

Alphabet (GOOG US)

3Q26 results: core search revenue growth decelerates; cloud business remains strong

Alphabet reported 3Q26 results. Total revenue grew by 25% YoY to US\$127.6bn, in line with Visible Alpha consensus. Operating income increased by 30% YoY to US\$40.6bn, but 7% below VA consensus, primarily due to greater-than-expected R&D expenses and costs related to TPU sales. Management attributed the deceleration in search revenue growth to foreign exchange headwinds and high-base effect, both of which should also persist in 4Q26. That said, the demand for AI cloud remains strong, with Google Cloud revenue up by 103% YoY in 3Q26. Overall, we lower our FY26E net income forecast by 5% but raise that for FY27-28E by 2-4% to reflect the strong cloud business. We roll forward our valuation window to FY27E and fine-tune our target price to US\$421.0 based on 27x FY27E PE (previous: US\$428.0 on 35x FY26E PE). Maintain BUY on the strong cloud momentum and full-stack AI strategy.

- Slower-than-expected search revenue growth.** Google Search & other revenue increased by 12% YoY to US\$63.4bn in 3Q26 (1Q26/2Q26: +19%/+17% YoY), 2% below consensus. The deceleration, as per management, was mainly due to foreign exchange headwinds, high-base effect, soft demand in certain verticals like APAC retail, and strong growth in AI mode queries which has a lower monetization level. AI continued to be a key driver of user queries and monetization efficiency: 1) YoY query growth in 3Q26 is the highest in last five years; 2) through innovations and personalization modelling, the company delivered 18% incremental advertiser value and an 8% increase in user sentiment on Discover ads in 2026; 3) Gemini models helped advertisers generate over 1.5bn campaign assets in 3Q26, up by over 7x YoY. To accelerate monetization of AI mode, the company announced the expansion of ads in AI mode into international markets and multi-turn ads in AI mode in the US.
- Strong cloud business supported by AI cloud and TPU sales.** Google Cloud revenue grew by 103% YoY to US\$30.7bn in 3Q26, 5% ahead of consensus, mainly driven by the strong demand for AI Infra & AI solutions, and the sales of TPU system. Management expects TPU system sales to further scale in 4Q26, followed by a meaningful revenue ramp-up in 2027. Google Cloud's backlog grew by around US\$50bn QoQ to US\$561bn in 3Q26, and management expects to recognize over 55% of the total backlog as revenue over the next 24 months. Google Cloud OPM expanded by 13ppts YoY to 36.2% in 3Q26, but we expect margin pressure in the coming quarters due to the third-party cloud capacity expansion and TPU system sales.
- Increasing capex pressure on cash flow.** Free cash flow was negative US\$9.1bn in 3Q26, primarily due to the increase in capex and the inventory build to TPU systems. Management maintains FY26 total capex guidance at US\$195-205bn (+113%-124% YoY), and continues to expect FY27 capex to increase significantly.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US\$ mn)	350,018	402,836	500,468	653,600	791,443
Net profit (US\$ mn)	100,118.0	132,170.0	241,496.0	191,075.0	218,404.8
EPS (Reported) (US\$)	8.13	10.91	19.70	15.59	17.82
Consensus EPS (US\$)	8.13	10.91	20.78	15.44	18.39
P/E (x)	39.6	29.5	16.3	20.6	18.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$421.00
 (Previous TP) US\$428.00
Up/Downside 30.8%
Current Price US\$321.89

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Stock Data

Mkt Cap (US\$ mn)	3,945,083.8
Avg 3 mths t/o (US\$ mn)	1,887.3
52w High/Low (US\$)	399.04/273.14
Total Issued Shares (mn)	12256.0

Source: FactSet

Shareholding Structure

BlackRock	3.4%
The Vanguard Group	2.9%

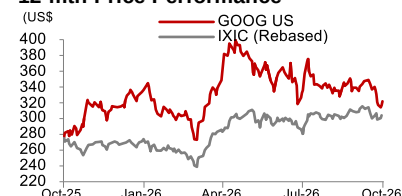
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-4.6%	-3.7%
3-mth	-4.1%	-11.7%
6-mth	-7.3%	-13.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Alphabet: forecast revision

US\$ bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	500.5	653.6	791.4	494.0	625.4	710.1	1.3%	4.5%	11.5%
Gross profit	305.1	396.1	461.0	304.0	381.6	436.5	0.3%	3.8%	5.6%
Operating profit	166.1	220.9	252.1	169.8	213.4	247.0	-2.2%	3.6%	2.1%
Net profit	241.5	191.1	218.4	254.3	184.5	213.4	-5.0%	3.6%	2.3%
EPS (US\$)	19.7	15.6	17.8	21.0	15.2	17.6	-5.9%	2.7%	1.5%
Gross margin	61.0%	60.6%	58.3%	61.2%	61.5%	62.1%	-0.2 ppt	-0.9 ppt	-3.8 ppt
Operating margin	33.2%	33.8%	31.9%	34.3%	34.9%	35.6%	-1.1 ppt	-1.1 ppt	-3.7 ppt
Net margin	48.3%	29.2%	27.6%	36.4%	30.2%	30.3%	11.9 ppt	-1.0 ppt	-2.7 ppt

Source: CMBIGM estimates

Note: FY26E net income includes unrealized gain on equity securities of US\$105.8bn.

