Written by
Michael Wiggins De Oliveira
Marketplace
Author of Deep Value Returns. Delivering High Performance Against the S&P 500.
Follow
32.19K Followers
Send message

Watchlist ...
+ Add

Symbol	Price	% Chg
AAPL	128.10	0.20%
ABNB	162.33	-3.89%
BCPC	132.63	-0.73%
BKNG	2,337.92	-1.89%
BRK.A	424,840.00	0.81%
CMG	1,426.50	-1.62%
CNSWF	1,486.72	0.05%
CTAS	348.59	-0.62%
DPZ	431.89	-0.48%

Expand Portfolio

Amazon: Still Another 40% Upside Potential From Here

May 04, 2021 3:15 PM ET | Amazon.com, Inc. (AMZN) | 58 Comments | 25 Likes

Summary

- Amazon continues to guide for impressive revenue growth into Q2 2021, despite the very tough comps with last year.
- I break down Amazon's top three drivers of revenues and what investors should consider.
- Why investors paying about 3.5x forward sales are being offered a compelling entry point right now.
- Looking for more investing ideas like this one? Get them exclusively at Deep Value Returns. Learn More »

Photo by 400tmax/iStock Unreleased via Getty Images

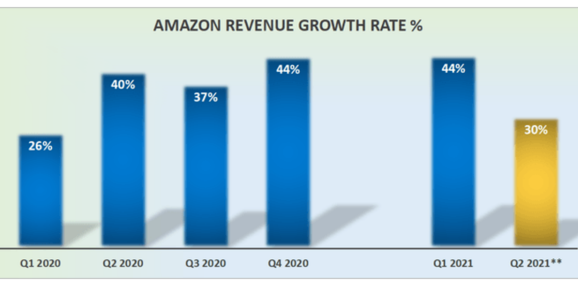
Investment Thesis

Amazon (NASDAQ:AMZN) has seen its share price stagnate over the past several months. However, under its hood, this tech giant is anything but stagnate.

Amazon is growing at a terrific pace and has three key growth opportunities that are highly compelling: AWS, Retail, and Advertising. I remark on each one of these opportunities and why investors would do well to consider this stock.

Accordingly, I lay out my thesis for why its stock still has a further 40% upside potential.

Putting Its Guidance Into Perspective



*Source: author's calculations; **high-end company guidance*

Amazon continues to grow at a rapid clip, with nearly 30% y/y guidance for Q2 2021. Note, this is an incredibly challenging quarter to comp against.

If we look back *prior* to 2020, Amazon was slowing down its top-line growth toward 20% y/y. However, it appears that, in the post-COVID world, Amazon has cut out new growth opportunities.

I contend that Amazon has three main pillars for solid growth prospects over the coming three to five years. These are AWS, Retail, and Advertising. I'll address these in turn.

AWS, Possibly the Biggest Driver of Shareholder Returns

The case for AWS is very clear. Companies that are undergoing a mass upgrade of their IT infrastructure are being forced to either adapt or die. There's no middle ground left for companies in the post-COVID environment.

The value proposition is quite simple, rather than having to build up everything from scratch, many larger enterprises are finding it more cost-effective to simply outsource their IT infrastructure. Meanwhile, I proclaim that the big growth opportunity for AWS is actually likely to come from SMBs, as these smaller outfits couldn't sufficiently upgrade their technological infrastructure without bringing in prohibitive costs into their business. And this is a key distinguishing feature for enterprises adopting AWS rather than Microsoft Azure (MSFT), for example.

What AWS offers is an affordable platform that's highly innovative and capable of meeting the requirements of many enterprises.

Investors Should Consider Amazon's International Opportunity

Next, on the retail side of its business, Amazon's North America segment continues to be responsible for bringing nearly 70% of its total Retail revenues. And this truly puts into perspective just how big its International opportunity *remains*.

To illustrate, not only has Amazon's International opportunity consistently reported profits for the past three quarters, but what has truly started to shine is that, for the first time in Q1 2021, its International operating income wasn't some paltry bottom-line profitability, but it was quite a dramatic swing to $1.3 billion of operating income.

