Liquidity

Across 2022 and 2021, Amazon has had a current (0.94 in 2022, 1.14 in 2021) and quick ratio (0.72 in 2022, 0.91 in 2021) of around 1, showing how during both years the company would’ve been in good potions to meet their short-term obligations, also a quick ratio of around 1 is a good indication of liquidity without the reliance on selling inventory. However, looking at the cash ratio (0.45 in 2022 and 0.68 in 2021), there’s a suggestion that Amazon may have had difficulty in meeting their short-term obligations using cash or cash equivalents. However, this is quite a conservative metric, it will not reflect overall liquidity.

Amazon also had a high defensive interval, with 81.76 days in 2022 and 105.77 in 2021. This indicates operations could continue for a long time using only liquid assets. This is a good sign of short-term financial stability and shows that Amazon could continue operations even during periods of cash flow interruptions. Inventory days were low for Amazon, 40.81 days in 2022 and 25.53 days in 2021. This is a good sign that the company had the ability to sell its inventory quickly, a strong indication of efficient inventory management and strong sales. Amazon is a very popular online store, so this makes sense. Looking at the payable day’s metric, during 2022 and 2021 it was very high (96.33 and 61.53 days respectively). This is a good sign of effective cash management by retaining cash for longer. However, taking longer to pay suppliers could strain relations. Another positive metric is the receivable days, which were 26.72 in 2022 and 12.78 in 2021. This indicates Amazon had good credit control with efficient payment collection processes. In addition, with a negative net trading cycle across both years, Amazon collected cash from sales before it needed to pay suppliers, a sign of strong liquidity and efficient cash management. The only potential problem is the negative working capital in 2022, however as it was only 1.67% of potential sales this does not pose a major threat.

Profitability

From analysis of profitability metrics, it can be shown that Amazon had a good operational performance and profitability from core business activities. Over the two years, there’s been a strong gross margin (41.67% and 50.34% in 2022 and 2021 respectively). However, there is concern over the EBITDA (9.10% 2022 and 15.45% 2021) and EBIT (2.38% 2022 and 5.30% 2021) margin over the two years, which are low. This could potentially suggest high operational costs and that operations were not generating a significant cash flow. Amazon’s net margin was also very low (0.53% in 2022 and 7.10%. in 2021) once again indicating high costs and expenses or lower overall revenue. This could be due to the fact that the post-Covid e-commerce boom didn’t pan out as it was predicted to (CNBC News). As the economy reopened, shoppers returned to spending in stores, leading to a decrease in revenue for the company. Also, in 2021, CEO Andy Jassy ‘*admitted that the company hired too many workers and overbuilt its warehouse network’*.

Solvency/ debt management

Looking at the D/E (0.96 2022 and 0.35 2021) and debt to total assets ratios (0.30 2022 and 0.12 2021), these were low, suggesting lower leverage, potentially lower financial risk. This could suggest over the two years Amazon were taking a more conservative financial approach, not using debt to pursue growth. With a low long-term debt to capital ratio (0.31 and 0.26), it’s inferred that there was a low reliance on long-term debt, along with a more conservative capital structure, leading to lower risk. Together with high times interest earned (7.85 and 22.66) and debt coverage greater than 1 (5.10 and 5.79) Amazon were in a good position to cover interest payments and debt obligations. Looking at the FCFE per share, this was negative, meaning Amazon may have heavy investment in future growth. However, from a CNBC news source, in 2021, Amazon actually had to put on pause and even abandoned plans to open new facilities, therefore investment in growth is unlikely and could be an indication of financial strain.

Asset Utilisation

Asset Utilisation did not seem great. Both total (1.16 and 2.23) and fixed asset turnover (1.79 and 3.63) were low, indicating less efficient use of assets, maybe suggesting underutilised assets. However, inventory turnover was relatively high, indicating efficient inventory management and strong sales, also a good indication of low holding costs. ROA was low (-0.01 and 0.16), an indication of low efficiency of using assets to generate profits. This could also indicate inefficiencies in asset management.

Investor/ market ratios

P/E ratio in 2022 and 2021 was low (-48.44 and 5.20), suggesting that Amazon’s stock was actually undervalued. Due to the continuous demand of online shoppers, it’s unlikely Amazon has a declining growth prospect, leading me to conclude that the stock is most likely undervalued. But, PBV was close to 1 over 2022 (0.91) and 2021 (1.25), meaning the stock was trading around book value. Another interpretation could be that Amazon are currently undergoing stagnant growth. BV was relatively low (14.33 and 13.66), a signal of undervaluation. Soaring inflation and interest rates have pushed investors to sell their stock, which could indicate why BV was low (CNBC).

EPS was also low (-0.27 and 3.30), signalling potential issues with the company’s operations. ROE (-0.02 and 0.24). and ROCE (0.04 and 0.09) were both low, meaning equity and capital are not being used effectively to generate profits, potentially due to poor operational performance or higher capital costs.

Amazon does not pay out dividends, hence dividend payout ratio and dividend per share were not utilised in this analysis.

Overall, Amazon is in decent financial health. The company is very liquid with decent profitability from core business operations. It is also in good positions to cover interest and debt obligations, with low financial risk. This indicates the company does not have growth or expansion as a current priority. However, there are problems with asset utilisation – assets are not being used efficiently to generate profits. Also, the stock over 2022 and 2021 seems undervalued. Although, the EV is strong (1.36E+09

and 1.755E+09), suggesting that as a whole Amazon is in good financial health.

Sources:

https://www.cnbc.com/2022/12/29/amazon-shed-half-its-value-in-2022-as-tech-stocks-got-crushed.html