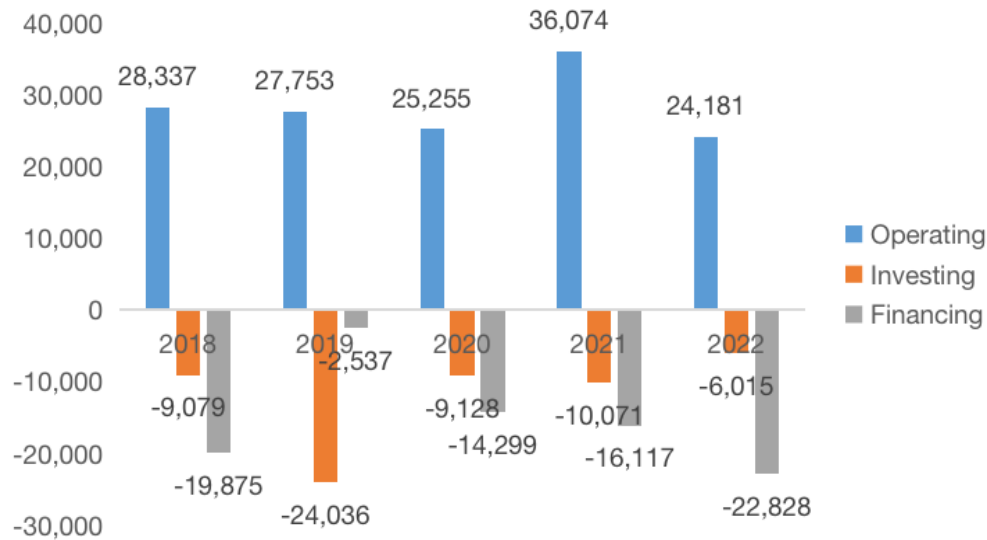


Figure 5. Walmart's Operating & Investing & Financing (Photo credit: Original)

Fig. 5 shows that Walmart has maintained a relatively stable cash output with an average operating cash flow of 28,320 million. In 2021, the operating cash flow significant increase from the accelerated inventory sales and the impact of COVID-19.

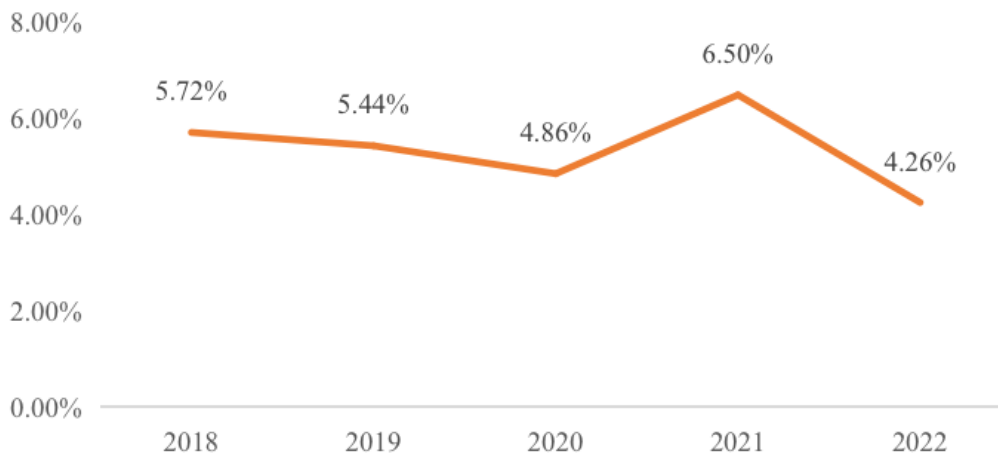


Figure 6. Operating cash flow margin (Photo credit: Original)

Operating cash flow margin measures the ability of a business to convert sales into cash. Walmart's average operating cash flow margin is 5.35%. Fig. 6 shows the index decline reflects the decrease in cash conversion ability. Because Walmart has invested in acquisitions, expanded its e-commerce platform and technology, and opened new stores. Financing activity increased by \$6.7 billion in 2022. The reason was the repayment of long-term debt, the note premium, and increased share repurchases [11]. A positive operating cash flow and a negative investing cash flow indicate that the company is profitable and growing [12].

3.3 Solvency Analysis

3.3.1 Long-term solvency

Table 1. Walmart's Debt to Equity Ratio & Debt to Assets Ratio

	2018	2019	2020	2021	2022
Debt to equity ratio (D/E)	0.42	0.57	0.60	0.51	0.41
Debt to assets ratio (D/A)	0.17	0.21	0.21	0.18	0.15

Debt to equity ratio (D/E) and Debt to assets ratio (D/A) both measure the debt repayment ability of a company. A high ratio means that the company has a high potential solvency risk. Table 1 shows that Walmart's D/E ratio is stable at around 0.5 and lower than the US retail industry average of 1.2 [13]. The D/A ratio dropped steadily below the US retail industry level of 0.7. These two data reflect that Walmart has better long-term solvency.

