Quick Picks & Lists

Ebay Vs. Amazon - Value Vs. Growth

Nov. 27, 2020 11:11 AM ET | 1 Like | Includes: AMZN, EBAY

Sven Carlin
Growth At Reasonable Price, long-term horizon, book author, Fund Manager
Sven Carlin Research Platform
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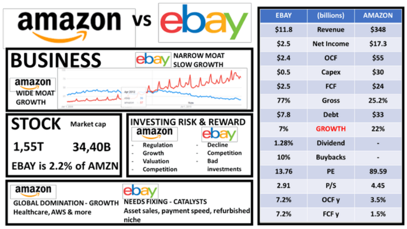
Summary

- EBay is Seth Klarmans Largest position offering strong cash flows, buybacks and asset sales.
- Amazon on the other hand is a pure growth stock, but the growth can also provide a margin of safety.
- Both are good businesses and will likely be good investments, the key is to see which one and at what price fits you best.
- For those who prefer watching, I have added a video version to the bottom of this article.

Ebay stock research rationale and Amazon comparison



amazon vs ebay

BUSINESS

ebay NARROW MOAT SLOW GROWTH

amazon WIDE MOAT GROWTH

STOCK Market cap

1,55T 34,40B

EBAY is 2.2% of AMZN

INVESTING RISK & REWARD

amazon
- Regulation
- Growth
- Valuation
- Competition

ebay
- Decline
- Competition
- Bad investments

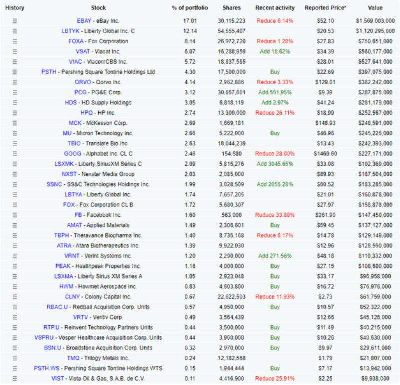
amazon
GLOBAL DOMINATION - GROWTH
Healthcare, AWS & more

ebay
NEEDS FIXING - CATALYSTS
Asset sales, payment speed, refurbished niche

EBAY	(billions)	AMAZON
$11.8	Revenue	$348
$2.5	Net Income	$17.3
$2.4	OCF	$55
$0.5	Capex	$30
$2.5	FCF	$24
77%	Gross	25.2%
$7.8	Debt	$33
7%	GROWTH	22%
1.28%	Dividend	-
10%	Buybacks	-
13.76	PE	89.59
2.91	P/S	4.45
7.2%	OCF y	3.5%
7.2%	FCF y	1.5%

Ebay stock vs Amazon stock – Source: Sven Carlin

Ebay (EBAY) is Seth Klarman's largest holding within the Baupost Group. As I regard Klarman as one of the best value investors out there, it is always good to take a look at his positions.



