Walmart vs. General Motors: Which Value Stock is a Better Buy?

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With the major benchmark indexes hitting new highs lately, most stocks are currently trading at sky-high valuations. However, there are still some quality value stocks in the market. Both Walmart (WMT) and General Motors (GM) are examples. They are well positioned to benefit from their industry tailwinds but look undervalued at their current price levels. But which of these two stocks is a better buy now? Let’s find out.

As the major benchmark indexes hover around their all-time highs thanks to optimism surrounding the economic recovery, most stocks are now trading at sky-high valuations. However, both Walmart Inc. (WMT) and General Motors Company (GM) look undervalued at their current price levels considering their solid growth potential driven by industry tailwinds.

WMT is a retailing company that operates a chain of hypermarkets, discount department stores, and grocery stores. It offers various retail outlets, including supercenters, supermarkets, hypermarkets, warehouse clubs, cash-and-carry stores, home improvement, specialty electronics, restaurants, apparel stores, drugstores, convenience stores, and digital retail.

GM designs, manufactures, and sells cars, trucks and automobile parts. It also provides automotive financing services through General Motors Financial Company, Inc. The company operates through the following segments: GM North America, GM International, Cruise and GM Financial.

While GM’s stock price has gained 124.6% over the past year, WMT has returned 12.2%. In terms of their past nine months’ performance, GM is a clear winner with 74.1% returns versus WMT’s negative returns. But which of these two stocks is a better pick now? Let’s find out.

Latest Movements

On June 29, WMT and IBOTTA, a technology company that offers a free-to-use shopping platform, forged a strategic agreement to create and launch a new digital offers program on Walmart.com and the Walmart app. Through this new program, WMT’s customers will have access to hundreds of cash rebates on popular products, adding another dimension to the retailer’s everyday low price (EDLP) promise. WMT is optimistic about driving significant traffic and sales to its stores and digital properties through this partnership.

In early July, GM agreed to form a strategic investment and commercial collaboration with Controlled Thermal Resources, a lithium resource and renewable energy company, to secure local and low-cost lithium. Lithium is a metal crucial to GM’s plans to make more affordable, higher mileage electric vehicles (EVs). By securing and localizing its lithium supply chain in the U.S., both companies are hoping to make powerful, affordable, high mileage EVs, while also helping to mitigate environmental impact and bring more low-cost lithium to the market.

Recent Financial Results

WMT’s total revenue increased 2.7% from the prior-year quarter to $138.31 billion for its fiscal year 2022 first quarter, ended April 30. Its net income came in at $2.73 billion, which represents a 31.6% decline year-over-year. The company’s adjusted EPS came in at $1.69, up 43.2% year-over-year.

For its fiscal first quarter, ended March 31, 2021, GM’s revenue was $32.48 billion, down marginally from the prior-

year quarter. The company's adjusted net income increased 266.2% year-over-year to $3.29 billion. Its adjusted EPS increased 262.9% year-over-year to $2.25.

Past and Expected Financial Performance

WMT's revenue has increased at a 3.7% CAGR over the past three years. Analysts expect the company's revenue to decrease marginally for the current year and increase 2.5% over the next year. Its EPS is expected to grow 8.9% for the current year and 4.7% next year. Furthermore, its EPS is expected to grow at a 7.5% rate per annum over the next five years.

In comparison, GM's revenue has declined at a 5.4% CAGR over the past three years. Its revenue is expected to increase 11.7% for the current year and 10.6% in the next year. The company's EPS is expected to grow 29.8% for the current year and 8% next year. GM's EPS is expected to increase at a 13.5% rate per annum over the next five years.

Profitability

WMT's $562.84 billion trailing-12-month revenue is 4.6 times higher than GM's $122.25 billion. Also, WMT is more profitable, with a 25.1% gross profit margin versus GM's 13.6%.

WMT's 7.6% and 12% respective ROA and ROTA compare favorably with GM's 2.8% and 4%.

Valuation

In terms of forward EV/S, GM is currently trading at 1.31x, which is 63.8% higher than WMT's 0.80x. However, in terms of forward EV/EBITDA, WMT is currently trading at 12.3x, which is 68.5% higher than GM's 7.3x.

However, both GM and WMT are trading at multiples lower than their industry averages.

POWR Ratings

WMT has an overall A rating, which equates to a Strong Buy in our proprietary POWR Ratings system. However, GM has an overall C rating, which equates to Neutral. The POWR Ratings are calculated considering 118 different factors, each weighted to an optimal degree.

GM has a C grade for Quality. This is justified by its 4% ROTC, which is 25.6% lower than the 5.4% industry average. WMT, in comparison, has a B grade for Quality. Its 12% trailing-12-month ROTC is 57.4% higher than the 7.6% industry average.

GM has a C grade for Stability. In comparison WMT has an A grade. However, both GM and WMT have a Value grade of B, which is reflective of their lower-than-industry valuation multiples.

Of the 57 stocks in the Auto & Vehicle Manufacturers industry, GM is ranked #22. In comparison, WMT is ranked #2 of 40 stocks in the A-rated Grocery/Big Box Retailers industry.

In addition to the POWR Ratings grades we've just highlighted, both GM and WMT are graded for Momentum, Sentiment, and Growth. Click here to see the additional ratings for GM. Also, get all WMT's ratings here.

The Winner

While both GM and WMT are value stocks, WMT appears to be a better buy based on its better stability and profitability.

Our research shows that the odds of success increase if one bets on stocks with an Overall POWR Rating of Buy or Strong Buy. Click here and here to learn about other top-rated stocks in the Auto & Vehicle Manufacturers industry. Click here to learn about the top-rated stocks in the A-rated Grocery/Big Box Retailers industry.

Click here to check out our Automotive Industry Report for 2021

WMT shares were trading at $140.27 per share on Friday afternoon, up $0.68 (+0.49%). Year-to-date, WMT has declined -1.90%, versus a 17.11% rise in the benchmark S&P 500 index during the same period.

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Ananyo’s ardent interest in capital markets, wealth management, and financial regulatory issues, led him to a career as an investment analyst. His goal is to educate individual investors by making complex financial issues easy to understand.

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