

# Amazon (AMZN US)

## Steady ship heading for new growth stage

In terms of further growth potential, we believe Amazon's e-commerce business still has ample potential in both the US and global markets. AWS is backed by strong technological capability and generative AI opens more opportunities. The continuous increase in retail business efficiency and improvement in economies of scale will help boost profitability in our view, backed by regionalization strategy, reduction in cost to serve, and rising revenue contribution from platform business. Increase in revenue mix of relatively high-margin AWS business is likely to drive margin expansion for Amazon in the long run. Our target price of US\$213.0 is based on 18.8x 2024E EV/EBITDA, in line with one-year mean. Initiate BUY.

- **E-commerce business still has abundant growth potential in global market.** We are positive on long-term development potential of Amazon's e-commerce business in both the US and global markets. Market share gain in relatively fast-growing personal care & beauty category as well as food & beverage category may help Amazon maintain relatively stable market share in the US retail sales market. For international market, Amazon's strong operation know-how, strengthened fulfilment network, combined with the still underpenetrated market dynamic should all establish a solid footprint for international expansion. We forecast 2023-2026E revenue CAGR of 8.1%/15.6% for Amazon's North America/ international segment.
- **AWS revenue growth reaccelerated on ramp up of AI cloud and attenuation of cloud optimization trend.** Owing to cautious spending on digitalization, Amazon's AWS revenue has showed decelerated YoY growth since 1Q22 for six consecutive quarters, but the revenue growth reaccelerated in 4Q23. Management attributed the attenuation of cloud optimization trend and ramp up in AI cloud services revenue as reasons, and in our view this has proved AWS's ability to maintain market share amid intensifying industry competition. Management expects new generative AI opportunity to bring tens of billions of revenue for AWS over the next several years. The increase in net new workloads with increasing demand for generative AI demand, as well as the robust backlog in hand should help revive revenue growth in 2024, in our view. We forecast a 2023-2026E revenue CAGR of 16.1% for AWS.
- **Margin expansion on a steady track.** Margin expansion of Amazon over 2024E-2026E could be aided by: 1) margin improvement of both international business and North American business, driven by improvement in operating efficiency and cost control, aided by improvement in cost to serve, implementation of regionalization strategy, normalization of inflation; and increase in revenue mix in relatively high margin platform services; 2) increase in revenue contribution from relatively high margin AWS business, along with margin improvement for the business driven by scale effect and efficient cost control. We forecast Amazon's operating margin to expand to 8.7%/10.0%/11.3% in 2024/2025/2026E from 6.4% in 2023.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	513,983	574,785	642,931	716,153	790,018
YoY growth (%)	9.4	11.8	11.9	11.4	10.3
Net profit (US\$ mn)	(2,722.0)	30,425.0	44,816.8	60,892.3	79,187.5
YoY growth (%)	na	na	47.3	35.9	30.0
EPS (Reported) (US\$)	(0.27)	2.90	4.23	5.66	7.24
Consensus EPS (US\$)	na	2.83	4.05	5.36	6.88
P/E (x)	na	41.9	39.5	29.5	23.1

Source: Company data, Bloomberg, CMBIGM estimates

**BUY**

**Target Price** US\$213.00  
**Up/Downside** 27.5%  
**Current Price** US\$167.08

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### Stock Data

Mkt Cap (US\$ mn)	1,753,003.4
Avg 3 mths t/o (US\$ mn)	7,239.3
52w High/Low (US\$)	174.45/90.73
Total Issued Shares (mn)	10492.0

Source: FactSet

### Shareholding Structure

Jeffrey P. Bezos	9.6%
The Vanguard Group, Inc.	7.1%

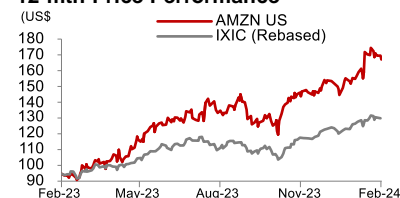
Source: Nasdaq

### Share Performance

	Absolute	Relative
1-mth	7.6%	4.4%
3-mth	16.1%	4.5%
6-mth	24.1%	6.1%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

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## Investment thesis

### Stable market share in US retail e-commerce market with more to expect

Per eMarketer, Amazon has maintained relatively stable market share in the US e-commerce retail sales market. The company accounted for 37.7% of total market share in 2022 (2020/2021: 37.9%/38.0%), and eMarketer expects Amazon's market share to recover to 37.8% in 2024E. By category, as % of total retail e-commerce sales in the US, Amazon's market share in categories like books, music & video, computer & consumer electronics, are higher than its overall market share in the US e-commerce market. Aided by a continuously strengthening fulfillment network, market share gain in relatively fast-growing personal care & beauty category as well as food & beverage category could help Amazon's overall market share expansion in the long term, in our view.

Meanwhile, backed by its strong consumer mindshare in online retail sales and superior logistic fulfillment capability, Amazon's platform business (i.e. third-party seller services & ads) is experiencing rapid growth, and will likely drive overall margin expansion. According to eMarketer, Amazon's market share in overall US mobile ads market has grown from 1.6% in 2016 to 11.7% in 2022, and is expected to further increase to 12.2% in 2023.

### AWS in strong leading position and development in generative AI likely bring additional growth opportunities

Per Canalys data, quarterly spending of worldwide cloud infrastructure services was US\$73.5bn in 3Q23, up 16.5% YoY but slowing from 27.7% in 3Q22. We attribute this to a shrank in enterprises' digitalization budget amid macro uncertainties, but the growth picked up slightly from 16.2% in 2Q23, which likely heralds a slowdown in corporate spending optimization trend. However, Amazon maintained a relatively stable market share despite facing intensifying competition from Microsoft. Amazon seized 31.0% of total market share in 3Q23 (3Q22: 32.0%), followed by 25.0% for Azure and 10.0% for Google. Amazon has established first mover advantage in the cloud industry, and we believe the continuously enhancement of technological capability could help Amazon maintain its leadership in the cloud services market.

AWS saw revenue growth of 12% YoY in 3Q23, flat QoQ after declining for six consecutive quarters. And the growth accelerated to 13% YoY in 4Q23 aided by the attenuation of cloud spending optimization trend and ramp up in revenue generation of AI cloud, which in our view proved AWS's ability to maintain market share amid intensifying industry competition. Management expects new generative AI opportunities to bring tens of billions of revenue for AWS over the next several years. The increase in net new workloads with increasing demand for generative AI demand, as well as the robust backlog in hand should help revive revenue growth in 2024, in our view. We forecast a 2023-2026E revenue CAGR of 16.1% for AWS.

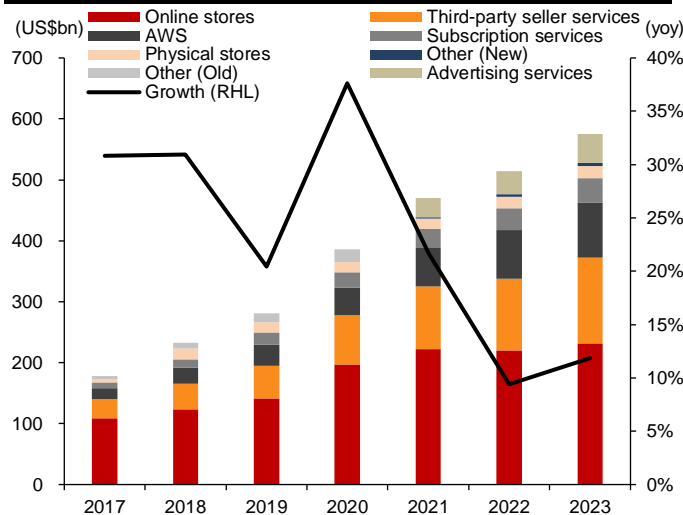
### Operating margin on solid expansion track

Margin expansion of Amazon in 2024E-2026E could be aided by: 1) margin improvement of both international business and North American business, driven by improvement in operating efficiency and cost control, aided by improvement in cost to serve, implementation of regionalization strategy, normalization of inflation, and increase in revenue mix in relatively high margin platform services; 2) increase in revenue contribution from relatively high margin AWS business, along with margin improvement for the business driven by scale effect and efficient cost control. We forecast Amazon's operating margin to expand to 8.7/10.0/11.3% in 2024/2025/2026E from 6.4% in 2023.

## Amazon: the largest e-commerce platform in the US

Founded by Jeff Bezos in 1994, Amazon was initially an online marketplace for books, and later on developed a wide range of product categories. It became the largest e-commerce platform in the US with 37.7% of market share in retail e-commerce market in 2022, per eMarketer data. Amazon's primary source of revenue is the sale of products and services to customers, and its financial focus is on long-term sustainable growth in free cash flows. The company seeks to reduce variable costs per unit and work to leverage fixed cost. Because of the model, Amazon can turn its inventory quickly and have a cash-generating operating cycle.

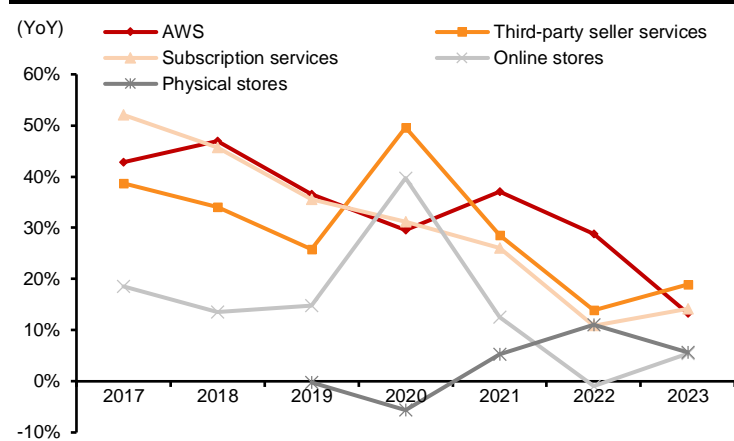
**Figure 1: Amazon: revenue and growth**



Source: Company data, CMBIGM

Note: Amazon has split advertising services segment from Other (Old) since 3Q20, so we are using Other (Old) and Other (New) to distinguish the two segments.

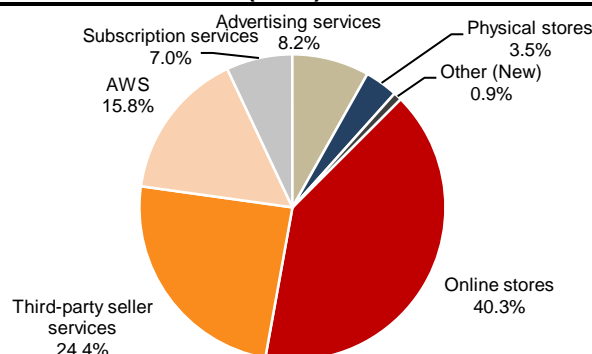
**Figure 2: Amazon: revenue growth by segment**



Source: Company data, CMBIGM

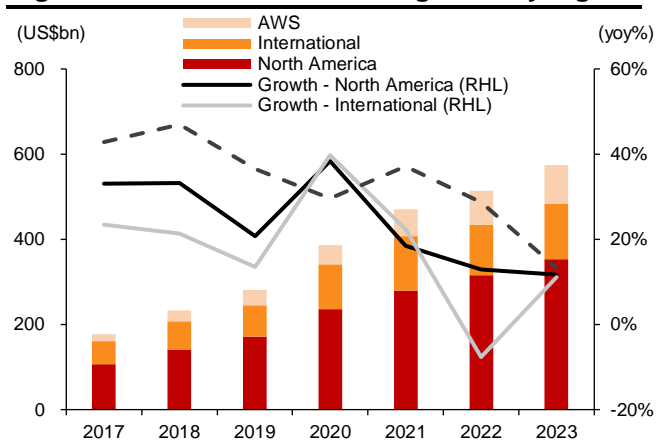
Amazon's revenue totalled US\$574.8bn in 2023, up 12% YoY, driven by robust revenue growth from business segments such as advertising services, Amazon Web Services (AWS), third-party seller services, and subscription services. As of 2023, online stores, third-party seller services, as well as AWS are the top three revenue contributors with contribution of 40.3%, 24.4%, and 15.8% respectively.

**Figure 3: Amazon: revenue breakdown (2023)**

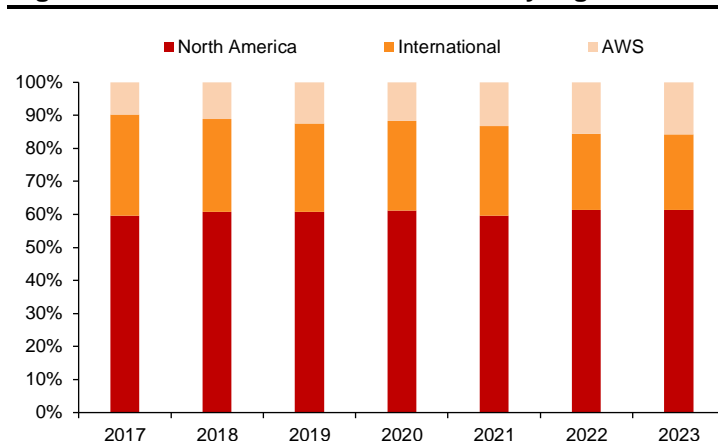


Source: Company data, CMBIGM

By geographic areas, North America accounted for 61.4% of total revenue in 2023 (2017: 59.7%), while revenue contribution from AWS increased to 15.8% in 2022 from 9.8% in 2017.

