

# Alphabet (GOOG US)

## 1Q26 results beat on strong search and cloud businesses; AI as the key driver

Alphabet announced 1Q26 results: total revenue was up by 22% YoY to US\$109.9bn, 3% ahead of Bloomberg consensus due to the robust growth of revenue from Cloud and Search. During the period, operating income grew by 30% YoY to US\$39.7bn despite the step-up of AI investment, 10% ahead of the consensus thanks to the strong operating leverage and efficiency improvement. AI continues to drive solid growth of core search and cloud businesses, and the company plans to further increase AI investment given the attractive ROIC. Management lifts FY26 total capex guidance from previously US\$175-185bn to US\$180-190bn (+97-108% YoY), and now also expects FY27 total capex to be significantly higher than that in FY26. We raise our FY26-28E total revenue forecasts by 4-12% to factor in the strong momentum of both search and cloud businesses. We raise our target price to US\$425.0 based on 35x FY26E PE (previous: US\$396.0 based on 35x FY26E PE). We remain constructive on Google's solid core business momentum, supported by its vertically-optimized AI stack. Maintain BUY.

- AI drove solid search usage growth and monetization improvement.** Google Search & other revenue increased by 19% YoY to US\$60.4bn in 1Q26, showing accelerating growth (4Q25/3Q25: +17%/+15% YoY). AI features, including AI Overviews and AI Mode, drove search queries to an all-time high. Besides, AI improves ad monetization on multiple fronts: 1) AI enhances Google's ability to understand user intent and improve ads relevance by c.10%, boosting user engagement; 2) AI advertiser tools enable more efficient ad campaigns, with over 30% of Google's customer search spend now using AI-enabled campaigns like AI Max or Performance Max; 3) AI created new user experience and ad formats, further unleashing ad monetization potential. YouTube ads revenue increased by 11% YoY to US\$9.9bn in 1Q26, mainly driven by the Direct Response.
- Google Cloud revenue growth accelerated to >60% YoY.** Google Cloud revenue surged by 63% YoY to US\$20.0bn in 1Q26 (4Q25/3Q25: +48%/34% YoY), mainly driven by the robust demand for AI solutions and infrastructure. Gemini Enterprise saw 40% QoQ growth in paid users. The cloud backlog, including GCP and TPU hardware sales, nearly doubled QoQ to US\$460bn in 1Q26. And management expects just over 50% of the backlog will be recognized over the next 24 months, which should support over 50% cloud revenue growth in FY26/27E, in our view. Moreover, strong operating leverage drives Google Cloud OPM to rise by 15ppts YoY and 3ppts QoQ to 33% in 1Q26.
- Margin expansion continues despite AI investment.** Overall OPM improved by 2.2ppts YoY to 36.1% in 1Q26, mainly attributable to the operating leverage and efficiency gains. Management slightly lifts FY26 total capex guidance from previously US\$175-185bn to US\$180-190bn, to factor in the acquisition of Intersect. Management also expects FY27E capex to increase significantly compared to FY26E, which should put certain pressure on P&L due to higher depreciation expenses.

### Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US\$ mn)	350,018	402,836	482,445	573,388	669,624
Net profit (US\$ mn)	100,118.0	132,170.0	175,782.2	172,962.4	202,944.5
EPS (Reported) (US\$)	8.13	10.91	14.53	14.30	16.77
Consensus EPS (US\$)	8.13	10.91	11.70	13.60	15.75
P/E (x)	42.7	31.8	23.9	24.3	20.7

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

<b>Target Price</b>	<b>US\$425.00</b>
(Previous TP)	US\$396.00)
<b>Up/Downside</b>	<b>22.4%</b>
<b>Current Price</b>	<b>US\$347.31</b>

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### Stock Data

Mkt Cap (US\$ mn)	4,202,103.7
Avg 3 mths t/o (US\$ mn)	4,320.0
52w High/Low (US\$)	348.52/152.80
Total Issued Shares (mn)	12099.0

Source: FactSet

### Shareholding Structure

BlackRock	3.4%
The Vanguard Group	2.9%

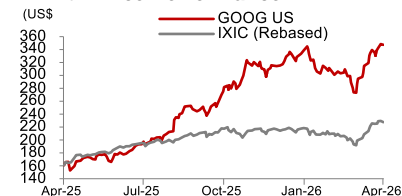
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	21.1%	5.9%
3-mth	2.6%	-2.4%
6-mth	23.2%	18.5%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Business forecasts update and valuation

