

Meta (META US)

AI development on track; stepped-up investment to drag margin expansion pace

Meta reported 3Q24 results: total revenue grew by 19% YoY to US\$40.6bn, in line with Bloomberg consensus estimate; net income was up by 35% YoY to US\$15.7bn, 15% ahead of the consensus estimate thanks to effective control of S&M and G&A expenses. For 4Q24E, management guides total revenue to grow by 12-20% YoY to US\$45-48bn, the midpoint of which is in line with consensus (US\$46.1bn). Looking ahead, management will continue to step up investment in strategic priorities such as GenAI, infrastructure, and monetization, and expects significant capex growth and acceleration in infra-related expense growth in 2025E. These investments should provide both short-term benefits (improved user engagement and ad conversion) and long-term opportunities, although these may slow down the margin expansion pace in our view. We lift FY24-26E revenue forecast by 1-3% on enhanced engagement and conversion. We roll forward valuation period to FY25E and raise our TP to US\$685.0 based on 27x FY25E PE (previous: US\$565.0 based on 27x FY24E PE). Maintain BUY.

- **Ad revenue maintained healthy growth.** Family of Apps ad revenue was up by 19% YoY to US\$39.9bn in 3Q24 (2Q24/1Q24: +22%/27% YoY), mainly driven by growth of online commerce/healthcare/entertainment verticals. Total number of ad impressions grew by 7% YoY and average price per ad was up by 11% YoY in 3Q24, mainly driven by increased ad demand and improved ad performance. On the product front, the global rollout of the unified video player in June achieved early success, driving a 10% increase in time spent on the Facebook video player. Meta is currently upgrading the video player to a full-screen viewing experience, which should further drive user time spent and create more monetization opportunities in our view.
- **AI development on track.** Meta achieved several milestones on the AI front: 1) MAUs of Meta AI surpassed 500mn (as of 3Q24) and management expects it to become the most used AI assistant by the end of this year; 2) Improvements to AI-driven feed and video recommendation systems led to 8%/6% increases in time spent on Facebook/Instagram YTD; 3) Over 1mn advertisers used Meta's GenAI tools to create over 15mn ads in Sep 2024, and the ones that used Image Generation saw a 7% increase in conversion; 4) Llama 4 models development is well on track and the smaller Llama 4 models are expected to be launched early next year, with new modalities and stronger reasoning. Overall, we see Meta continuing to solidify its leadership in terms of AI infra, model development and AI applications.
- **Continue to step up AI investment.** OPM improved by 2.5ppt YoY and 4.7ppt QoQ to 42.7% in 3Q24, mainly due to lower restructuring costs and legal-related expenses. FY24 total expenses/capex guidance is largely unchanged at US\$96-98/38-40bn (previous: US\$96-99/37-40bn). For FY25E, management expects both significant capex growth (servers as the main contributor) and significant acceleration in infra expense growth (higher depreciation and opex of the expanded infra fleet). We expect the investment to drag down margin expansion pace from FY25E onwards.

Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|-----------------------|----------|----------|----------|----------|----------|
| Revenue (US\$ mn) | 116,609 | 134,901 | 162,628 | 186,140 | 208,014 |
| Net profit (US\$ mn) | 23,200.0 | 39,098.0 | 56,367.9 | 64,163.8 | 72,215.7 |
| EPS (Adjusted) (US\$) | 13.10 | 20.64 | 28.22 | 32.26 | 36.22 |
| Consensus EPS (US\$) | 8.63 | 15.19 | 21.48 | 24.71 | 28.59 |
| P/E (x) | 68.5 | 39.0 | 26.7 | 23.3 | 20.7 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$685.00
 (Previous TP) US\$565.00
Up/Downside 15.7%
Current Price US\$591.80

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Stock Data

| | |
|--------------------------|---------------|
| Mkt Cap (US\$ mn) | 1,523,293.2 |
| Avg 3 mths t/o (US\$ mn) | 2,457.9 |
| 52w High/Low (US\$) | 595.94/310.87 |
| Total Issued Shares (mn) | 2574.0 |