This is important because, although it's still some way away from being as mature as its North America segment, which had a 5% operating income margin, its International segment still ended up with a respectable 4% operating income margin profile.

Having said all that, I declare that the real unheard story here is that despite the easy comps internationally, given all national restrictions in place, Amazon still managed to grow its revenues by 50% y/y. And these are not small numbers. We are referring to the growth from approximately $19 billion in Q1 2020 to close to $31 billion this time around.

Could Advertising Be Another Future Crown Jewel?

Finally, the third driver of future growth for Amazon is advertising revenues. Amazon is surprisingly elusive about giving up too many details on this segment. Perhaps, this is done in order not to give regulators any further concerns about Amazon's antitrust ethics.

What we do know is that reported under its Other segment are primarily advertising revenues. And although Amazon doesn't segment out too many details here, nonetheless, we do know that the segment's substantial operating leverage allowed Amazon to bring in strong operating income compared with the same period a year ago.

Given that this segment was up 74% y/y to nearly $7 billion, the fact that it had strong operating income should come as no real *surprise* to anyone. But it does yet again reinforce the importance of this segment to Amazon.

In fact, to give readers some context, Amazon's Other segment (primarily advertising revenues) reported close to $7 billion in revenues, which is not far from the close to $8 billion that Amazon generated from all its subscription services, which include Prime memberships, as well as digital video, audiobook and digital music.

Amazon has often remarked that its online real estate and the sheer amount of traffic was an untapped potential and a source of consumer's research efforts. To this end, Amazon has previously attempted to disrupt Alphabet's (GOOG) (GOOGL) hold on consumer research behaviors.

Presently, it appears that Amazon is making very rewarding progress on this front. During its earnings call, Amazon's CFO Brian Olsavsky stated that Amazon continues to work to make relevant sponsored products more discoverable.

Valuation - Still Reasonably Priced

This time last year, I wrote a bullish article on Amazon, and I never thought that Amazon would end up delivering the amazing top-line growth story that it ultimately did.

Author's rating at publication	Bullish
Price at publication	$2,340.00
Total Return	46.11%
S&P 500 change	44.48%

Yet, perhaps the most surprising aspect of all is that Amazon's performance in the past year would have simply been on par with the rest of the S&P 500 (SPY).

Amazon continues to invest in its growth opportunities. And this has been a major bearish consideration for naysayers of the stock. However, when all is said and done, *if in the long run, the market is a weighing machine*, at some point, investors will have to acknowledge that Amazon's efforts and market cap valuation are vindication that it's succeeding and getting recognized for its efforts.

On the one hand, Amazon is priced at less than 3.5x forward sales. Before asserting that, compared with other large-tech companies, this is cheaply valued, we have to come to terms with what its earnings profile could be once Amazon starts to slow down its revenue growth rates.

Could Amazon perhaps end up with 10% operating margins? Well, given that's already now ending up with just over 8% of operating income, this seems a low hurdle to cross.

Could, therefore, Amazon end up with 15% operating income margins? This I believe is an achievable target. Hence, if we look elsewhere in the market, investors right now appear fairly content to pay substantially more than 5x forward sales for companies with long-term targets of reaching 15% of operating income.

Thus, I charge that investors could perhaps in time be willing to similarly pay 5x forward sales for Amazon, given that it is still demonstrably growing at more than 20% y/y, despite very challenging comps with 2020.

If investors were willing to pay approximately 5x forward sales for Amazon's prospects, that could imply a further 40% upside as its market cap could in time be repriced closer to $2.4 trillion compared with $1.7 it trades for right now.

The Bottom Line

Amazon continues to deliver terrific performance, yet investors are putting undue consideration on its near-term prospects.

Even though its stock hasn't gone far in the past six months, investors should remain patient and remember that buying is easy, it's holding that's difficult.

