2 Aug 2024

CMB International Global Markets | Equity Research | Company Update

# Meta (META US)

## 2Q24 earnings beat; intact FY24 earnings growth outlook despite AI investment

Meta announced 2Q24 results: total revenue increased by 22% YoY to US$39.1bn, 2% ahead of Bloomberg consensus estimate; net income grew by 73% YoY to US$13.5bn, beating consensus estimate by 10%, primarily due to effective control in headcount-related expenses. For 3Q24E, management expects total revenue to grow by 13-20% YoY to US$38.5-41.0bn, which is largely in line with consensus estimate (US$39.2bn) and remains resilient despite the high-base effect. Despite stepped-up Capex investment, management maintains its FY24 full-year total expenses guidance unchanged at US$96-99bn, which should ease investor concern on its margin expansion trajectory in FY24. Overall, we raise FY24-26E total revenue forecast by 1-2% in view of the solid ad demand across verticals. We lift our TP by 5% to US$565.0 on 27x FY24 PE. Maintain BUY.

- **Ad business maintained solid growth.** Family of Apps' ad revenue grew by 22% YoY to US$38.3bn in 2Q24 (4Q23/1Q24: +25%/27% YoY), led by strong growth in online commerce, gaming, and entertainment verticals. Total number of ad impressions and average price per ad both grew 10% YoY in 2Q24, mainly due to the enhanced user engagement and improved ad performance. In 2Q24, Meta launched the full-screen video player and unified the video recommendation systems of Facebook Reels, Long Video and Live. This integration led to increased engagement on Reels and created opportunities to grow ad inventory on the Facebook platform. For 3Q24, management expects resilient growth of total revenue (+13-20% YoY), attributed to healthy global ad demand and ad performance improvement.
- **GenAI brings new opportunities.** Meta AI has received billions of queries since its launch and is on track of becoming the most used AI assistant by end-FY24, per management. Meta has recently launched AI Studio, which allows millions of creators on Meta to create their own AI agents. These initiatives will improve user experience, enrich Meta AI use cases, and create monetization opportunities, in our view. Meta also leverages AI to improve ad performance for advertisers. US advertisers saw a 22% higher ROI after the adoption of Advantage+ Shopping campaigns, per management.
- **Steady margin expansion in FY24.** OPM expanded by 9ppt YoY to 38.0% in 2Q24, due to decline in marketing personnel expenses and restructuring costs, partially offset by an increase in R&D expenses (+13% YoY). Management has raised the low-end of FY24 capex guidance and now anticipates FY24 capex to grow by 36-47% YoY to US$37-40bn (previous: US$35-40bn). Management also expects significant capex growth in FY25, as Meta invests to support AI development. We are upbeat on OPM expansion in FY24 due to efficiency gains, but expect the OPM expansion to slow down meaningfully from FY25 onward. We forecast a net income CAGR of 21% over FY24-26E. We believe the current valuation of 20x FY25E PE remains attractive. BUY.

### Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| **Revenue (US$ mn)** | 116,609 | 134,901 | 159,691 | 181,507 | 201,747 |
| **Net profit (US$ mn)** | 23,200.0 | 39,098.0 | 53,140.1 | 61,031.2 | 69,392.2 |
| **EPS (Reported) (US$)** | 8.63 | 15.19 | 20.93 | 24.03 | 27.33 |
| **Consensus EPS (US$)** | 8.63 | 15.19 | 20.21 | 23.30 | 26.99 |
| **P/S (x)** | 10.5 | 9.1 | 7.7 | 6.7 | 6.1 |
| **P/E (x)** | 55.0 | 31.3 | 22.7 | 19.8 | 17.4 |

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

| | |
|---|---|
| **Target Price** | **US$565.00** |
| (Previous TP | US$542.00) |
| **Up/Downside** | **19.0%** |
| **Current Price** | **US$474.83** |

**China Internet**


**Saiyi HE, CFA**
(852) 3916 1739
hesaiyi@cmbi.com.hk

**Wentao LU, CFA**
luwentao@cmbi.com.hk

**Ye TAO**
franktao@cmbi.com.hk


**Stock Data**

| | |
|---|---|
| Mkt Cap (US$ mn) | 1,222,212.4 |
| Avg 3 mths t/o (US$ mn) | 1,670.3 |
| 52w High/Low (US$) | 539.91/283.25 |
| Total Issued Shares (mn) | 2574.0 |