Source: FactSet

Shareholding Structure

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

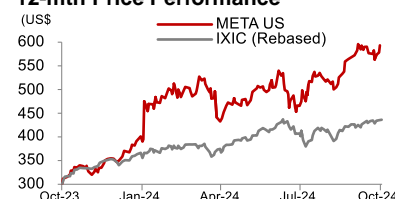
Source: Company data

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 3.4% | 1.1% |
| 3-mth | 24.6% | 17.9% |
| 6-mth | 37.6% | 15.8% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Meta: forecast revision

| US\$ bn | Current | | | Previous | | | Change (%) | | |
|------------------|---------|-------|-------|----------|-------|-------|------------|----------|----------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 162.6 | 186.1 | 208.0 | 159.7 | 181.5 | 201.7 | 1.8% | 2.6% | 3.1% |
| Gross Profit | 131.7 | 150.4 | 168.1 | 129.3 | 147.0 | 163.4 | 1.8% | 2.3% | 2.9% |
| Operating Profit | 64.0 | 73.2 | 82.1 | 61.7 | 71.3 | 80.8 | 3.7% | 2.7% | 1.6% |
| Net profit | 56.4 | 64.2 | 72.2 | 53.1 | 61.0 | 69.4 | 6.1% | 5.1% | 4.1% |
| EPS (US\$) | 22.2 | 25.4 | 28.6 | 20.9 | 24.0 | 27.3 | 6.1% | 5.6% | 4.5% |
| Gross Margin | 81.0% | 80.8% | 80.8% | 81.0% | 81.0% | 81.0% | 0.0 ppt | -0.2 ppt | -0.2 ppt |
| Operating Margin | 39.3% | 39.3% | 39.5% | 38.6% | 39.3% | 40.0% | 0.7 ppt | 0.1 ppt | -0.6 ppt |
| Net margin | 34.7% | 34.5% | 34.7% | 33.3% | 33.6% | 34.4% | 1.4 ppt | 0.8 ppt | 0.3 ppt |

Source: CMBIGM estimates

Figure 2: Meta: CMBIGM estimates vs consensus

| US\$ bn | CMBIGM | | | Consensus | | | Diff (%) | | |
|------------------|--------|-------|-------|-----------|-------|-------|----------|----------|----------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 162.6 | 186.1 | 208.0 | 161.7 | 184.6 | 208.8 | 0.6% | 0.9% | -0.4% |
| Gross Profit | 131.7 | 150.4 | 168.1 | 131.7 | 149.6 | 168.7 | 0.0% | 0.5% | -0.4% |
| Operating Profit | 64.0 | 73.2 | 82.1 | 63.7 | 74.6 | 86.6 | 0.4% | -1.9% | -5.3% |
| Net profit | 56.4 | 64.2 | 72.2 | 55.6 | 63.1 | 71.8 | 1.4% | 1.7% | 0.6% |
| EPS (US\$) | 22.2 | 25.4 | 28.6 | 21.5 | 24.7 | 28.6 | 3.3% | 2.7% | -0.1% |
| Gross Margin | 81.0% | 80.8% | 80.8% | 81.5% | 81.1% | 80.8% | -0.5 ppt | -0.3 ppt | 0.0 ppt |
| Operating Margin | 39.3% | 39.3% | 39.5% | 39.4% | 40.4% | 41.5% | -0.1 ppt | -1.1 ppt | -2.0 ppt |
| Net margin | 34.7% | 34.5% | 34.7% | 34.4% | 34.2% | 34.4% | 0.3 ppt | 0.3 ppt | 0.3 ppt |

Source: CMBIGM estimates

Valuation

We value Meta at US\$685.0 per share based on 27x 2025E P/E. Our target PE multiple is a premium to the sector average (24x), 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) | | 2025E |
|----------------------------|--|-----------|
| Net income | | 64,164 |
| Target 2025E P/E | | 27.0 |
| Target equity valuation | | 1,732,423 |
| Valuation per share (US\$) | | 685.0 |

