eBay Inc. - (EBAY)

Sector: Internet Retail

Price: 48.51$
Market Cap: 33.48B$
P/E ratio: 6.77
Dividend: 0.64$ yearly – 1.31%

Key information

13,300 employees
Available in 180 countries
In 2006 they launched Ebay Motors
They offer courses on how to become a top seller, using their Ebay University
They have just sold StubHub, the biggest online ticket retailer
PayPal was a subsidiary of Ebay until 2015, when they decided to separate the two businesses
Ebay's Authenticate is a service they have to authenticate the luxury bags and jewelry
Number 8 in Indeed's 2019 Top-Rated Workplaces list
Jamie Iannone just came back as eBay's CEO
Very good share repurchase program in last 15 years
Profit margins are looking great

STRENGHT POINTS

Very old e-commerce company, they know how to manage their business and how to face hard times, like the website shutdown in 1999. Even with a slower growth compared to Amazon, they still have their share of market, with margins way higher than the giant competitors. Their main advantage is that they don't sell their own products, but just use the website to display other people's items. This leads to lower costs, a more efficient business and an easier to manage company.

While Ebay reported a net margin of 45.56% during last quarter (with an average of 30% during last 5 years), its main competitors, Etsy and Amazon only had a 16,83% and 4,99% margins, with Etsy having a 5 year average margin of 5,56% and Amazon's 5 year average margin is only 2.73%. This allows them, even if the company is smaller compares to the huge Amazon, to still have a good income and stay on the top.

Their debt is very low, 8.14B$, and the company has 3.66B$ cash, 22B$ of retained earnings, and a nice 36B$ in treasury stock, making their financial situation very strong and stable.

Strong revenue reports are putting them into a great position not only for online sales with the lockdown and the whole world turning into online shopping, but also because their net income is very interesting compared to the huge competitors that have higher risks, giving Ebay a good advantage over the big competitors (Amazon, Walmart)

While their competitors only enter in new markets when they have warehouses and shops, Ebay has a way better worldwide presence, allowing them to have a very good presence in lower tier countries, but that can generate income while keeping the competition low.

The share repurchase program was managed wonderfully during last 15 years, allowing them to reduce the outstanding shares by an amazing 49%, meaning that compared to 15 years ago now there are only half shares trading on the market. This will pump the shares price even if the company's business is stagnating, which we know it's not. Plus they could stop or reduce it anytime and use the money for growing their business at a higher pace.

At the beginning of 2019 they started distributing dividends, rewarding the investors even more and making this stock even more appealing for long term investors, combining potential future growth with strong repurchase plan and dividend distribution, giving any investor a good reason to buy the shares no matter what their style is.

FINANCIALS

3.66B$ cash – 5.21$ par share

22B$ retained earnings – money they have and they can use any time for company's growth (companies usually use them for investing or just keep them in case of need, they still issue debt because it's cheaper to use other people's money than your own)

Book value par share is kinda useless in their case, they have focused a lot of buying back the shares so their equity and the financial value went down because that money was not producing income. For an investor that money is well invested because it lowers supply and the price goes up. Plus this is a tech company and their book value is always very low compared to the price, you can't use an old style metric for a new tech company.

36B$ of treasury stock they bought back during last years, same as retained earnings they could just sell them back on the market and cash the money in. They will never do that because they are very focused on the returns for shareholders and reselling the shares would raise supply and drive price down.

Debt is only 7.74B$ which is very low, if we consider they have half of that money cash, the retained earnings and all the money they reinvest in dividends and share repurchase, this debt is so low it doesn't matter at all. In my opinion they should get more debt and use a higher financial lever to achieve even better performances and use their maximum potential.