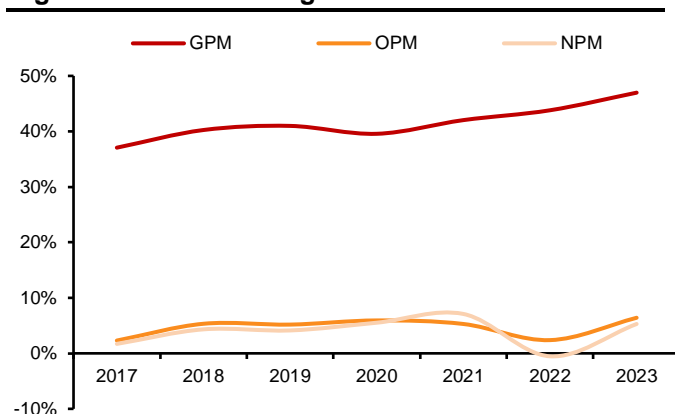
**Figure 4: Amazon: revenue and growth by region**

Source: Company data, CMBIGM

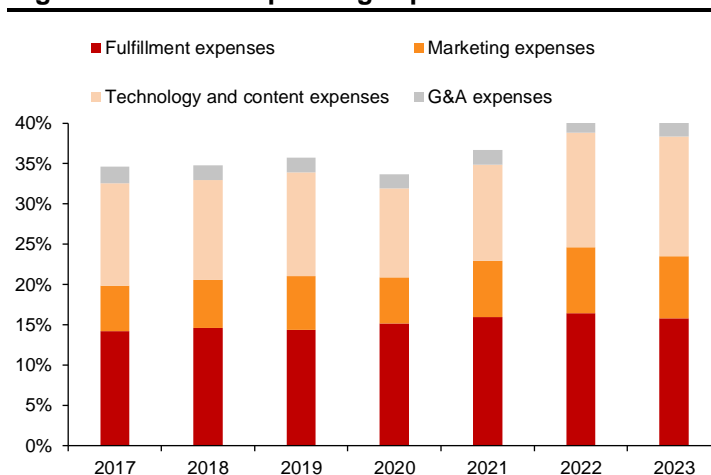
**Figure 5: Amazon: revenue breakdown by region**

Source: Company data, CMBIGM

Amazon continuously re-invests its profit to enhance customer experience and it remains committed to invest in R&D in order to support its long-term growth. As percentage of revenue, fulfilment expenses and technology & content expenses accounted for 16.4% and 14.2% in 2022 respectively. However, with a strategic move to enhance operating efficiency aided by the regionalization strategy, fulfilment expense ratio improved to 15.8% (2022: 16.4%), and marketing expense ratio improved to 7.7% in 2023 (2022: 8.2%).

**Figure 6: Amazon: margin trend**

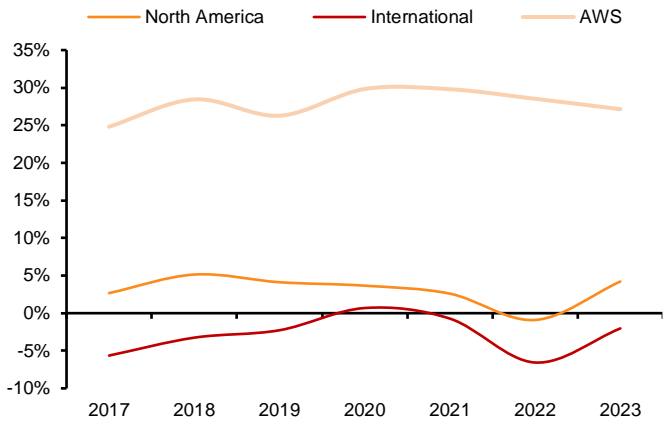
Source: Company data, CMBIGM

**Figure 7: Amazon: operating expense ratio**

Source: Company data, CMBIGM

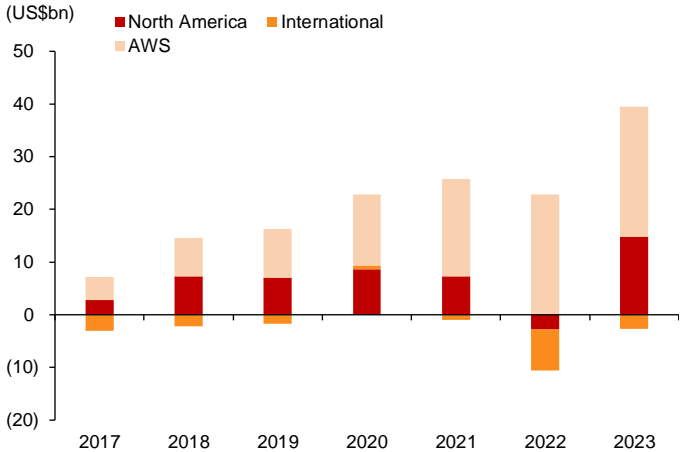
Overall net profit margin was 5.3% in 2023, improved from -0.5% in 2022, with an improvement in operating margin in both international segment and North American segment. Driven by the implementation of regionalization strategy, which aided the optimization trend in fulfilment expense ratio, as well as improvement in cost to serve and more disciplined marketing spending, operating margin in North America improved to 4.2% (2022: -0.9%). Aided by the improvement in cost to serve and more disciplined marketing spend, operating margin in international segment improved to -2.0% (2022: -6.6%).

Figure 8: Amazon: operating margin by segment



Source: Company data, CMBIGM

Figure 9: Amazon: OP breakdown by segment



Source: Company data, CMBIGM

## Industry and competitive landscape analysis

### US E-commerce: online penetration has room to expand further

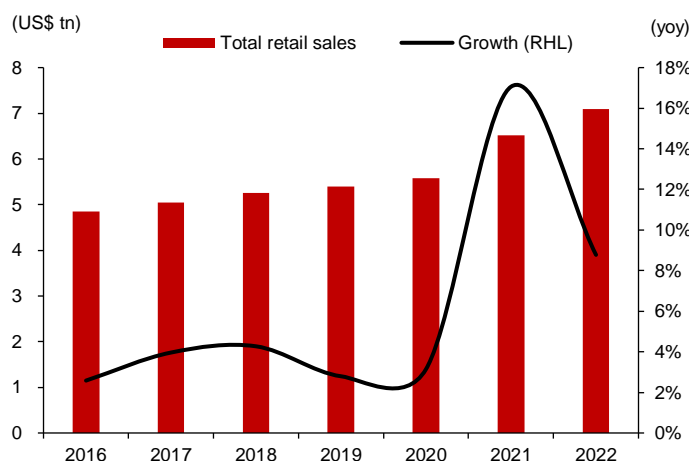
US retail sales market has seen one-off fast expansion in 2021 and 2022 driven by consumption stimulus policy and increase in inflation. Looking ahead, the US retail sales market could still see mild growth, while the online penetration could continue rising as online channel has increased its consumer adoption amid pandemic outbreak, and online channel enjoys higher operating efficiency. eMarketer expects US retail e-commerce sales to achieve 2022-2025E CAGR of 10.2%, with total market size to reach US\$1.4tn in 2025E and rising online penetration to 17.8% (from 14.7% in 2022) accordingly. Currently, under penetrated food & beverage category, as well as health & personal care could be the key drivers for online retail sales growth in 2023-2025.

Per eMarketer, Amazon has maintained relatively stable market share in the US e-commerce retail sales market. The company accounted for 37.7% of total market share in 2022 (2020/2021: 37.9%/38.0%), and eMarketer expects Amazon's market share to recover to 37.8% in 2024E. By category, as % of total retail e-commerce sales in the US, Amazon's market share in categories like books, music & video, computer & consumer electronics, are higher than its overall market share in US e-commerce market. Aided by a continuously strengthening fulfilment network, market share gain in relatively faster growing personal care & beauty category as well as food & beverage category could help Amazon's overall market share expansion in the long term.

### ■ US retail sales: a stabilizing market with rising online penetration

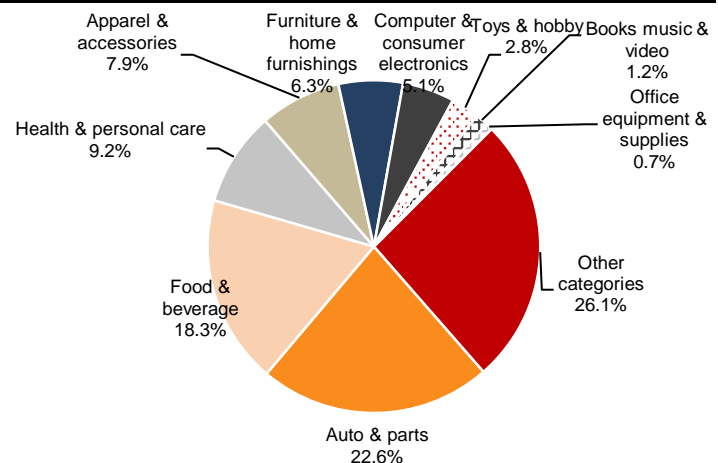
The YoY growth of US retail sales was moderate in 2016-2020 with a CAGR of 3.5%, although the sales jumped 17.1/8.8% YoY in 2021/2022 with total market size reaching US\$6.5/7.1tn. We attribute this to increase in inflation and stimulus policy. Per eMarketer, Auto & parts/Food & beverage/ Health & personal care/ Apparel & accessories/ Furniture & home furnishings are the top five categories in terms of contribution to total retail sales, with respective market share of 22.6/18.3/9.2/7.9/6.3% in 2022. Overall US retail sales is likely to return to mild growth trend from 2023 onwards with easing inflation, and eMarketer is forecasting a 3.3% 2022-2025E CAGR for US retail sales.

**Figure 10: US: retail sales and growth**



Source: eMarketer, CMBIGM

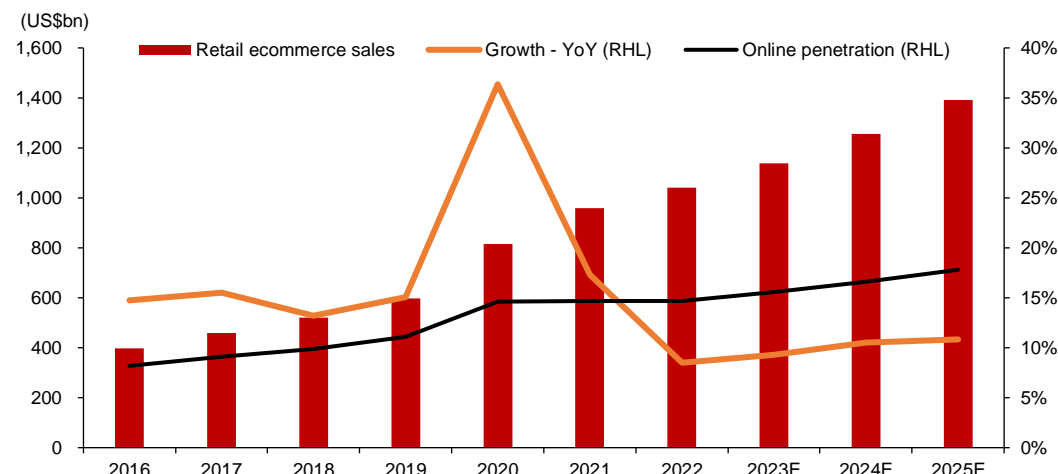
**Figure 11: US: breakdown of total retail sales (2022)**



Source: eMarketer, CMBIGM

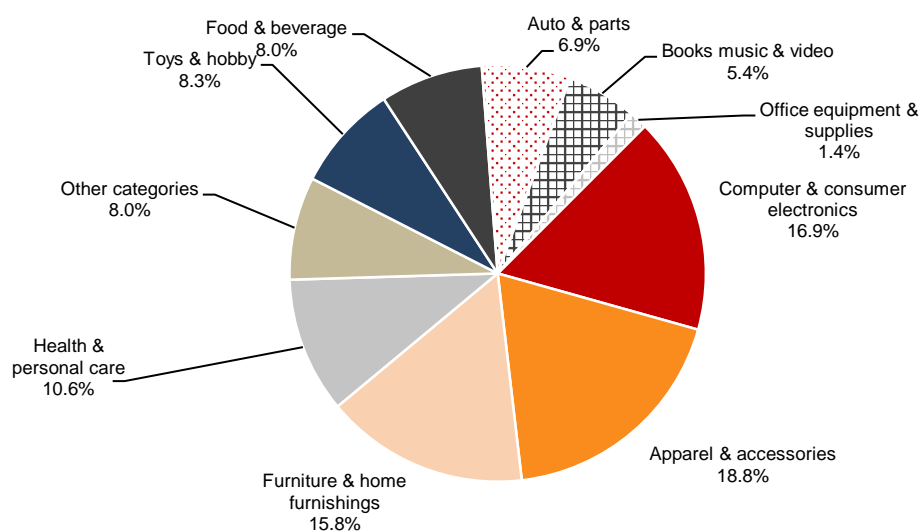
The pandemic has boosted US e-commerce sales and online penetration in 2020 and 2021. Retail e-commerce sales GMV grew 36/17% YoY in 2020/2021 (2019: 15% YoY), and drove an expansion in online penetration to 14.6/14.7% (2019: 11.1%), per eMarketer data. eMarketer expects US retail e-commerce sales to achieve 2022-2025E CAGR of 10.2%, with total market size reaching US\$1.4tn and online penetration rising to 17.8% in 2025E accordingly.



**Figure 12: US: retail e-commerce sales and online penetration**

Source: eMarketer, CMBIGM

Computer & consumer electronics/ Apparel & accessories/ Furniture & home furnishings/ Health & personal care are the top four categories in terms of sales GMV in retail e-commerce market in 2022, with respective market share standing at 16.9/18.8/15.8/10.6%.

**Figure 13: US: retail e-commerce sales share by category (2022)**

Source: eMarketer, CMBIGM

Compared to the overall online penetration for retail sales, categories such as food & beverage as well as auto & parts are still underpenetrated, and the enhancement in consumer experience, such as improvement in delivery speed, could drive online penetration to expand further, in our view.



**Figure 14: US: ecommerce penetration by category**

	2019	2020	2021	2022	2023E	2024E	2025E
Books, music & video	50.8%	61.8%	65.2%	65.4%	<b>67.2%</b>	69.3%	71.4%
Computer & consumer electronics	39.5%	47.8%	48.3%	48.8%	<b>49.7%</b>	50.8%	52.7%
Toys & hobby	34.1%	44.9%	42.5%	44.0%	<b>45.4%</b>	49.1%	53.4%
Furniture & home furnishings	23.6%	34.3%	36.2%	37.1%	<b>38.6%</b>	40.4%	42.6%
Apparel & accessories	26.9%	38.6%	34.0%	34.9%	<b>36.2%</b>	38.4%	40.7%
Office equipment & supplies	27.4%	29.3%	30.7%	31.3%	<b>32.6%</b>	35.2%	38.3%
Health & personal care	11.4%	14.4%	15.4%	16.9%	<b>18.5%</b>	21.1%	23.4%
Food & beverage	3.0%	4.9%	5.8%	6.4%	<b>7.2%</b>	8.2%	9.2%
Other categories	3.7%	5.6%	5.0%	4.5%	<b>4.8%</b>	4.9%	5.0%
Auto & parts	3.6%	4.4%	4.3%	4.5%	<b>4.8%</b>	5.1%	5.6%

Source: eMarketer, CMBIGM

Per eMarketer, it expects ecommerce sales for food & beverage as well as health & personal care to outgrow overall e-commerce sales in 2023-2025E, and could increase their respective market share in US e-commerce sales market.