Figure 2: Alphabet: CMBIGM estimates vs consensus

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	500.5	653.6	791.4	500.0	625.9	757.6	0.1%	4.4%	4.5%
Gross profit	305.1	396.1	461.0	308.2	387.1	467.1	-1.0%	2.3%	-1.3%
Operating profit	166.1	220.9	252.1	172.6	222.4	273.0	-3.7%	-0.7%	-7.7%
Net profit	241.5	191.1	218.4	250.7	188.7	229.0	-3.7%	1.3%	-4.6%
EPS (US\$)	19.7	15.6	17.8	20.8	15.4	18.4	-5.2%	1.0%	-3.1%
Gross margin	61.0%	60.6%	58.3%	61.6%	61.9%	61.7%	-0.7 ppt	-1.2 ppt	-3.4 ppt
Operating margin	33.2%	33.8%	31.9%	34.5%	35.5%	36.0%	-1.3 ppt	-1.7 ppt	-4.2 ppt
Net margin	48.3%	29.2%	27.6%	50.1%	30.1%	30.2%	-1.9 ppt	-0.9 ppt	-2.6 ppt

Source: CMBIGM estimates, Visible Alpha

Valuation

We value Alphabet at US\$421.0 per share based on 27x 2027E P/E. Our target PE multiple is a premium to the sector average (14x), which mainly reflects Google's competitive edge in the search, enterprise AI and cloud markets.

Figure 3: Alphabet: target valuation

P/E valuation (US\$mn)	2027E
Net income	191,075
Target 2027E P/E	27
Target equity valuation	5,159,024
Valuation per share (US\$)	421.0

Source: Company data, CMBIGM estimates

Figure 4: Global online ad platforms: valuation comparison

Companies	Ticker	Price (LC)	PE (x)		PS (x)		EPS CAGR 25-27E
			2026E	2027E	2026E	2027E	
Global ads							
Alphabet	GOOG US	321.9	28.3	20.8	7.9	6.2	17%
Meta	META US	612.5	21.2	18.1	6.1	5.0	2%
Pinterest	PINS US	20.9	10.1	8.7	2.4	2.1	22%
Snap	SNAP US	6.0	9.3	7.4	1.5	1.3	51%
Average			17.2	13.8	4.5	3.7	
Global tech							
Microsoft	MSFT US	531.0	30.6	26.7	11.9	10.1	18%
Amazon	AMZN US	254.6	17.9	19.9	3.3	2.9	18%
Netflix Inc	NFLX US	62.0	17.6	16.4	5.0	4.5	19%
Uber	UBER US	65.3	19.2	14.7	2.3	2.0	33%
Average			21.3	19.4	5.6	4.9	

Source: Visible Alpha, CMBIGM

Note: data as of 28 Oct

Risks

Cash flow and margin deterioration due to AI investment; macro uncertainty impacts ad budget; and intensifying competition in the LLM sector.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US\$ mn)						
Revenue	307,394	350,018	402,836	500,468	653,600	791,443
Cost of goods sold	(133,332)	(146,306)	(162,535)	(195,386)	(257,501)	(330,411)
Gross profit	174,062	203,712	240,301	305,081	396,099	461,032
Operating expenses	(89,769)	(91,322)	(111,262)	(138,978)	(175,165)	(208,941)
Selling expense	(27,917)	(27,808)	(28,693)	(35,123)	(42,484)	(47,487)
Admin expense	(16,425)	(14,188)	(21,482)	(22,904)	(24,837)	(26,909)
R&D expense	(45,427)	(49,326)	(61,087)	(80,951)	(107,844)	(134,545)
Others	0	0	0	0	0	0
Operating profit	84,293	112,390	129,039	166,103	220,934	252,091
Other income/expense	1,424	7,425	29,787	130,342	6,536	7,914
Pre-tax profit	85,717	119,815	158,826	296,445	227,470	260,006
Income tax	(11,922)	(19,697)	(26,656)	(54,949)	(36,395)	(41,601)
After tax profit	73,795	100,118	132,170	241,496	191,075	218,405
Net profit	73,795	100,118	132,170	241,496	191,075	218,405
Adjusted net profit	96,255	122,903	158,393	274,075	233,622	269,925

