Written by
DM Martins Research
Marketplace
Author of Storm-Resistant Growth . A thoughtful strategy to grow your portfolio with lower risk
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Watchlist ...

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%

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Earnings Analysis | Technology

Amazon Earnings Review: On Track For World Domination

Apr. 30, 2021 3:34 AM ET | **Amazon.com, Inc. (AMZN)** | MSFT | 15 Comments | 18 Likes

Summary

- Big Tech has been having an outstanding Q1, with Amazon being the latest to drop the mic with another massive all-around beat.
- AWS seems to justify bullish after-hours reaction more than anything else, on the back of growth acceleration and solid margins.
- Amazon shares are looking hot, after a 16% one-month rally. But I think that AMZN will continue to grow into its valuation, in the long term.
- Looking for a helping hand in the market? Members of Storm-Resistant Growth get exclusive ideas and guidance to navigate any climate. Learn More »

Photo by 400tmax/iStock Unreleased via Getty Images

Big Tech has been having an outstanding calendar first quarter in 2021. On April 29, it was Amazon's (AMZN) turn to drop the mic with another earnings smasher, its fourth consecutive all-around beat. The tech and consumer goods giant topped expectations across the board, and remained on track to achieve world domination: by far the largest global retailer and IaaS cloud provider.

One very important piece of Amazon's business seems to justify bullish after-hours reaction more than anything else, as I watch the stock soar 4% ahead of the earnings call. Amazon Web Services delivered much higher-than-forecasted revenues and solid margins of 30.8%, fueling optimism for cloud and digital transformation.

Results were spotless

Wall Street already expected Amazon to have an outstanding quarter, with EPS climbing by nearly 100%. Little did analysts know that the company's earnings would top aggressive projections by the third widest margin of the past five years, at least. EPS of $15.79 was an astonishing 215% increase YOY.

The table below, particularly the area highlighted, depicts Amazon's impressive top-line performance. The broad North America and International segments, which basically encompass everything except cloud infrastructure services, experienced growth of at least 40%, fueled by:

1. lingering stay-at-home tailwinds from the pandemic;
2. a likely permanent shift in how consumers shop (i.e. online);
3. the ramp up of smaller initiatives that are still in high-growth stage.

	Three Months Ended March 31, 2020	2021
Segment Highlights:		
Y/Y net sales growth:		
North America	29 %	40 %
International	18	60
AWS	33	32
Consolidated	26	44
Net sales mix:		
North America	61 %	59 %
International	25	28
AWS	14	13
Consolidated	100 %	100 %

Source: Collage from earnings report

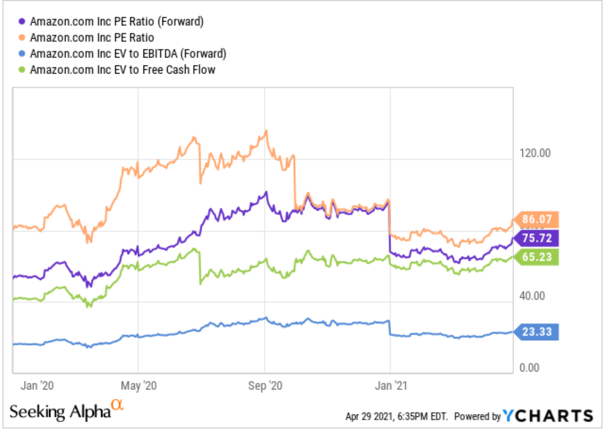
The slower growth, smaller revenue AWS segment, however, is what I believe impressed investors the most in the first quarter. Top-line growth of 32% was quite an achievement, compared to 28% last quarter. The four percentage-point growth *acceleration* compares very favorably to Microsoft (MSFT) Azure's two percentage-point *deceleration* in the same period. This apparent shift in market share may explain why AMZN was up strongly after hours, while MSFT was down about 0.4%.

I believe that the market pays too much attention to quarter-by-quarter cloud revenue flows. Matters like revenue recognition and lumpiness in large contracts can impact short-term performance. Yet, investor sentiment seems to get a boost whenever AWS performs well, as it did in the first quarter. All the better for Amazon shareholders.