**Figure 15: US: ecommerce sales growth by category**

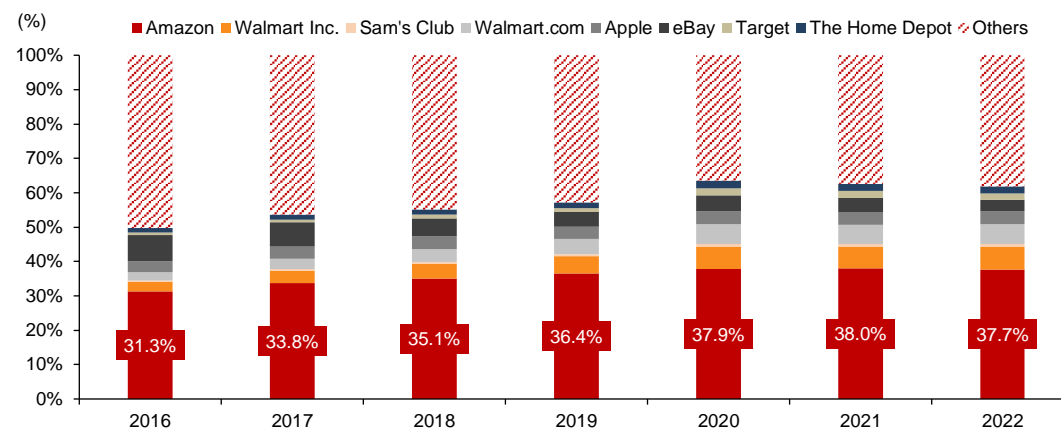
(YoY %)	2019	2020	2021	2022	2023E	2024E	2025E
Food & beverage	37.8%	79.6%	26.4%	22.0%	20.0%	17.0%	16.0%
Health & personal care	22.8%	35.6%	16.9%	17.0%	18.9%	17.5%	15.0%
Other categories	14.6%	55.4%	6.2%	7.5%	6.0%	5.2%	4.1%
<b>Total</b>	<b>15.1%</b>	<b>36.7%</b>	<b>17.3%</b>	<b>8.5%</b>	<b>9.3%</b>	<b>10.5%</b>	<b>10.8%</b>
Office equipment & supplies	0.8%	-0.9%	12.0%	10.1%	9.4%	11.4%	11.8%
Toys & hobby	10.0%	52.5%	19.5%	8.9%	10.0%	11.8%	12.5%
Auto & parts	12.1%	19.7%	17.5%	8.5%	9.8%	11.3%	12.8%
Books, music & video	10.6%	24.0%	15.7%	9.0%	6.8%	6.3%	5.9%
Apparel & accessories	13.6%	27.1%	14.6%	10.5%	9.5%	9.8%	10.0%
Computer & consumer electronics	12.5%	22.0%	14.6%	-1.5%	3.0%	7.5%	10.0%
Furniture & home furnishings	19.1%	62.6%	27.0%	6.5%	6.0%	8.5%	9.0%

Source: eMarketer, CMBIGM

### ■ Amazon: relatively stable market share aided by superior customer experience

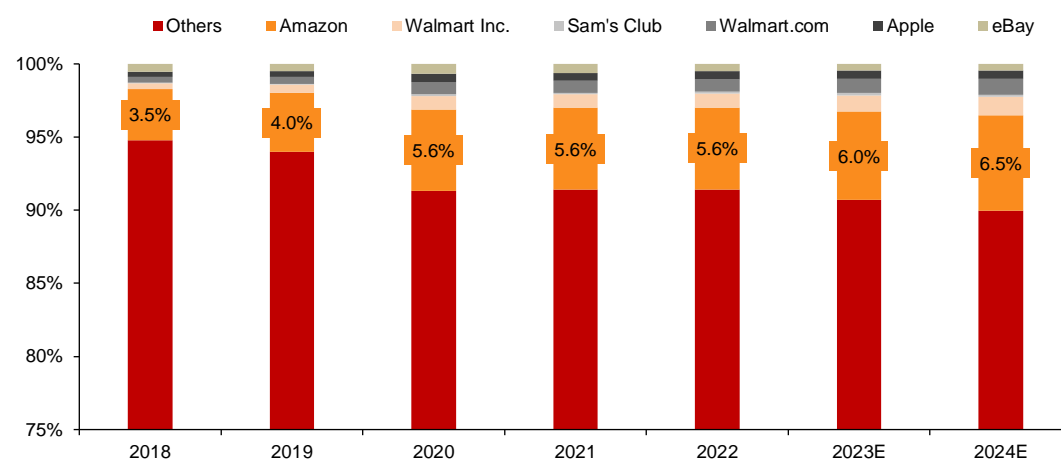
Per eMarketer, Amazon has maintained relatively stable market share in the US retail e-commerce market, and has continued to enlarge its market share in overall US retail sales market.

Amazon accounted for 37.7% of total market share in 2022, up from 31.3% in 2016, which could be attributable to the enhancement in consumer experience, in our view. Its total market share remained largely stable as compared to 37.9/38.0% in 2021/2022.

**Figure 16: US: market share in retail e-commerce market**

Source: eMarketer, CMBIGM

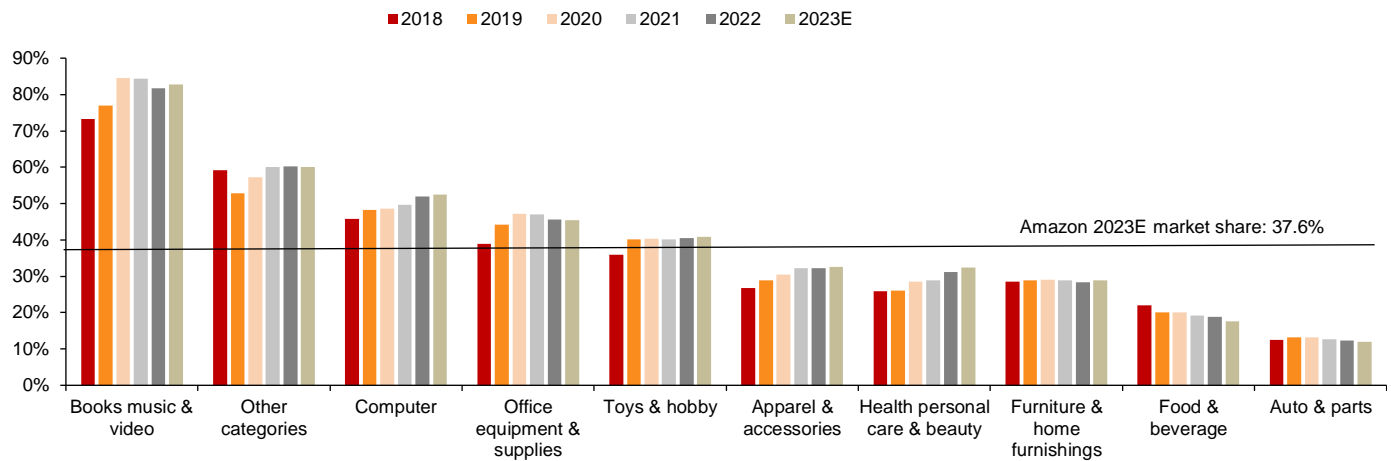
As percentage of total retail sales, eMarketer estimated Amazon has accounted for 6.0% of total retail sales market share, up from 5.6% of total in 2022. And eMarketer estimated Amazon's market share will rise further to 6.5% in 2024E.

**Figure 17: Amazon's market share in total retail sales market in the US**

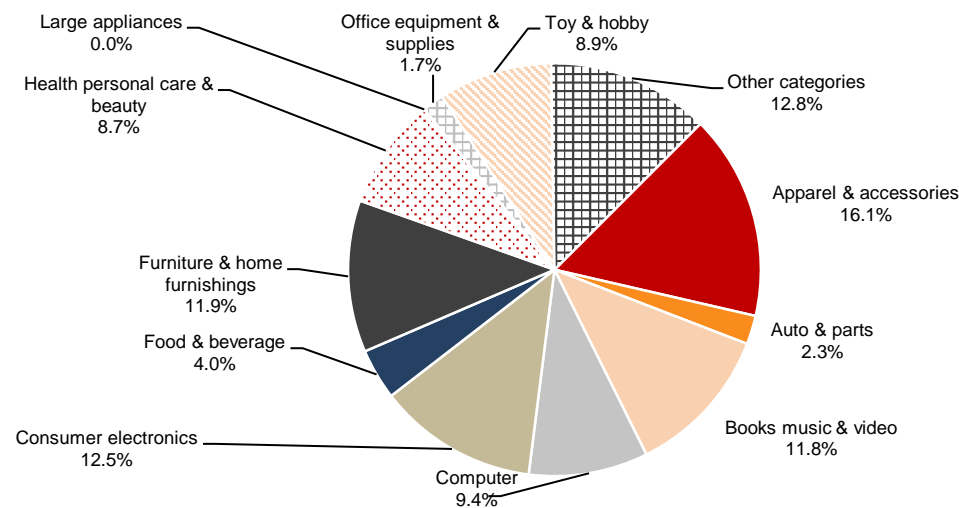
Source: eMarketer, CMBIGM

According to management, Amazon has implemented a strategic move in 2023 to evolve from a single national fulfilment network in the US to eight distinct regions represented one of the most significant changes to its fulfilment network in the company's history. Regional fulfilment clusters with higher local in-stock levels and optimized connections between fulfilment centres and delivery stations mean shorter distances and fewer touches to get items to customers. Also, shorter travel distances and fewer touches mean lower cost to serve, and this also means that customers are getting their shipment faster. The change, in our view, could help Amazon enhance consumer experience and maintain market share.

By category, as % of total retail e-commerce sales, Amazon's market share in categories like books, music & video, computer & consumer electronics, office equipment & supplies, as well as toys & hobby are higher than its overall market share in the US e-commerce market. For the laggards category, such as apparel & accessories, as well as health, personal care & beauty, Amazon has been gaining market share over the past five years, despite the loss in food & beverage category, per eMarketer data. Looking ahead, whether Amazon has the potential to gain more market share in US e-commerce rapidly may hinge on whether it can gain more market share in the fast-growing personal care & beauty category as well as food & beverage category, in our view.

**Figure 18: Amazon retail e-commerce sales as % of total retail e-commerce sales**

Source: eMarketer, CMBIGM

**Figure 19: Amazon retail e-commerce sales breakdown by category (2022)**

Source: eMarketer, CMBIGM

### ■ Temu expansion: short-term impact for Amazon likely to be limited, but cannot be ignored

Temu, founded by PDD Holdings in 2022, is an online market place that committed to offering the most affordable quality products to consumers. Temu has achieved rapid development, with the back of deep understanding of high-quality supply chains in China. Temu has now entered 47 countries around the global, with the US being one of its key operating markets.

According to YipitData, Temu has achieved about US\$500mn GMV in the US during its first five months of operation, and we estimate Temu to achieve US\$17bn GMV in 2023, with the US market contributed to c.58% of its total. Although the amount of GMV generated by Temu in the US market merely accounted for less than 1% of our estimated total GMV for Amazon, we think the rapid ramp up of Temu business cannot be ignored, given that PDD has strong supply chain capabilities in domestic market, and the company has strong operation know-how on customer acquisition and retention.

## Worldwide e-commerce: still abundant room for Amazon's further penetration

There is still abundant room for further e-commerce penetration in the international market, in our view, evidenced by the 18.9% penetration in worldwide market, as compared to c. 50% e-commerce penetration in China's market (or 26.7% based on NBS data if including auto sales and petroleum related products in total retail sales). Driven by enhancement of logistic and fulfilment infrastructure and digital payment infrastructure, online penetration of retail sales has the potential to rise further, in our view. E-marketer forecasts online penetration of retail sales to rise to 20.3%/21.2% in 2024/2025E, from 19.5% in 2023E.

