

Amazon	
Ticker MyBolsa/website BiG	AMZN
Ticker BiGlobal Trade	AMZN
Ticker BiGTrader24	AMZN
Ticker BiG Power Trade	AMZN
P/E Ratio 2018E	45,90
P/B Ratio	18,85
EV/Sales	3,20

Source: Bloomberg

Price and Performance (Values in USD)	
Price	1671,73
52 Week High	2050,50
52 Week Low	1307,00
YTD	11,3%
Average Daily Volume (mn)	6.436.619
Market Cap (mn)	821.159
Beta	1,28
Dividend	n.d.
EPS	20,68

Source: Bloomberg

Consensus (last 5m)	
Buy	46
Hold	2
Sell	2

Source: Bloomberg

Financial Information	
Sales (USD mn)	232.887
EBITDA (USD mn)	27.762
Nº of Employees	647.500
ROA	6,9%
ROE	28,3%
D/E	0,1%

Source: Bloomberg.

Note: Annual Values

Credit Ratings		
Agency	Rating	Outlook
S&P	AA-	STABLE
Moody's	A3	POS
Fitch	A+	STABLE

Source: Bloomberg.

Notes:

All quotes were updated in Bloomberg at closing prices of 01/03/2019

Relevant Information:

Use the following link to view our most recent publications:

<https://www.big.pt/InformacaoMercados/TradingIdeas/Index/-1>

Use the following link to see our recommendation history:

<https://www.big.pt/pdf/Newsletters/nld.pdf>

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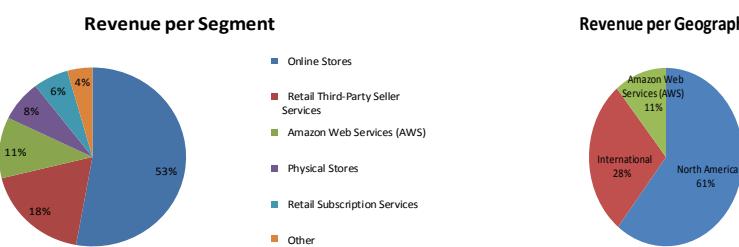
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Amazon (Ticker: AMZN)

Description

Amazon is an e-commerce company, founded in 1994. Amazon began as online book seller but expanded to sell a large group of goods and services, like electronics, clothing and others. Amazon divides its operations in three categories – North America, International and AWS. Amazon also acquired the organic food retail chain Whole Foods in 2017. Amazon sells products from external brands, its own brands (it owns above 70 private label brands) and has a marketplace, where sellers may post products for sale and Amazon receives a fee. Amazon has also invested in cloud services and media content.



Source: Bloomberg; BiG Research

Investment Thesis

Amazon Prime: Amazon's subscription service has above 100 million subscribers globally and besides guaranteeing a fixed fee (USD 119 per year) creates a strong source of client retention and preference. Prime members benefit from a bundle of perks, including faster shipping, which makes Amazon's website the 1st stop for members when they begin searching a product. Moreover Prime allows Amazon to cross sell other subscription products, like Music Unlimited and Amazon FreeTime Unlimited, with Prime members having access to a smaller fees to subscribe to these services.

E-Commerce Growth: While moderating, global e-commerce is expected to continue to increase at a double digit rate, as e-commerce grows in the total share of retail sales. Amazon is one of the largest players in the e-commerce space, being the market leader in the US (with a market share of 49,1%). It also has a presence in 13 worldwide market places and ships to over 100 countries. Amazon's strong market position in the e-commerce space in most countries (China is one of the few expectations) places Amazon in the forefront to benefit from the continuous growth of e-commerce.

Amazon Web Services: AWS is the cloud computing 'arm' of Amazon and was one of the proponents of the increase in profitability of the company. Cloud computing has margins well above the retail area of Amazon and has experienced elevated growth rates of revenues which should continue for the next years as the Cloud Infrastructure-as-a-service market has a forecasted compounded annual growth rate of 32% between 2017 and 2022 (with a projected valuation of USD 99 bn by 2022 according to IDC). Amazon is the largest player in this market with a share of 34%.

Advertising: Amazon has expanded its operations to include digital advertising, a market that is expected to rise 17,1% to USD 327,28 bn in 2019, of which Amazon should derive revenues of USD 9,1 bn (eMarketer estimates). While Amazon is not a market leader in this segment – Google, Facebook and Alibaba control around 60% of the total market-advertising revenue is profitable business and should be a net contributor to Amazon's bottom line (the company does not discriminate advertising metrics in the accounts).