3.3.2 Short-term solvency

Table 2. Walmart's Current Ratio & Quick Ratio

	2018	2019	2020	2021	2022
Current ratio	0.80	0.80	0.79	0.97	0.93
Quick ratio	0.78	0.78	0.78	0.96	0.91

The Current and Quick ratios can reflect the company's debt payable ability in the short term. The higher ratio reflects better liquidity. The two ratios are different. The current ratio focuses on current assets, including inventory, prepaid expenses, etc. But the Quick ratio concentrates on items that can convert into cash shortly. Table 2 shows that Walmart's short-term solvency has increased in the past five years. But the Current ratio is lower than the industry level of 1.2 [13]. However, the low current ratio reflects that the enterprise has used assets effectively. Walmart's quick ratio is higher than its industry level of 0.5, which means that Walmart can immediately use its highly liquid assets to repay the current liabilities [13]. Nevertheless, the two ratios reflect that Walmart uses assets effectively and has good short-term cash repayment capabilities.

4. Company Valuation

The report will use both relative and absolute valuations in this part. Relative valuation differs from Absolute valuation. Relative valuation focuses on the company's value compared to its competitors [14]. The Absolute valuation model determines the company's intrinsic value based on its projected cash flows [14]. The Relative valuation will start with comparable companies' selection in the industry and then introduce that valuation method and calculation. The Absolute valuation part will present the valuation methodology, results and assumptions. The specific valuation steps show in the appendix.

4.1 Relative Valuations

4.1.1 Industry and Competitor Analysis

Total global retail sales reached US\$29.0 trillion in 2022 and are expected to reach US\$30.3 trillion in 2023. From 2023 to 2026, the global retail industry is expected to grow at an annual rate of 4%. In regions, the Middle East and Africa increased by 16.1% in 2022. Southeast Asia and North America grew by 9% and 2.5%, respectively [15].

The development of the retail industry and changes in the sales form have intensified market competition. Walmart's competitors include Amazon, Costco, and Kroger [16]. First, Amazon is the second largest company in the U.S. retail industry. It operates online e-commerce retail with products and services worldwide via its website. Amazon also produces and sells electronic devices like the

Kindle and Fire. Second, Costco has warehouses for members in North America, Asia, and Latin America [16]. Third, Kroger operates supermarkets, general department stores, jewellery stores, and convenience stores in the United States [16]. The comparable company will choose Costco and Kroger based on the above analysis. Because of Amazon's business includes the production and sales of electronic equipment, which will affect comparability.

4.1.2 Market Capitalization

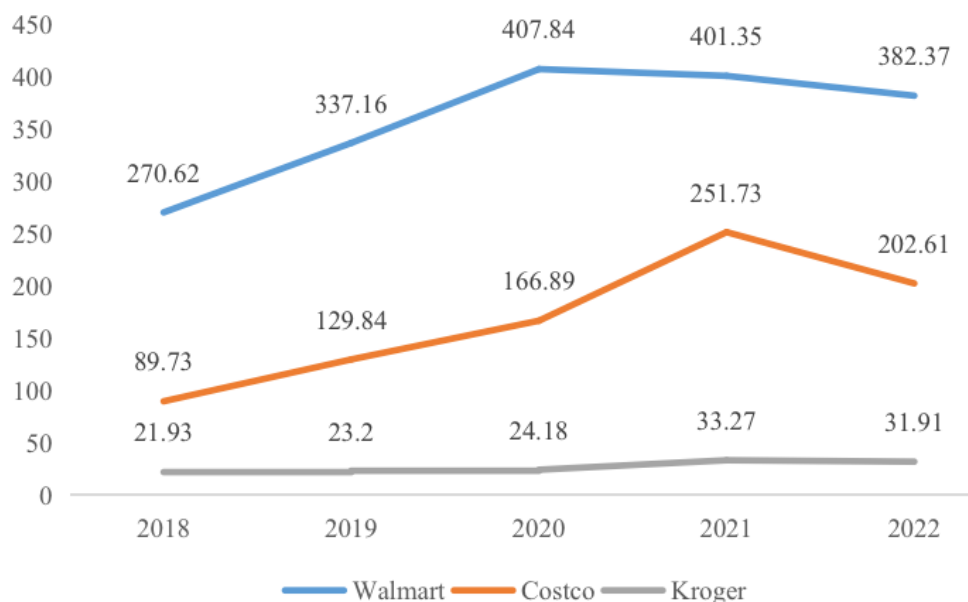


Figure 7. Market capitalization (Billion) (Photo credit: Original)