Figure 1: Alphabet: forecast revision

US\$ bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	482.4	573.4	669.6	464.4	527.9	595.8	3.9%	8.6%	12.4%
Gross profit	295.2	352.7	415.7	280.0	319.2	361.3	5.4%	10.5%	15.0%
Operating profit	165.4	200.2	238.3	154.8	178.8	207.0	6.9%	12.0%	15.1%
Net profit	175.8	173.0	202.9	137.0	156.5	178.5	28.3%	10.5%	13.7%
EPS (US\$)	14.5	14.3	16.8	11.3	12.9	14.7	28.5%	10.7%	13.9%
Gross margin	61.2%	61.5%	62.1%	60.3%	60.5%	60.6%	0.9 ppt	1.0 ppt	1.4 ppt
Operating margin	34.3%	34.9%	35.6%	33.3%	33.9%	34.7%	1.0 ppt	1.0 ppt	0.8 ppt
Net margin	36.4%	30.2%	30.3%	29.5%	29.6%	30.0%	6.9 ppt	0.5 ppt	0.3 ppt

Source: CMBIGM estimates

Note: FY26E net income includes the unrealized gain on equity securities of US\$28.7bn in 1Q26.

Figure 2: Alphabet: CMBIGM estimates vs consensus

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	482.4	573.4	669.6	472.5	545.4	625.3	2.1%	5.1%	7.1%
Gross profit	295.2	352.7	415.7	282.5	325.6	373.6	4.5%	8.3%	11.3%
Operating profit	165.4	200.2	238.3	159.2	199.2	238.8	3.9%	0.5%	-0.2%
Net profit	175.8	173.0	202.9	141.9	163.7	189.4	23.9%	5.6%	7.1%
EPS (US\$)	14.5	14.3	16.8	11.7	13.6	15.8	24.2%	5.1%	6.5%
Gross margin	61.2%	61.5%	62.1%	59.8%	59.7%	59.7%	1.4 ppt	1.8 ppt	2.3 ppt
Operating margin	34.3%	34.9%	35.6%	33.7%	36.5%	38.2%	0.6 ppt	-1.6 ppt	-2.6 ppt
Net margin	36.4%	30.2%	30.3%	30.0%	30.0%	30.3%	6.4 ppt	0.1 ppt	0.0 ppt