Source: Company data, CMBIGM estimates

Figure 4: Global online ad platforms: valuation comparison

| Companies | Ticker | Price (LC) | 2024E | PE (x) 2025E | 2026E | 2024E | PS (x) 2025E | 2026E | EPS CAGR 24-26E |
|-------------|----------|------------|-------|-----------------|-------|-------|-----------------|-------|--------------------|
| Global ads | | | | | | | | | |
| Meta | META US | 591.8 | 28.3 | 24.7 | 21.7 | 9.5 | 8.4 | 7.5 | 21% |
| Alphabet | GOOGL US | 176.1 | 22.1 | 19.8 | 17.8 | 7.5 | 6.4 | 5.6 | 18% |
| Pinterest | PINS US | 32.6 | 22.3 | 19.5 | 16.0 | 6.1 | 5.3 | 4.6 | 25% |
| Snap | SNAP US | 12.6 | NA | 31.6 | 23.6 | 3.9 | 3.4 | 2.9 | 92% |
| Average | | | 24.2 | 23.9 | 19.8 | 6.7 | 5.9 | 5.2 | |
| Global tech | | | | | | | | | |
| Microsoft | MSFT US | 432.5 | 36.6 | 32.6 | 27.9 | 13.1 | 11.5 | 10.0 | 17% |
| NVIDIA | NVDA US | 139.3 | NA | NA | 37.0 | 57.8 | 28.5 | 20.8 | 126% |
| Amazon | AMZN US | 192.7 | 34.3 | 28.3 | 23.9 | 3.1 | 2.8 | 2.6 | 28% |
| Tesla Inc | TSLA US | 257.6 | NA | NA | NA | 8.3 | 7.1 | 5.9 | 13% |
| Salesforce | CRM US | 296.4 | 36.2 | 29.9 | 26.9 | 8.2 | 7.6 | 7.0 | 31% |
| Netflix Inc | NFLX US | 753.7 | 39.3 | 32.9 | 27.6 | 8.4 | 7.4 | 6.7 | 31% |
| Adobe Inc | ADBE US | 486.7 | 26.8 | 23.6 | 20.7 | 10.1 | 9.0 | 8.1 | 14% |

| | | | | | | | | | |
|------------|---------|-------|------|------|------|------|------|------|-----|
| Intuit Inc | INTU US | 621.1 | 36.9 | 32.4 | 28.2 | 10.7 | 9.6 | 8.4 | 16% |
| ServiceNow | NOW US | 950.0 | NA | NA | 47.2 | 18.0 | 14.9 | 12.4 | 24% |
| Average | | | 35.0 | 30.0 | 29.9 | 15.3 | 10.9 | 9.1 | |

Source: Bloomberg, CMBIGM
Note: data as of 30 Oct

Financial Summary

| INCOME STATEMENT | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------|----------|----------|----------|----------|----------|----------|
| YE 31 Dec (US\$ mn) | | | | | | |
| Revenue | 117,929 | 116,609 | 134,901 | 162,628 | 186,140 | 208,014 |
| Cost of goods sold | (22,649) | (25,249) | (25,958) | (30,899) | (35,739) | (39,939) |
| Gross profit | 95,280 | 91,360 | 108,943 | 131,729 | 150,401 | 168,075 |
| Operating expenses | (48,527) | (62,415) | (62,192) | (67,775) | (77,204) | (85,984) |
| Selling expense | (14,043) | (15,261) | (12,301) | (11,669) | (13,088) | (14,334) |
| Admin expense | (9,829) | (11,816) | (11,408) | (12,197) | (13,858) | (15,487) |
| R&D expense | (24,655) | (35,338) | (38,483) | (43,910) | (50,258) | (56,164) |
| Operating profit | 46,753 | 28,945 | 46,751 | 63,953 | 73,197 | 82,091 |
| Net Interest income/(expense) | 531 | (126) | 677 | 837 | 555 | 916 |
| 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 | 64,791 | 73,752 | 83,007 |
| Income tax | (7,914) | (5,619) | (8,330) | (8,423) | (9,588) | (10,791) |
| After tax profit | 39,370 | 23,200 | 39,098 | 56,368 | 64,164 | 72,216 |
| Net profit | 39,370 | 23,200 | 39,098 | 56,368 | 64,164 | 72,216 |
| Adjusted net profit | 48,534 | 35,192 | 53,125 | 71,654 | 81,577 | 91,609 |

| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------------|---------|---------|---------|---------|---------|---------|
| YE 31 Dec (US\$ mn) | | | | | | |
| Current assets | 66,666 | 59,549 | 85,365 | 106,239 | 159,533 | 225,756 |
| Cash & equivalents | 16,601 | 14,681 | 41,862 | 55,492 | 101,740 | 163,752 |
| Account receivables | 14,039 | 13,466 | 16,169 | 19,102 | 21,427 | 23,466 |
| 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 | 4,573 | 5,234 | 5,849 |
| Non-current assets | 99,321 | 126,178 | 144,258 | 160,576 | 172,921 | 181,478 |
| PP&E | 69,964 | 92,191 | 109,881 | 124,764 | 135,883 | 143,294 |
| 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 | 8,190 | 9,375 | 10,476 |
| Total assets | 165,987 | 185,727 | 229,623 | 266,815 | 332,454 | 407,234 |
| Current liabilities | 21,135 | 27,026 | 31,960 | 37,046 | 41,786 | 45,635 |
| Account payables | 4,083 | 4,990 | 4,849 | 5,657 | 6,412 | 7,022 |
| Other current liabilities | 1,613 | 1,117 | 863 | 1,040 | 1,191 | 1,331 |
| Lease liabilities | 1,127 | 1,367 | 1,623 | 1,623 | 1,623 | 1,623 |
| Accrued expenses | 14,312 | 19,552 | 24,625 | 28,726 | 32,561 | 35,660 |
| 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 | 81,541 | 86,281 | 90,130 |
| Capital surplus | 55,811 | 64,444 | 73,253 | 48,991 | 45,726 | 44,441 |
| Retained earnings | 69,761 | 64,799 | 82,070 | 138,438 | 202,602 | 274,817 |
| Other reserves | (693) | (3,530) | (2,155) | (2,155) | (2,155) | (2,155) |
| Total shareholders equity | 124,879 | 125,713 | 153,168 | 185,274 | 246,173 | 317,104 |
| Total equity and liabilities | 165,987 | 185,727 | 229,623 | 266,815 | 332,454 | 407,234 |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| YE 31 Dec (US\$ mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 47,284 | 28,819 | 47,428 | 64,791 | 73,752 | 83,007 |
| Depreciation & amortization | 7,967 | 8,686 | 11,178 | 11,413 | 12,959 | 14,114 |
| Tax paid | (7,914) | (5,619) | (8,330) | (8,423) | (9,588) | (10,791) |
| Change in working capital | 887 | 5,683 | 6,175 | 1,373 | 1,755 | 1,195 |
| Others | 9,459 | 12,906 | 14,662 | 15,286 | 17,413 | 19,393 |
| Net cash from operations | 57,683 | 50,475 | 71,113 | 84,441 | 96,291 | 106,918 |
| Investing | | | | | | |
| Capital expenditure | (18,690) | (31,431) | (27,266) | (26,336) | (24,120) | (21,570) |
| Acquisition of subsidiaries/ investments | (851) | (1,312) | (629) | 0 | 0 | 0 |
| Others | 11,971 | 3,773 | 3,400 | (4,928) | (5,245) | (2,658) |
| Net cash from investing | (7,570) | (28,970) | (24,495) | (31,263) | (29,365) | (24,228) |
| 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 | 55,492 | 101,740 |
| Exchange difference | (360) | (1,289) | 63 | 0 | 0 | 0 |
| Cash at the end of the year | 16,601 | 14,681 | 41,862 | 55,492 | 101,740 | 163,752 |
| GROWTH | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Revenue | 37.2% | (1.1%) | 15.7% | 20.6% | 14.5% | 11.8% |
| Gross profit | 37.5% | (4.1%) | 19.2% | 20.9% | 14.2% | 11.8% |
| Operating profit | 43.1% | (38.1%) | 61.5% | 36.8% | 14.5% | 12.2% |
| Net profit | 35.1% | (41.1%) | 68.5% | 44.2% | 13.8% | 12.5% |
| Adj. net profit | 36.0% | (27.5%) | 51.0% | 34.9% | 13.8% | 12.3% |
| PROFITABILITY | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 80.8% | 78.3% | 80.8% | 81.0% | 80.8% | 80.8% |
| Operating margin | 39.6% | 24.8% | 34.7% | 39.3% | 39.3% | 39.5% |
| Adj. net profit margin | 41.2% | 30.2% | 39.4% | 44.1% | 43.8% | 44.0% |
| Return on equity (ROE) | 31.1% | 18.5% | 28.0% | 33.3% | 29.7% | 25.6% |
| GEARING/LIQUIDITY/ACTIVITIES | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Current ratio (x) | 3.2 | 2.2 | 2.7 | 2.9 | 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 | 42.9 | 68.5 | 39.0 | 26.7 | 23.3 | 20.7 |
| P/E (diluted) | 43.0 | 68.9 | 39.8 | 27.5 | 24.0 | 21.3 |
| P/B | 13.5 | 12.6 | 9.9 | 8.1 | 6.1 | 4.7 |

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

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