

Meta (META US)

Launch of the AI investment cycle

Meta reported 1Q24 results: total revenue grew by 27% YoY to US\$36.5bn, in line with consensus estimate of US\$36.2bn; net income was up 117% YoY to US\$12.4bn, also in line with consensus estimate (US\$12.2bn). For 2Q24, management guides total revenue to increase by 14-22% YoY to US\$36.5-39.0bn (vs. consensus estimate of US\$38.3bn), with growth rate normalizing as the base effect wanes. Looking ahead, Meta expects to start a multi-year investment cycle to build full-scale AI capabilities and enhance monetization. As a result, the company has raised FY24 capex/total expenses guidance to US\$35-40bn/US\$96-99bn (previous: US\$30-37bn/US\$94-99bn), and expects to further step up investment in FY25. Thus, we lower FY24-26 NPM forecast by 0-1ppt in view of the new investment cycle. We slightly lower our TP to US\$542.0 on 27x FY24 PE (previous: US\$547.6 on 28x FY24 PE). Maintain BUY.

- Solid ad revenue growth on strong user engagement.** Family of Apps ad revenue grew by 27% YoY to US\$35.6bn in 1Q24, mainly driven by strong demand from online commerce, gaming, and entertainment verticals. Total number of ad impressions grew by 20% YoY in 1Q24, as AI model and Reels continue to drive engagement. Video content currently represents over 60% of the time spent on both Facebook and Instagram, with Reels alone already accounting for c.50% of the time spent on Instagram. Meanwhile, the ad load of Reels remains low compared to Feed and Stories, and the company will continue to invest to address supply constraints of Reels ads. Looking ahead to 2Q24-4Q24, we expect ad revenue growth to gradually decelerate given the tougher comps (especially on the China-based ad revenue side).
- Expect a multi-year investment cycle for AI initiatives.** AI has driven Meta's user engagement and monetization efficiency: 1) on the engagement front, 30% of Facebook feeds are currently delivered by the AI recommendation system, which is up 2 times compared to a few years ago and driving better user engagement; 2) on the monetization front, via leveraging AI capability, Advantage+ Audience targeting saw an average 28% decrease in cost per objective vs. regular targeting; and revenue flowing through Advantage+ Shopping and Advantage+ Apps Campaigns has more than doubled since FY23. Management expects a multi-year investment cycle before the company fully scales up Meta AI and Business AI services. Once these new AI services reach a sufficiently large scale, management expect to monetize through business messaging, advertising, or paid content/services.
- Step-up investment may drag short-term efficiency gain.** NPM was up 14ppt YoY but down 1ppt QoQ to 33.9% in 1Q24. The QoQ NPM contraction was mainly due to the 3% QoQ headcount growth and accrual of legal expenses. We expect slower efficiency gains over FY24-26E as the company steps up AI investment. Nonetheless, we believe Meta is well-positioned to benefit from the AI development in the long term given its abundant use cases and AI-related resources. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	116,609	134,901	158,106	179,442	199,297
Net profit (US\$ mn)	23,200.0	39,098.0	51,511.2	59,098.1	67,194.5
YoY growth (%)	(41.1)	68.5	31.7	14.7	13.7
EPS (Adjusted) (US\$)	13.10	20.64	26.00	29.65	33.40
Consensus EPS (US\$)	8.63	15.19	20.03	23.31	27.60
P/S (x)	9.7	8.4	7.2	6.3	5.7
P/E (x)	51.1	29.1	22.1	19.2	16.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$542.00
(Previous TP)	US\$547.60
Up/Downside	22.8%
Current Price	US\$441.38

China Internet

Saiyi HE, CFA

(852) 3916 1739

hesaiyi@cmbi.com.hk

Wentao LU, CFA

luwentao@cmbi.com.hk

Ye TAO

franktao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	1,136,112.1
Avg 3 mths t/o (US\$ mn)	6,320.2
52w High/Low (US\$)	527.34/232.78
Total Issued Shares (mn)	2574.0