Growth Deceleration: Amazon's stock was penalized after the last earnings results due to the lower growth expectations (vs. market) embedded in the guidance provided by the company. While Amazon's revenue growth from e-commerce should moderate to mid tens, the investment in AWS and advertising should provide additional factors of growth for the company. The deceleration of growth is a risk due to the high multiples valuation of Amazon.

Reputation risk: Amazon is a company whose success is linked to the consumer's perception about its brand – as such negative news may negatively impact the revenues of the company.

High Competition: Amazon is the largest player in the e-commerce market of the US and is a leader in several other markets where it is present. However there are several players in the market, both only e-commerce players (eBay, Alibaba) and physical retail stores (Walmart). The increase in competition in the e-commerce market can reduce the margins of the retail business of Amazon. The company has invested in private labels to face this risk.

Digital Tax: The European Union and other governments, like New Zealand, have begun studying the application of a digital tax on revenues, which will affect e-commerce companies. The European Union, which has been unable to reach consensus in the application of the tax, is studying the application of a rate of 3%, while New Zealand aims to apply a rate of 2% to 3%. This digital tax can grow to be adopted at an international level, where we forecast the rate applied should be similar to those proposed by the E.U. and New Zealand.

▲ Upcoming Events

25th April 2019 – 1Q19 Results (Estimated)

▲ Earnings

Amazon reported 4th quarter net revenues of USD 72,38 bn and earnings per share of USD 6,04. The market forecasted revenues of USD 71,92 bn and earnings per share of USD 5,56. Amazon's operating profit reached USD 3,79 bn, beating the market forecast of USD 3,65 bn. AWS revenues increased 45% to USD 7,43 bn.

For the 1st quarter Amazon forecasted net revenues of USD 56 bn and USD 60 bn (vs. USD 60,99 bn forecasted by the market) and operating results of USD 2,3 bn to USD 3,3 bn (vs. USD 2,99 bn forecasted by the market).

▲ Comparative Analysis

Name	PER Actual	PER 5 Yr. Average	P/E 2019E	P/E 2020E	P/BV	YTD	ROE	ROA	Div. Liq./EBITDA	EBIT Margin
JD.COM INC-ADR	n.a.	n.a.	50,6	29,0	4,7	37,3	-4,5	-1,3	-8,5	-0,6
AUBABA GROUP HOLDING-SP ADR	39,9	51,9	34,3	27,7	6,9	34,2	17,1	8,5	-2,5	16,7
EBAY INC	21,8	18,4	14,0	12,2	5,4	33,1	35,3	10,4	0,2	20,7
AMAZON.COM INC	88,3	336,8	45,9	33,7	18,8	11%	28%	7%	0,3	5,3
Média exc. Amazon	30,9	35,1	33,0	23,0	5,7	34,8	16,0	5,9	-3,6	12,3

Source: Bloomberg; BiG Research

Amazon has above peers multiple profile, but the current PER has contracted from the average values of the past years, as Amazon increased profitability. Amazon has an above average return on equity and return on assets but an EBIT margin below peers. Amazon's balance sheet has a low leverage, a common factor in the e-commerce sector.

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Financial Accounts

Income Statement (USD mn)	2017	2018
Net Product Sales	118.573	141.915
Net Service Sales	59.293	90.972
Total net Sales	177.866	232.887
Cost of Sales	111.934	139.156
Technology and content	22.620	28.837
General Administrative	3.674	4.336
Other Expenses	35.532	48.137
Total Operating Expenses	173.760	220.466
Operating Income	4.106	12.421
Interest expense and income	- 646	- 1.031
Other income (expense), net	346	183
Provision for income taxes	- 769	- 1.197
Net income	3.033	10.073
EPS (basic)	6.32	20.68
EPS (diluted)	6.15	20.14

Source: Company Data; BiG Research

Balance Sheet (USD mn)	2017	2018
Cash & Equivalents	20.522	31.750
Marketable Securities	10.464	9.500
Inventories	16.047	17.147
Accounts Receivable	13.164	16.677
Property and equipment, net	48.866	61.797
Goodwill	13.350	14.548
Other Assets	8.897	11.202
Total Assets	131.310	162.648
Accounts payable	34.616	38.192
Accrued expenses and other	18.170	23.663
Unearned revenue	5.097	6.536
Long-term debt	24.743	23.495
Other long-term liabilities	20.975	27.213
Total Liabilities	103.601	119.099
Total Equity	27.709	43.549
Equity + Liabilities	131.310	162.648

