

Alphabet (GOOG US)

1Q24 earnings beat on efficiency gain; GenAI development on track

Alphabet announced 1Q24 results: total revenue grew by 15% YoY to US\$80.5bn, in line with consensus estimate; GAAP net income was up 57% YoY to US\$23.7bn, 21% ahead of consensus estimate, thanks to Alphabet's organization optimization which leads to greater velocity and efficiency. The company further raised its shareholder return, announcing a quarterly dividend of US\$0.20 per share and a new US\$70bn share repurchase program (c.4% of market cap). We remain upbeat on FY24-26 earnings growth outlook, underpinned by resilient core search business, AI monetization opportunities, and efforts to moderate the pace of expense growth. We raise our FY24-26 earnings forecast by 2-7% and our target price to US\$185.5 on 27x FY24E PE (previous: US\$172.2 on 26x FY24E PE). Maintain BUY.

- Resilient core search business.** Search & other revenue grew by 14% YoY to US\$46.2bn in 1Q24, mainly driven by solid growth in the retail vertical. Looking into 2Q24, however, search business will begin lapping the impact of strength in ad spending from APAC retailers, a trend that began in 2Q23. YouTube ad revenue reported strong growth of 21% YoY to US\$8.1bn in 1Q24, fuelled by solid demand for both direct respond and brand ads. Google Cloud revenue was up 28% YoY to US\$9.6bn in 1Q24, driven by strong growth in GCP and enhancing AI monetization. Overall, management expects YouTube and Google Cloud to exit 2024 at a combined annual run rate of over US\$100bn (c.29% of FY24E total revenue on our estimate).
- GenAI to revamp business model.** AI continues to enhance Google search experience and creates new monetization opportunities. On the Search experience front, the company is bringing AI Overviews service to the main search results page, which led to increase in search usage and improvement in user satisfaction. Generative AI also improved the performance of ad properties (e.g. advertisers using PMax Asset Generation are 63% more likely to publish a campaign with good/excellent ad strength). Moreover, generative AI drove growth of Google Cloud. Over 60% of funded GenAI start-ups and c.90% of GenAI unicorns grow on Google Cloud infrastructure.
- Steady margin expansion despite step-up of investments.** Non-GAAP operating margin after adjustment of severance-related expenses was up by 4ppt YoY to 33% in 1Q24, primarily attributable to the organizational optimization to enhance velocity and efficiency. Capex was up 91% YoY to US\$12.0bn in 1Q24, mainly driven by investments in AI infrastructure. Looking ahead, management expects quarterly capex throughout FY24 to be at or above the 1Q24 level. Despite the increase in capex and related depreciation, Alphabet remains focused on moderating the pace of expenses growth and expects YoY OPM expansion in FY24.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	282,836	307,394	344,412	382,313	421,159
YoY growth (%)	9.8	8.7	12.0	11.0	10.2
YoY growth (%)	(21.1)	23.0	15.6	15.6	14.8
EPS (Reported) (US\$)	4.59	5.84	6.87	7.94	9.11
Consensus EPS (US\$)	4.56	5.80	6.87	7.90	9.10
P/S (x)	6.9	6.4	5.7	5.1	4.7
P/E (x)	34.4	27.0	23.0	19.9	17.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$185.50

(Previous TP) US\$172.20

Up/Downside 17.4%

Current Price US\$157.95

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Stock Data

Mkt Cap (US\$ mn)	1,960,949.3
Avg 3 mths t/o (US\$ mn)	2,493.1
52w High/Low (US\$)	161.10/105.21
Total Issued Shares (mn)	12415.0

Source: FactSet

Shareholding Structure

Larry Page	5.7%
Sergey Brin	5.4%

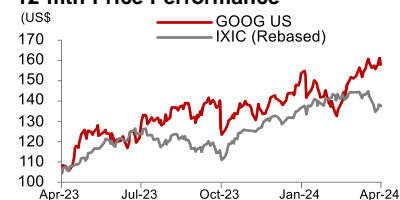
Source: Company data

Share Performance

	Absolute	Relative
1-mth	4.1%	8.8%
3-mth	2.7%	1.7%
6-mth	28.0%	3.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Alphabet: forecast revision

US\$ bn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	344.4	382.3	421.2	343.0	379.5	416.5	0.4%	0.7%	1.1%
Gross Profit	193.8	215.6	237.5	192.9	213.6	234.3	0.5%	0.9%	1.4%
Operating Profit	98.1	113.5	128.8	96.2	109.3	120.2	2.0%	3.9%	7.2%
Net profit	85.3	98.6	113.1	83.7	95.0	105.7	2.0%	3.8%	7.0%
EPS (US\$)	6.9	7.9	9.1	6.6	7.5	8.4	3.7%	5.6%	8.8%
Gross Margin	56.3%	56.4%	56.4%	56.2%	56.3%	56.3%	0.1 ppt	0.1 ppt	0.1 ppt
Operating Margin	28.5%	29.7%	30.6%	28.0%	28.8%	28.9%	0.5 ppt	0.9 ppt	1.7 ppt
Net margin	24.8%	25.8%	26.9%	24.4%	25.0%	25.4%	0.4 ppt	0.7 ppt	1.5 ppt