Source: FactSet

Shareholding Structure

Mark Zuckerberg	14.0%
The Vanguard Group	6.9%

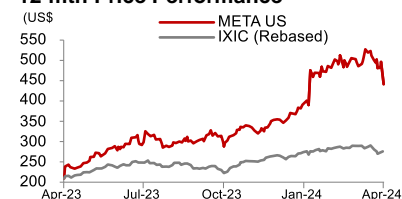
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-11.0%	-7.0%
3-mth	12.0%	10.9%
6-mth	53.1%	23.5%

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	158.1	179.4	199.3	153.1	168.8	182.7	3.3%	6.3%	9.1%
Gross profit	128.1	145.3	161.4	124.0	136.7	148.0	3.3%	6.3%	9.1%
Operating profit	59.8	69.0	78.2	58.6	66.2	73.4	1.9%	4.2%	6.6%
Net profit	51.5	59.1	67.2	50.2	56.7	63.0	2.6%	4.2%	6.6%
EPS (US\$)	20.0	23.0	26.1	19.5	22.0	24.5	2.6%	4.2%	6.6%
Gross margin	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	0.0 ppt	0.0 ppt	0.0 ppt
Operating margin	37.8%	38.5%	39.2%	38.3%	39.2%	40.1%	-0.5 ppt	-0.8 ppt	-0.9 ppt
Net margin	32.6%	32.9%	33.7%	32.8%	33.6%	34.5%	-0.2 ppt	-0.7 ppt	-0.8 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	158.1	179.4	199.3	158.3	178.1	200.0	-0.1%	0.8%	-0.3%
Gross profit	128.1	145.3	161.4	127.7	143.6	161.1	0.3%	1.2%	0.2%
Operating profit	59.8	69.0	78.2	63.1	73.2	84.1	-5.3%	-5.8%	-7.0%
Net profit	51.5	59.1	67.2	52.7	60.8	70.1	-2.3%	-2.7%	-4.1%
EPS (US\$)	20.0	23.0	26.1	20.0	23.3	27.6	-0.1%	-1.5%	-5.4%
Gross margin	81.0%	81.0%	81.0%	80.7%	80.6%	80.5%	0.3 ppt	0.4 ppt	0.5 ppt
Operating margin	37.8%	38.5%	39.2%	39.9%	41.1%	42.1%	-2.1 ppt	-2.7 ppt	-2.8 ppt
Net margin	32.6%	32.9%	33.7%	33.3%	34.1%	35.0%	-0.7 ppt	-1.2 ppt	-1.3 ppt

Source: CMBIGM estimates

Figure 3: Meta: quarterly financials

(US\$ mn)	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	Cons.	Diff%
Advertising	28,152	27,237	31,254	28,101	31,498	33,643	38,706	35,635		
YoY %	-1.5%	-3.7%	-4.2%	4.1%	11.9%	23.5%	23.8%	26.8%		
Others	670	477	911	544	501	503	1,405	820		
YoY %	34.8%	-35.0%	-11.7%	-40.2%	-25.2%	5.5%	54.2%	50.7%		
Total revenue	28,822	27,714	32,165	28,645	31,999	34,146	40,111	36,455	36,164	0.8%
YoY %	24.3%	21.1%	20.1%	21.7%	22.7%	25.0%	25.6%	0.0%		
Gross profit	23,630	21,998	23,829	22,537	26,054	27,936	32,416	29,815		
GPM	82.0%	79.4%	74.1%	78.7%	81.4%	81.8%	80.8%	81.8%		
Operating income	8,358	5,664	6,399	7,227	9,392	13,748	16,384	13,818		
YoY %	-32.4%	-45.7%	-49.2%	-15.2%	12.4%	142.7%	156.0%	91.2%		
OPM	29.0%	20.4%	19.9%	25.2%	29.4%	40.3%	40.8%	37.9%		
Net Income	6,687	4,395	4,652	5,709	7,788	11,583	14,017	12,369	12,163	1.7%
YoY %	-35.7%	-52.2%	-54.8%	-23.5%	16.5%	163.5%	201.3%	116.7%		
NPM	23.2%	15.9%	14.5%	19.9%	24.3%	33.9%	34.9%	33.9%		

