US EQUITY RESEARCH

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Costco Wholesale Corp

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E-commerce momentum and membership gains

Company Overview

Costco Wholesale Corporation is engaged in the operation of membership warehouses in the United States and Puerto Rico, Canada, the United Kingdom, Mexico, Japan, Korea, Australia, Spain, France, Iceland, China, and through its subsidiaries in Taiwan. The Company's average warehouse space is approximately 146,000 square feet. The Company's warehouses on average operate on a seven-day, 70-hour week. The Company offers merchandise in various categories, which include food and sundries (including dry foods, packaged foods, groceries, snack foods, candy, alcoholic and nonalcoholic beverages, and cleaning supplies); hardlines (including appliances, electronics, health and beauty aids, hardware, and garden and patio); fresh foods (including meat, produce, deli, and bakery); softlines (including apparel and small appliances), and ancillary (including gasoline and pharmacy businesses).

Investment Overview

E-commerce and delivery remain key growth engines. Costco's e-commerce comparable sales rose 14.8% year-over-year in 3Q FY25, significantly outpacing the total company comparable sales growth of 6%. This underscores the continued strength of its online channels—including self-operated platforms and mobile—which remain vital growth levers. Digital investments such as the launch of buy now, pay later (BNPL) through Affirm, targeted campaigns (e.g., Mother's Day), and a personalized product recommendation hub all further enhance the online shopping experience and likely bolster future digital sales growth.

Strong customer traffic and membership momentum. Warehouse traffic increased 5.2% globally (5.5% in the U.S.) in 3Q FY25, helping drive the 8.0% uplift in revenue. This combination of sustained foot traffic and membership growth continues to anchor Costco's performance. Membership fee income also rose 10%, reaching USD1.24bn with high renewal rate of 90% worldwide and 93% in the US and Canada. This speaks to the resilience and profitability of Costco's membership model.

Good track record with steady revenue and earnings growth. The company delivered net income of USD1.9bn—a gain of approximately 13% in earnings in 3Q FY25. Gross margin expanded 41bps to 11.25%, while SG&A% declined 20bps to 9.16%, further supporting margin improvement. The company remains well-positioned to grow steadily, driven by a healthy membership base, strategic digital enhancements ("treasure-hunt" product assortment, BNPL, recommendation hub), and disciplined cost management.

We rate BUY on Costco with a TP of USD1195 per share. Our TP is based on 60x FY26 P/E, in view of Costco's decent growth outlook in the warehouse club model as well as efficient operating risk management.

Risks

Rising competition post-pandemic, prolonged geopolitical uncertainties and inflation, slowdown in e-commerce growth, significant increase in capex to support e-commerce and technologies growth, etc.

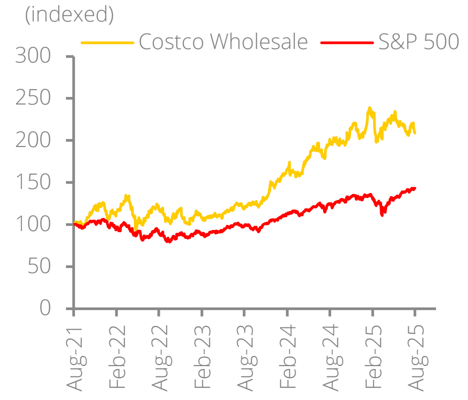
Key Financial Data

Bloomberg Ticker	COST US
Sector	Consumer Staples
Share Price (USD)	944.96
DBS Rating	BUY
12-mth Target Price (USD)	1195.00
Market Cap (USDb)	419.1
Volume (m shares)	2,067.9
Free float (%)	99.8
Dividend yield (%)	0.5
Net Debt to Equity (%)	-10.8
Fwd. P/E (x)	52.1
P/Book (x)	15.5
ROE (%)	32.1

Closing Price as of 28 Aug 2025

Source: Bloomberg, DBS

Indexed Share Price vs Composite Index Performance



Source: Bloomberg

Financial Summary (USD MN)

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Sales	226,954	242,290	254,453	274,919	294,782
% y/y	*15.8*	*6.8*	*5.0*	*8.0*	*7.2*
Gross Profit	27,572	30,095	32,095	35,266	38,053
% y/y	*9.2*	*8.8*	*6.6*	*9.9*	*7.9*
EBITDA	9,811	10,582	11,522	12,822	13,937
% y/y	*14.1*	*7.1*	*8.9*	*11.3*	*8.7*
Net Profit (Loss)	5,844	6,492	7,367	8,040	8,909
% y/y	*18.5*	*10.7*	*11.7*	*10.6*	*10.8*
FCF	3,501	6,745	6,629	7,397	7,716
% y/y	*(34.8)*	*92.7*	*(1.7)*	*11.4*	*8.7*
CAPEX	3,891	4,323	4,710	5,049	5,191
% y/y	*8.4*	*11.1*	*9.0*	*7.2*	*3.1*
EBITDA Margin (%)	4.3	4.4	4.5	4.7	4.7
Net Margin (%)	2.6	2.7	2.8	2.9	3.0
ROA (%)	9.5	9.7	10.3	10.9	10.8
ROE (%)	30.3	28.6	29.4	30.7	28.2
Tax Rate (%)	25.4	26.5	26.4	25.5	25.6

Source: Visible Alpha

Valuation Metrics

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
P/E	39.7	38.8	53.9	51.8	46.8
P/B	11.2	9.7	16.8	14.4	11.7
Dividend Yield	0.6	0.7	2.2	0.5	0.5
EV/EBITDA (x)	23.6	23.4	34.1	32.0	29.2
FCF Yield %	1.5	2.8	1.7	1.8	1.9

Source: Visible Alpha

Credit & Cashflow Metrics

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Debt / Equity	43.8	35.5	35.0	28.2	23.3
Net Debt / Equity	(0.1)	(0.3)	(0.1)	(0.2)	(0.3)
Debt / Assets	14.1	12.9	11.8	10.5	9.5
Net Debt / Assets	(0.0)	(0.1)	(0.0)	(0.1)	(0.1)
EBITDA / Int Exp	62.1	65.7	68.2	84.3	98.4
Debt / EBITDA	0.0	0.1	0.0	0.0	0.1
ST Debt / Total Debt (%)	0.9	0.8	0.7	0.6	0.6
[Cash + CFO] / ST Debt	252.6	24.3	218.3	270.7	78.3
Receivables Days	3.6	3.4	3.9	3.7	3.7
Days Payable	28.7	26.3	27.9	27.7	27.5
Inventory Days	28.8	25.1	26.7	26.1	25.7

Source: Visible Alpha

Target Price & Ratings History

#	Date of Report	Closing Price	12-m Target Price	Rating
1	16 Dec'24	989.35	1195.00	BUY

Source: DBS
Analysts: Mavis Hui
Clement Zhaoji Xu

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HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
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**Share price appreciation + dividends*

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