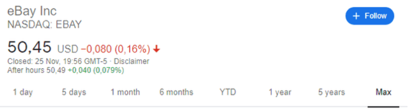
History	Stock	% of portfolio	Shares	Recent activity	Reported Price*	Value
☰	EBAY - eBay Inc.	17.01	30,115,223	Reduce 6.14%	$52.10	$1,569,003,000
☰	LBTYK - Liberty Global Inc. C	12.14	54,555,407		$20.53	$1,120,295,000
☰	FOXA - Fox Corporation	8.14	26,972,720	Reduce 1.28%	$27.83	$750,651,000
☰	VSAT - Viasat Inc.	6.07	16,288,959	Add 18.62%	$34.39	$560,177,000
☰	VIAC - ViacomCBS Inc.	5.72	18,837,585		$28.01	$527,641,000
☰	PSTH - Pershing Square Tontine Holdings Ltd	4.30	17,500,000	Buy	$22.69	$397,075,000
☰	QRVO - Qorvo Inc.	4.14	2,962,886	Reduce 3.33%	$129.01	$382,242,000
☰	PCG - PG&E Corp.	3.12	30,657,601	Add 551.95%	$9.39	$287,875,000
☰	HDS - HD Supply Holdings	3.05	6,818,119	Add 2.97%	$41.24	$281,179,000
☰	HPQ - HP Inc.	2.74	13,300,000	Reduce 26.11%	$18.99	$252,567,000
☰	MCK - McKesson Corp.	2.69	1,669,181		$148.93	$248,591,000
☰	MU - Micron Technology Inc.	2.66	5,222,000	Buy	$46.96	$245,225,000
☰	TBIO - Translate Bio Inc.	2.63	18,044,239		$13.43	$242,393,000
☰	GOOG - Alphabet Inc. CL C	2.46	154,580	Reduce 28.00%	$1469.60	$227,171,000
☰	LSXMK - Liberty SiriusXM Series C	2.09	5,815,276	Add 3045.65%	$33.08	$192,369,000
☰	NXST - Nexstar Media Group	2.03	2,085,000		$89.93	$187,504,000
☰	SSNC - SS&C Technologies Holdings Inc.	1.99	3,028,509	Add 2055.28%	$60.52	$183,285,000
☰	LBTYA - Liberty Global Inc.	1.74	7,657,205		$21.01	$160,878,000
☰	FOX - Fox Corporation CL B	1.72	5,680,307		$27.97	$158,878,000
☰	FB - Facebook Inc.	1.60	563,000	Reduce 33.88%	$261.90	$147,450,000
☰	AMAT - Applied Materials	1.49	2,306,601	Buy	$59.45	$137,127,000
☰	TBPH - Theravance Biopharma Inc.	1.40	8,735,168	Reduce 6.17%	$14.78	$129,149,000
☰	ATRA - Atara Biotherapeutics Inc.	1.39	9,922,030		$12.96	$128,590,000
☰	VRNT - Verint Systems Inc.	1.20	2,290,000	Add 271.56%	$48.18	$110,332,000
☰	PEAK - Healthpeak Properties Inc.	1.18	4,000,000	Buy	$27.15	$108,600,000
☰	LSXMA - Liberty Sirius XM Series A	1.05	2,923,048	Buy	$33.17	$96,958,000
☰	HWM - Howmet Aerospace Inc.	0.83	4,603,800	Buy	$16.72	$76,976,000
☰	CLNY - Colony Capital Inc.	0.67	22,622,503	Reduce 11.93%	$2.73	$61,759,000
☰	RBAC.U - RedBall Acquisition Corp. Units	0.57	4,950,000	Buy	$10.57	$52,322,000
☰	VRTV - Veritiv Corp.	0.49	3,564,439		$12.66	$45,126,000
☰	RTP.U - Reinvent Technology Partners Units	0.44	3,500,000	Buy	$11.49	$40,215,000
☰	VSPRU - Vesper Healthcare Acquisition Corp. Units	0.44	3,960,000	Buy	$10.26	$40,630,000
☰	BSN.U - Broadstone Acquisition Corp. Units	0.32	2,970,000	Buy	$9.97	$29,611,000
☰	TMQ - Trilogy Metals Inc.	0.24	12,182,568		$1.79	$21,807,000
☰	PSTH.WS - Pershing Square Tontine Holdings WTS	0.15	1,944,444	Buy	$7.17	$13,942,000
☰	VIST - Vista Oil & Gas, S.A.B. de C.V.	0.11	4,416,900	Reduce 25.91%	$2.25	$9,938,000

Ebay is Klarman's largest position – Source: Dataroma

Further, it is always good to compare investments in order to best understand the risks and rewards of a specific investment. I've decided to compare Ebay with Amazon (AMZN) due to their competitive environment and because it also gives an excellent perspective on growth and value investing.

Ebay and Amazon stock price analysis

Despite lagging on all fronts compared to Amazon, Ebay's stock did really well over the last decade and also benefited from the Covid-19 intensification of online purchasing.



eBay Inc
NASDAQ: EBAY

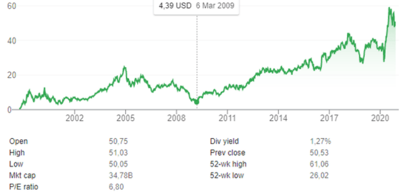
50,45 USD −0,080 (0,16%)
Closed: 25 Nov, 19:56 GMT-5 · Disclaimer
After hours 50,49 +0,040 (0,079%)

Depot

Add symbol Edit

NVO	67.51	2.07%
VRNT	59.04	1.85%
GOOGL	1,781.82	1.00%
SHOP	1,031.15	1.14%
GILD	59.85	0.60%
AAPL	116.72	0.60%
FB	276.94	0.49%
AMZN	3,199.10	0.44%
CHD	85.96	0.44%
ACN	250.01	0.27%
DG	217.18	0.08%
BABA	276.02	-0.61%
CHTR	643.95	-1.14%

