Amazon.com (AMZN)

Current Price $1733.74  Date: 11/21/2019  P/E (TTM): 77.30  Market Cap: 865.4B
P/S: 3.25  P/CF (TTM): 24.40  P/B: 15.29

Amazon.com, Inc. is an online retailer that offers a wide range of products. The Company products include books, music, videotapes, computers, electronics, home and garden, and numerous other products. Amazon offers personalized shopping services, web-based credit card payment, and direct shipping to customers.

Amazon began as Earth’s biggest bookstore, but has evolved into Earth’s biggest everything store. In addition to e-commerce, the company has also become dominant in other spaces as well. Amazon Web Services (AWS), their cloud computing platform, has quickly solidified a a top position in the competitive space. Additionally, Amazon has created an influential entertainment company composed of video and music streaming. More recently, Amazon has entered a path to dominate the grocery market, with the $13.7B acquisition of Whole Foods in 2018. Through its Alexa and its Echo product lines, Amazon has also become a leader in digital personal assistant devices. Lastly, Amazon has entered the healthcare space, with a $1B acquisition of PillPack as well as a joint venture with Berkshire Hathaway and JPMorgan.

What makes Amazon unique? Due to the outstanding leadership from Jeff Bezos, Amazon now has revenue that surpasses all of America’s department, grocery store and restaurant chains combined. Amazon has become a master of innovation while maintaining a long-term mindset in terms of goals. Its strategy of consumer integration makes this company more than just a household name, but a household necessity. As a company that has never been content to “stay in its lane”, we believe Amazon will continue to dominate different industries while dwarfing the competition.

Our Valuation Models indicate that AMZN is significantly undervalued at its current price of $1,733.74. Since Amazon is a diversified retailer, we decided to model out a basic, conservative DCF. Our DCF sensitivity analysis yielded target prices between $2,007 and $2,430. The company’s current WACC is 9.2%, which we found from pulling the cost of debt and equity from Bloomberg and used the tax rate from Visible Alpha. We calculated an exit multiple based on a formula that utilized a weighted average of percent revenue from each industry Amazon has exposure to (e.g., e-commerce, entertainment, cloud, grocery, etc.) times the different industry averages.

Discussion of Economic Moat: Amazon is a powerhouse that dominates every industry it enters. Its online marketplace is a household name and is on the forefront of logistic perfection. Amazon sets the bar for the industry in terms of logistics - an investment major competitors can’t keep up with, thus placing high barriers to entry. Even its higher margin segments, web services and advertising present huge barriers to entry. First, the infrastructure needed to enter the cloud market is not easily obtainable and the data leverage needed to compete with its advertising is just as difficult.

With Amazon Prime capitalizing on consumer habits on 1 out of every 3 Americans, it’s becoming an integral part of our culture and consumers’ lives.