Market capitalization measures a company's public market value and the market's perception of its prospects. Market capitalization is affected by fluctuations in stock prices, which reflect the price investors are willing to pay for company shares. Figure 7 shows that Walmart's market capitalization is much higher than the other companies. And the market capitalization of Costco has rapid growth in 2020-2021, with a year-over-year increase of 50.84%. In the same period, the market value of Walmart fell by 1.59%. That reflects Costco is less affected by COVID-19 than Walmart and investors' optimism about Costco's prospects. Kroger's market capitalization increased by about 10 billion in the past five years. Nevertheless, the three company's market capitalization has increased in the past five years, but the market capitalization decreased from 2021 to 2022, which reflects retail industry demand stable after COVID-19.

4.1.3 Valuation Method

This article will choose the relative valuation: the P/E and EV/EBITDA. The P/E ratio determines the relative value of a company's stock to comparable companies in the same category [17]. A high ratio indicates that the company's stock is overvalued or that investors anticipate rapid growth in the future [18]. The calculation formula is Market value per share divided by Earnings per share. The advantage of P/E valuation is that the calculation data is easy to obtain and can directly link the asset price with the earnings [18]. The disadvantage is ignoring the company's risk, amortization, depreciation and capital expenditure [17]. EV/EBITDA is the ratio that can determine the company value, and the company quality depends on the industry. Higher multiples are expected for high-growth industries [19]. The calculation method is Enterprise Value divided by Earnings before interest, taxes, depreciation and amortization (EBITDA) [19]. The advantage of the EV/EBITDA accurately reflects the company's value. Therefore, the article will combine these two methods to measure whether Walmart's market value is overvalued or undervalued.

4.1.4 Valuation Process and Results

Table 3. Valuation method

	Walmart	Costco	Kroger	Average
Price/Earnings	28.71	39.73	20.09	29.51
Enterprise Value/EBITDA	16.98	20.03	14.1	17.04
Earnings per share (2022)	\$4.87	\$13.14	\$2.17	

From the Table 3, the average industry P/E is 29.51. So, 29.51 times EPS of \$4.87 gives a stock price of 143.71. The EPS comes from Walmart's 2022 fiscal year data, so choose the stock price of \$139.8 on January 31, 2022. The comparison shows that the value of Walmart is undervalued. The data shows that the average EV/EBITDA is 17.04, and Walmart's EBITDA is \$31.35 billion, so the EV is \$534.09 billion. The Enterprise Value of Walmart is \$436.17 billion shows Walmart is undervalued. The two results reflect that investors' expectations for Walmart are not strong.

4.2 Absolute Valuation

4.2.1 Valuation Method

Absolute valuation determines the value of a company using discounted cash flow (DCF) analysis [20]. It focuses more on the company's performance and forecasts of future performance. There are three assumptions in the below calculation. Firstly, the macroeconomics and environment are to be relatively stable. Secondly, past performance is assumed to translate into future developments. Thirdly, a relatively stable development forecast in the first three years uses average past performance. And a positive view of future markets' slight increase in forecast revenue from the second three years.

4.2.2 Valuation Process and Results

The first step in the DCF is to forecast future income and then calculate the free cash flow (FCF) [20]. Projections for future increases are based on the company's average over the past six years (Appendix 1). The second step is to calculate the WACC, which is 4.25% (Appendix 2). The WACC calculation is based on data from Morningstar and Yahoo, 10 Year Treasury Rate, and the average market risk premium in the United States [21,22]. Finally, discounting the FCF and calculating Walmart's Enterprise Value is \$849,215.19 million, an Equity Value is \$791,895.19 million, and a value is \$292 per share (Appendix 3). Therefore, Walmart are undervalued.

5. Discussion

Walmart's position in the retail industry is worth watching for investors. From the above analysis, Walmart's valuation is undervalued, reflecting the market's expectations for Walmart have declined. Undervalued is the time to buy stock, especially in a stable business-like Walmart. Walmart has good profitability, cash flow and solvency. However, investors should pay attention to the economic environment and the impact of competitors on Walmart. As an enterprise with businesses around the world, the economic and political factors will affect the enterprise's development. Walmart can improve its brand image and disclose more of its future growth plans for investors to increase their confidence in the company. Amazon and Sam are potential threats to the development of Walmart. And Walmart can focus more on the international market segment in the future, not relying too much on the US market and balancing market risk. Nevertheless, Walmart has developed in the retail industry for decades, the COVID-19 and its competitors will hardly shake its position shortly.