Why is the author not invested here, given his bullish views on the stock? *That's because I prefer to invest in small-cap stocks.*

Strong Investment Potential

My Marketplace highlights a portfolio of undervalued investment opportunities - stocks with rapid growth potential, driven by top quality management, while these stocks are cheaply valued.

I follow countless companies and **select for you the most attractive investments**. I do all the work of picking the most attractive stocks.

Investing Made EASY

As an experienced professional, I highlight the **best stocks** to grow your savings: stocks that deliver strong gains.

- *Honest and reliable service.*
- *Hand-holding service provided.*
- Very simply explained stock picks. ***Helping you get the most out of investing***.
- Balanced arguments.
- Long track record.

This article was written by
Michael Wiggins De Oliveira
Follow
32.19K Followers
Author of Deep Value Returns
Delivering High Performance Against the S&P 500.

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 (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

25 Likes | 58 Comments

Like This Article | Save | Share | Print | Comment

About This Article

Ticker Covered	AMZN
Author's rating at publication	Bullish
Price at publication	$3,311.87
Change	-1.25%
S&P 500 change	0.07%

Author's Rating History

About AMZN

Symbol	Last Price	% Chg
AMZN	3,270.54	-1.25%
Post	3,269.99	-0.02%

PE (FWD)	61.44
Yield (FWD)	-
Rev Growth (YoY)	41.47%
Short Interest	1.28%

Compare to Peers

AMZN Ratings

SA Author	Neutral	3.48
Wall Street	Very Bullish	4.78
Quant	Neutral	3.37

Quant Ranking

Sector	Consumer Discretionary
Industry	Internet and Direct Marketing Retail
Ranked in Industry	4 out of 43
Ranked in Sector	127 out of 434
Ranked Overall	1069 out of 3945

Quant ratings beat the market »

More on AMZN

- Amazon: The Most Clearly Undervalued Company
- Nuance gains on report Amazon may have been interested in takeover last year
- SpaceX has over 500K orders for Starlink satellite internet service
- Amazon Continues Shining As We Shop Differently

SA Connect

Comments (58)

Sort by Newest

Add your comment...

Share your comment: Publish

Who Dat? — Comments (7K) | + Follow — Yesterday, 6:11 PM
Market is having a tantrum. No stock split = SELL SELL SELL!
Reply Like

Gary J is Rich on AMZN — Comments (28.54K) | + Follow — Yesterday, 6:33 PM
@Who Dat?
LOL the smart money (big money) does not care about stock splits. Only internet posters do.
Reply Like

Kompressor — Comments (502) | + Follow — Yesterday, 3:29 PM
This is headed higher, but not in the short term. We need a small drop before this can move higher.
Reply Like

Randol33 — Comments (1.1K) | + Follow — Yesterday, 3:36 PM
@Kompressor you get a small drop almost everyday.
Reply Like

MooneyMooney — Comments (423) | + Follow — Yesterday, 2:25 PM
$AMZN is stuck. went up to 2600 on earnings evening and nothing much next day?!
Reply Like

marketnoob — Comments (539) | + Follow — Yesterday, 10:12 AM
Achievable 15% operating income margins?
Wish I had more capital to deploy. Perhaps a 2:1 split is in order.
Reply Like

Michu — Marketplace — Comments (1.05K) | + Follow — Yesterday, 12:27 PM
@marketnoob I don't know. Even the author of this blog apparently finds other stocks better, otherwise he would be long Amazon.
Reply Like (1)

cwsdist.pf — Comments (39) | + Follow — Yesterday, 1:41 PM
@marketnoob more like a 10:1 split!
Reply Like

Gary J is Rich on AMZN — Comments (28.54K) | + Follow — Yesterday, 1:43 PM
@Michu
That makes no sense whatsoever since many authors prefer to show an unbiased view. Most people know that.
Reply Like

See More Replies

cwsdist.pf — Comments (39) | + Follow — Yesterday, 7:42 AM
Time for a split!than I can buy more on a dip!
Reply Like (1)