Source: Company Data; BiG Research

Free Cash Flow (USD mn)	2017	2018
Operational Cash Flow	18.365	30.723
Net Income	3.033	10.073
D&A	11.478	15.341
Changes in WC	242	1.043
Others	4.096	6.352
Investment Cash Flow	- 27.084	- 12.369
Change in Fixed & Intangible Assets	- 10.058	- 11.323
Change from Acquisitions & Divestitures	- 13.972	- 2.186
Other	- 3.054	1.140
Financial Cash Flow	9.928	- 7.686
Debt change	9.928	- 7.686
Effect of FX	713	- 351
Change in free cash flow	1.922	10.317

Source: Company Data; BiG Research



Source: Company Data

Amazon's revenues increased 31% to USD 232,9 bn, with both services (+53% YoY to USD 91 bn) and products (+20% to USD 141,9 bn) growing in comparison to what was reported in 2017. Operating income increased 203% to USD 12,4 bn, with operating margin expanding from 2% to 5%. Net income increased 232% to USD 10 bn.

Amazon acquired in 2017 Souq Group Ltd., an e-commerce company for around USD 583 mn, which is the market leader in Arabic countries. Amazon also acquired Whole Foods (an organic food supermarket chain) in 2017 for USD 13,2 bn. In 2018, Amazon acquired Ring Inc for USD 839 mn and PillPack for USD 753 mn. Ring Inc is a residential home security company and PillPack is an online pharmacy. Amazon has a USD 5 bn stock repurchase program outstanding, with no fixed expiration date.

Corporate Governance

Amazon's CEO since 1994 is Jeff Bezos, the company's founder. Bezos is also Amazon's chairman and currently, the largest shareholder of Amazon. Jeff Bezos salary in 2017 was USD 81.840, but due to his share in Amazon's stock and the upwards trend of the stock, Jeff Bezos is currently the world's richest person. Jeff Bezos is also the founder of Blue Origin, an aerospace company, and the owner of the newspaper Washington Post.

Graph



Source: BiGlobalTrade; BiG Research

Appendix

1. Retail e-commerce sales growth & e-commerce as % total retail sales



Source: Statista

Analyst:

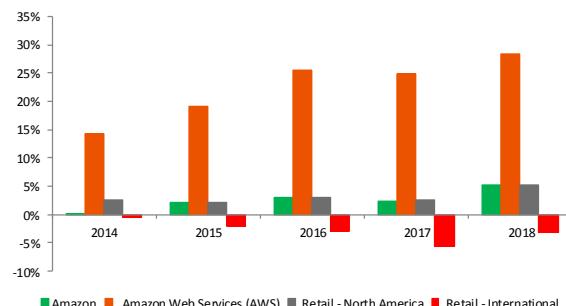
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2. Amazon's Operating Income



Source: Bloomberg; BiG Research

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- Clarification of the qualitative terms implied in the recommendations:
 - Buy, expected absolute return above 15%;
 - Accumulate, expected absolute return between +5% and +15%;
 - Keep/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
 - Sell, expected absolute return below -15%;

The investment framework aforementioned is merely indicative and not globally strict.

- Unless otherwise specified, the price-targets of the investment recommendations issued by BiG's Research Team are valid for 12 months.
- The update of the investment recommendations models and respective price-targets will occur, usually, in a period of 6 to 12 months.
- BiG may have, in the present and/or future, some commercial relationship with the companies mentioned in this report, namely providing investment advisory services.
- The records of the investment recommendations of the Research Team are provided below. The detailed external consultation of the respective performances may be provided if so requested.

PSI20 Notes in the last 12 months as of 31st of December of 2018:

	Number of Recomendations	%
Accumulate/Buy	2	66,7%
Keep/Neutral	1	33,3%
Reduce/Sell	0	0,0%
Total	3	100,0%

Source: BiG Research

Trading Ideas in the last 12 months as of 31st of December of 2018:

	Number of Recomendations	%
Profit Taking	9	56,3%
Stop Loss	7	43,8%
In Place	0	0,0%
Total	16	100,0%

Pair Trades in the last 12 months as of 31st of December of 2018:

	Number of Recomendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

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