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US\$ mn)						
Current assets	171,530	163,711	206,038	411,986	398,228	387,999
Cash & equivalents	24,048	23,466	30,708	110,348	75,163	46,641
Account receivables	47,964	52,340	62,886	76,565	97,992	116,285
Inventories	0	0	0	0	0	0
Financial assets at FVTPL	86,868	72,191	96,135	208,764	208,764	208,764
Other current assets	12,650	15,714	16,309	16,309	16,309	16,309
Non-current assets	230,862	286,545	389,243	563,935	845,614	1,170,071
PP&E	134,345	171,036	246,597	421,289	702,968	1,027,425
Right-of-use assets	14,091	13,588	15,221	15,221	15,221	15,221
Deferred income tax	12,169	17,180	9,113	9,113	9,113	9,113
Investment in JVs & assos	31,008	37,982	68,687	68,687	68,687	68,687
Intangibles	2,084	2,084	2,084	2,084	2,084	2,084
Goodwill	29,198	31,885	33,380	33,380	33,380	33,380
Other non-current assets	7,967	12,790	14,161	14,161	14,161	14,161
Total assets	402,392	450,256	595,281	975,921	1,243,842	1,558,069
Current liabilities	81,814	89,122	102,745	117,174	130,164	156,269
Account payables	7,493	7,987	12,200	14,373	18,563	23,342
Tax payable	0	0	0	0	0	0
Other current liabilities	13,013	14,838	17,442	19,805	23,507	26,667
Accrued expenses	61,308	66,297	73,103	82,996	88,094	106,259
Non-current liabilities	37,199	36,050	77,271	128,889	158,339	183,861
Long-term borrowings	13,253	10,883	46,547	98,165	127,615	153,137
Obligations under finance leases	12,460	11,691	12,744	12,744	12,744	12,744
Deferred income	911	911	911	911	911	911
Other non-current liabilities	10,575	12,565	17,069	17,069	17,069	17,069
Total liabilities	119,013	125,172	180,016	246,063	288,502	340,130
Capital surplus	76,534	84,800	93,126	175,267	217,814	269,334
Retained earnings	211,247	245,084	324,055	556,507	739,442	950,521
Other reserves	(4,402)	(4,800)	(1,916)	(1,916)	(1,916)	(1,916)
Total shareholders equity	283,379	325,084	415,265	729,858	955,340	1,217,939
Total equity and liabilities	402,392	450,256	595,281	975,921	1,243,842	1,558,069

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	85,717	119,815	158,826	296,445	227,470	260,006
Depreciation & amortization	11,946	15,311	21,136	30,500	45,121	71,265
Tax paid	(11,922)	(19,697)	(26,656)	(54,949)	(36,395)	(41,601)
Change in working capital	(3,845)	(8,406)	618	750	(8,437)	7,812
Others	19,850	18,276	10,789	(80,050)	42,547	51,520
Net cash from operations	101,746	125,299	164,713	192,696	270,306	349,002
Investing						
Capital expenditure	(32,251)	(52,535)	(91,447)	(205,192)	(326,800)	(395,722)
Acquisition of subsidiaries/ investments	(495)	(2,931)	(1,592)	0	0	0
Others	5,683	9,930	(27,252)	0	0	0
Net cash from investing	(27,063)	(45,536)	(120,291)	(205,192)	(326,800)	(395,722)
Financing						
Net borrowings	(760)	888	32,137	51,618	29,450	25,523
Proceeds from share issues	na	na	na	49,562	0	0
Share repurchases	(61,504)	(62,222)	(45,709)	0	0	0
Others	(9,829)	(18,399)	(23,816)	(9,044)	(8,140)	(7,326)
Net cash from financing	(72,093)	(79,733)	(37,388)	92,136	21,310	18,197
Net change in cash						
Cash at the beginning of the year	21,879	24,048	23,466	30,708	110,348	75,163
Exchange difference	(421)	(612)	208	0	0	0
Cash at the end of the year	24,048	23,466	30,708	110,348	75,163	46,641
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	8.7%	13.9%	15.1%	24.2%	30.6%	21.1%
Gross profit	11.1%	17.0%	18.0%	27.0%	29.8%	16.4%
Operating profit	12.6%	33.3%	14.8%	28.7%	33.0%	14.1%
Net profit	23.0%	35.7%	32.0%	82.7%	(20.9%)	14.3%
Adj. net profit	21.3%	27.7%	28.9%	73.0%	(14.8%)	15.5%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	56.6%	58.2%	59.7%	61.0%	60.6%	58.3%
Operating margin	27.4%	32.1%	32.0%	33.2%	33.8%	31.9%
Adj. net profit margin	31.3%	35.1%	39.3%	54.8%	35.7%	34.1%
Return on equity (ROE)	27.4%	32.9%	35.7%	42.2%	22.7%	20.1%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	2.1	1.8	2.0	3.5	3.1	2.5
Receivable turnover days	57.0	54.6	57.0	55.8	54.7	53.6
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	55.1	39.6	29.5	16.3	20.6	18.1
P/E (diluted)	55.5	40.0	29.8	16.5	20.8	18.2
P/B	14.3	12.2	9.4	5.4	4.1	3.2

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

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