MaxPower912 — Comments (9.37K) | + Follow — Yesterday, 3:27 PM
@cwsdist.pf
IF it splits, it may not dip.
Reply Like

Michu — Marketplace — Comments (1.05K) | + Follow — Yesterday, 4:48 AM
Amazon is a promising stock in the long run. However, growth stocks are expensive now. The average P/E of the S&P was between 10-20 in the past. Now it is much higher (44). Timing a market correction is, of course, difficult. I would currently avoid growth stocks as there are other options (cash, international value stocks, emerging markets, commodities).
see here: www.multpl.com/... *(edited)*
Reply Like (2)

Rjzq — Comments (507) | + Follow — Yesterday, 4:54 PM
@Michu amzn is right on the line if it's historical valuations based on p/e and p/s. It is not any more expensive now than in the past 10 years
Reply Like

ArnieW — Comments (15.68K) | + Follow — Yesterday, 4:10 AM
I was happy to have the dip in Amazon price Monday and Tuesday to pick up some shares. I agree totally with this article overwhelmingly. *(edited)*
Reply Like (4)

NS100 — Comments (251) | + Follow — 04 May 2021, 11:12 PM
Most megacaps are overpriced and run into to multi trillion valuations. There is a lot going on in terms of taxes, anti trust, penalties, digital tax legal, stimulus already done and info already priced.

Govts are going after these megacap stocks and I have need any company win once they go after companies and that globally co-ordinated as govt need funds and they are no.longwr willing to support the markets and instead want to spend on people.

(US TOTAL MKT cap 48TRILLION, 210% OF GDP. 100% is considered overvalued. *

Megacaps are 9.3T is about 45% of US GDP, 3 Yr of US tax collection, 3rd largest Country by GDP etc. Huge numbers.

SELLING efts that hold them make sense:(SPY, QQQ, XLK, XLC, VGT)

Top 6 : 9.3T mkt cap
AAPL 2.3T PE 38
MSFT 1.96T PE 40
AMZN 1.7T PE 70
GOOG 1.7T. PE 40
FB. 900B PE 33
TSLA 700B PE 1110
Reply Like

Fooly Finance Yesterday, 12:08 AM
Comments (382) | + Follow

@ND100
Looks perfectly fine to me, some are even sporting good discounts. I would say these are good value stocks at these prices.

AAPL 25 FWD PE +57.79% PEG under 0.5
MSFT 32 FWD PE +34.98% PEG under 1
GOOGL 26 FWD PE +49.60% PEG under 0.6
AMZN 53 FWD PE +28.87% PEG under 2
FB 24 FWD PE +28.74% PEG under 1

Reply Like (5)

Rjrq Yesterday, 4:54 PM
Comments (507) | + Follow

@ND100 amzn is right on the line if it's historical valuations based on p/e and p/s. It is not any more expensive now than in the past 10 years

Reply Like

Opa Bui 04 May 2021, 9:01 PM
Comments (31) | + Follow

The stock chart is showing amzn in the death-cross situation. Do you think investors are selling because of ceo change? Hope the buy back will change this situation soon, I love to buy amzn when the 50 SMA starts to move up again. Thank you for great analysis.

Reply Like (1)

ChicagoRuben 04 May 2021, 8:24 PM
Comments (2) | + Follow

Amazon will be trading much higher 12-18 months from now. Why? Because they have many parts of their business growing at astonishing rates, and there is no reason to assume what they are doing will slow down anytime soon. High PE is justified due to continued growth rates and increasing earnings rates.

Reply Like (6)

Clark15811 04 May 2021, 6:09 PM
Comments (2.19K) | + Follow

AMZN nice buying dip today.....started a small position $ 3285

Reply Like (11)

Who Dat? 04 May 2021, 8:48 PM
Comments (1K) | + Follow

@Clark15811
Dip? Lol.That's where it's been for the past 9 months.

Reply Like (9)

andrewfez Yesterday, 3:48 AM
Comments (502) | + Follow

@Who Dat? Nope I was buying at 1800 a little bit before FV jumped to 3200 or whatever it was last year.