Source: Company data, Bloomberg, CMBIGM

Valuation/Risks

Figure 4: Meta: target valuation

P/E valuation (US\$mn)	2024E
Net income	51,511
Target 2024E P/E	27
Target equity valuation	1,390,803
Valuation per share (US\$)	542.0

Source: Company data, CMBIGM estimates

We value Meta at US\$542.0 per share based on 27x 2024E P/E. Our target P/E multiple is a premium to the sector average (25x), reflecting Meta's strong leadership in global social media space and capability to further unleash operating leverage.

Risks: AI investment drags operating margin; slower-than-expected ad revenue growth; macro headwinds.

Figure 5: Global online ad platforms: valuation comparison

Company	Ticker	Price (LC)	PE(x)			PS (x)			EPS CAGR 24-26E
			2024E	2025E	2026E	2024E	2025E	2026E	
Global ads									
Alphabet	GOOGL US	159.1	23.3	19.0	17.5	6.9	5.9	5.3	14%
Meta	META US	493.5	23.7	20.6	17.8	7.9	7.0	6.3	23%
Pinterest	PINS US	32.9	26.5	20.6	15.6	6.2	5.3	4.6	26%
Snap	SNAP US	11.1	NA	36.2	25.1	3.5	3.1	2.7	80%
Average			24.5	24.1	19.0	6.1	5.3	4.7	
Global tech									
Microsoft	MSFT US	409.1	35.0	30.7	26.1	12.4	10.9	9.5	18%
NVIDIA	NVDA US	796.8	NA	32.0	26.6	33.6	17.8	14.9	109%
Amazon	AMZN US	176.6	35.0	28.6	24.5	2.9	2.6	2.3	24%
Tesla Inc	TSLA US	162.1	NA	46.7	34.2	5.1	4.3	3.5	16%
Salesforce	CRM US	276.2	33.7	28.3	24.9	7.7	7.0	6.4	31%
Netflix Inc	NFLX US	555.1	30.4	25.0	20.9	6.2	5.5	5.0	29%
Adobe Inc	ADBE US	477.1	26.5	23.5	20.6	10.0	8.9	8.0	13%
Intuit Inc	INTU US	635.5	38.7	33.3	29.0	11.1	9.9	8.8	16%
ServiceNow	NOW US	746.3	NA	46.4	37.6	14.1	11.7	9.7	24%
Average			33.2	32.7	27.1	11.4	8.7	7.6	

Source: Bloomberg, CMBIGM

Note: data as of 24 Apr

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	117,929	116,609	134,901	158,106	179,442	199,297
Cost of goods sold	(22,649)	(25,249)	(25,958)	(30,040)	(34,094)	(37,866)
Gross profit	95,280	91,360	108,943	128,066	145,348	161,431
Operating expenses	(48,527)	(62,415)	(62,192)	(68,302)	(76,334)	(83,213)
Selling expense	(14,043)	(15,261)	(12,301)	(12,649)	(14,068)	(15,312)
Admin expense	(9,829)	(11,816)	(11,408)	(12,965)	(14,714)	(16,143)
R&D expense	(24,655)	(35,338)	(38,483)	(42,689)	(47,552)	(51,758)
Operating profit	46,753	28,945	46,751	59,764	69,013	78,218
Net Interest income/(expense)	531	(126)	677	837	514	834
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	60,601	69,527	79,052
Income tax	(7,914)	(5,619)	(8,330)	(9,090)	(10,429)	(11,858)
After tax profit	39,370	23,200	39,098	51,511	59,098	67,194
Net profit	39,370	23,200	39,098	51,511	59,098	67,194
Adjusted net profit	48,534	35,192	53,125	66,916	76,315	85,963