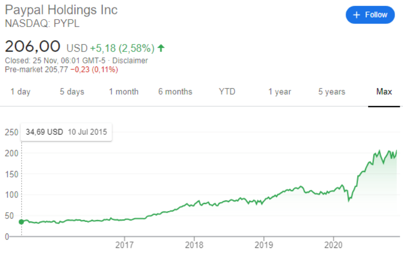
Expand Portfolio



Open	50,75	Div yield	1,27%
High	51,03	Prev close	50,53
Low	50,05	52-wk high	61,06
Mkt cap	34,78B	52-wk low	26,02
P/E ratio	6,80		

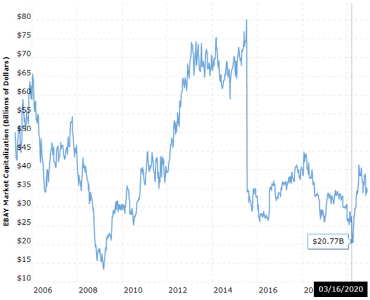
Ebay stock price historical chart

At first sight, Ebay stock didn't perform as well as AMZN did, but we must not forget the PayPal spin-off in 2015.


Paypal Holdings Inc
NASDAQ: PYPL
206,00 USD +5,18 (2,58%) ↑
Closed: 25 Nov, 06:01 GMT-5 · Disclaimer
Pre-market 205,77 −0,23 (0,11%)

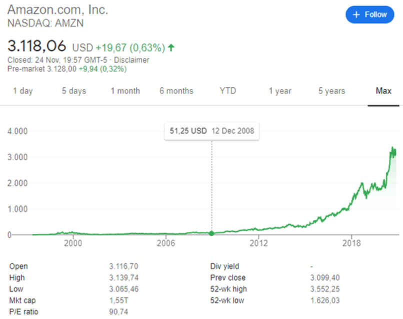
Paypal stock price since spin-off

Ebay's market capitalization didn't change much since, but PayPal's performance rewarded Ebay shareholders almost equally to what Amazon did for its shareholders.



Ebay's market capitalization – Source: Macrotrends

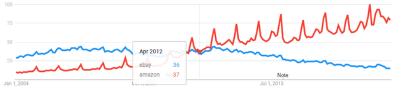
Excluding PayPal, Amazon did much better.


Amazon.com, Inc.
NASDAQ: AMZN
3.118,06 USD +19,67 (0,63%) ↑
Closed: 24 Nov, 19:57 GMT-5 · Disclaimer
Pre-market 3.128,00 +9,94 (0,32%)

Open	3.116,70	Div yield	-
High	3.139,74	Prev close	3.099,40
Low	3.065,46	52-wk high	3.552,25
Mkt cap	1,55T	52-wk low	1.626,03
P/E ratio	90,74		

Amazon stock price historical chart

So, despite Ebay being a declining business, shareholders have been similarly rewarded in the past. However, Ebay is still in a negative trend which is significant for future investment returns while Amazon's growth is strong and steady.

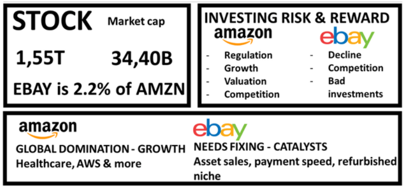


Ebay vs Amazon on Google trends – Amazon's huge growth starts in 2009, Ebay has been declining since 2012

Despite the declining business, Ebay still managed to reward shareholders as it turned into a value investment. It often happens that way; the stock suffers when the business doesn't meet exuberant growth expectations, the company needs to replace its growth-oriented shareholders with more value-oriented ones, which takes time, but at some point, the cash flows, revenues, business, and all offer a margin of safety which make it a low risk and high reward investment.

Amazon and Ebay stock investing risks

The two businesses represent two totally different investing worlds. Ebay offers cash flows that are turned into strong buybacks and a dividend while Amazon is still focused on growth and global domination.

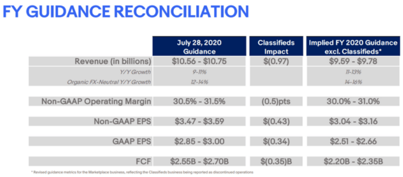


Ebay vs Amazon stock analysis – Comparative risks and rewards

Let's look at the investing situations individually.

Ebay stock investing risk

When it comes to investing risks, the key risks with Ebay should be related to the capacity the company will have to keep things stable. If Ebay manages to slowly grow revenues and create $2 billion in free cash flows per year, that will be the main valuation reference for the market.