Reply Like (1)

Ahmed Dilawer 04 May 2021, 6:00 PM
Comments (36) | + Follow

Forget AWS; Amazon has 200 million prime subscribers that pay over $100 a year , consistent cash flow

Reply Like (12)

ChicagoRuben 04 May 2021, 8:26 PM
Comments (2) | + Follow

@Ahmed Dilawer they make their money (earnings) with AWS. Margins on the retail part of their business are very slim. They need the earnings being generated from AWS in order to grow the business

Reply Like (3)

Michael Wiggins De Oliveira Yesterday, 4:12 AM
Machine Learning Certificate Premium Comments (5.58K) | + Follow

Author's Reply @ChicagoRuben

" Margins on the retail part of their business are very slim. "

Actually, this is not quite true. I note in the article that North America retail margins were 5%. Meanwhile, International were 4%.

If you compare this with say Costco or Walmart, Amazon's profit margins in Q1 are actually higher than those companies.

So, in fact, it appears that it's the ugly facts are getting in the way and contradicting the beautiful story.

Reply Like (6)

Michael Dolen Yesterday, 8:20 AM
Comments (1.7K) | + Follow

@Michael Wiggins De Oliveira Yes, they no longer sell a dollar for 99 cents. Today their retail pricing strategies are often on par and frequently higher than competitors. They get away with this bec of fulfillment speed and ease. Their transition these past few years from low price leader to fastest delivery has been a large driver in their retail margins.

Reply Like (2)

scott7122 04 May 2021, 4:58 PM
Comments (56) | + Follow

Without evidence I believe that if they split the stock it would move to new highs. Just a hunch.

Reply Like (13)

Vic Ferrari 04 May 2021, 7:45 PM
Comments (388) | + Follow

@scott7122
I completely agree. If Amazon won't agree to a stock split---though I wish they would---offering dividends would be a great consolation prize. If Amazon were to announce a dividend of $0.75 per share, that would send the stock price soaring past $3.75K.

Reply Like (2)

Vol4Life 04 May 2021, 8:01 PM
Comments (191) | + Follow

@Vic Ferrari either would be great but I dont see a dividend. Too much ramp for more growth. Not Amazon's style to do a dividend, probably for a longtime...

Reply Like (7)

mbrimberry Yesterday, 2:48 AM
Premium Comments (1) | + Follow

@Vic Ferrari I prefer growth over dividends, especially now that the winds are blowing from the left with a promise to increase taxes. I'm like Buffet, buy and forget it. Peace!!!

Reply Like (6)

ex institutional listed derivatives analyst 04 May 2021, 4:45 PM
Comments (541) | + Follow

@Michael Wiggins De Oliveira I love reading your analysis. AMZN is turning into a tech company which is why the margins keep getting better. AWS, Marketplace, and Ads are becoming more profitable. AMZN stock price has moved side ways but not for long, eventually investors will realize what a great company AMZN is. I am holding onto my shares for as long as I can.

Reply Like (15)

eaglenation5 04 May 2021, 6:22 PM
Premium Comments (88) | + Follow

@ex institutional listed derivatives analyst I would think investors have heard of Amazon by now.

Reply Like (1)

Gary J is Rich on AMZN 04 May 2021, 6:34 PM
Comments (28.54K) | + Follow

@eaglenation5

Not what he said.

Reply Like (3)

Michael Wiggins De Oliveira Yesterday, 2:21 AM
Machine Learning Certificate Premium Comments (5.58K) | + Follow

Author's Reply @ex institutional listed derivatives analyst

It's been a long time since I've seen a comment from you.

Nice to see you here.

Happy investing.

Reply Like (2)

See More Replies

BAHAMAS1 04 May 2021, 4:40 PM
Comments (8.34K) | + Follow

Thanks for the article.

Good advice to be heeded by all in your "THE BOTTOM LINE" paragraph at the end of the article...imo.

