

The future of Amazon shares remains a mystery

Yesterday, Jeff Bezos temporarily became the richest person on the planet due to the growth in Amazon's share price. He definitely deserves this, because he is a visionary who completely transformed not one but several industries. From an investment perspective, it is interesting that he got to the top of the wealth pyramid due to his ownership stake in a non-profit organization, which essentially is what Amazon has been for 20 years. The rocket-like growth in sales has so far not been reflected in the profits.

Every three months, when the quarterly results are announced, the song remains the same: profit is not crucial, sales growth is what is important, and when the company gets big enough it will also start making money. But we have been hearing this since 1997. When will the company in fact be big enough to start making respectable money? This year's sales of about USD 150 billion make Amazon one of the world's largest companies.

How long will it take for the shareholders to receive some profit? Another 20 years? What is the present value of earnings obtained in 20 years' time? Not very large. It is reasonable even to ask whether this point in time will

ever occur at all. The current market capitalisation of USD 500 billion cannot be justified by anything but a belief in gigantic future profits. Imagine if Amazon were a private company, its shares were not traded on a stock exchange, and the management could scarcely show profits even after 20 years of efforts. Would such a company be considered successful? Twenty years is quite a long time, after all.

Amazon is traded on an exchange, however, and its market capitalisation is USD 500 billion. Its shares have proven to provide among the highest investment returns of any in the past 20 years. Now here is a question: Is it perhaps the very price of the Amazon share which influences the view of the company and lets us forget about its chronic inability to generate substantial profit (not even to mention its inability to cover the cost of capital)? Only the future will tell whether Amazon will be able to generate profits at such a level as would justify the current prices of its shares or whether the share price will instead accommodate itself to the company's low profitability. It is rare that one could find on the markets such a wide range in future development scenarios.

Invest with care!

Daniel Gladiš, 28 July 2017



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