



## What the Increase in Online Sales at Wal-Mart Stores, Inc. Is Telling Investors

### Description

**Wal-Mart Stores Inc.** ([NYSE:WMT](#)) recently announced quarterly earnings, which sent share up by more than 10% at one point during the day. For investors who only read through the balance sheet and income statement, there was nothing to be overwhelmed about, yet shares of the retail giant hit an all-time high. Essentially, the [good news was hiding in the details](#).

The reason for shares jumping in value is due to the 50% increase in online sales!

Although the company reported a top-line revenue increase of 4.2%, the increase was more than offset by the increases in cost of goods sold (COGS) and the amount of SG&A. Essentially, Wal-Mart's operating income is shrinking, yet the share price has increased at an above-average rate due to the expectation that the company will be able to capitalize on the increase in online sales. As a reminder to investors, Wal-Mart remains in a unique position with economies of scale, as it leverages its buying power to offer online shoppers the lowest possible prices.

Wal-Mart remains the low-cost producer.

For investors in retail or grocery stocks, the challenge they face is very real. During the week, shares of **Loblaw Companies Ltd.** ([TSX:L](#)) went nowhere, as the company made it clear that it was expecting a very difficult fiscal 2018. In fact, the company announced the closure of 22 stores, as the number of consumers migrating online increased in numbers. For investors in the retail space, the amount of pain they have suffered over the past several years has not subsided. After many years of declining sales, the industry has yet to [find its footing](#) in regards to the appropriate amount of physical locations versus the number of online sales.

Although many investors have jumped into securities such as **Amazon.com, Inc.** ([NASDAQ:AMZN](#)), which focuses on selling goods online, the reality is that consumers will continue to enter a shopping mall or grocery store to either try on a pair of shoes or squeeze the mangoes for ripeness. That sort of thing can't be done online.

With a generational shift in buying habits, investors are currently being offered traditional businesses, such as grocery stores, at very reasonable valuations. Loblaw trades at a trailing price-to-earnings

multiple of approximately 16 times. The challenge is with the consistency of revenues and earnings from companies that were traditionally very defensive in nature. Essentially, investors may not be getting what they are paying for until the industry “shakes out” and sales (both online and brick and mortar) begin to stabilize.

For investors seeking a retail stock with the ability to scale in to the online market, it may be essential to look south of the border and consider Wal-Mart instead of Canada’s grocery stores.

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2. NYSE:WMT (Wal-Mart Stores Inc.)
3. TSX:L (Loblaw Companies Limited)

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