Source: FactSet

**Shareholding Structure**

| | |
|---|---|
| Mark Zuckerberg | 14.0% |
| The Vanguard Group | 6.9% |

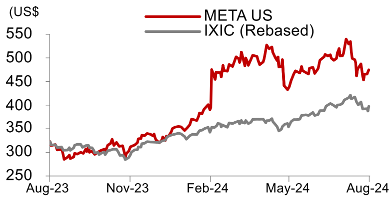
Source: Company data

**Share Performance**

| | Absolute | Relative |
|---|---|---|
| 1-mth | -5.9% | -4.4% |
| 3-mth | 8.1% | -4.1% |
| 6-mth | 20.3% | 5.0% |

Source: FactSet

**12-mth Price Performance**




Source: FactSet

# Business forecasts update and valuation

### Figure 1: Meta: forecast revision

| | Current | | | Previous | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| US$ bn | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 159.7 | 181.5 | 201.7 | 158.1 | 179.4 | 199.3 | 1.0% | 1.2% | 1.2% |
| Gross profit | 129.3 | 147.0 | 163.4 | 128.1 | 145.3 | 161.4 | 1.0% | 1.2% | 1.2% |
| Operating profit | 61.7 | 71.3 | 80.8 | 59.8 | 69.0 | 78.2 | 3.2% | 3.3% | 3.3% |
| Net profit | 53.1 | 61.0 | 69.4 | 51.5 | 59.1 | 67.2 | 3.2% | 3.3% | 3.3% |
| EPS (US$) | 20.9 | 24.0 | 27.3 | 20.0 | 23.0 | 26.1 | 4.6% | 4.7% | 4.7% |
| Gross margin | 81.0% | 81.0% | 81.0% | 81.0% | 81.0% | 81.0% | 0.0 ppt | 0.0 ppt | 0.0 ppt |
| Operating margin | 38.6% | 39.3% | 40.0% | 37.8% | 38.5% | 39.2% | 0.8 ppt | 0.8 ppt | 0.8 ppt |
| Net margin | 33.3% | 33.6% | 34.4% | 32.6% | 32.9% | 33.7% | 0.7 ppt | 0.7 ppt | 0.7 ppt |

Source: CMBIGM estimates

### Figure 2: Meta: CMBIGM estimates vs consensus

| | CMBIGM | | | Consensus | | | Diff (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| US$ bn | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 159.7 | 181.5 | 201.7 | 159.0 | 179.4 | 200.6 | 0.4% | 1.2% | 0.6% |
| Gross profit | 129.3 | 147.0 | 163.4 | 129.1 | 145.0 | 161.6 | 0.2% | 1.4% | 1.1% |
| Operating profit | 61.7 | 71.3 | 80.8 | 61.5 | 72.5 | 82.6 | 0.3% | -1.7% | -2.2% |
| Net profit | 53.1 | 61.0 | 69.4 | 52.5 | 59.9 | 67.4 | 1.1% | 1.9% | 3.0% |
| EPS (US$) | 20.9 | 24.0 | 27.3 | 20.2 | 23.3 | 27.0 | 3.6% | 3.2% | 1.2% |
| Gross margin | 81.0% | 81.0% | 81.0% | 81.2% | 80.8% | 80.6% | -0.2 ppt | 0.2 ppt | 0.4 ppt |
| Operating margin | 38.6% | 39.3% | 40.0% | 38.7% | 40.4% | 41.2% | 0.0 ppt | -1.1 ppt | -1.1 ppt |
| Net margin | 33.3% | 33.6% | 34.4% | 33.0% | 33.4% | 33.6% | 0.2 ppt | 0.2 ppt | 0.8 ppt |

Source: Bloomberg, CMBIGM estimates

## Valuation

We value Meta at US$565.0 per share based on 27x 2024E P/E. Our target PE multiple is a premium to the sector average (22x), reflecting Meta's strong leadership in global social media space and capability to further unleash operating leverage.

