

Analysts see more growth ahead for Amazon

October 24 2009, By RACHEL METZ , AP Technology Writer



In this Dec. 1, 2008 file photo, an Amazon.com employee grabs boxes to be loaded onto a truck at the company's Fernley, Nev. warehouse. Amazon.com Inc. on Thursday, Oct. 22, 2009 said its third-quarter profit soared 62 percent, showing that consumers are comfortable opening their wallets to the online retailer despite the still-shaky economy. (AP Photo/Scott Sady, File)

(AP) -- Low prices, solid customer service and an increasing willingness by consumers to spend on discretionary items contributed to Amazon.com Inc.'s solid third quarter, and the growth should continue despite weakness elsewhere in retail.

Amazon shares soared to an all-time high Friday after the Seattle-based [online retailer](#) stunned analysts and investors by reporting that third-quarter [net income](#) grew 68 percent - a clear sign that consumers are spending on Amazon, even though the economy is still stuttering.

"I think people are finding they want to start purchasing again," Bernstein Research analyst Jeffrey Lindsay said Friday. "There's pent-up demand for this stuff, and the lion's share is going to Amazon these days."

Lindsay attributes growth partly to the [demographics](#) of Amazon's customer base, which he believes has more money than the average U.S. consumer to spend on nonessentials like books and video games.

He added that the company has earned trust among buyers, who know that Amazon will work to fix any problems, regardless of whether an item was bought from Amazon directly or from partner retailers that sell through Amazon's Web site and often fulfill the orders themselves.

Kaufman Bros. analyst Aaron Kessler believes that Amazon also benefited from consumers buying more expensive items during the quarter. He noted that Amazon's revenue grew much faster than the number of items sold.

Amazon does not indicate how many items it sells each quarter, but it releases the percentage growth - 32 percent year-over-year in the most recent quarter, compared with 28 percent in the second quarter. Revenue, meanwhile, gained 28 percent year-over-year to \$5.45 billion in the most recent quarter, compared with a 14 percent climb in the prior quarter.

Amazon said Thursday that it earned \$199 million, or 45 cents per share, in the third quarter, far surpassing Wall Street expectations.

And Amazon expects this momentum to continue: It predicted revenue will grow 21 percent to 36 percent in the current quarter.

As a result, Amazon shares rose 25.04, or 26.8 percent, to finish trading

at \$118.49. Previously, the highest closing price had been \$106.69, set in December 1999. During the day, the shares climbed as high as \$119.65.

"I think you've seen in general it's a little more confidence that we hit bottom in the economy, so people may be starting to spend a little more," Kessler said.

Can Amazon keep this up in the long term, though? Several analysts believe so.

Lindsay said that while the third-quarter performance was much stronger than he expected, there was no single factor that really led to the growth surge. This makes him confident that Amazon can continue to report strong growth in the future.

And while competitors like Wal-Mart Stores Inc. are working to ramp up their presence on the Web - and competing with Amazon's low prices in the online book market - Lindsay doesn't believe they will pose much of a threat to Amazon.

"It looks like Amazon is so well-positioned in the mind of the consumer that it will very, very hard for competitors to make inroads into that," he said.

Goldman Sachs analyst James Mitchell said in a Friday note to clients that Amazon is "still operating far below any 'natural' limits on its revenue." Mitchell believes that Amazon can raise its share of e-commerce to higher than 12 percent, compared with his current estimate of about 6 percent.

Opinions are divided as to whether Amazon's report indicates the overall retail sector is getting stronger, however. Lindsay said retail is "definitely" coming back, but Kessler is not so convinced.

E-commerce recovered during the third quarter, Kessler said, noting that online marketplace operator eBay Inc. also saw improving sales. But this doesn't necessarily mean that the larger retail sector is doing likewise, he said.

"Overall retail, I think, still remains relatively challenging," he said.

©2009 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Analysts see more growth ahead for Amazon (2009, October 24) retrieved 16 August 2024 from <https://phys.org/news/2009-10-analysts-growth-amazon.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--