Source: CMBIGM estimates

Figure 2: Alphabet: CMBIGM estimates vs consensus

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	344.4	382.3	421.2	343.8	382.0	416.3	0.2%	0.1%	1.2%
Gross Profit	193.8	215.6	237.5	195.4	216.7	238.4	-0.8%	-0.5%	-0.4%
Operating Profit	98.1	113.5	128.8	101.5	114.5	122.2	-3.3%	-0.8%	5.5%
Net profit	85.3	98.6	113.1	84.8	97.4	110.4	0.6%	1.2%	2.4%
EPS (US\$)	6.9	7.9	9.1	6.9	7.9	9.1	0.0%	0.5%	0.1%
Gross Margin	56.3%	56.4%	56.4%	56.9%	56.7%	57.3%	-0.6 ppt	-0.3 ppt	-0.9 ppt
Operating Margin	28.5%	29.7%	30.6%	29.5%	30.0%	29.3%	-1.0 ppt	-0.3 ppt	1.2 ppt
Net margin	24.8%	25.8%	26.9%	24.7%	25.5%	26.5%	0.1 ppt	0.3 ppt	0.3 ppt

Source: CMBIGM estimates

Valuation

We value Alphabet at US\$185.5 per share based on 27x 2024E P/E. Our target PE multiple is a premium to the sector average (23x), reflecting Alphabet's leadership in global advertising market and its potential to leverage AI to revitalize its businesses.

Figure 3: Alphabet: target valuation

P/E valuation (US\$mn)	2024E
Net income	85,294
Target 2024E P/E	27
Target equity valuation	2,302,925
Valuation per share (US\$)	185.5

Source: Company data, CMBIGM estimates

Figure 4: Global online ad platforms: valuation comparison

Companies	Ticker	Price (LC)	PE(x)			PS (x)			EPS CAGR 24-26E
			2024E	2025E	2026E	2024E	2025E	2026E	
Global ads									
Alphabet	GOOGL US	156.0	22.9	18.7	17.2	6.8	5.7	5.2	14%
Meta	META US	441.4	21.0	18.3	15.9	7.1	6.3	5.6	23%
Pinterest	PINS US	32.6	26.4	20.4	15.5	6.2	5.3	4.6	26%
Snap	SNAP US	11.4	NA	35.8	25.9	3.6	3.1	2.8	80%
Average			23.4	23.3	18.6	5.9	5.1	4.5	
Global tech									
Microsoft	MSFT US	399.0	34.1	29.9	25.5	12.1	10.6	9.3	18%
NVIDIA	NVDA US	826.3	NA	33.2	27.5	34.8	18.4	15.4	109%
Amazon	AMZN US	173.7	33.6	27.5	23.2	2.8	2.5	2.3	25%
Tesla Inc	TSLA US	170.2	NA	NA	36.7	5.4	4.6	3.7	15%
Salesforce	CRM US	273.1	33.3	27.9	24.6	7.6	7.0	6.3	31%
Netflix Inc	NFLX US	564.8	30.9	25.5	21.3	6.3	5.6	5.1	29%
Adobe Inc	ADBE US	473.4	26.3	23.3	20.4	9.9	8.9	8.0	13%

Intuit Inc	INTU US	626.4	38.1	32.8	28.6	10.9	9.7	8.6	16%
Uber	UBER US	69.3	43.1	28.2	21.0	3.3	2.8	2.5	65%
ServiceNow	NOW US	716.3	NA	44.0	36.1	13.5	11.2	9.3	24%
Average			34.2	30.3	26.5	10.7	8.1	7.0	