**Figure 20: Worldwide e-commerce penetration**

Metric	Region	2020	2021	2022	2023E	2024E	2025E
<b>Asia-Pacific</b>	<b>Asia-Pacific</b>	<b>27.3%</b>	<b>28.6%</b>	<b>29.5%</b>	<b>30.0%</b>	<b>31.1%</b>	<b>32.1%</b>
Australia	Australia	7.9%	9.5%	9.1%	9.2%	9.5%	9.8%
China	China	42.4%	43.2%	45.7%	45.9%	47.3%	48.6%
Hong Kong	Hong Kong	6.3%	8.1%	9.9%	9.3%	9.5%	9.8%
India	India	5.8%	7.0%	7.4%	7.9%	8.4%	9.0%
Japan	Japan	11.4%	12.2%	12.9%	13.9%	14.7%	15.7%
New Zealand	New Zealand	9.0%	9.2%	9.4%	9.5%	9.9%	10.3%
South Korea	South Korea	26.4%	27.6%	26.3%	26.4%	26.7%	27.1%
Other Asia-Pacific (1)	Other Asia-Pacific	1.3%	1.3%	1.4%	1.5%	1.5%	1.6%
<b>Southeast Asia</b>	<b>Southeast Asia</b>	<b>6.7%</b>	<b>9.6%</b>	<b>10.3%</b>	<b>10.9%</b>	<b>11.5%</b>	<b>12.0%</b>
Indonesia	Indonesia	13.6%	22.6%	26.3%	28.8%	30.4%	31.3%
Malaysia	Malaysia	4.6%	5.6%	5.3%	5.7%	6.4%	7.0%
Philippines	Philippines	2.1%	2.2%	2.2%	2.4%	2.7%	3.0%
Singapore	Singapore	11.4%	13.0%	12.7%	12.6%	12.8%	13.1%
Thailand	Thailand	3.9%	4.4%	4.9%	5.0%	5.4%	5.7%
Vietnam	Vietnam	2.2%	2.9%	2.9%	3.0%	3.1%	3.2%
<b>Central &amp; Eastern Europe</b>	<b>Central &amp; Eastern Europe</b>	<b>8.6%</b>	<b>10.3%</b>	<b>11.4%</b>	<b>11.8%</b>	<b>12.7%</b>	<b>13.6%</b>
Russia	Russia	8.0%	10.0%	11.2%	11.9%	13.1%	14.1%
Other Central & Eastern Europe	Other Central & Eastern Europe	9.0%	10.5%	11.6%	11.7%	12.4%	13.3%
<b>Latin America</b>	<b>Latin America</b>	<b>7.9%</b>	<b>9.5%</b>	<b>9.5%</b>	<b>10.1%</b>	<b>10.7%</b>	<b>11.4%</b>
Argentina	Argentina	10.5%	11.1%	11.1%	11.2%	11.9%	12.4%
Brazil	Brazil	8.4%	10.7%	10.0%	10.6%	11.1%	11.8%
Chile	Chile	9.5%	10.9%	8.7%	8.0%	8.3%	8.9%
Colombia	Colombia	7.6%	6.7%	7.7%	8.4%	8.9%	9.5%
Mexico	Mexico	8.9%	10.3%	11.9%	13.2%	14.2%	15.2%
Peru	Peru	4.5%	5.7%	5.9%	6.2%	6.7%	7.2%
Other Latin America (3)	Other Latin America	4.8%	6.3%	6.2%	6.7%	7.2%	7.6%
<b>Middle East &amp; Africa</b>	<b>Middle East &amp; Africa</b>	<b>3.6%</b>	<b>3.7%</b>	<b>4.0%</b>	<b>4.4%</b>	<b>4.7%</b>	<b>4.9%</b>
<b>North America</b>	<b>North America</b>	<b>14.3%</b>	<b>14.5%</b>	<b>14.4%</b>	<b>15.2%</b>	<b>16.2%</b>	<b>17.3%</b>
Canada	Canada	11.0%	12.2%	11.4%	11.5%	12.0%	12.4%
US	US	14.7%	14.7%	14.7%	15.6%	16.6%	17.8%
<b>Western Europe</b>	<b>Western Europe</b>	<b>13.4%</b>	<b>14.3%</b>	<b>12.7%</b>	<b>12.6%</b>	<b>12.9%</b>	<b>13.2%</b>
Other Western Europe (4)	Other Western Europe	11.1%	11.9%	10.9%	11.0%	11.1%	11.3%
<b>EU-5</b>	<b>EU-5</b>	<b>14.4%</b>	<b>15.3%</b>	<b>13.5%</b>	<b>13.3%</b>	<b>13.6%</b>	<b>14.0%</b>
France	France	10.6%	11.2%	10.2%	10.3%	10.5%	10.7%
Germany	Germany	9.6%	10.7%	9.0%	9.1%	9.6%	10.2%
Italy	Italy	5.7%	6.1%	5.9%	6.1%	6.2%	6.4%
Spain	Spain	11.5%	11.9%	10.7%	10.8%	11.0%	11.2%
UK	UK	33.1%	34.4%	30.1%	29.6%	29.8%	30.0%
<b>Worldwide</b>	<b>Worldwide</b>	<b>18.2%</b>	<b>18.9%</b>	<b>18.9%</b>	<b>19.5%</b>	<b>20.3%</b>	<b>21.2%</b>

Source: eMarketer, CMBIGM

## Cloud industry: digitalization trend to rise further

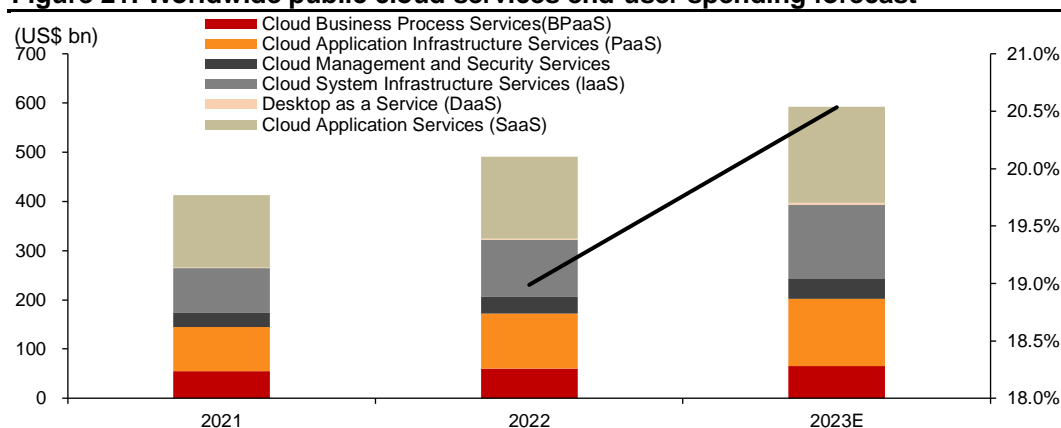
The trend of digitalization has been rising around the globe, which drove the revenue growth of overall cloud services industry. Although the growth for cloud infrastructure spending around the globe has seen a decelerated trend due to shrinking digitalization budgets caused by inflationary pressure and macro conditions, which led to the optimization of cloud spending, we are still positive about the long-term growth of worldwide cloud industry. The rationale behind is that cloud service is agile, elastic and scalable in nature, and could aid enterprises to achieve operating efficiency improvement and better cost saving.

Per Canalsys data, the quarterly spending of worldwide cloud infrastructure services was US\$72.4bn in 2Q23, up 16.2% YoY but slowing from 32.6% in 2Q22 and 18.8% in 1Q23. We attribute this to the shrink in enterprises' digitalization budget amid macro uncertainties. However, Amazon maintained a relatively stable market share despite facing intensifying competition from Microsoft. Amazon seized 31.0% of total market share in 3Q23 (3Q22: 32.0%), followed by 25.0% for Azure and 10.0% for Google. Amazon has established first mover advantage in the cloud industry, and we believe the continuously enhancement of technological capability could help Amazon maintain its leadership in the cloud services market.

### ■ Worldwide public cloud services market is expected to achieve steady revenue growth

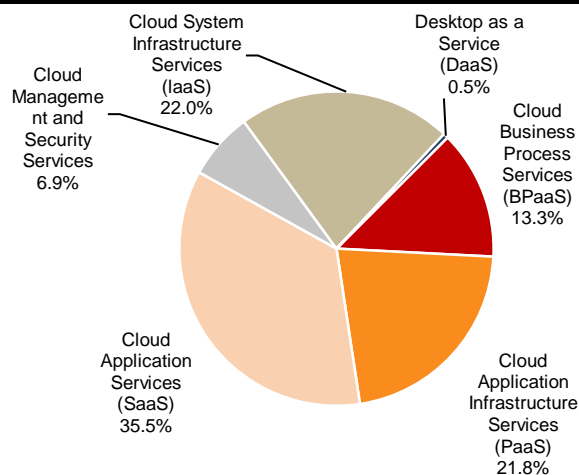
According to the data of Gartner, end-user spending of worldwide public cloud services totalled US\$412.6bn in 2021, and is expected to achieve a 2021-2023E CAGR of 19.8%, with total market size reaching US\$591.8bn in 2023E. Current inflationary pressure and macro conditions are likely to have a push and pull effect on cloud spending, and cloud computing will continue to be a bastion of safety and innovation, supporting growth during uncertain times due to its agile, elastic and scalable feature.

**Figure 21: Worldwide public cloud services end-user spending forecast**

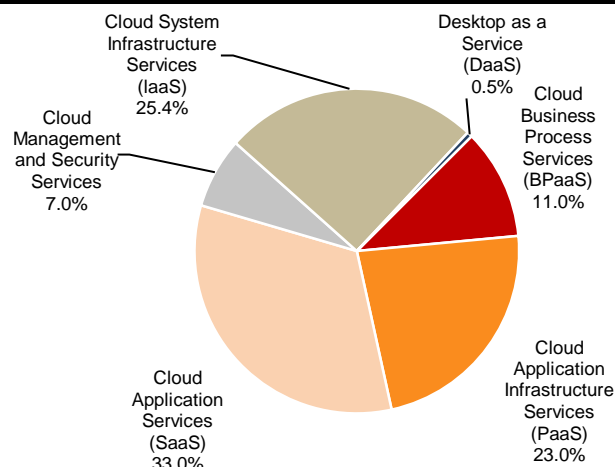


Source: Gartner, CMBIGM

Gartner forecasts Cloud System Infrastructure Services (IaaS) to outgrow other segments in 2023E, with 29.8% YoY growth, as businesses accelerate IT modernization initiatives to minimize risk and optimize costs. In addition, moving operations to the cloud could also help reduce capital expenditures by extending cash outlays over a subscription term, which could be a key benefit in an environment where cash may be critical to maintain operations.

**Figure 22: Breakdown of public cloud services end-user spending (2021)**

Source: Gartner, CMBIGM

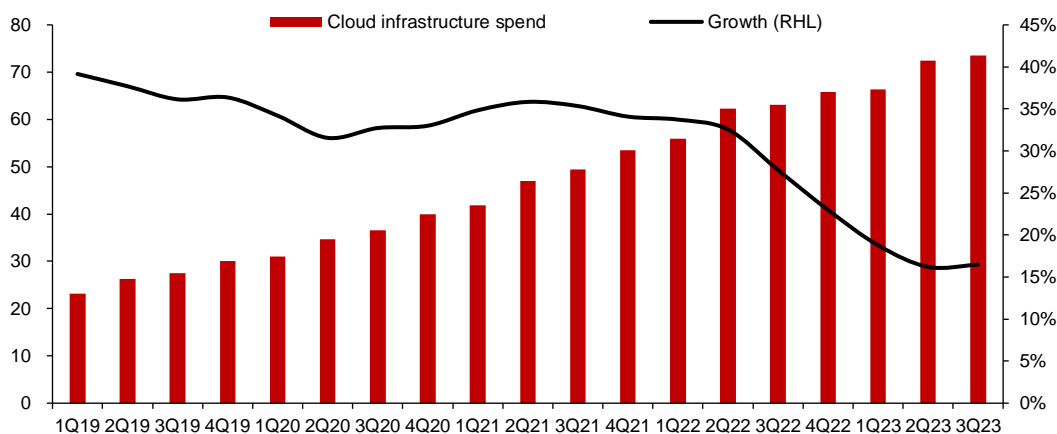
**Figure 23: Breakdown of public cloud services end-user spending (2023E)**

Source: Gartner, CMBIGM

However, Gartner expects Cloud Application Infrastructure Services (PaaS) and Cloud application services (SaaS) to see the most significant impacts from inflation due to staffing challenges and the focus on margin protection, although both segments are expected to see positive YoY growth in 2023E. Gartner forecast PaaS and SaaS to see YoY growth of 23.2% and 16.8%, respectively, in 2023. Gartner forecasts IaaS/PaaS/SaaS to account for 25.4/23.0/33.0% of total public cloud services end-user spending in 2023E, compared to 22.0/21.8/35.5% in 2021.

**Figure 24: Worldwide cloud infrastructure services quarterly spending**

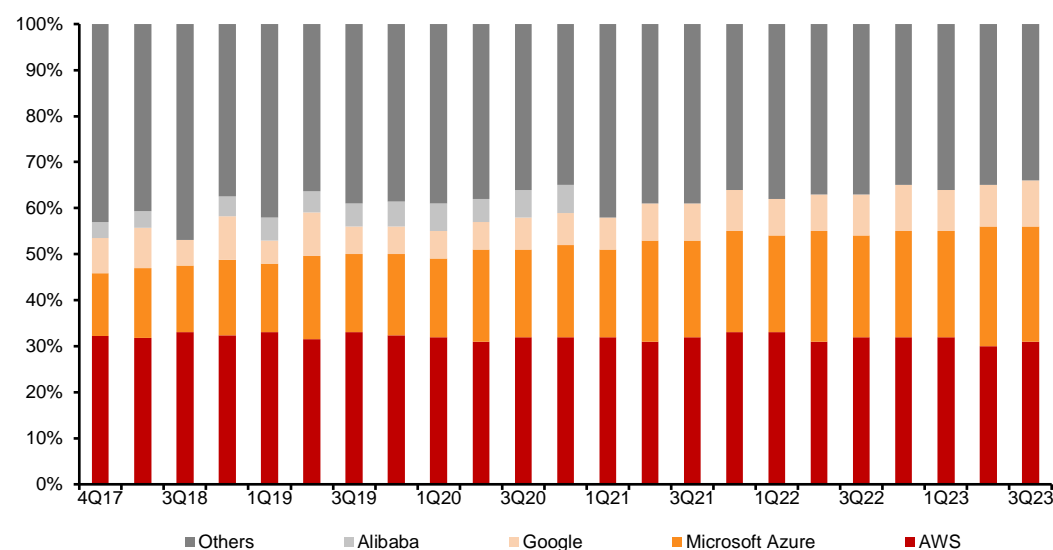
(US\$bn)



Source: Canalys, CMBIGM

Despite facing intensifying competition, Amazon has maintained a relatively stable market share in worldwide cloud infrastructure services spending market. Per Canalys data, quarterly spending of worldwide cloud infrastructure services was US\$73.5bn in 3Q23, up 16.5% YoY but slowing from 27.7% in 3Q22. We attribute this to a shrink in enterprises' digitalization budget amid macro uncertainties, but the growth picked up slightly from 16.2% in 2Q23, which likely represents a slowdown in corporate spending optimization.

