Amazon Investment Analysis

Liquidity Ratio Analysis

Amazons **current ratio** is 0.94 indicating that is debts for this year are currently greater than it assets.  
The **quick ratio** calculates at 0.45 therefore the company is currently not well positioned to sell its assets within 90 days in order to pay immediate expenses.  
The **cash ratio** is -0.48, as of now Amazon does not have enough cash and cash equivalents to pay off all short term debts.  
  
The **defensive interval** comes out at a respectable 124 days. The company will therefore be able to operate for around 4 months without having to access non current assets.  
**Inventory days** calculates to around 43 days. This is a very good amount of time to efficiently balance and manage stock.  
**Payable days** is a very high 100. Indicating it has very good relations and conditions with its suppliers.  
**Receivable days** is respectable at 30, meaning customers are paying on time and Amazon is very efficient at collecting its payments.  
**Net trade cycle** is currently -27, Amazon is therefore being paid for its products and services long before it is paying it vendor/suppliers.  
  
**Working capital** is currently -8602  
Unfortunately the company is at risk of not being able to meet short term debt and tax obligations.

The Current ratio is greater than 1 indicating the short-term asset’s ability to meet short term liabilities. Quick and Cash ratios above 0.5 which also indicates that the company can meet more than 50% of its short-term liabilities with its cash in hand. The decline in current ratio was mainly to be attributed to a reduction of marketable securities (following the sale of the company’s stake in Rivian).

As an online marketplace where thousands of vendors are hosted on site, Amazon’s payable days is typically higher than other companies as it is part of its 90-day credit policy. As a result of Amazon’s nature of business, its payable balances are higher than its inventories and receivables where it holds inventory on behalf of its vendors. Therefore, working capital is negative and so is the trading cycle. On a year over year basis the number has worsened, but can be supported with the argument that Amazon has started its own fulfilment services and is a fast growing company.

Summary

Amazon is most likely going to be having issues with short term debt obligations. As it stands the company does not have enough cash and cash equivalents to cover these debts and it may struggle to sell assets in the short term, its current assets would also still not be enough to pay off all remaining debt.  
This however may not impact the companies operating abilities with at least 3 to 4 months before issues of concern. The overall performance, supplier relations, payments collections and services are impressive and could have minimal impact on revenue for the short term.

Profitability Ratio Analysis

**Gross margin** is currently 43.81% , Amazon is earning 0.43 cents for every dollar of revenue.  
**E B I T D A margin** is 10.54% which is considered healthy and reflects the percentage of profit gained from revenue  
**E B I T margin** is 2.38% which is considered not profitable   
**Net margin** is -0.53% , Amazon lost 0.53 for every dollar of revenue and was not profitable.

Amazon’s long-term liabilities have been increasing over the years as the company has increased its Financial lease commitments to facilitate the number of new fulfilment centres opened over the last year. Although the long-term debt remain rather steady, financial lease commitments have dramatically increased which has increased the debt service burden as well. However, the company has adequate levels of interest coverage and free cash flow indicating its financial health. However, the increase in the debt level would also mean that the company’s borrowing capacity in future is strained where it might have to pay higher interests to secure more debt.

Summary  
Amazon gross margin is fairly respectable at 43% however other factors such as operating costs, liabilities and debt obligations are all affecting net profit with a net margin of -0.53%

Solvency/ debt management Ratio Analysis

**Debt to equity** is currently 45.98% This is positive as Amazon has twice as much assets than its liabilities.  
**Debt to total assets** is11.02% which is the proportion of the companies assets that have been financed by creditors.  
**Long term debt to capital** is 21.8% the companies long term debt accounts for just over 20% of its total capitalisation.  
**TIE** calculates to 0.326 meaning Amazon may not meet its total interest expense on its debt.  
**Debt coverage** debt coverage works out at -5.15 indicating a negative cash flow meaning Amazon may not be able to cover its debt obligations.  
**Free cash flow** per share is currently $6.81

It is notable that Amazon’s Technology & content and Sales & marketing have seen sharp increases, indicating the heavy spend on AWS and Prime Video content. While the e-commerce segment is seen to be normalizing post the Covid-19 boom, sales reflect the increasing global inflation levels.

