



Nasdaq Bear Market: Is Amazon Stock a Buy in Q4 2022?

Description

Similar to most other tech stocks, **Amazon** ([NASDAQ:AMZN](#)) has burnt massive investor wealth in 2022. Due to a wide range of macroeconomic challenges, including geopolitical tensions, interest rate hikes, inflation, and the prospect of a recession, the **Nasdaq Composite Index** is down 25% in the last year.

Comparatively, tech heavyweight Amazon has lost close to 40% in market cap in the last year. Prior to the sell-off, Amazon was among the hottest [tech stocks](#) in the world. In fact, AMZN stock surged 2,400% between September 2010 and September 2021.

Now valued at US\$1.2 trillion by [market cap](#), let's see if Amazon can continue to derive outsized gains for investors in the next decade.

Amazon is wrestling with rising costs in 2022

Amazon's weak performance in 2022 can be attributed to its recent earnings reports. Amazon, like other retailers, is struggling with red hot inflation and supply chain disruptions. The cost of shipping international containers has almost doubled in the last three years. Further, Amazon increased capacity at an accelerated pace to meet demand during COVID-19, which is now weighing on the e-commerce company.

In addition to additional shipping costs, rising commodity prices also negatively impact demand due to lower discretionary spending. So, analysts expect Amazon sales to rise by a meager 11% in 2022. Comparatively, its adjusted earnings are forecast to decline to US\$0.11 per share in 2022, compared to US\$3.24 per share in 2021.

Amazon Web Services is a key driver of profits

Investors should understand that an economic downturn does not last forever. Once inflation is brought under control, interest rates are bound to move lower, increasing the supply of money in the economy.

Amazon is part of several rapidly expanding addressable markets and the largest e-commerce platform globally. According to Statista, retail e-commerce sales are forecast to touch US\$7.3 trillion in 2025, an increase of 50% compared to 2021.

Amazon is also the largest public cloud infrastructure provider. Amazon Web Services (AWS), which is the company's cloud division, is a key driver of profit margins, accounting for 74% of total operating income in the last year.

Amazon's Q2 sales were higher despite lower ad spending by enterprises. Ad sales surged 18% year over year to US\$8.8 billion. Amazon is now the third largest digital ad platform globally, and ad sales accounted for 7.3% of total sales in the June quarter.

Comparatively, ad revenue for **Snap** and **Twitter** rose by 13% and 2%, respectively, in Q2, while **Meta's** sales were down 1.5% year over year.

Amazon is expected to increase its market share in the digital ad segment in the future. The digital-ad giant accounted for 7.8% of the U.S. digital ad market in 2019 and is forecast to end 2023 with a share of almost 15%.

The Foolish takeaway

Amazon's stock price decline in 2022 provides investors an opportunity to buy the dip. It's now valued at 2.2 times forward sales, which is quite reasonable. But as the company continues to reinvest its profits to expand its business verticals, AMZN stock is valued at almost 50 times 2023 earnings.

Analysts remain bullish on Amazon stock and expect it to gain by 50% in the next 12 months.

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