FY GUIDANCE RECONCILIATION

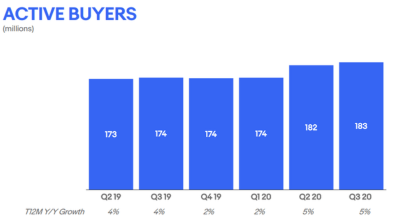
	July 28, 2020 Guidance	Classifieds Impact	Implied FY 2020 Guidance excl. Classifieds*
Revenue (in billions)	$10.56 - $10.75	$(0.97)	$9.59 - $9.78
Y/Y Growth	*9-11%*		*11-13%*
Organic FX-Neutral Y/Y Growth	*12-14%*		*14-16%*
Non-GAAP Operating Margin	30.5% - 31.5%	(0.5)pts	30.0% - 31.0%
Non-GAAP EPS	$3.47 - $3.59	$(0.43)	$3.04 - $3.16
GAAP EPS	$2.85 - $3.00	$(0.34)	$2.51 - $2.66
FCF	$2.55B - $2.70B	$(0.35)B	$2.20B - $2.35B

* Revised guidance metrics for the Marketplace business, reflecting the Classifieds business being reported as discontinued operations

Ebay FY 2020 guidance – Source: Ebay Investor relations

If they manage to grow and push free cash flows to $3 billion and higher, that will push the market capitalization higher too but if cash flows start declining, the same fate will hit the stock.

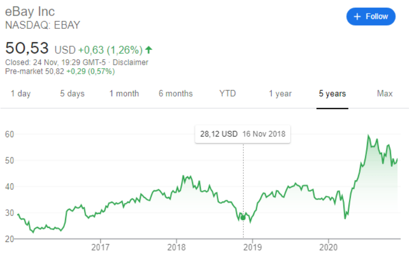
However, the number of active buyers with Ebay is strong and it should even offer growth opportunities.



Ebay stock analysis – number of active users – Source: Ebay Investor relations

I think the free cash flows and business stability were the margin of safety Seth Klarman looks for before buying, especially in Q4 2018 when he started buying the current position. (Klarman bought EBAY first in 2014, sold in 2015, probably just a PayPal spin-off catalyst play). $2.5 billion of cash flows, on a stable user base alongside asset sales, provides safety. Consequently, when as a value investor you have limited downside, all that is left is an upside.

But, Ebay's stock is almost 100% higher than where it was in Q4 2018 when Klarman started buying.



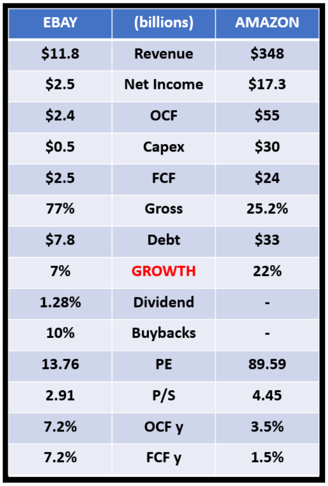
Ebay stock 5-year chart

As Klarman himself states in his book Margin of Safety; a higher stock price increases the risk and lowers the return. When Klarman started buying, the free cash flow yield was in the low teens while now we are looking at a free cash flow yield of 7%. In line with Klarman, I would say the stock is riskier now and you have to see how the 7% free cash flow yield and the business fit your portfolio. We'll discuss more in the investment conclusion in a bit.

Amazon stock investing risks

When it comes to Amazon, it is all about the growth rate and whether the company will keep managing to meet high investors' expectations. We could say that what is currently priced into the $1.55 trillion market capitalization is a forward growth rate of around 22% per year for longer. The price to earnings ratio is at 89, which is high but I would focus on possible free cash flows, not net income.

With operating cash flows of $55 billion, high capital expenditures of $30 billion, the free cash flows left are $24 billion. But, let's assume at some point Amazon will manage to just invest $15 billion for sustaining capital expenditures which would leave $40 billion in free cash flows per year.



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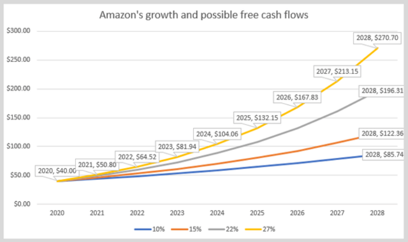
10%	Buybacks	-
13.76	PE	89.59
2.91	P/S	4.45
7.2%	OCF y	3.5%
7.2%	FCF y	1.5%

Amazon vs Ebay fundamentals – Source: Sven Carlin

If the company keeps growing at 22% while keeping profit ratios equal for the next 7 years, the $40 billion free cash flows could easily quadruple to $160 billion. This would give it a 2028 free cash flow yield of 10% based on the current market capitalization. If valuations remain equal to current ones, which I think is unlikely because of natural forces, market size, competition, and other various possible impacts like regulation, then the return for investors will be in line with the growth.