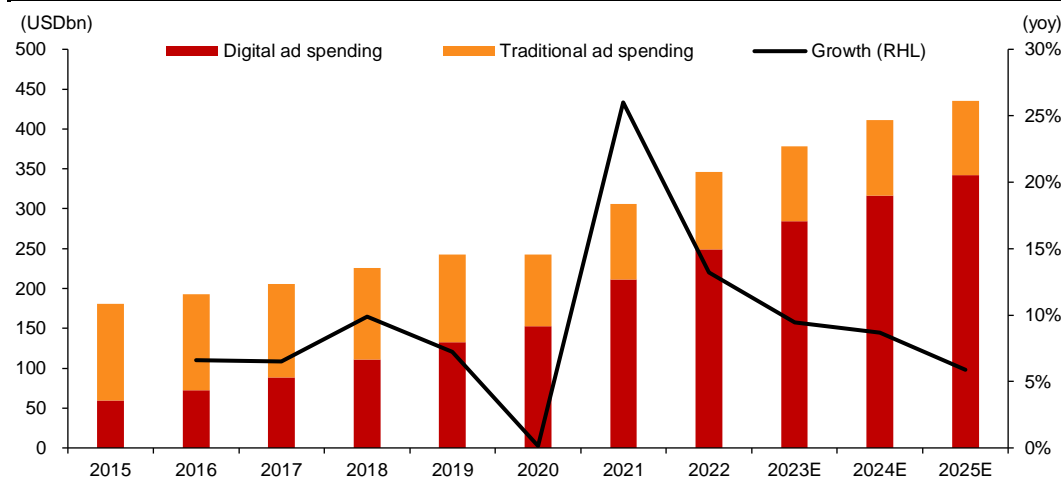
However, Amazon maintained relatively stable market share in the market. It seized 31.0% of total market share in 3Q23 (3Q22: 32.0%), followed by 25.0% for Azure and 10.0% for Google. Amazon has established first mover advantage in the cloud industry, and we believe the continuous enhancement of technological capability could help Amazon maintain its leadership in cloud services market.

**Figure 25: Worldwide cloud infrastructure quarterly spending market share**

Source: Gartner, CMBIGM

**US advertising: steady growth with rising mobile penetration**

Per eMarketer, US advertising market achieved steady growth over 2017-2022 with a CAGR of 9.6%, and total market size reached US\$346.0bn in 2022. eMarketer forecasts 2022-2025E CAGR of 8.0% for overall US advertising market, with total market size reaching US\$435.6bn in 2025E.

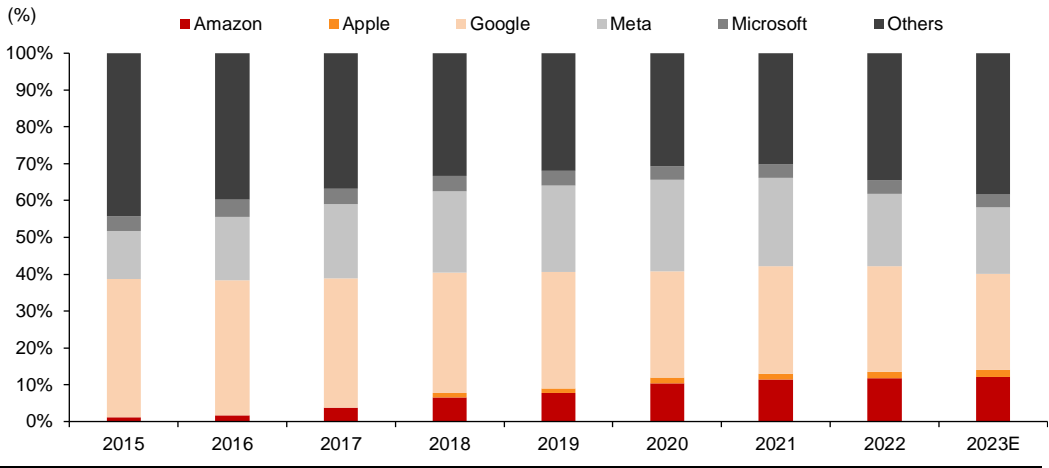
**Figure 26: U.S. advertising spend and YoY growth**

Source: eMarketer, CMBIGM

Backed by its strong consumer mindshare in online retail sales and superior logistic fulfilment capability, Amazon's platform business is also experiencing rapid growth and is enlarging its market share in the US mobile ad market. According to eMarketer, Amazon's market share has grown from 1.6% in 2016 to 11.7% in 2022, and is expected to further increase to 12.2% in 2023E.



Figure 27: US: mobile ad spending market share



Source: Gartner, CMBIGM

## Financial forecast and valuation

### Steady margin improvement likely propels a rerating for Amazon

Amazon's share price outperformed the Nasdaq Index in 2020, which in our view could be attributed to structural increase in online penetration for retail sales amid pandemic outbreak. However, the tightened liquidity derived from the increase in interest rate has impacted overall stock market, especially for growth stocks, in 2022. In addition, the continuous increase in inflation has weighed on Amazon's stock price, as it: 1) impacted willingness of consumption; 2) brought additional cost pressure to Amazon in terms of wages; 3) impacted the IT spending budget of enterprises. Moreover, the increase in crude oil price has brought headwinds to Amazon's fulfillment costs.

However, with steady margin improvement trend in 2023, aided by the gradual normalization in oil price and inflation pressure, as well as increase in revenue contribution from platform services, Amazon's share price outperformed IXIC Index again in 2023.

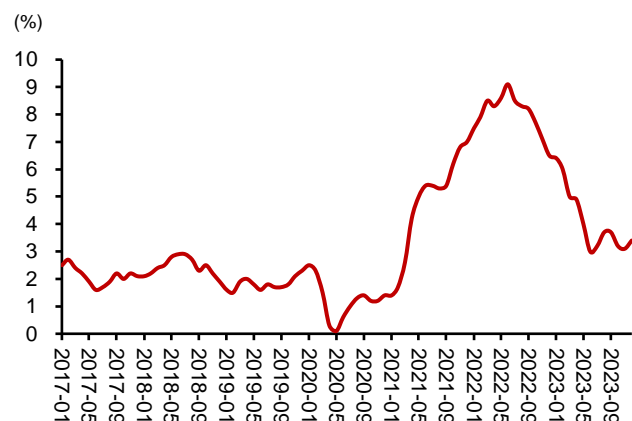
**Figure 28: Change in Amazon's share price vs change in Nasdaq Index over the past three years**



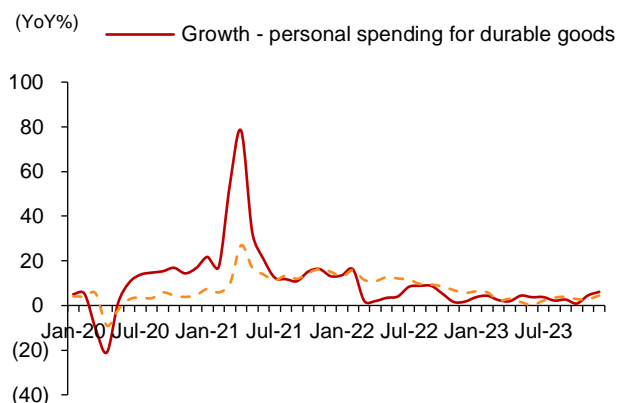
Source: Bloomberg, CMBIGM

Note: base date as at 31 December 2019

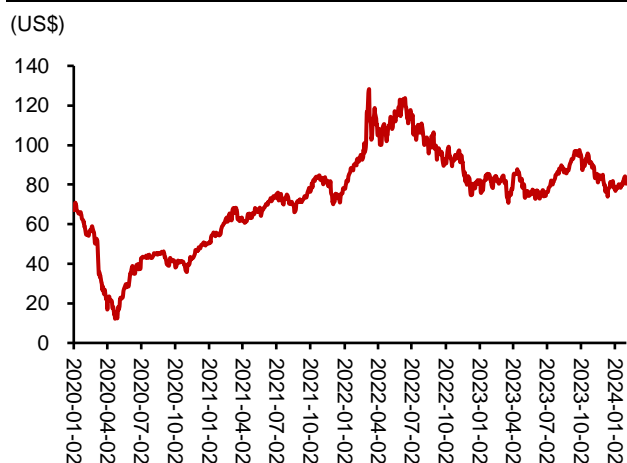
Looking ahead, we remain positive on Amazon's stock price, as both revenue recovery and cost optimization tend to have greater visibility. The YoY growth of CPI in the US has reached its peak in June 2022, and is gradually coming down. We expect the marginal easing in inflation could help propel a recovery in both consumption willingness and enterprise IT spending budget along with time. The moderation in crude oil per basket, and moderation of CPI likely propel a better cost outlook for Amazon. Combined with the impact from prudent cost control, Amazon's overall earnings growth outlook is turning more positive, in our view.

**Figure 29: US: YoY growth in CPI**

Source: US Department of Labour, CMBIGM

**Figure 30: US: YoY growth in personal spending on durable and non-durable goods**

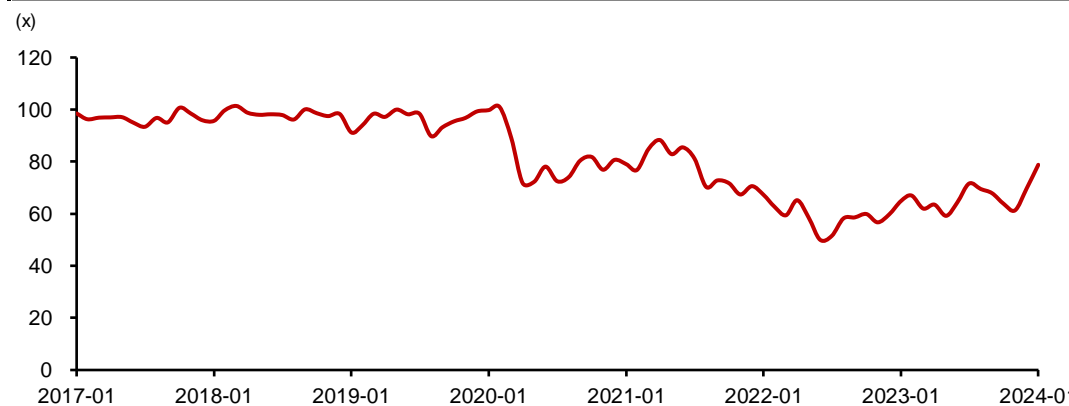
Source: BEA of US, CMBIGM

**Figure 31: OPEC: crude oil price per basket**

Source: OPEC, CMBIGM

**Figure 32: US: ten-year bond yield**

Source: US Federal Reserve, CMBIGM

**Figure 33: Michigan Consumer Sentiment Index**

Source: University of Michigan, Wind, CMBIGM

## Financial forecast

We forecast Amazon to achieve a 2023-2026E revenue CAGR of 11%, with total revenue to reach US\$790.0bn in 2026E, among which we are forecasting 6%/14%/18/16% CAGR for online stores/third-party seller services/advertising services/AWS. The normalization of inflation, and steady growth of advertising business, as well as the normalization of cloud spending optimization trend, combined with the ramp up in cloud demand for large language model related AI services, should be some major drivers for the recovery of Amazon's revenue growth.

Recovery in revenue generation and the strategic move to more prudent cost control could both aid a recovery in EBITDA growth, in our view. We forecast 2023-2026E EBITDA CAGR of 17%, with total amount to reach US\$140.5bn in 2026E. Also, as Amazon's investment in logistics and fulfilment infrastructure is likely to see an optimization trend, free cash flow (FCF) status should improve along with the increase in operating profit generation, in our view. We forecast Amazon's FCF to reach US\$117bn in 2026 with FCF margin to improve to 15% from 6% in 2023.

**Figure 34: Amazon: financial forecast**

(US\$ bn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E		2023	2024E	2025E	2026E
<b>Online Stores</b>	<b>51.1</b>	<b>50.9</b>	<b>53.5</b>	<b>64.5</b>	<b>51.1</b>	<b>53.0</b>	<b>57.3</b>	<b>70.5</b>	<b>54.9</b>		<b>231.9</b>	<b>249.3</b>	<b>265.5</b>	<b>280.1</b>
YoY Growth	-3.3%	-4.3%	7.1%	-2.3%	-0.1%	4.2%	7.1%	9.3%	7.5%		5.4%	7.5%	6.5%	5.5%
<b>Third-Party Seller Services</b>	<b>25.3</b>	<b>27.4</b>	<b>28.7</b>	<b>36.3</b>	<b>29.8</b>	<b>32.3</b>	<b>34.3</b>	<b>43.6</b>	<b>34.3</b>		<b>140.1</b>	<b>161.1</b>	<b>183.6</b>	<b>207.5</b>
YoY Growth	6.9%	9.1%	18.2%	19.9%	17.7%	18.1%	19.8%	19.9%	15.0%		19.0%	15.0%	14.0%	13.0%
<b>AWS</b>	<b>18.4</b>	<b>19.7</b>	<b>20.5</b>	<b>21.4</b>	<b>21.4</b>	<b>22.1</b>	<b>23.1</b>	<b>24.2</b>	<b>24.3</b>		<b>90.8</b>	<b>104.8</b>	<b>123.1</b>	<b>142.2</b>
YoY Growth	36.6%	33.3%	27.5%	20.2%	15.8%	12.2%	12.3%	13.2%	14.0%		13.3%	15.4%	17.5%	15.5%
<b>Subscription Services</b>	<b>8.4</b>	<b>8.7</b>	<b>8.9</b>	<b>9.2</b>	<b>9.7</b>	<b>9.9</b>	<b>10.2</b>	<b>10.5</b>	<b>10.8</b>		<b>40.2</b>	<b>45.0</b>	<b>50.0</b>	<b>55.0</b>
YoY Growth	10.9%	10.1%	9.3%	13.1%	14.8%	13.5%	14.2%	14.1%	12.0%		14.2%	12.0%	11.0%	10.0%
<b>Advertising Services</b>	<b>7.9</b>	<b>8.8</b>	<b>9.5</b>	<b>11.6</b>	<b>9.5</b>	<b>10.7</b>	<b>12.1</b>	<b>14.7</b>	<b>11.4</b>		<b>46.9</b>	<b>56.3</b>	<b>66.4</b>	<b>77.0</b>
YoY Growth	23.4%	17.5%	25.4%	18.9%	20.7%	22.0%	26.3%	26.8%	20.0%		24.3%	20.0%	18.0%	16.0%
<b>Physical Stores</b>	<b>4.6</b>	<b>4.7</b>	<b>4.7</b>	<b>5.0</b>	<b>4.9</b>	<b>5.0</b>	<b>5.0</b>	<b>5.2</b>	<b>5.1</b>		<b>20.0</b>	<b>21.0</b>	<b>21.8</b>	<b>22.2</b>
YoY Growth	17.1%	12.5%	10.0%	5.7%	6.6%	6.4%	5.6%	3.9%	5.0%		5.6%	5.0%	3.5%	2.0%
<b>Other (New)</b>	<b>0.7</b>	<b>1.1</b>	<b>1.3</b>	<b>1.3</b>	<b>1.0</b>	<b>1.3</b>	<b>1.2</b>	<b>1.4</b>	<b>1.3</b>		<b>5.0</b>	<b>5.5</b>	<b>5.8</b>	<b>6.1</b>
YoY Growth	26.1%	131.1%	163.7%	76.5%	55.4%	25.6%	-2.9%	8.6%	30.4%		16.7%	10.9%	5.8%	4.4%
<b>Total revenue</b>	<b>116.4</b>	<b>121.2</b>	<b>127.1</b>	<b>149.2</b>	<b>127.4</b>	<b>134.4</b>	<b>143.1</b>	<b>170.0</b>	<b>142.3</b>		<b>574.8</b>	<b>642.9</b>	<b>716.2</b>	<b>790.0</b>
YoY Growth	<b>7.3%</b>	<b>7.2%</b>	<b>14.7%</b>	<b>8.6%</b>	<b>9.4%</b>	<b>10.8%</b>	<b>12.6%</b>	<b>13.9%</b>	<b>11.7%</b>		<b>11.8%</b>	<b>11.9%</b>	<b>11.4%</b>	<b>10.3%</b>
Gross profit	49.9	54.8	56.8	63.6	59.6	65.0	68.1	77.4	68.2		270.0	307.2	346.2	385.8
Operating profit	3.7	3.3	2.5	2.7	4.8	7.7	11.2	13.2	10.6		36.9	55.8	71.6	89.3
<b>Net profit</b>	<b>-3.8</b>	<b>-2.0</b>	<b>2.9</b>	<b>0.3</b>	<b>3.2</b>	<b>6.8</b>	<b>9.9</b>	<b>10.6</b>	<b>8.3</b>		<b>30.4</b>	<b>44.8</b>	<b>60.9</b>	<b>79.2</b>