Source: Bloomberg, CMBIGM

Note: data as of 25 Apr

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	257,637	282,836	307,394	344,412	382,313	421,159
Cost of goods sold	(110,939)	(126,203)	(133,332)	(150,570)	(166,725)	(183,652)
Gross profit	146,698	156,633	174,062	193,842	215,588	237,507
Operating expenses	(67,984)	(81,791)	(89,769)	(95,746)	(102,078)	(108,659)
Selling expense	(22,912)	(26,567)	(27,917)	(29,275)	(30,585)	(31,587)
Admin expense	(13,510)	(15,724)	(16,425)	(17,221)	(18,733)	(20,216)
R&D expense	(31,562)	(39,500)	(45,427)	(49,251)	(52,759)	(56,856)
Others	0	0	0	0	0	0
Operating profit	78,714	74,842	84,293	98,096	113,510	128,848
Other income/expense	12,020	(3,514)	1,424	3,444	3,823	4,212
Pre-tax profit	90,734	71,328	85,717	101,540	117,334	133,059
Income tax	(14,701)	(11,356)	(11,922)	(16,246)	(18,773)	(19,959)
After tax profit	76,033	59,972	73,795	85,294	98,560	113,100
Net profit	76,033	59,972	73,795	85,294	98,560	113,100
Adjusted net profit	91,409	79,334	96,255	109,402	125,322	142,581
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	188,143	164,795	171,530	215,621	284,758	381,157
Cash & equivalents	20,945	21,879	24,048	61,288	125,610	217,264
Account receivables	39,304	40,258	47,964	54,815	59,630	64,375
Inventories	1,170	2,670	0	0	0	0
Financial assets at FVTPL	118,704	91,883	86,868	86,868	86,868	86,868
Other current assets	8,020	8,105	12,650	12,650	12,650	12,650
Non-current assets	171,125	200,469	230,862	257,596	280,991	302,360
PP&E	97,599	112,668	134,345	161,079	184,474	205,843
Right-of-use assets	12,959	14,381	14,091	14,091	14,091	14,091
Deferred income tax	1,284	5,261	12,169	12,169	12,169	12,169
Investment in JVs & assos	29,549	30,492	31,008	31,008	31,008	31,008
Intangibles	1,417	2,084	2,084	2,084	2,084	2,084
Goodwill	22,956	28,960	29,198	29,198	29,198	29,198
Other non-current assets	5,361	6,623	7,967	7,967	7,967	7,967
Total assets	359,268	365,264	402,392	473,217	565,749	683,518
Current liabilities	64,254	69,300	81,814	92,440	99,013	105,690
Account payables	6,037	5,128	7,493	8,292	8,999	9,714
Tax payable	0	0	0	0	0	0
Other current liabilities	12,284	12,278	13,013	17,913	19,430	20,983
Accrued expenses	45,933	51,894	61,308	66,234	70,585	74,992
Non-current liabilities	43,379	39,820	37,199	37,199	37,199	37,199
Long-term borrowings	14,817	14,701	13,253	13,253	13,253	13,253
Obligations under finance leases	11,389	12,501	12,460	12,460	12,460	12,460
Deferred income	535	599	911	911	911	911
Other non-current liabilities	16,638	12,019	10,575	10,575	10,575	10,575
Total liabilities	107,633	109,120	119,013	129,639	136,212	142,889
Capital surplus	61,774	68,184	76,534	51,440	38,839	36,830
Retained earnings	191,484	195,563	211,247	296,541	395,101	508,201
Other reserves	(1,623)	(7,603)	(4,402)	(4,402)	(4,402)	(4,402)
Total shareholders equity	251,635	256,144	283,379	343,578	429,538	540,629
Total equity and liabilities	359,268	365,264	402,392	473,217	565,749	683,518

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	90,734	71,328	85,717	101,540	117,334	133,059
Depreciation & amortization	11,555	15,287	11,946	21,484	26,306	31,276
Tax paid	(14,701)	(11,356)	(11,922)	(16,246)	(18,773)	(19,959)
Change in working capital	(1,523)	(2,235)	(3,845)	3,775	1,758	1,932
Others	5,587	18,471	19,850	24,109	26,762	29,481
Net cash from operations	91,652	91,495	101,746	134,661	153,385	175,789
Investing						
Capital expenditure	(24,640)	(31,485)	(32,251)	(48,218)	(49,701)	(52,645)
Acquisition of subsidiaries/ investments	(2,618)	(6,969)	(495)	0	0	0
Others	(8,265)	18,156	5,683	0	0	0
Net cash from investing	(35,523)	(20,298)	(27,063)	(48,218)	(49,701)	(52,645)
Financing						
Net borrowings	(1,236)	(1,196)	(760)	0	0	0
Share repurchases	(50,274)	(59,296)	(61,504)	(49,203)	(39,363)	(31,490)
Others	(9,852)	(9,265)	(9,829)	0	0	0
Net cash from financing	(61,362)	(69,757)	(72,093)	(49,203)	(39,363)	(31,490)
Net change in cash						
Cash at the beginning of the year	26,465	20,945	21,879	24,048	61,288	125,610
Exchange difference	(287)	(506)	(421)	0	0	0
Cash at the end of the year	20,945	21,879	24,048	61,288	125,610	217,264
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	41.2%	9.8%	8.7%	12.0%	11.0%	10.2%
Gross profit	50.0%	6.8%	11.1%	11.4%	11.2%	10.2%
Operating profit	90.9%	(4.9%)	12.6%	16.4%	15.7%	13.5%
Net profit	88.8%	(21.1%)	23.0%	15.6%	15.6%	14.8%
Adj. net profit	71.6%	(13.2%)	21.3%	13.7%	14.6%	13.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	56.9%	55.4%	56.6%	56.3%	56.4%	56.4%
Operating margin	30.6%	26.5%	27.4%	28.5%	29.7%	30.6%
Adj. net profit margin	35.5%	28.0%	31.3%	31.8%	32.8%	33.9%
Return on equity (ROE)	32.1%	23.6%	27.4%	27.2%	25.5%	23.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.9	2.4	2.1	2.3	2.9	3.6
Receivable turnover days	55.7	52.0	57.0	58.1	56.9	55.8
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	1.4	34.4	27.0	23.0	19.9	17.3
P/E (diluted)	1.4	34.7	27.2	23.2	20.1	17.5
P/B	0.4	8.1	7.0	5.7	4.6	3.6

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

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