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	66,666	59,549	85,365	101,475	149,556	210,544
Cash & equivalents	16,601	14,681	41,862	51,386	92,722	149,768
Account receivables	14,039	13,466	16,169	18,571	20,656	22,483
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	4,445	5,045	5,604
Non-current assets	99,321	126,178	144,258	159,618	171,062	178,773
PP&E	69,964	92,191	109,881	124,032	134,361	141,029
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	7,963	9,037	10,037
Total assets	165,987	185,727	229,623	261,093	320,618	389,318
Current liabilities	21,135	27,026	31,960	36,061	39,950	43,365
Account payables	4,083	4,990	4,849	5,499	6,117	6,658
Other current liabilities	1,613	1,117	863	1,011	1,148	1,275
Lease liabilities	1,127	1,367	1,623	1,623	1,623	1,623
Accrued expenses	14,312	19,552	24,625	27,928	31,062	33,809
Non-current liabilities	19,973	32,988	44,495	44,495	44,495	44,495
Obligations under finance leases	12,746	15,301	17,226	17,226	17,226	17,226
Other non-current liabilities	7,227	17,687	27,269	27,269	27,269	27,269
Total liabilities	41,108	60,014	76,455	80,556	84,445	87,860
Capital surplus	55,811	64,444	73,253	49,110	45,649	43,739
Retained earnings	69,761	64,799	82,070	133,581	192,679	259,874
Other reserves	(693)	(3,530)	(2,155)	(2,155)	(2,155)	(2,155)
Total shareholders equity	124,879	125,713	153,168	180,536	236,173	301,458
Total equity and liabilities	165,987	185,727	229,623	261,093	320,618	389,318

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	47,284	28,819	47,428	60,601	69,527	79,052
Depreciation & amortization	7,967	8,686	11,178	11,413	12,883	13,956
Tax paid	(7,914)	(5,619)	(8,330)	(9,090)	(10,429)	(11,858)
Change in working capital	887	5,683	6,175	1,047	1,204	1,030
Others	9,459	12,906	14,662	15,405	17,217	18,768
Net cash from operations	57,683	50,475	71,113	79,376	90,402	100,949
Investing						
Capital expenditure	(18,690)	(31,431)	(27,266)	(25,604)	(23,253)	(20,668)
Acquisition of subsidiaries/ investments	(851)	(1,312)	(629)	0	0	0
Others	11,971	3,773	3,400	(4,700)	(5,135)	(2,557)
Net cash from investing	(7,570)	(28,970)	(24,495)	(30,304)	(28,389)	(23,224)
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	51,386	92,722
Exchange difference	(360)	(1,289)	63	0	0	0
Cash at the end of the year	16,601	14,681	41,862	51,386	92,722	149,768
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	37.2%	(1.1%)	15.7%	17.2%	13.5%	11.1%
Gross profit	37.5%	(4.1%)	19.2%	17.6%	13.5%	11.1%
Operating profit	43.1%	(38.1%)	61.5%	27.8%	15.5%	13.3%
Net profit	35.1%	(41.1%)	68.5%	31.7%	14.7%	13.7%
Adj. net profit	36.0%	(27.5%)	51.0%	26.0%	14.0%	12.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	80.8%	78.3%	80.8%	81.0%	81.0%	81.0%
Operating margin	39.6%	24.8%	34.7%	37.8%	38.5%	39.2%
Adj. net profit margin	41.2%	30.2%	39.4%	42.3%	42.5%	43.1%
Return on equity (ROE)	31.1%	18.5%	28.0%	30.9%	28.4%	25.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	3.2	2.2	2.7	2.8	3.7	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	32.0	51.1	29.1	22.1	19.2	16.9
P/E (diluted)	32.1	51.4	29.7	22.5	19.6	17.3
P/B	10.1	9.4	7.4	6.3	4.8	3.8

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

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CMB International Global Markets Limited

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

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