6. Conclusion

The analysis above shows that Walmart's overall revenue growth and financial performance are good, although the company depends on the US market in its operations. And there are strong

competitors in the industry, Costco and Amazon, which pose a competitive threat to Walmart, both online and offline. Moreover, the undervaluation of Walmart reflects that investors do not have sufficient confidence in future growth. Many scholars focus on Walmart's development and strategy, which show its importance in the industry. The article will bring some investment references to investors who pay attention to Walmart and retail. And the report shows Walmart's development in recent years. However, there are still shortcomings in the valuation approach. For example, the relative valuation method affects the price of a valued company when comparable companies are overpriced or underpriced. The absolute valuation method is based on the company's past performance, but many factors influence the development of a company and are difficult to predict. In the future, more variables will need to add to the company valuation, such as economic affect and sensitivity analysis of data variables.

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Million (USD)	2016	2017	2018	2019	2020	2021	2022	F2023	F2024	F2025	F2026	F2027	F2028
Revenue	482,130	485,873	500,343	514,405	523,964	559,151	572,754	589,937	607,635	625,864	647,769	670,441	693,906
YOY		0.78%	2.98%	2.81%	1.86%	6.72%	2.43%	3.00%	3.00%	3.00%	3.50%	3.50%	3.50%
Cost of sales	360,927	361,256	373,396	385,301	394,605	420,315	429,000	441,870	455,126	468,780	487,531	507,032	527,314
		0%	3%	3%	2%	7%	2%	3%	3%	3%	4%	4%	4%
Gross profit	121,203	124,617	126,947	129,104	129,359	138,836	143,754	148,067	152,509	157,084	160,238	163,409	166,593
		3%	2%	2%	0%	7%	4%	3%	3%	3%	2%	2%	2%
Advertising Expense	2,500	2,900	3,100	3,500	3,700	3,200	3,900	4,212	4,549	4,913	5,355	5,837	6,362
		16%	7%	13%	6%	-14%	22%	8%	8%	8%	9%	9%	9%
Rent	2,532	2,612	2,932	3,004	2,670	2,626	2,274	2,342	2,412	2,485	2,584	2,688	2,795
		3%	12%	2%	-11%	-2%	-13%	3%	3%	3%	4%	4%	4%
Depreciation and Amortization	9,454	10,080	10,529	10,678	10,987	11,152	10,658	10,871	11,089	11,310	11,650	11,999	12,359
		7%	4%	1%	3%	2%	-4%	2%	2%	2%	3%	3%	3%
Other SG&A	81,883	85,891	87,505	89,965	90,602	98,678	100,872	103,898	107,015	110,226	114,635	119,220	123,989
		5%	2%	3%	1%	9%	2%	3%	3%	3%	4%	4%	4%
Total SG&A Expense	96,369	101,483	104,066	107,147	107,959	115,656	117,704	121,324	125,065	128,934	134,224	139,744	145,505
EBIT	24,834	23,134	22,881	21,957	21,400	23,180	26,050	26,743	27,443	28,150	26,014	23,665	21,087
Net working capital	24,659	28,207	23,037	24,243	25,383	25,627	5,101	5,127	5,198	5,271	5,376	5,484	5,594
		14%	-18%	5%	5%	1%	-80%	0.5%	1.4%	1.4%	2%	2%	2%
Change in NWC		3548	-5170	1206	1140	244	-20526	25.50	71.77	72.78	105.42	107.53	109.68
Capital expenditure	\$11,477	\$10,619	\$10,051	\$10,344	\$10,705	\$10,264	\$13,106	\$13,499	\$13,904	\$14,321	\$14,894	\$15,490	\$16,109
		-7%	-5%	3%	3%	-4%	28%	3%	3%	4%	4%	4%	4%
FCF		14,188.86	23,723.99	16,474.03	16,048.00	18,956.20	38,657.50	18,473.51	18,793.01	19,154.98	17,201.47	15,096.96	12,798.99

D/E	0.9
D/V	47.37%
E/V	52.63%
Beta	0.53
Risk free rate	3.74%
Risk premium	5.60%
Re (CAPM)	6.71%
Interest expense(m)	1994
Value of Debt(m)	57,320
Rd	3.48%
WACC	4.25%

Million USD	F2023	F2024	F2025	F2026	F2027	F2028
FCF	18,473.51	18,793.01	19,154.98	17,201.47	15,096.96	12,798.99
WACC	4.25%					
g	2.90%					
TV at 2026	948,677.30					
PV TV	770,470.64					
5-Y Forecast value	78,744.56					
Enterprise Value	849215.19					
Current Debt	57320.00					
Equity Value	791895.19					
Per Share	292.10					
Number of share	2711					