Reply Like (2)

Fooly Finance Yesterday, 12:05 AM
Comments (382) | + Follow

@BAHAMAS1 I know that feeling, AMD flat for 9 months. As long as AMZN keeps growing AWS, and Ad business it will outperform in the years ahead.

Reply Like

Beery1 04 May 2021, 3:42 PM
Comments (1.09K) | + Follow

XYZ STOCK HAS 40% UPSIDE!

OMG, I need to buy! But wait... beyond the shocker headline urging me to buy, what is missing? Oh, the TIMEFRAME! That's it! This second, AMZN is $3,303, and I'd say there's a greater chance it will be $2,800 than $3,800 in the next 3 months. Now, you can disagree with me, but at least I gave you a TIMEFRAME! :-) Happy investing...

Reply Like (3)

jgoldston0 04 May 2021, 4:05 PM
Comments (533) | + Follow

@Beery1 Ah, where's the Reddit "tremind me' feature when ya need it. Would love to revisit this comment at the end of the Summer. Lol

Reply Like (8)

Fooly Finance 04 May 2021, 4:20 PM
Comments (382) | + Follow

@Beery1 So your saying AMZN is going to decline in revenue and EPS going forward? Good luck, I hope you don't short it.

Reply Like (1)

Randol33 04 May 2021, 4:26 PM
Comments (1.1K) | + Follow

@Beery1 Agreed, 17 bullish articles on AMZN in the last 3 months, 34 bullish articles since last august when it traded (wait for it) exactly where it trades today.

some of the reason might be do as i say not as i do, one just needs to look at the end of the article, " (we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours."

Of course just like all predictions, if they keep making the same prediction everyday they one day, just maybe, one day they will be right. Then they will stand up and say I told you so. Even a broken clock is right twice a day.

Reply Like (3)

See More Replies

Rosenn1 04 May 2021, 3:39 PM
Premium Comments (2) | + Follow

Over many decades, I have focused on company earnings and p/e's. Is this the new normal that we only focus on sales? I would like to have seen some comments on earnings and p/e's, especially with the AMZN p/e at very high levels. Companies with the same p/e ratios may have very different P/E ratios.

Reply Like (1)

JCCorn Yesterday, 8:43 AM
Comments (45) | + Follow

@Rosenn1 Well Rosen earnings abd P/E's are from the past! But it's the future that counts! Invest in the future and you will get rich!

Reply Like

Gary J is Rich on AMZN 04 May 2021, 3:37 PM
Comments (28.54K) | + Follow

"that buying is easy, it's holding that's difficult."

huh? both easy, selling difficult. 23 years and counting.

Reply Like (9)

andrewfez Yesterday, 3:41 AM
Comments (502) | + Follow

If only I knew back then what I know about investing now...

Back then, I was like, 'What are these crazy PE's!!! This looks like a speculative bubble...' Should have been looking at price to sales...

At least this tech rotation is giving me an opportunity to redeem myself.

Reply Like (2)

Michael Wiggins De Oliveira Yesterday, 4:13 AM
Machine Learning Certificate Premium Comments (5.58K) | + Follow

Author's Reply @Gary J is Rich on AMZN

One day I'll be that smart. . .

Reply Like (1)

mexicanhat 04 May 2021, 3:32 PM
Comments (465) | + Follow

I agree. AMZN is a buy and hold a long time for me. A core holding with a lot of exciting growth opportunities.

Reply Like (8)

Ironrodpower 04 May 2021, 3:31 PM
Comments (493) | + Follow

Is AMD cheap enough for you yet?

Reply Like (4)

Add A Comment

Disagree with this article? Submit your own. To report a factual error in this article, click here. Your feedback matters to us!

Seeking Alpha
Power to Investors
Download on the App Store
GET IT ON Google Play
RSS Feed Sitemap Advertise With Us About Us Feedback Careers Contact Us
Terms Of Use Privacy Do Not Sell My Personal Information Market Data Sources © 2021 Seeking Alpha