### Revenue breakdown by segment

#### North

<b>America</b>	<b>69.2</b>	<b>74.4</b>	<b>78.8</b>	<b>93.4</b>	<b>76.9</b>	<b>82.5</b>	<b>87.9</b>	<b>105.5</b>	<b>84.6</b>		<b>352.8</b>	<b>385.4</b>	<b>416.2</b>	<b>445.3</b>
YoY Growth	7.6%	10.2%	20.3%	13.4%	11.0%	10.9%	11.5%	13.0%	10.0%		11.7%	9.2%	8.0%	7.0%
% of total revenue	59.5%	61.4%	62.0%	62.6%	60.4%	61.4%	61.4%	62.1%	59.4%		61.4%	59.9%	58.1%	56.4%
<b>International</b>	<b>28.8</b>	<b>27.1</b>	<b>27.7</b>	<b>34.5</b>	<b>29.1</b>	<b>29.7</b>	<b>32.1</b>	<b>40.2</b>	<b>33.4</b>		<b>131.2</b>	<b>152.8</b>	<b>176.9</b>	<b>202.5</b>
YoY Growth	-6.2%	-11.9%	-4.9%	-7.5%	1.3%	9.7%	15.9%	16.8%	14.5%		11.2%	16.5%	15.7%	14.5%
% of total revenue	24.7%	22.3%	21.8%	23.1%	22.9%	22.1%	22.5%	23.7%	23.4%		22.8%	23.8%	24.7%	25.6%
<b>AWS</b>	<b>18.4</b>	<b>19.7</b>	<b>20.5</b>	<b>21.4</b>	<b>21.4</b>	<b>22.1</b>	<b>23.1</b>	<b>24.2</b>	<b>24.3</b>		<b>90.8</b>	<b>104.8</b>	<b>123.1</b>	<b>142.2</b>
YoY Growth	36.6%	33.3%	27.5%	20.2%	15.8%	12.2%	12.3%	13.2%	14.0%		13%	15%	18%	16%
% of total revenue	15.8%	16.3%	16.2%	14.3%	16.8%	16.5%	16.1%	14.2%	17.1%		15.8%	16.3%	17.2%	18.0%

#### Margins (%)

<b>GPM</b>	<b>42.9%</b>	<b>45.2%</b>	<b>44.7%</b>	<b>42.6%</b>	<b>46.8%</b>	<b>48.4%</b>	<b>47.6%</b>	<b>45.5%</b>	<b>48.0%</b>		<b>47.0%</b>	<b>47.8%</b>	<b>48.3%</b>	<b>48.8%</b>
<b>OPM</b>	<b>3.2%</b>	<b>2.7%</b>	<b>2.0%</b>	<b>1.8%</b>	<b>3.7%</b>	<b>5.7%</b>	<b>7.8%</b>	<b>7.8%</b>	<b>7.4%</b>		<b>6.4%</b>	<b>8.7%</b>	<b>10.0%</b>	<b>11.3%</b>
<b>North</b>														
America	-2.3%	-0.8%	-0.5%	-0.3%	1.2%	3.9%	4.9%	6.1%	2.2%		4.2%	5.5%	7.5%	9.5%
International	-4.5%	-6.5%	-8.9%	-6.5%	-4.3%	-3.0%	-0.3%	-1.0%	4.9%		-2.0%	2.6%	2.1%	2.0%

AWS	35.3%	29.0%	26.3%	24.3%	24.0%	24.2%	30.3%	29.6%	29.1%	27.1%	29.4%	29.9%	30.4%
NPM	-3.3%	-1.7%	2.3%	0.2%	2.5%	5.0%	6.9%	6.3%	5.8%	5.3%	7.0%	8.5%	10.0%

Source: Company data, CMBIGM estimates

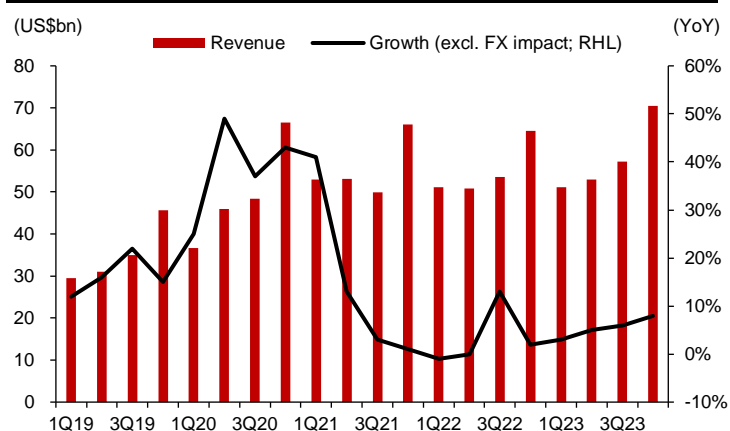
## ■ Revenue forecast: 2023-2026E revenue CAGR of 11%

We forecast Amazon will report 11.2% 2023-2026E CAGR for total revenue, to reach US\$790.0bn in 2026E. We expect AWS and third-party platform business (third-party seller services and advertising business) to be key revenue growth drivers. The normalization of inflation, driven by the interest rate hike, is likely to drive a recovery for Amazon's overall revenue growth. Digitalization demand remains resilient in the mid to long term, in our view. Given AWS has established competitive edge and accumulated early mover advantage, we remain positive on AWS's long-term revenue growth. We forecast 2023-2026E revenue CAGR of 16/18/14/6% for AWS/advertising services/retail third party services/online stores.

### 1) Online stores (38.8% of 2024E revenue): easing of inflation and increase in online penetration are key drivers for future growth

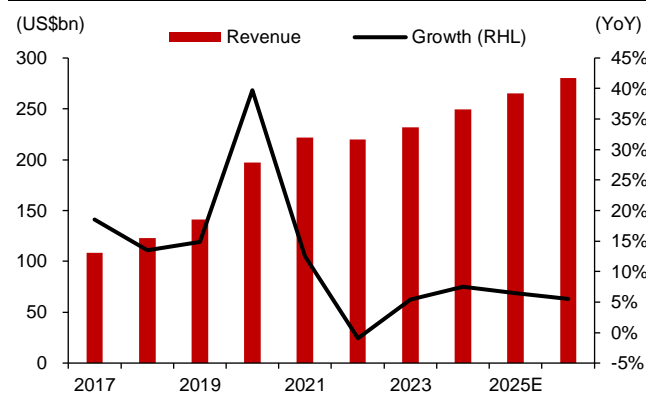
The YoY growth of Amazon's online store segment revenue has seen a decelerated trend in 1Q21-2Q22, owing to high-base effect and worsened inflation status, as it eroded purchasing power. However, with aggressive interest rate hike, inflation has been showing a marginal easing trend since June 2022, evidenced by a continuous decline in YoY growth of CPI, and this in our view aided a gradual recovery for online retail sales and Amazon's online store revenue growth. In addition, Amazon's strategic move to evolve from a single national fulfilment network in the US to eight distinct regions could help enhance consumer experience, and aid further growth of online store business, in our view. We forecast 2023-2026E revenue CAGR of 6% for online stores, with total revenue to reach US\$280.1bn in 2026E.

**Figure 35: Amazon: online stores revenue growth (Qtr)**



Source: Company data, CMBIGM

**Figure 36: Amazon: online stores revenue growth (Annual)**

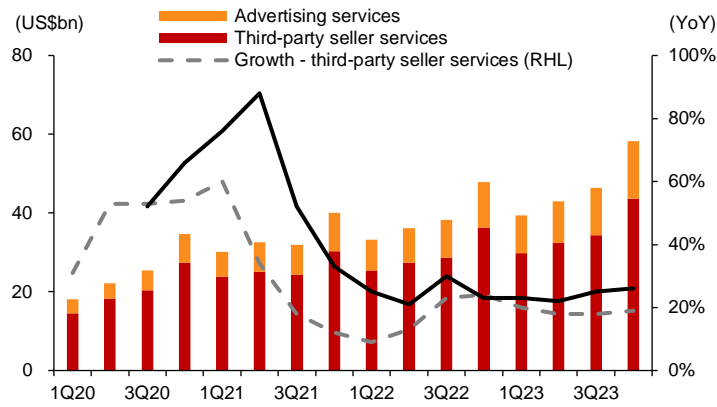


Source: Company data, CMBIGM estimates

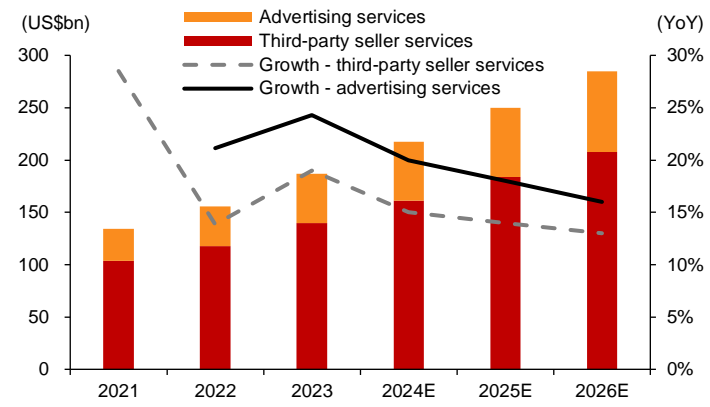
### 2) Third-party business (third-party seller services & ads: 33.8% of 2024E revenue): enhancing platform ecosystem aids steady business development

Amazon's third-party business revenue growth could recover along with overall macro and its online store business, in our view. In addition, Amazon Prime Video ads and Sponsored display should help unlock growth potential of ads business. Amazon has a large traffic volume to support the growth of advertising business, and it is honing algorithms to continuously enhancing ROI of merchants and brands, which in our view should aid solid advertising revenue growth over 2024-2026E.

We forecast a combined revenue CAGR of 15% for Amazon's third-party seller services and advertising services over 2023-2026E, with total revenue to reach US\$284.5bn in 2026E. Revenue contribution from third-party business (third-party seller services & ads) will grow to 36.0% of total revenue in 2026E from 32.5% in 2023.

**Figure 37: Amazon: Third-party business revenue and growth (Qtr)**


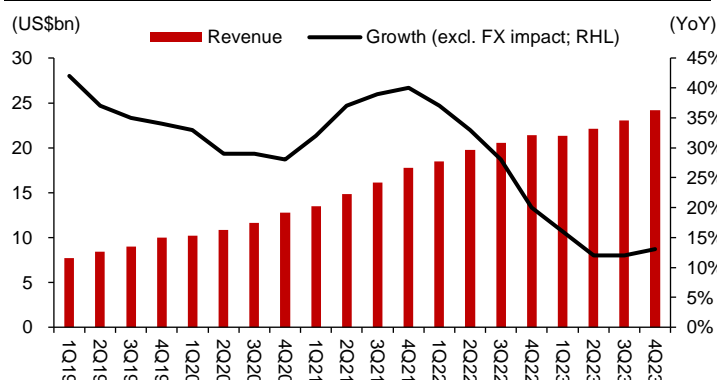
Source: Company data, CMBIGM

**Figure 38: Amazon: Third-party business revenue and growth (Annual)**


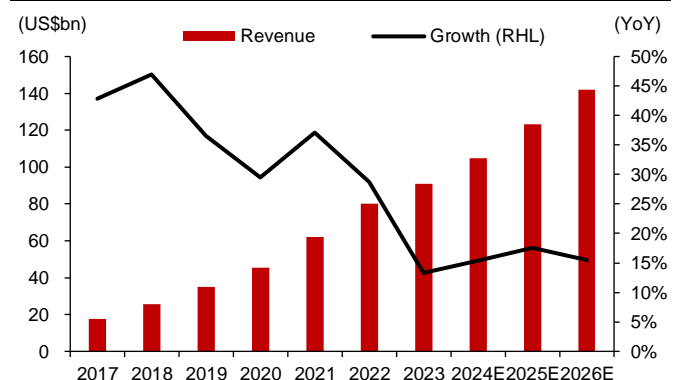
Source: Company data, CMBIGM estimates

### 3) AWS (16.3% of 2024E revenue): attenuation of cloud optimization spending to drive a reacceleration in revenue growth, but AWS's comparative advantage remains intact

Owing to the worsened inflation status that have led to more cautious spending on digitalization, YoY growth of Amazon's AWS revenue has seen a decelerated trend since 1Q22 and lasted for six quarters. Amazon noticed softened demand from verticals like financial services, mortgage, and cryptocurrency amid macro headwind. However, cloud revenue growth has seen a stabilizing trend amid fierce competition. AWS saw revenue growth of 12% YoY in 3Q23, which was flat QoQ, and management expects new generative AI opportunity to bring tens of billions of dollars in revenue for AWS over the next several years. But the revenue growth reaccelerated in 4Q23, which management cited the attenuation of cloud optimization trend and ramp up in AI cloud as reasons. The increase in net new workloads with increasing demand for generative AI demand, as well as the robust backlog in hand should help revive revenue growth in 2024, in our view. We forecast a 2023-2026E revenue CAGR of 16% for AWS.