### Figure 3: Meta: target valuation

| P/E valuation (US$mn) | 2024E |
|---|---|
| Net income | 53,140 |
| Target 2024E P/E | 27.0 |
| Target equity valuation | 1,434,783 |
| Valuation per share (US$) | 565.0 |

Source: Company data, CMBIGM estimates

**Figure 4: Global online ad platforms: valuation comparison**

| Companies | Ticker | Price (LC) | PE (x) 2024E | PE (x) 2025E | PE (x) 2026E | PS (x) 2024E | PS (x) 2025E | PS (x) 2026E | EPS CAGR 24-26E |
|---|---|---|---|---|---|---|---|---|---|
| **Global ads** | | | | | | | | | |
| Meta | META US | 474.8 | 22.7 | 19.8 | 17.4 | 7.6 | 6.7 | 6.0 | 21% |
| Alphabet | GOOGL US | 171.5 | 21.5 | 19.3 | 17.3 | 7.3 | 6.2 | 5.5 | 18% |
| Pinterest | PINS US | 32.0 | 21.9 | 19.1 | 15.7 | 6.0 | 5.2 | 4.5 | 25% |
| Snap | SNAP US | 13.3 | NA | 33.3 | 24.9 | 4.1 | 3.6 | 3.1 | 92% |
| ***Average*** | | | ***22.0*** | ***22.9*** | ***18.8*** | ***6.2*** | ***5.4*** | ***4.8*** | |
| **Global tech** | | | | | | | | | |
| Microsoft | MSFT US | 418.4 | 35.4 | 31.5 | 27.0 | 12.7 | 11.1 | 9.7 | 17% |
| NVIDIA | NVDA US | 117.0 | NA | 43.4 | 31.1 | 48.5 | 23.9 | 17.5 | 126% |
| Amazon | AMZN US | 187.0 | 33.3 | 27.5 | 23.2 | 3.0 | 2.7 | 2.5 | 28% |
| Tesla Inc | TSLA US | 232.1 | NA | NA | NA | 7.5 | 6.4 | 5.3 | 13% |
| Salesforce | CRM US | 258.8 | 31.6 | 26.1 | 23.5 | 7.2 | 6.6 | 6.1 | 31% |
| Netflix Inc | NFLX US | 628.4 | 32.8 | 27.4 | 23.0 | 7.0 | 6.2 | 5.6 | 31% |
| Adobe Inc | ADBE US | 551.7 | 30.4 | 26.8 | 23.5 | 11.4 | 10.2 | 9.2 | 14% |
| Intuit Inc | INTU US | 647.4 | 38.5 | 33.8 | 29.4 | 11.2 | 10.0 | 8.8 | 16% |
| ServiceNow | NOW US | 814.4 | NA | 49.3 | 40.5 | 15.4 | 12.8 | 10.6 | 24% |
| ***Average*** | | | ***33.7*** | ***33.2*** | ***27.6*** | ***13.8*** | ***10.0*** | ***8.4*** | |

Source: Bloomberg, CMBIGM
Note: data as of 31 July 2024

# Financial Summary

| INCOME STATEMENT | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (US$ mn)** | | | | | | |
| **Revenue** | **117,929** | **116,609** | **134,901** | **159,691** | **181,507** | **201,747** |
| Cost of goods sold | (22,649) | (25,249) | (25,958) | (30,341) | (34,486) | (38,332) |
| **Gross profit** | **95,280** | **91,360** | **108,943** | **129,350** | **147,020** | **163,415** |
| **Operating expenses** | **(48,527)** | **(62,415)** | **(62,192)** | **(67,669)** | **(75,745)** | **(82,637)** |
| Selling expense | (14,043) | (15,261) | (12,301) | (11,458) | (12,763) | (13,902) |
| Admin expense | (9,829) | (11,816) | (11,408) | (13,095) | (14,884) | (16,342) |
| R&D expense | (24,655) | (35,338) | (38,483) | (43,117) | (48,099) | (52,394) |
| **Operating profit** | **46,753** | **28,945** | **46,751** | **61,681** | **71,275** | **80,778** |
| **Net Interest income/(expense)** | **531** | **(126)** | **677** | **837** | **527** | **860** |
| Foreign exchange gain/loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Other income/expense | 0 | 0 | 0 | 0 | 0 | 0 |
| **Pre-tax profit** | **47,284** | **28,819** | **47,428** | **62,518** | **71,801** | **81,638** |
| Income tax | (7,914) | (5,619) | (8,330) | (9,378) | (10,770) | (12,246) |
| **After tax profit** | **39,370** | **23,200** | **39,098** | **53,140** | **61,031** | **69,392** |
| **Net profit** | **39,370** | **23,200** | **39,098** | **53,140** | **61,031** | **69,392** |
| **Adjusted net profit** | **48,534** | **35,192** | **53,125** | **68,402** | **78,115** | **88,031** |

| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (US$ mn)** | | | | | | |
| **Current assets** | **66,666** | **59,549** | **85,365** | **102,970** | **152,683** | **215,590** |
| Cash & equivalents | 16,601 | 14,681 | 41,862 | 52,651 | 95,553 | 154,469 |
| Account receivables | 14,039 | 13,466 | 16,169 | 18,757 | 20,894 | 22,759 |
| Financial assets at FVTPL | 31,397 | 26,057 | 23,541 | 27,072 | 31,133 | 32,690 |
| Other current assets | 4,629 | 5,345 | 3,793 | 4,490 | 5,103 | 5,673 |
| **Non-current assets** | **99,321** | **126,178** | **144,258** | **159,954** | **171,663** | **179,595** |
| PP&E | 69,964 | 92,191 | 109,881 | 124,289 | 134,858 | 141,728 |
| Investment in JVs & assos | 6,775 | 6,201 | 6,141 | 6,141 | 6,141 | 6,141 |
| Intangibles | 634 | 897 | 788 | 827 | 869 | 912 |
| Goodwill | 19,197 | 20,306 | 20,654 | 20,654 | 20,654 | 20,654 |
| Other non-current assets | 2,751 | 6,583 | 6,794 | 8,042 | 9,141 | 10,161 |
| **Total assets** | **165,987** | **185,727** | **229,623** | **262,924** | **324,346** | **395,185** |
| | | | | | | |
| **Current liabilities** | **21,135** | **27,026** | **31,960** | **36,407** | **40,391** | **43,878** |
| Account payables | 4,083 | 4,990 | 4,849 | 5,554 | 6,187 | 6,739 |
| Other current liabilities | 1,613 | 1,117 | 863 | 1,022 | 1,161 | 1,291 |
| Lease liabilities | 1,127 | 1,367 | 1,623 | 1,623 | 1,623 | 1,623 |
| Accrued expenses | 14,312 | 19,552 | 24,625 | 28,207 | 31,420 | 34,225 |
| **Non-current liabilities** | **19,973** | **32,988** | **44,495** | **44,495** | **44,495** | **44,495** |
| Obligations under finance leases | 12,746 | 15,301 | 17,226 | 17,226 | 17,226 | 17,226 |
| Other non-current liabilities | 7,227 | 17,687 | 27,269 | 27,269 | 27,269 | 27,269 |
| **Total liabilities** | **41,108** | **60,014** | **76,455** | **80,902** | **84,886** | **88,373** |
| | | | | | | |
| Capital surplus | 55,811 | 64,444 | 73,253 | 48,967 | 45,373 | 43,334 |
| Retained earnings | 69,761 | 64,799 | 82,070 | 135,210 | 196,241 | 265,634 |
| Other reserves | (693) | (3,530) | (2,155) | (2,155) | (2,155) | (2,155) |
| **Total shareholders equity** | **124,879** | **125,713** | **153,168** | **182,022** | **239,460** | **306,812** |
| **Total equity and liabilities** | **165,987** | **185,727** | **229,623** | **262,924** | **324,346** | **395,185** |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (US$ mn)** | | | | | | |
| **Operating** | | | | | | |
| **Profit before taxation** | **47,284** | **28,819** | **47,428** | **62,518** | **71,801** | **81,638** |
| Depreciation & amortization | 7,967 | 8,686 | 11,178 | 11,413 | 12,910 | 14,008 |
| Tax paid | (7,914) | (5,619) | (8,330) | (9,378) | (10,770) | (12,246) |
| Change in working capital | 887 | 5,683 | 6,175 | 1,161 | 1,235 | 1,053 |
| Others | 9,459 | 12,906 | 14,662 | 15,262 | 17,084 | 18,638 |
| **Net cash from operations** | **57,683** | **50,475** | **71,113** | **80,977** | **92,260** | **103,091** |
| | | | | | | |
| **Investing** | | | | | | |