Source: CMBIGM estimates, Bloomberg

Figure 3: Alphabet: quarterly results

(US\$ mn)	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	Consensus	Diff
<b>Total revenue</b>	<b>84,742</b>	<b>88,268</b>	<b>96,469</b>	<b>90,234</b>	<b>96,428</b>	<b>102,346</b>	<b>113,828</b>	<b>109,896</b>	<b>107,100</b>	<b>2.6%</b>
YoY	13.6%	15.1%	11.8%	12.0%	13.8%	15.9%	18.0%	21.8%	18.7%	
<b>Google services</b>	<b>73,928</b>	<b>76,510</b>	<b>84,094</b>	<b>77,264</b>	<b>82,543</b>	<b>87,052</b>	<b>95,862</b>	<b>89,637</b>	<b>88,111</b>	<b>1.7%</b>
YoY	11.5%	12.5%	10.2%	9.8%	11.7%	13.8%	14.0%	16.0%	14.0%	
<b>Google cloud</b>	<b>10,347</b>	<b>11,353</b>	<b>11,955</b>	<b>12,260</b>	<b>13,624</b>	<b>15,157</b>	<b>17,664</b>	<b>20,028</b>	<b>18,408</b>	<b>8.8%</b>
YoY	28.8%	35.0%	30.1%	28.1%	31.7%	33.5%	47.8%	63.4%	50.1%	
<b>Other bets</b>	<b>365</b>	<b>388</b>	<b>400</b>	<b>450</b>	<b>373</b>	<b>344</b>	<b>370</b>	<b>411</b>	<b>462</b>	<b>-11.1%</b>
YoY	28.1%	30.6%	-39.1%	-9.1%	2.2%	-11.3%	-7.5%	-8.7%	2.7%	
<b>Gross Profit</b>	<b>49,235</b>	<b>51,794</b>	<b>55,856</b>	<b>53,873</b>	<b>57,389</b>	<b>60,977</b>	<b>68,062</b>	<b>68,625</b>	<b>64,153</b>	<b>7.0%</b>
GPM	58.1%	58.7%	57.9%	59.7%	59.5%	59.6%	59.8%	62.4%	59.9%	
<b>S&amp;M Expenses</b>	<b>6,792</b>	<b>7,227</b>	<b>7,363</b>	<b>6,172</b>	<b>7,101</b>	<b>7,205</b>	<b>8,215</b>	<b>7,606</b>	<b>7,130</b>	<b>6.7%</b>
YoY	0.2%	5.0%	-4.6%	-4.0%	4.5%	-0.3%	11.6%	23.2%	15.5%	
<b>G&amp;A Expenses</b>	<b>3,158</b>	<b>3,599</b>	<b>4,405</b>	<b>3,539</b>	<b>5,209</b>	<b>7,393</b>	<b>5,341</b>	<b>4,291</b>	<b>4,415</b>	<b>-2.8%</b>
YoY	-9.3%	-9.6%	-15.4%	17.0%	64.9%	105.4%	21.2%	21.2%	24.8%	
<b>R&amp;D Expenses</b>	<b>11,860</b>	<b>12,447</b>	<b>13,116</b>	<b>13,556</b>	<b>13,808</b>	<b>15,151</b>	<b>18,572</b>	<b>17,032</b>	<b>16,820</b>	<b>1.3%</b>
YoY	12.0%	10.6%	8.3%	13.9%	16.4%	21.7%	41.6%	25.6%	24.1%	
<b>Operating income</b>	<b>27,425</b>	<b>28,521</b>	<b>30,972</b>	<b>30,606</b>	<b>31,271</b>	<b>31,228</b>	<b>35,934</b>	<b>39,696</b>	<b>36,187</b>	<b>9.7%</b>
YoY	25.6%	33.6%	30.7%	20.2%	14.0%	9.5%	16.0%	29.7%	18.2%	
OPM	32.4%	32.3%	32.1%	33.9%	32.4%	30.5%	31.6%	36.1%	33.8%	
<b>Google services</b>	<b>29,674</b>	<b>30,856</b>	<b>32,836</b>	<b>32,682</b>	<b>33,063</b>	<b>33,527</b>	<b>40,132</b>	<b>40,589</b>	<b>37,369</b>	<b>8.6%</b>
OPM	40.1%	40.3%	39.0%	42.3%	40.1%	38.5%	41.9%	45.3%	42.4%	

Google cloud	1,172	1,947	2,093	2,177	2,826	3,594	5,313	6,598	5,079	<b>29.9%</b>
OPM	11.3%	17.1%	17.5%	17.8%	20.7%	23.7%	30.1%	32.9%	27.6%	
Other bets	-1,134	-1,116	-1,174	-1,226	-1,246	-1,426	-3,617	-2,100	-1,566	<b>NA</b>
OPM	NA	NA	NA	NA	NA	NA	NA	NA	NA	

Source: Bloomberg, CMBIGM

## Valuation

We value Alphabet at US\$425.0 per share based on 35x 2026E P/E. Our target PE multiple is a premium to the sector average (17x), which mainly reflects Google's competitive edge in the search, enterprise AI and cloud markets.

### Figure 4: Alphabet: target valuation

P/E valuation (US\$mn)	2026E
Adjusted net income	147,082
Target 2026E P/E	35x
Target equity valuation	5,147,876
Valuation per share (US\$)	425.0

Source: Company data, CMBIGM estimates

Note: net income is adjusted for the unrealized gain on equity securities of US\$28.7bn in 1Q26.

### Figure 5: Global online ad platforms: valuation comparison

Companies	Ticker	Price (LC)	PE (x)		PS (x)		EPS CAGR 25-27E
			2026E	2027E	2026E	2027E	
<b>Global ads</b>							
Alphabet	GOOG US	349.9	28.4	24.7	10.3	8.7	14%
Meta	META US	669.1	20.1	17.2	6.8	5.7	13%
Pinterest	PINS US	19.7	10.5	9.2	2.4	2.1	14%
Snap	SNAP US	6.0	10.8	8.9	1.5	1.4	43%
<b>Average</b>			<b>17.4</b>	<b>15.0</b>	<b>5.2</b>	<b>4.5</b>	
<b>Global tech</b>							
Microsoft	MSFT US	424.5	25.3	22.3	9.6	8.3	19%
Amazon	AMZN US	263.0	28.8	23.5	3.5	3.1	13%
Netflix Inc	NFLX US	92.1	26.0	23.9	7.5	6.8	23%
Uber	UBER US	74.5	22.3	16.9	2.6	2.3	33%
<b>Average</b>			<b>25.7</b>	<b>21.4</b>	<b>4.6</b>	<b>4.1</b>	