Stock is hot, company is hotter

Some might feel uneasy buying AMZN after the stock climbed 16% in the past month alone, while the S&P 500 traded higher by "only" 6% during the same period. This is especially true if one considers recent bullishness in Amazon stock to have been driven by a speculated stock split that, until now, has not been confirmed.

But on the heels of a killer quarter, I believe that it is very hard to build a bearish case on Amazon. Yes, multiples are high (see below), and they likely will continue to be for the foreseeable future. But the company's staggering fundamentals seem to justify the valuation premium. Consider the dizzying growth pace of virtually all Amazon's sub-segments, much of which I would credit to secular (not temporary, pandemic-related) trends in digital commerce and cloud adoption.



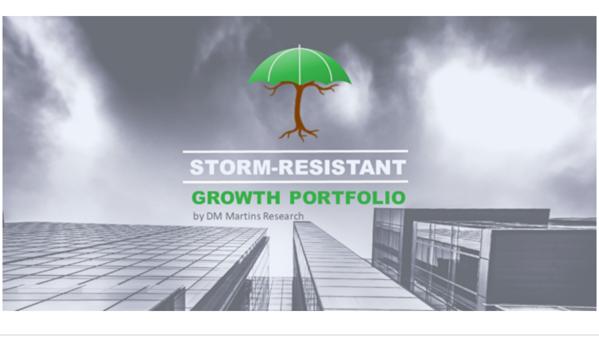
Data by YCharts

To invest in AMZN, I believe that one needs to focus on the long term. In the short term, anything can happen to the stock. A post-earnings, "sell the news" pullback driven by profit taking is certainly not out of question.

But look farther out in time, and it is likely that AMZN will continue to grow into its valuation. For example, 2026 EPS projections currently stand at over $200. Judging by what Amazon delivered in Q1, they could prove to be conservative estimates. At current levels, shares trade at a five-year forward P/E of only 17x, which is absurdly low (in my view) for a company that will likely continue to thrive well beyond the next few years.

Join our community

Members of my Storm-Resistant Growth community will continue to get updates on AMZN (allocation updates, insights, etc.) and the performance of my market-beating "All-Equities SRG" portfolio on a regular basis. To dig deeper into how I have built a risk-diversified strategy designed and back-tested to generate market-like returns with lower risk, join my Storm-Resistant Growth group. Take advantage of the 14-day free trial, read all the content written to date and get immediate access to the community.



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Disclosure: I am/we are long MSFT, AMZN. 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.

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About This Article

Ticker Covered	AMZN
Author's rating at publication	Bullish
Price at publication	$3,525.12
Change	-7.22%
Total Return	-5.68%
S&P 500 change	-0.73%

Author's Rating History
3,500 3,000 2,500
Nov '20 Jan '21 Feb '21 Apr '21

About AMZN

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

1D 5D 1M 6M 1Y 5Y 10Y
3,750 3,500 3,250
Apr 29 Apr 30 May 4 May 5

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 »

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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

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Comments (15)

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dankii — Premium | Comments (67) | + Follow — 30 Apr. 2021, 5:11 PM

The author looks like Jack Ma (BABA).

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> **DM Martins Research** — Marketplace Contributor | Premium | Comments (3.1K) | + Follow — 30 Apr. 2021, 5:20 PM
>
> Author's Reply @dankii Darn, you found me...
>
> Reply | Like (3)

> **thszda** — Comments (1.85K) | + Follow — 03 May 2021, 12:09 AM
>
> @dankii lol
>
> Reply | Like

Aninterpreter — Premium | Comments (6) | + Follow — 30 Apr. 2021, 1:00 PM

I have to confess that I was counting on a 1 to 30 split.
With the stock at $100, everyone would rush to buy and quickly push it up to $200 to easily double our money and become rich like Gary. It seemed probable because of all the spending Amazon will have up ahead with all the raises to the employees and robotization to protect the employees from carpel tunnel syndrome.
But "the best laid plans of mice and men" as they say.