| Capital expenditure | (18,690) | (31,431) | (27,266) | (25,861) | (23,520) | (20,921) |
| Acquisition of subsidiaries/ investments | (851) | (1,312) | (629) | 0 | 0 | 0 |
| Others | 11,971 | 3,773 | 3,400 | (4,780) | (5,160) | (2,576) |
| **Net cash from investing** | **(7,570)** | **(28,970)** | **(24,495)** | **(30,640)** | **(28,680)** | **(23,497)** |
| | | | | | | |
| **Financing** | | | | | | |
| Net borrowings | (677) | 9,071 | 7,397 | 0 | 0 | 0 |
| Share repurchases | (50,052) | (31,551) | (19,774) | (39,548) | (20,678) | (20,678) |
| Others | 1 | 344 | (7,123) | 0 | 0 | 0 |
| **Net cash from financing** | **(50,728)** | **(22,136)** | **(19,500)** | **(39,548)** | **(20,678)** | **(20,678)** |
| | | | | | | |
| **Net change in cash** | | | | | | |
| Cash at the beginning of the year | 17,576 | 16,601 | 14,681 | 41,862 | 52,651 | 95,553 |
| Exchange difference | (360) | (1,289) | 63 | 0 | 0 | 0 |
| **Cash at the end of the year** | **16,601** | **14,681** | **41,862** | **52,651** | **95,553** | **154,469** |
| **GROWTH** | **2021A** | **2022A** | **2023A** | **2024E** | **2025E** | **2026E** |
| **YE 31 Dec** | | | | | | |
| Revenue | 37.2% | (1.1%) | 15.7% | 18.4% | 13.7% | 11.2% |
| Gross profit | 37.5% | (4.1%) | 19.2% | 18.7% | 13.7% | 11.2% |
| Operating profit | 43.1% | (38.1%) | 61.5% | 31.9% | 15.6% | 13.3% |
| Net profit | 35.1% | (41.1%) | 68.5% | 35.9% | 14.8% | 13.7% |
| Adj. net profit | 36.0% | (27.5%) | 51.0% | 28.8% | 14.2% | 12.7% |
| **PROFITABILITY** | **2021A** | **2022A** | **2023A** | **2024E** | **2025E** | **2026E** |
| **YE 31 Dec** | | | | | | |
| Gross profit margin | 80.8% | 78.3% | 80.8% | 81.0% | 81.0% | 81.0% |
| Operating margin | 39.6% | 24.8% | 34.7% | 38.6% | 39.3% | 40.0% |
| Adj. net profit margin | 41.2% | 30.2% | 39.4% | 42.8% | 43.0% | 43.6% |
| Return on equity (ROE) | 31.1% | 18.5% | 28.0% | 31.7% | 29.0% | 25.4% |
| **GEARING/LIQUIDITY/ACTIVITIES** | **2021A** | **2022A** | **2023A** | **2024E** | **2025E** | **2026E** |
| **YE 31 Dec** | | | | | | |
| Current ratio (x) | 3.2 | 2.2 | 2.7 | 2.8 | 3.8 | 4.9 |
| Receivable turnover days | 43.5 | 42.2 | 43.7 | 42.9 | 42.0 | 41.2 |
| **VALUATION** | **2021A** | **2022A** | **2023A** | **2024E** | **2025E** | **2026E** |
| **YE 31 Dec** | | | | | | |
| P/E | 34.4 | 55.0 | 31.3 | 22.7 | 19.8 | 17.4 |
| P/E (diluted) | 34.5 | 55.3 | 31.9 | 23.4 | 20.4 | 17.9 |
| P/B | 10.8 | 10.1 | 8.0 | 6.6 | 5.0 | 3.9 |

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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| | |
|---|---|
| **BUY** | : Stock with potential return of over 15% over next 12 months |
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| **NOT RATED** | : Stock is not rated by CMBIGM |
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*CMB International Global Markets Limited*

**Address**: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888   Fax: (852) 3900 0800

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