Source: Bloomberg, CMBIGM

Note: data as of 29 Apr

## Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
<b>YE 31 Dec (US\$ mn)</b>						
<b>Revenue</b>	<b>307,394</b>	<b>350,018</b>	<b>402,836</b>	<b>482,445</b>	<b>573,388</b>	<b>669,624</b>
Cost of goods sold	(133,332)	(146,306)	(162,535)	(187,222)	(220,693)	(253,921)
<b>Gross profit</b>	<b>174,062</b>	<b>203,712</b>	<b>240,301</b>	<b>295,223</b>	<b>352,695</b>	<b>415,703</b>
<b>Operating expenses</b>	<b>(89,769)</b>	<b>(91,322)</b>	<b>(111,262)</b>	<b>(129,797)</b>	<b>(152,521)</b>	<b>(177,450)</b>
Selling expense	(27,917)	(27,808)	(28,693)	(33,684)	(35,550)	(38,838)
Admin expense	(16,425)	(14,188)	(21,482)	(19,938)	(22,362)	(24,776)
R&D expense	(45,427)	(49,326)	(61,087)	(76,174)	(94,609)	(113,836)
Others	0	0	0	0	0	0
<b>Operating profit</b>	<b>84,293</b>	<b>112,390</b>	<b>129,039</b>	<b>165,426</b>	<b>200,174</b>	<b>238,252</b>
Other income/expense	1,424	7,425	29,787	45,167	5,734	3,348
<b>Pre-tax profit</b>	<b>85,717</b>	<b>119,815</b>	<b>158,826</b>	<b>210,593</b>	<b>205,908</b>	<b>241,601</b>
Income tax	(11,922)	(19,697)	(26,656)	(34,811)	(32,945)	(38,656)
<b>After tax profit</b>	<b>73,795</b>	<b>100,118</b>	<b>132,170</b>	<b>175,782</b>	<b>172,962</b>	<b>202,944</b>
<b>Net profit</b>	<b>73,795</b>	<b>100,118</b>	<b>132,170</b>	<b>175,782</b>	<b>172,962</b>	<b>202,944</b>
<b>Adjusted net profit</b>	<b>96,255</b>	<b>122,903</b>	<b>158,393</b>	<b>207,188</b>	<b>210,288</b>	<b>246,535</b>
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (US\$ mn)</b>						
<b>Current assets</b>	<b>171,530</b>	<b>163,711</b>	<b>206,038</b>	<b>232,034</b>	<b>233,936</b>	<b>284,865</b>
Cash & equivalents	24,048	23,466	30,708	45,783	35,526	74,034
Account receivables	47,964	52,340	62,886	73,807	85,966	98,386
Inventories	0	0	0	0	0	0
Financial assets at FVTPL	86,868	72,191	96,135	96,135	96,135	96,135
Other current assets	12,650	15,714	16,309	16,309	16,309	16,309
<b>Non-current assets</b>	<b>230,862</b>	<b>286,545</b>	<b>389,243</b>	<b>544,485</b>	<b>730,275</b>	<b>902,730</b>
PP&E	134,345	171,036	246,597	401,839	587,629	760,084
Right-of-use assets	14,091	13,588	15,221	15,221	15,221	15,221
Deferred income tax	12,169	17,180	9,113	9,113	9,113	9,113
Investment in JVs & assos	31,008	37,982	68,687	68,687	68,687	68,687
Intangibles	2,084	2,084	2,084	2,084	2,084	2,084
Goodwill	29,198	31,885	33,380	33,380	33,380	33,380
Other non-current assets	7,967	12,790	14,161	14,161	14,161	14,161
<b>Total assets</b>	<b>402,392</b>	<b>450,256</b>	<b>595,281</b>	<b>776,519</b>	<b>964,211</b>	<b>1,187,595</b>
<b>Current liabilities</b>	<b>81,814</b>	<b>89,122</b>	<b>102,745</b>	<b>113,362</b>	<b>127,334</b>	<b>140,750</b>
Account payables	7,493	7,987	12,200	13,772	15,909	17,939
Tax payable	0	0	0	0	0	0
Other current liabilities	13,013	14,838	17,442	19,329	21,429	23,575
Accrued expenses	61,308	66,297	73,103	80,261	89,995	99,236
<b>Non-current liabilities</b>	<b>37,199</b>	<b>36,050</b>	<b>77,271</b>	<b>77,271</b>	<b>77,271</b>	<b>77,271</b>
Long-term borrowings	13,253	10,883	46,547	46,547	46,547	46,547
Obligations under finance leases	12,460	11,691	12,744	12,744	12,744	12,744
Deferred income	911	911	911	911	911	911
Other non-current liabilities	10,575	12,565	17,069	17,069	17,069	17,069
<b>Total liabilities</b>	<b>119,013</b>	<b>125,172</b>	<b>180,016</b>	<b>190,633</b>	<b>204,605</b>	<b>218,021</b>
Capital surplus	76,534	84,800	93,126	87,964	88,723	95,746
Retained earnings	211,247	245,084	324,055	499,837	672,800	875,744
Other reserves	(4,402)	(4,800)	(1,916)	(1,916)	(1,916)	(1,916)
<b>Total shareholders equity</b>	<b>283,379</b>	<b>325,084</b>	<b>415,265</b>	<b>585,886</b>	<b>759,606</b>	<b>969,574</b>
<b>Total equity and liabilities</b>	<b>402,392</b>	<b>450,256</b>	<b>595,281</b>	<b>776,519</b>	<b>964,211</b>	<b>1,187,595</b>