Reply | Like (2)

> **thszda** — Comments (1.85K) | + Follow — 03 May 2021, 12:14 AM
>
> @Aninterpreter this is phase2 for the growth story of amazon
>
> If there will ever be a split, we will not see it until at least the next phase...
>
> but honestly I do not see the reasoning behind the split prospects.... its simply not needed and produces no added value to amazon or to shareholders.
>
> fractional shares can be purchased at just about any broker now and they can be accumulated to eventually 'build' whole shares whereby you can transfer them to other more traditional brokers who dont focus on fractional share brokers and then from there the sky is the limit... sell it, day trade it, apply options to it or do whatever you please
>
> And I actually believe we will see a holding company structure in the next several years for amazon, apple, google, microsoft and any other company of these sizes in respect to market cap
>
> Reply | Like (1)

> **craftbrewinfo** — Comments (3.06K) | + Follow — Yesterday, 12:56 PM
>
> @Aninterpreter I would not be surprised if there was a split in the future with Bezos stepping away.... It's just so hard at these levels for me to add shares because of the costs....
>
> Reply | Like

> **craftbrewinfo** — Comments (3.06K) | + Follow — Yesterday, 1:00 PM
>
> @thszda "but honestly I do not see the reasoning behind the split prospects.... its simply not needed and produces no added value to amazon or to shareholders." Agree of course because it's the same valuation, just divided, HOWEVER the psychological impact of the split draws more investment. As @ Aninterpreter stated above,you will see that activity raise shares. Look what happened to AAPL leading up to (and post) split.... The few companies I have had that split have done exceedingly well.. I track them in the split format and compare to the previous values presplit..
>
> Reply | Like

tmorro — Marketplace | Comments (538) | + Follow — 30 Apr. 2021, 10:31 AM

Any mention from them about the split?

Reply | Like (1)

Gary J is Rich on AMZN — Comments (28.53K) | + Follow — 30 Apr. 2021, 7:15 AM

"At current levels, shares trade at a five-year forward P/E of only 17x, which is absurdly low"

AMZN still trades on growth prospects but now even the P/E boys are losing their argument.

Reply | Like (9)

> **Pierre Rossouw** — Comments (618) | + Follow — 01 May 2021, 5:44 PM
>
> @Gary J is Rich on AMZN If a price is driven more by sentiment than by fundamentals, then it seems that Price/Earnings is not very significant. Noting that Earnings is a past tense term, how can P/E be relevant to future expectations? Maybe the measure should be price/sentiment or price/ expectation or similar.
>
> When I see a P/E of over 100, this tells me that buyers are paying (and sellers are accepting) far more than earnings, not than price, the price is determined by the trades.
>
> Why should a P/E be absurd? it's what the market is doing in reality, based on perception.
>
> Reply | Like

> **Gary J is Rich on AMZN** — Comments (28.53K) | + Follow — 02 May 2021, 7:26 AM
>
> @Pierre Rossouw
>
> All of which is to say - growth prospects. The smart money pays for it.
>
> Reply | Like (1)

> **thszda** — Comments (1.85K) | + Follow — 03 May 2021, 12:14 AM
>
> @Gary J is Rich on AMZN exactly!
>
> Reply | Like (1)

Great-Z — Comments (79) | + Follow — 30 Apr. 2021, 6:56 AM

Absolutely great company and the way they conquer new markets (now European countries) is phenomenal. If they keep proceeding like this it is a no-brainer stock.

Reply | Like

stephenmcmahon83 — Comments (2.47K) | + Follow — 30 Apr. 2021, 4:10 AM

Yes, truly a wonderful quarter, with a somewhat muted +2% premarket reaction after earnings.

Smart money perhaps starting to price in coming higher taxes, higher labor costs, higher materials costs from inflation, and increased regulation?

Reply | Like (2)

mrsh1 — Comments (1.16K) | + Follow — 30 Apr. 2021, 3:58 AM

Exceptional quarter with great execution by management! Hopefully, they will have a stock split sometime this year so others can invest and reap the rewards! Longz! :-)

Reply | Like (4)

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