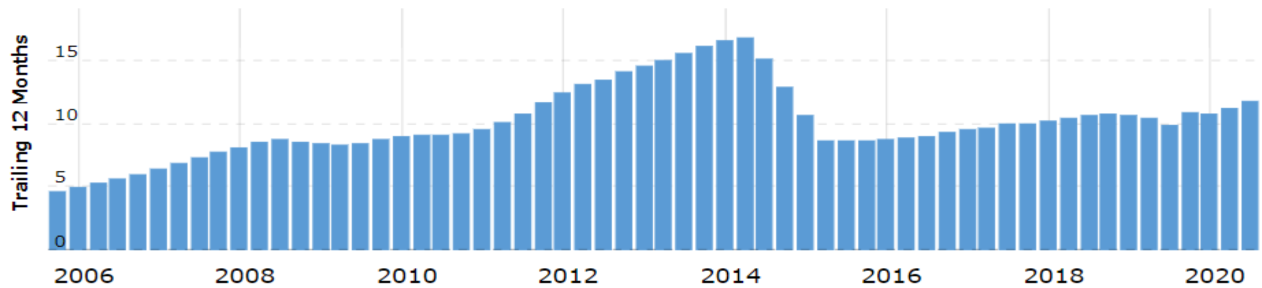
Fair value is a little trickier for tech companies to calculate, I would say that, considering the actual revenues and the huge margins compared to the competitors, fair value should be somewhere between 50$ and 55$. This will give us a little margin, but don't forget that we have a tech company here, which usually trades at huge prices.

P/E has been very variable historically, but right now the income is gaining stability and we're buying it at a low P/E, only 6,77 which for a tech company is very low, they usually trade at 20-30. This doesn't mean you will make 4 times your money in a short time, but it limits the risk and raise the potential growth.

Considering the actual ratios and the overall market situation I estimate a 1 year price estimate above 65$ which means a 35% gain in the first year – due to the very low price right now – and an annual gain around 30% for the next 5 to 7 years. If we are lucky and they regain market share we could gain even more