<b>CASH FLOW</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	85,717	119,815	158,826	210,593	205,908	241,601
Depreciation & amortization	11,946	15,311	21,136	30,500	43,565	61,913
Tax paid	(11,922)	(19,697)	(26,656)	(34,811)	(32,945)	(38,656)
Change in working capital	(3,845)	(8,406)	618	(304)	1,813	996
Others	19,850	18,276	10,789	31,406	37,326	43,590
<b>Net cash from operations</b>	<b>101,746</b>	<b>125,299</b>	<b>164,713</b>	<b>237,383</b>	<b>255,666</b>	<b>309,444</b>
<b>Investing</b>						
Capital expenditure	(32,251)	(52,535)	(91,447)	(185,741)	(229,355)	(234,368)
Acquisition of subsidiaries/ investments	(495)	(2,931)	(1,592)	0	0	0
Others	5,683	9,930	(27,252)	0	0	0
<b>Net cash from investing</b>	<b>(27,063)</b>	<b>(45,536)</b>	<b>(120,291)</b>	<b>(185,741)</b>	<b>(229,355)</b>	<b>(234,368)</b>
<b>Financing</b>						
Net borrowings	(760)	888	32,137	0	0	0
Share repurchases	(61,504)	(62,222)	(45,709)	(36,567)	(36,567)	(36,567)
Others	(9,829)	(18,399)	(23,816)	0	0	0
<b>Net cash from financing</b>	<b>(72,093)</b>	<b>(79,733)</b>	<b>(37,388)</b>	<b>(36,567)</b>	<b>(36,567)</b>	<b>(36,567)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	21,879	24,048	23,466	30,708	45,783	35,526
Exchange difference	(421)	(612)	208	0	0	0
<b>Cash at the end of the year</b>	<b>24,048</b>	<b>23,466</b>	<b>30,708</b>	<b>45,783</b>	<b>35,526</b>	<b>74,034</b>
<b>GROWTH</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Dec</b>						
Revenue	8.7%	13.9%	15.1%	19.8%	18.9%	16.8%
Gross profit	11.1%	17.0%	18.0%	22.9%	19.5%	17.9%
Operating profit	12.6%	33.3%	14.8%	28.2%	21.0%	19.0%
Net profit	23.0%	35.7%	32.0%	33.0%	(1.6%)	17.3%
Adj. net profit	21.3%	27.7%	28.9%	30.8%	1.5%	17.2%
<b>PROFITABILITY</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Dec</b>						
Gross profit margin	56.6%	58.2%	59.7%	61.2%	61.5%	62.1%
Operating margin	27.4%	32.1%	32.0%	34.3%	34.9%	35.6%
Adj. net profit margin	31.3%	35.1%	39.3%	42.9%	36.7%	36.8%
Return on equity (ROE)	27.4%	32.9%	35.7%	35.1%	25.7%	23.5%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	2.1	1.8	2.0	2.0	1.8	2.0
Receivable turnover days	57.0	54.6	57.0	55.8	54.7	53.6
<b>VALUATION</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Dec</b>						
P/E	59.4	42.7	31.8	23.9	24.3	20.7
P/E (diluted)	59.9	43.2	32.1	24.2	24.6	20.9
P/B	15.5	13.2	10.1	7.2	5.5	4.3

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

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