**Figure 39: Amazon: AWS revenue growth (Qtr)**


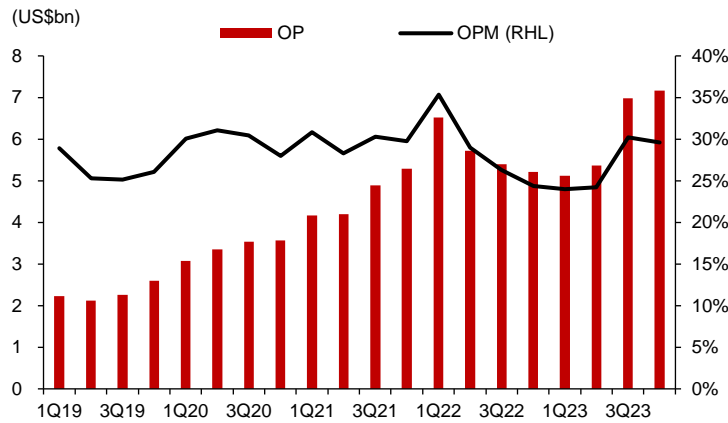
Source: Company data, CMBIGM

**Figure 40: Amazon: AWS revenue growth (Annual)**


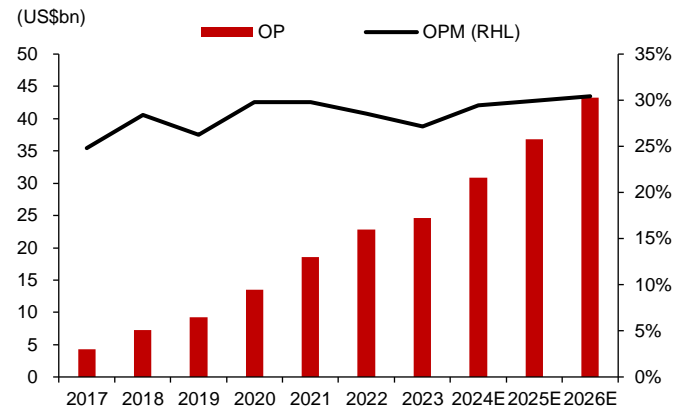
Source: Company data, CMBIGM estimates

On operating margin, OPM for AWS peaked at 35% in 1Q22, driven by increasing economies of scale, and Amazon's move to extend the useful life of its servers from four years to five, as well as that for networking equipment from five years to six. However, the margin fell to 24% in 4Q22, owing to: 1) investments to support long-term development; 2) increase in share-based compensation and labour costs due to inflation in wages; and 3) higher energy costs. We expect these headwinds to sustain in the near term, but we think that normalization in energy costs, and improvement in operating efficiency driven by scale effect could aid a recovery in operating margin. The operating margin of AWS reached

30.3% in 3Q23, up 4.0pp YoY and 6.1pp QoQ, which management primarily attributed to AWS's headcount reductions in 2Q, and continued slowness in hiring, rehiring, and adding positions. The operating margin stayed largely flat at 30% in 4Q23. Although AWS margin likely fluctuates between quarters, we are positive on the long-term margin expansion trajectory aided by economies of scale. We forecast operating margin for AWS to improve to 29.4/29.9/30.4% in 2024/2025/2026E.

**Figure 41: Amazon: AWS operating profit (Qtr)**


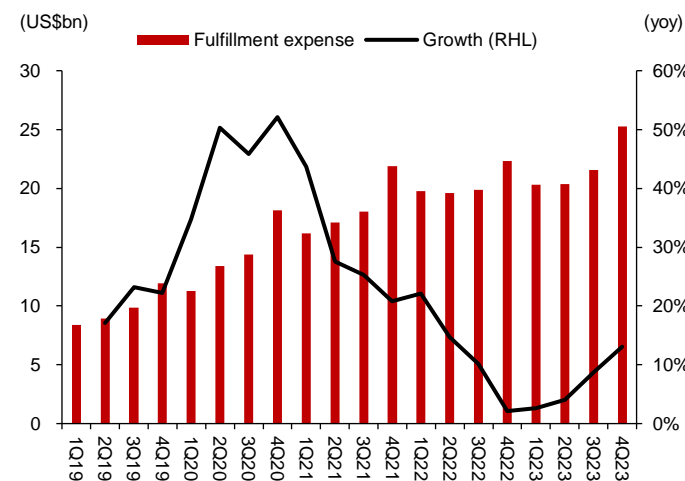
Source: Company data, CMBIGM

**Figure 42: Amazon: AWS operating profit (Annual)**


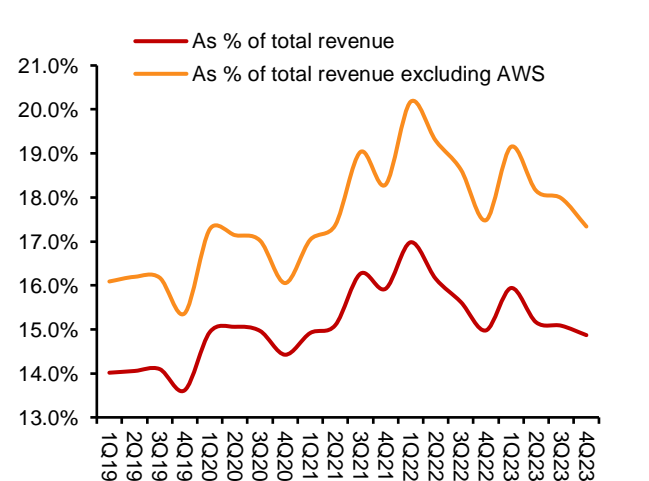
Source: Company data, CMBIGM estimates

#### ■ OPM: estimating margin expansion to 11.3% in 2026E

We expect the increase in gross margin and optimization of fulfillment expense ratio to be key drivers of Amazon's operating profit margin expansion over 2024-2026E. Increase in economies of scale of both online retail business and cloud business, as well as increase in revenue contribution from high-margin platform business could be supporting factors for gross margin expansion, in our view.

**Figure 43: Amazon: fulfillment expense and growth**


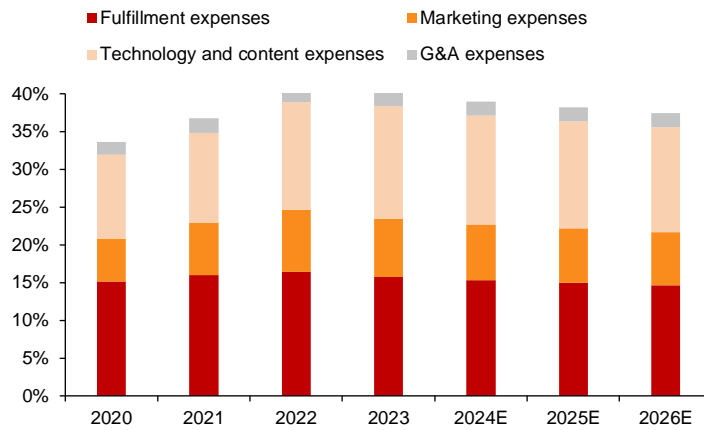
Source: Company data, CMBIGM

**Figure 44: Amazon: fulfillment expense ratio**


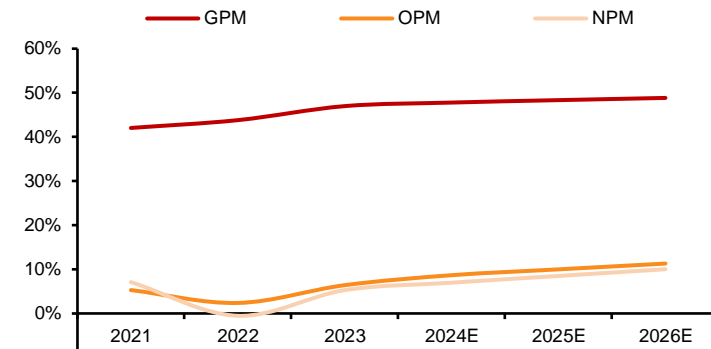
Source: Company data, CMBIGM

Amazon has seen an increase in fulfillment expense ratio over 2H21-1H22, driven by increase in energy cost and the employment of additional fulfillment staff to ensure good fulfillment experience during pandemic period. However, with pandemic impact wearing off, and increase in utilization, the optimization of fulfillment expense ratio is driving Amazon's operating margin expansion.



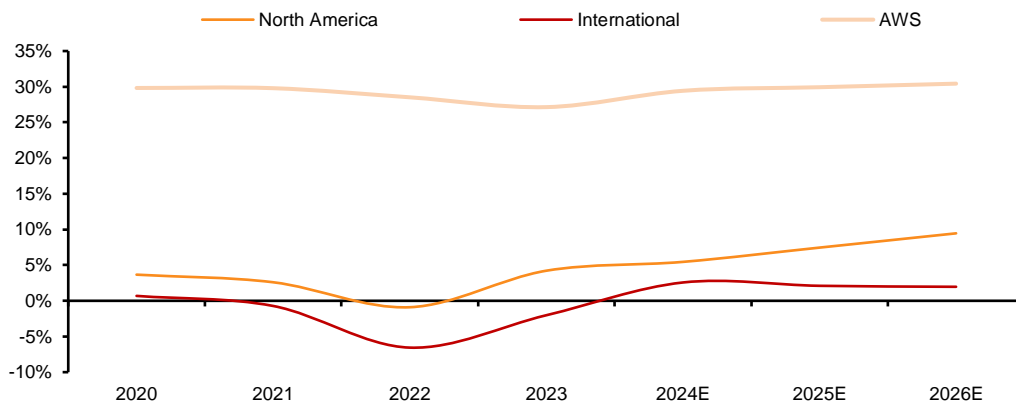
**Figure 45: Amazon: operating expense ratio**

Source: Company data, CMBIGM estimates

**Figure 46: Amazon: margin trend**

Source: Company data, CMBIGM estimates

We forecast Amazon's gross profit margin to expand to 47.8/48.3/48.8% in 2024/2025/2026E, and fulfillment expense ratio to optimize to 15.3/15.0/14.7% in 2024/2025/2026E from 15.8% in 2023, which will aid an expansion in operating margin to 8.7/10.0/11.3% in 2024/2025/2026E from 6.4% in 2023.

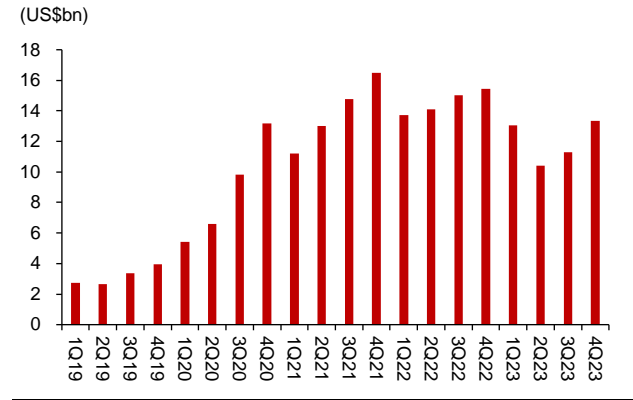
**Figure 47: operating margin by segment**

Source: company data, CMBIGM estimates

### ■ FCF: to improve to US\$117bn in 2026E with a FCF margin of 14.8%

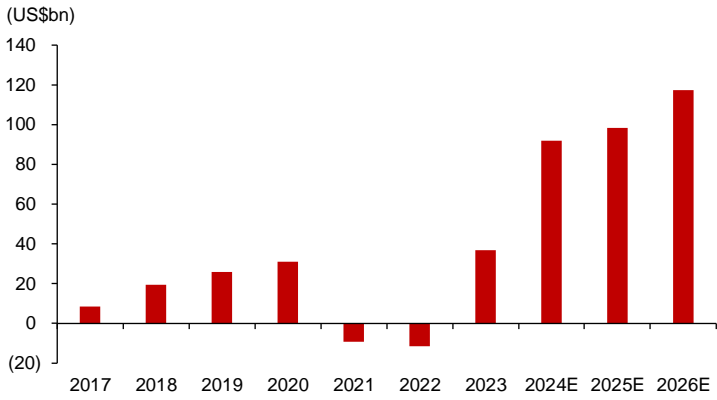
Amazon's cash flow generation was impacted by softened operating income and increased capex over 2021 and 2022, but improved in 2023 along with the improvement in operating profit generation. The company has been investing in enlarging its fulfilment network and aimed for more rapid fulfilment capability. Although management highlighted its investment plan to support infrastructure deployment to aid AWS business expansion, and guided capex will see YoY growth in 2024, we expect FCF to be on a steady growth track driven by operating profit growth. We forecast Amazon to achieve 47% CAGR for FCF over 2023-2026E.