Summary  
Amazon has an impressive assets to liabilities percentage and reasonably low debt to assets and long term debt to capital. Unfortunately due to poor cash flow and profitability the company may still not be able to meet its debt obligations.

Asset utilizationRatio Analysis

**Total asset turnover** is 0.84, therefore Amazon is generating $0.84 for every $1 of its total assets.  
**Fixed asset turn over** is 1.11 average but positive result implying Amazon is effectively using is fixed assets to generate sales and revenue.  
**Inventory turnover** comes out 6.81 indicating that products are sold and restocked every 1-2 months. This is a good ratio providing there is enough inventory on hand and re-ordering is not too frequently.

Amazon has a large portion of goodwill in its asset base, where the Fixed asset turnover is almost three times higher than the total asset turnover. The goodwill and intangibles are manly as a result of acquisitions in addition to the increased R&D spending on AWS which we will have to closely watch for future profitability.

Summary  
Overall asset utilization is impressive, all of its assets are performing with good margins of return with inventories being turned over frequently in high volume generating a good ratio of revenue relative to there value. The functioning of this aspect to the company remains positive.

Investor/market Ratio Analysis

**Price to book** ratio is 7.89, Indicating that the stock is currently trading really high at almost 8 times its book value.  
**Book value per share** comes out at $14.33, again massively overvalued with current share price trading at $113.1

**R O E** is -1.86% recording a negative net income for the year.  
**R O C E** is -1.93% recording negative profitability or net operating loss.  
**ROA** is -0.45% stating that the company is incurring losses and not generating profits.  
**Enterprise value/ E B I T D A** calculates to 1.99

ROE, ROA and ROCE all are within the health territory, however, have declined slightly compared to previous year. Furthermore, given Amazon’s valuations, one would expect the ratios to be better as there are many other smaller companies with better returns than Amazon, however, it is notable that these valuations are backed by Amazon’s expansion.

Summary

Amazon share price is currently trading around $113 and has been calculated to be massively overvalued, combined with the fact the company was not profitable and is incurring losses this only provides further evidence and concern that the share price should be trading much lower.

Final analysis and conclusion

Amazon has not been profitable so far during 2022 and has reported a net loss of 2.7 billion. The companies revenue increased by 9.4% from its previous year but operating expenses increased by 12.7% accounting for 97.6% of its revenue.  
To add further problems Amazon debt and interest repayments increased by 385% and short term debt increased by 384% on the previous year with around 10% still failing to be cleared.  
  
After some research there are a number of factors to take into account that may have been responsible for amazons disappointing year.  
  
1. 2022 the war between Russia and Ukraine broke out. Oil prices and inflation soared, interest rates increased, supply chain issues occurred, and fears of a recession where more than valid. Tech companies all felt the effects of this and Amazon being no different.  
  
2. After huge success during the pandemic while online sales soared Amazon planned for further expansion and improvements. The Amazon go and fresh stores growth was proposed (most likely to adjust for peoples return to physical stores an a decrease in online shopping after the pandemic) was paused with many being closed and workers losing jobs.  
The car manufacturer Rivian, a company Amazon invested in for the production of its proposed electric vehicles suffered with production delays and market upheaval and is attributed to part of Amazon's losses.  
  
3. The effects of the pandemic and war over the past few years will have tested Amazons organisation, operating and adaptability to great lengths, a time with huge change and challenges  
that have no doubt played a factor with performance and profitability this year.  
  
Looking forward it will be interesting to see how Amazon adjusts, changes must be made in operating, cost efficiencies and debt management. Sales revenue still remains high which is a positive sign, but net profits are not being achieved.  
  
At this time I can not recommend investing into Amazon and propose waiting until the next quarter to re-evaluate the companies performance and review if positive adjustments and improvements are being implemented with a good probability of success in the future.