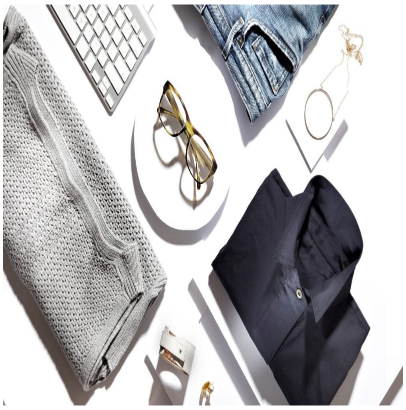

# Amazon (NASDAQ:AMZN) Stock: Retail Is Free!

### Description

**Amazon** (NASDAQ:AMZN) stock is one of the all-time legends of the stock market. After hitting a bottom of US$0.31 in 2001, it went on to rally 40,000%. Today, its stock goes for US$138!



Some investors think that Amazon's best days are behind it. It has been putting out pretty bad earnings results for several quarters, featuring negative earnings and slowing growth. Certainly, Amazon has been here before: it famously went through decades of negative earnings (at least "on paper" earnings) before it became profitable. But for a mature company like AMZN to be losing money looks concerning.

It's definitely true that Amazon's retail business (the famous online shopping store) is taking a hit this year. Growth has slowed down considerably, and the segment lost money in the most recent quarter. However, that's precisely why many investors are getting interested in Amazon today. With retail down so much, it's almost like the stock is being valued on just the non-retail parts of its business, which means that if you buy the stock, you're getting the retail segment "for free."

## Where most of Amazon's earnings come from

To understand what I mean when I say that Amazon's retail business is free, we need to know where Amazon's money comes from. Primarily, it comes from two places:

1. Retail
2. Amazon Web Services (AWS)

Retail is the well-known Amazon website that people shop for things on. AWS is a cloud services company that lets people build online apps. Between the two segments, AWS is much more profitable. For example, in the most recent quarter, when Amazon as a whole lost money, AWS raked in $5.7 billion in profit. That's a ton of money, and, as you're about to see, it arguably justifies Amazon's entire stock price on its own.

## Why retail is free

Amazon's AWS business earned US$5.7 billion in its most recent quarter. That works out to US$22.8 billion in a year. Today, AMZN has a US$1.41 trillion market cap (i.e., value of all the company's shares). If you subtract the retail losses from the equation, then "Amazon," based solely on AWS, has a 64 P/E ratio — that is, a 64 ratio of stock price to profit. With AWS growing at 36%, that is not an outrageously high P/E ratio. The entirety of Amazon had a similar ratio many times in the past. Therefore, many Amazon bulls think that when you buy AMZN stock, you're getting the retail business thrown in for free.

## Like Amazon? This Canadian stock is similar

It would be impossible to write about Amazon for a Canadian audience without also mentioning **Shopify** (TSX:SHOP)(NYSE:SHOP). Canada's very own technology giant, it has delivered explosive growth over the last seven years.

Much like Amazon, it's getting beaten down badly this year. In 2022, Shopify stock is down about 70%. That's because its previously high growth has slowed down to 16%, and it is now losing money (when it was profitable last year). Clearly, Shopify is experiencing some issues. But its stock is also cheaper than ever now.



If you're excited about the opportunity in Amazon, you might want to give SHOP a look, too. It's a risky play, but sometimes the riskiest stocks give the biggest rewards.

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