Amazon's growth and free cash flows – Source: Author's calculations

If Amazon manages to do better than expected, we can expect a better stock price performance, if not, then the delta of the delta declines, and the market capitalization can quickly evaporate. I have explained the delta of the delta tool for analysing growth stocks within my Visa growth stock example.

If Amazon's growth declines to 15%, which is still amazing for a company of this size, free cash flows in 2028 might not be sufficient to justify the current market capitalization, but that mostly depends on what will be the expectations for growth beyond 2028.

Ebay and Amazon stock investment conclusion

Ebay and Amazon operate in the same field but the investment theses are practically opposite. Ebay is, or better to say was, a value investment offering a 10% and higher free cash flow yield in 2019 while Amazon is a pure growth stock.

I would not dare to say one is better than the other, I would say it is more about what you wish to own and what kind of investor you are.

Amazon stock investment conclusion

Owning Amazon is easy, the stock keeps going up, the company continues to expand into new sectors leveraging on its scale and market position. It seems nothing can stop it. As long as Amazon keeps growing fast, the stock price will likely follow. So, nothing wrong with owning Amazon as a growth, global exposure, business strength, and proven concept portfolio position.

However, as a value investor, I personally strive for both a margin of safety and growth. Amazon offers high growth but has no margin of safety. If due to its scale the growth slows down to 10%, or it becomes less profitable to grow, free cash flows in 2028 would be at $85 billion for a 2028 price to cash flow of around 20 which is ok but that implies no return for 7 years which isn’t a great margin of safety. Albeit, unlikely Amazon will grow at just 10% over the next 7 years given the current growth rates.

At current levels, with a price to adjusted free cash flows ($40 billion) of 38.5, Amazon is a fairly priced growth stock. Even if the company grows just 15% over the next 7 years, free cash flows in 2028 should be at $122 billion that with a price to cash flow of 20 could result in a market capitalization of $2.5 trillion giving a 6 to 7% yearly return. Not bad from a conservative perspective.

If they keep growing at 22% and the valuation remains equal, then 22% per year is the expected return. In case of faster growth, expect even higher returns.

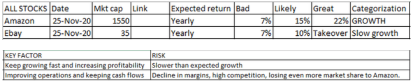
Ebay stock investment conclusion

On the other hand, Ebay offers growth of around 7% as they focus on smaller business niches but the stock price has already increased and consequently, the risks increased too. A free cash flow yield of 7% isn’t really stellar but the 183 million active buyers definitely provide some kind of safety margin.

The cash flow return is around 7%, there is still $700 million to be spent on buybacks and with the asset sales it is likely buybacks will continue and debt will be reduced. As long as the company can keep growing, cash flows should remain stable and returns in line with the cash flow yield and growth.

In a worst-case scenario, Ebay’s free cash flows could start declining, but that is unlikely as there is still the positive tailwind of e-commerce growth. I would say the biggest risk is something disrupting Ebay’s current business stability.

If the company can find a way to grow, then we have to add a growth rate to the cash flow yield. That would already create excellent investment returns as the growth of 7% added on top of the 7% free cash flow yield quickly grows to a potential return of 14% per year. Perhaps the best way for a good investment return is a takeover by some fund focused on cash flows. With a 7% free cash flow yield, Ebay is attractive to anyone who can borrow with lower costs.



ALL STOCKS	Date	Mkt cap	Link	Expected return	Bad	Likely	Great	Categorization
Amazon	25-Nov-20	1550		Yearly	7%	15%	22%	GROWTH
Ebay	25-Nov-20	35		Yearly	7%	10%	Takeover	Slow growth

KEY FACTOR	RISK
Keep growing fast and increasing profitability	Slower than expected growth
Improving operations and keeping cash flows	Decline in margins, high competition, losing even more market share to Amazon.

Ebay and Amazon stock investment summary – Source: Author

I would say both Ebay and Amazon are stocks to watch and to buy when the key fundamentals fit your required levels compared to other investment opportunities you have.

Here is the video version for those who prefer watching.

Amazon vs. Ebay Stock - Both Great - Which is b...
Später ans...
Teilen
amazon
vs.
ebay

If you enjoyed this, please consider subscribing.

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.

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