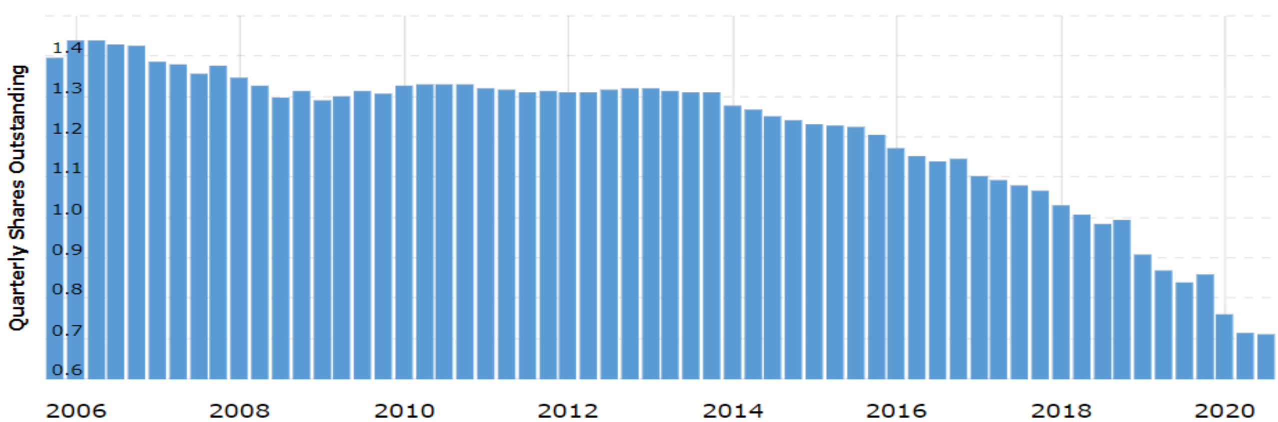
KEY GRAPHICS

REVENUE 2005 - 2020



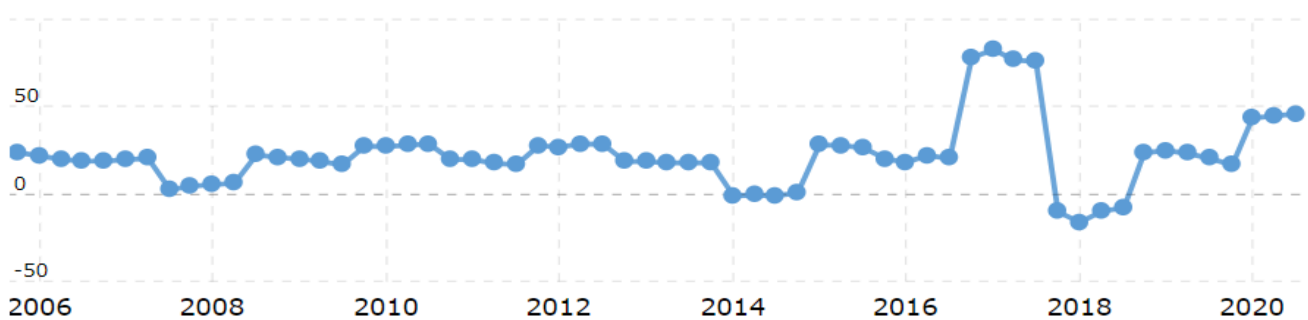
As you can see, there have not been huge problems in the revenue and the business, the 2014 drop in revenue is when they separated PayPal from Ebay and created two separate companies.

Number of shares outstanding



This one needs no description, you can easily see how shares number dropped, especially during last years.

Net profit margin



As you can see, the net margin has been very variable, and that pretty normal usually, but the average net margin is way way higher than its competitors, giving them a huge advantage even if they're not the biggest fish in the pond.

POTENTIAL THREATS

The actual price is not that far from the all time high, which implies a little higher risk than my usual analysis, but the potential return is so high it justifies that risk.

The company compete against some of the biggest companies in the world, including Amazon, AliBaba and WalMart, so they must be careful to keep their business going and don't get afraid of fighting the huge Goliath

Sector changes very fast, and new companies start very often, they have a good history and a good size but they must be careful to not lose market share to new smaller companies.

There is a real chance that a bigger competitor could buy them in my opinion, to gain market share and gain knowledge on how to raise margins and expand in new markets, this is not a problem because when a company is acquired investors gain pretty nice numbers.

They have huge databases with all the customers and sellers data, that's the weakest point in my opinion, if they fail to protect that data, that could hurt them badly and they could lose people's trust, which is a big part of their success.

Since we're talking about a tech company we have a slightly higher downside risk, but it should still be under 25%, I don't expect the company to go under 36-37$, but I expect also a high reward in shorter time, and I expect a price around 65$ in a year. Actual price is interesting, I would use a dollar average strategy, like buying 30-40% of my budget now and then see what happens, if the price goes up just let it grow, if the price goes down buy 20-30% more at 43.5$ and the rest of the capital if price drops to 38-39$.

Investment timeline goes from a minimum of 1-2 years to a 9-10 years to let the investment mature. During all this time you must periodically check the revenue and margins, and see if the company is well managed in order to protect your money and be sure it's still on the good track.

IWC

INTERNATIONAL WEALTH CONSULTING

Creating tomorrow's millionaires

International Wealth Consulting is providing this analysis and any other material, related or not (posts, mentoring, chats and other communications) for educational purposes only. We are not providing legal, accounting, or financial advisory services, and this is not a solicitation or recommendation to buy or to sell any stocks, options, or other financial instruments. This and all material are our own opinions, based on our experience and knowledge and they should not be taken for investing advice. Please note that our performances are not common or usual, and we are not guaranteeing you will make any gains. Your performances could be similar to ours, lower or higher, based on your knowledge and personal situation. All investing and trading in the securities markets involves risk. Any decision to place trades in the financial markets, including trading in stocks or options, is a personal decision that should only be made after thorough research, including a personal risk and financial assessment, and you are fully responsible for all your investments.