Figure 48: Amazon: Capex (Qtr)



Source: Company data, CMBIGM

Figure 49: Amazon: FCF

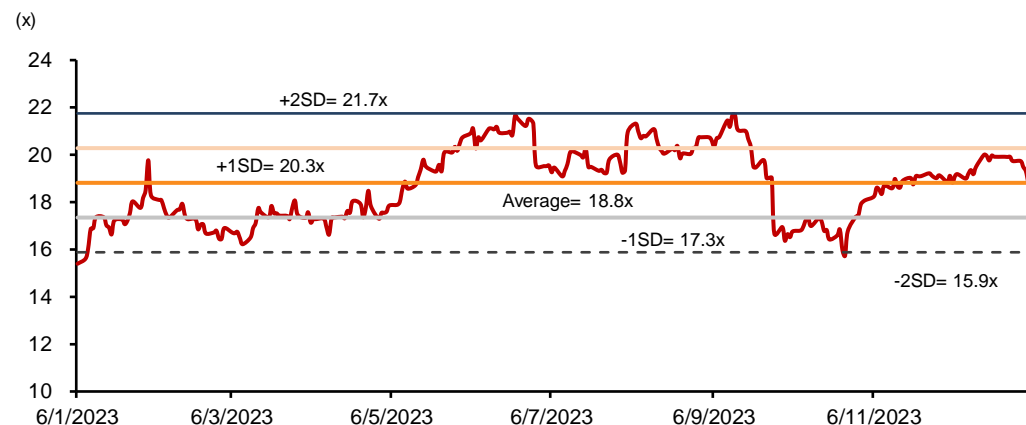


Source: Company data, CMBIGM estimates

## Valuation: target valuation of US\$213.0 per share based on 18.8x 2024E EV/EBITDA

We use EV/EBITDA to value Amazon, due to its priority in operating cash flow generation, cloud business that is still at the fast-growing stage, and continuous investments into its cloud business.

**Figure 50: Amazon: one-year EV/EBITDA band**



Source: Bloomberg, CMBIGM

Our target price of US\$213.0 is based on 18.8x 2024E EV/EBITDA, inline with one-year average EV/EBITDA since 19 Feb 2023. Our target valuation multiple is compared to two-year average EV/EBITDA of 20.0x, and three-year average EV/EBITDA of 22.7x. The marginal easing of liquidity environment, as well as slowdown in increasing net new workloads which may revive revenue growth of AWS, likely propel a further rerating in 2024, in our view.

**Figure 51: Amazon: valuation**

(US\$mn)	
GAAP EBITDA (2024E)	111,217
GAAP EBITDA margin %	17.3%
EV / 2024 GAAP EBITDA	18.8x
Enterprise value	2,092,001
GAAP EBITDA CAGR (2022-2025E CAGR)	32%
<b>Capital structure adjustments</b>	
Adjusted net debt - 2024E	(216,152)
Shares outstanding - 2024E	11,017
<b>Valuation (USD)</b>	<b>213.0</b>
% Upside/downside to current share price	27%

Source: CMBIGM estimates

## SOTP valuation cross-check of US\$216.2

We built a SOTP valuation cross-check for Amazon, which suggests the reasonable valuation should stand at US\$216.2 per share.

**Figure 52: Amazon: SOTP valuation cross-check of US\$216.2 per share**

#	Segment (USDmn)	Valuation method	2024E Rev (USDmn)	EV/S (x)	Val. US\$m	\$/share	Value split
1	First party retail (online stores + physical stores + Others)	0.9x 2024E PS	275,793	0.9	248,214	22.9	11%
2	Third party revenue ( Retail Third-Party Seller Services + Retail Subscription Services)	5.0x 2024E PS	206,095	5.0	1,030,475	95.0	44%
3	Advertising services	5.0x 2024E PS	56,287	5.0	281,436	25.9	12%
4	AWS	7.5x 2024E PS	104,756	7.5	785,673	72.4	33%
<b>Total (US\$m)</b>						<b>216.2</b>	
#s of shares outstanding (mn)						10,848	

Source: Company data, CMBIGM estimates

**Figure 53: Overseas TMT companies: valuation comparison**

Company	Ticker	Price (LC)	Market cap (US\$m)	PE (x)			EPS CAGE 23-25E
				2023	2024E	2025E	
Meta Platforms Inc	META US	471.8	1,203,106	31.6	23.0	20.0	29%
Alphabet Inc	GOOGL US	141.1	1,761,139	23.3	19.7	17.0	18%
Microsoft Corp	MSFT US	402.8	2,992,905	41.8	34.7	30.2	12%
NVIDIA Corp	NVDA US	694.5	1,715,464	NA	NA	32.2	71%
Tesla Inc	TSLA US	193.8	617,085	NA	NA	47.8	0%
Adobe Inc	ADBE US	541.9	244,943	34.0	30.2	26.7	14%
Salesforce Inc	CRM US	286.4	277,226	NA	34.9	29.6	27%
Netflix Inc	NFLX US	575.1	248,893	47.0	33.4	27.1	26%
Intuit Inc	INTU US	645.9	180,813	45.4	39.4	34.0	17%
ServiceNow Inc	NOW US	752.8	154,332	NA	NA	46.9	30%
Uber Technologies Inc	UBER US	76.6	159,060	NA	46.6	30.7	-186%
Shopify Inc	SHOP US	78.6	101,227	NA	NA	NA	-394%
Palo Alto Networks Inc	PANW US	366.1	115,428	NA	NA	NA	38%
Workday Inc	WDAY US	302.0	79,421	NA	NA	45.9	19%
Snowflake Inc	SNOW US	220.1	72,472	NA	NA	NA	-339%
				<b>37.2</b>	<b>32.7</b>	<b>32.3</b>	

Source: Bloomberg, CMBIGM estimates; Note: Data as of 21 Feb 2024

**Figure 54: Overseas mega TMT companies: EV/EBITDA valuation comparison**

Companies	Ticker	EV/S (x)			EV/EBITDA(x)		
		2024E	2025E	2026E	2024E	2025E	2026E
Meta	Meta US	7.4	6.6	5.9	13.1	11.3	9.9
Apple	AAPL US	7.1	6.7	6.2	20.7	19.6	17.8
Microsoft	MSFT US	12.1	10.6	9.2	23.3	20.4	17.5
Google	GOOG US	5.9	5.0	4.6	12.3	10.9	10.0
Netflix	NFLX US	6.7	6.0	5.5	25.9	21.6	18.5
		<b>7.0</b>	<b>6.2</b>	<b>5.6</b>	<b>18.3</b>	<b>16.0</b>	<b>14.0</b>

Source: Bloomberg, CMBIGM estimates ; Note: Data as of 21 Feb 2024

## Appendix

Figure 55: Amazon: management profile

Name	Position	Prior experience
Jeffrey P. Bezos	Founder and Executive Chair of Amazon	Has been Chair of the Board since founding the Company in 1994. Prior to becoming Executive Chair in July 2021, he served as Chief Executive Officer from May 1996 to July 2021 and as President from founding until June 1999 and again from October 2000 to July 2021.
Andrew R. Jassy	President and CEO of Amazon	Has been President and Chief Executive Officer of the Company since July 2021. He founded and led Amazon Web Services since its inception, serving as its CEO from April 2016 to July 2021 and its Senior Vice President from April 2006 until April 2016. Mr. Jassy joined the Company in 1997, and, prior to founding AWS, he held various leadership roles across the Company, including both business-to-business and business-to-consumer.
Douglas J. Herrington	CEO Worldwide Amazon Stores	Has served as CEO Worldwide Amazon Stores since July 2022, Senior Vice President, North America Consumer from January 2015 to July 2022, and Senior Vice President, Consumables from May 2014 to December 2014.
Brian T. Olsavsky	Senior Vice President and Chief Financial Officer	Has served as Senior Vice President and Chief Financial Officer since June 2015, Vice President, Finance for the Global Consumer Business from December 2011 to June 2015, and numerous financial leadership roles across Amazon with global responsibility since April 2002.
Shelley L. Reynolds	Vice President, Worldwide Controller, and Principal Accounting Officer	Has served as Vice President, Worldwide Controller, and Principal Accounting Officer since April 2007.
Adam N. Selipsky	CEO Amazon Web Services	Has served as CEO Amazon Web Services since July 2021, Senior Vice President, Amazon Web Services from May 2021 until July 2021, President and CEO of Tableau Software from September 2016 until May 2021, and Vice President, Marketing, Sales and Support of Amazon Web Services from May 2005 to September 2016.
David A. Zapolsky	Senior Vice President, General Counsel, and Secretary	Has served as Senior Vice President, General Counsel, and Secretary since May 2014, Vice President, General Counsel, and Secretary from September 2012 to May 2014, and as Vice President and Associate General Counsel for Litigation and Regulatory matters from April 2002 until September 2012.

Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	469,822	513,983	574,785	642,931	716,153	790,018
Cost of goods sold	(272,344)	(288,831)	(304,739)	(335,696)	(369,983)	(404,187)
Gross profit	197,478	225,152	270,046	307,235	346,170	385,830
Operating expenses	(172,599)	(212,904)	(233,194)	(251,479)	(274,602)	(296,506)
Selling expense	(32,551)	(42,238)	(44,370)	(47,164)	(51,507)	(55,256)
Admin expense	(8,823)	(11,891)	(11,816)	(12,227)	(13,667)	(14,590)
R&D expense	(56,052)	(73,213)	(85,622)	(92,572)	(101,240)	(109,806)
Others	(75,173)	(85,562)	(91,386)	(99,516)	(108,188)	(116,854)
Operating profit	24,879	12,248	36,852	55,757	71,567	89,324
Interest income	448	989	2,949	5,497	10,378	16,330
Interest expense	(1,809)	(2,367)	(3,182)	(2,767)	(2,479)	(2,312)
Other income/expense	14,633	(16,806)	938	0	0	0
Pre-tax profit	38,151	(5,936)	37,557	58,487	79,466	103,342
Income tax	(4,791)	3,217	(7,120)	(13,670)	(18,574)	(24,154)
Others	4	(3)	(12)	0	0	0
After tax profit	33,364	(2,722)	30,425	44,817	60,892	79,187
Net profit	33,364	(2,722)	30,425	44,817	60,892	79,187

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	161,580	146,791	172,351	257,184	362,725	484,710
Cash & equivalents	36,220	53,888	73,387	152,248	250,163	363,757
Restricted cash	60,080	24,093	32,328	22,548	21,791	21,834
Account receivables	32,640	34,405	33,318	41,194	45,386	49,560
Inventories	32,640	34,405	33,318	41,194	45,386	49,560
Contract obtaining costs	258,969	315,884	355,503	349,331	350,917	356,501
PP&E	160,281	186,715	204,177	198,005	199,591	205,175
Deferred income tax	0	0	0	0	0	0
Goodwill	15,371	20,288	22,789	22,789	22,789	22,789
Other non-current assets	420,549	462,675	527,854	606,515	713,642	841,211
Current liabilities	142,266	155,393	164,917	188,237	208,839	232,696
Account payables	78,664	79,600	84,981	96,446	107,516	118,775
Other current liabilities	11,827	13,227	15,227	16,879	18,788	20,710
Accrued expenses	51,775	62,566	64,709	74,912	82,535	93,210
Non-current liabilities	140,038	161,239	161,062	145,226	142,417	136,429
Long-term borrowings	48,744	67,150	58,314	43,268	41,017	36,267
Other non-current liabilities	91,294	94,089	102,748	101,958	101,400	100,162
Total liabilities	282,304	316,632	325,979	333,463	351,256	369,124
Share capital	5	108	109	109	109	109
Capital surplus	55,538	75,066	99,025	125,386	153,827	184,340
Retained earnings	85,915	83,193	113,618	158,435	219,327	298,515
Other reserves	(3,213)	(12,324)	(10,877)	(10,877)	(10,877)	(10,877)
Total shareholders equity	138,245	146,043	201,875	273,052	362,387	472,086
Total equity and liabilities	420,549	462,675	527,854	606,515	713,642	841,211

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	38,151	(5,936)	37,557	58,487	79,466	103,342
Depreciation & amortization	34,296	41,461	48,663	55,461	52,427	51,157
Tax paid	(4,791)	3,217	(7,120)	(13,670)	(18,574)	(24,154)
Change in working capital	(19,611)	(20,886)	(11,541)	13,642	10,295	13,526
Others	(1,718)	28,896	17,387	26,361	28,442	30,512
<b>Net cash from operations</b>	<b>46,327</b>	<b>46,752</b>	<b>84,946</b>	<b>140,280</b>	<b>152,056</b>	<b>174,383</b>
<b>Investing</b>						
Capital expenditure	(55,396)	(58,321)	(48,133)	(48,508)	(53,711)	(57,102)
Acquisition of subsidiaries/ investments	(1,985)	(8,316)	(5,839)	0	0	0
Others	(773)	29,036	4,139	3,706	2,681	1,939
<b>Net cash from investing</b>	<b>(58,154)</b>	<b>(37,601)</b>	<b>(49,833)</b>	<b>(44,802)</b>	<b>(51,031)</b>	<b>(55,163)</b>
<b>Financing</b>						
Net borrowings	17,616	23,907	(11,224)	(15,046)	(2,251)	(4,750)
Share repurchases	0	(6,000)	0	0	0	0
Others	(11,325)	(8,189)	(4,655)	(1,571)	(860)	(876)
<b>Net cash from financing</b>	<b>6,291</b>	<b>9,718</b>	<b>(15,879)</b>	<b>(16,617)</b>	<b>(3,111)</b>	<b>(5,626)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	41,466	35,566	53,342	72,979	151,560	249,474
Others	(364)	(1,093)	403	(281)	0	0
<b>Cash at the end of the year</b>	<b>35,566</b>	<b>53,342</b>	<b>72,979</b>	<b>151,560</b>	<b>249,474</b>	<b>363,068</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	21.7%	9.4%	11.8%	11.9%	11.4%	10.3%
Gross profit	29.3%	14.0%	19.9%	13.8%	12.7%	11.5%
Operating profit	8.6%	(50.8%)	200.9%	51.3%	28.4%	24.8%
Net profit	56.4%	na	na	47.3%	35.9%	30.0%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	42.0%	43.8%	47.0%	47.8%	48.3%	48.8%
Operating margin	5.3%	2.4%	6.4%	8.7%	10.0%	11.3%
Return on equity (ROE)	28.8%	(1.9%)	17.5%	18.9%	19.2%	19.0%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	1.1	0.9	1.0	1.4	1.7	2.1
Receivable turnover days	22.0	26.4	28.4	28.6	28.7	28.8
Inventory turnover days	37.3	41.8	42.3	42.0	42.1	42.3
Payable turnover days	104.0	99.2	101.6	103.4	104.6	105.8
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	50.7	na	41.9	39.5	29.5	23.1
P/E (diluted)	52.1	na	41.9	40.4	30.2	23.6
P/B	12.6	8.9	6.3	6.6	5.1	4.0
P/CFPS	na	na	34.6	19.8	18.7	15.9

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



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