Palo Alto Networks (PANW US)

Network security drives beat-and-raise results

BUY (Maintain)

Target Price	**US$404.00**
(Previous TP	US$389.00)
Up/Downside	**18.9%**
Current Price	**US$339.92**

Palo Alto Networks (PANW) announced 1QFY27 (Jul year-end) results: revenue rose 39% YoY to US$3.44bn, 4% ahead of Bloomberg consensus; non-GAAP net income reached US$881mn, up 33% YoY and 8% above consensus. Net new NGS ARR more than doubled YoY, bringing NGS ARR to US$9.73bn (+66% YoY). Management attributed most of the beat to core network security, as AI-enabled attacks and a surge in vulnerabilities push enterprises to inspect more traffic and consolidate vendors. Management raised FY27 revenue guidance to US$14.52bn-14.57bn (from US$14.10bn-14.20bn), a US$395mn uplift at the midpoint, nearly three times of the 1Q beat versus guidance. With the threat environment likely to stay elevated over the next 12-18 months, we see room for further upward revisions. We lift our FY27-29E revenue forecasts by 3-6% and non-GAAP net profit by 2-5%, and raise our TP to US$404.0 (from US$389.0), based on an unchanged 22.7x FY27E EV/sales. We stay positive on cybersecurity software as AI expands the surface to secure, with PANW being a key beneficiary. Maintain BUY.

- **Network security led the beat.** Network & AI Security revenue grew 20% YoY to c.US$2.3bn, accelerating from 4QFY26. Management noted network security was the largest source of the NGS ARR beat, led by firewall-attached Cloud-Delivered Security Services (CDSS) subscriptions, software firewalls and Prisma AIRS. Firewall bookings rose 28% YoY on a TTM basis; software firewall ARR grew 34% YoY, accelerating for a third quarter, with Prisma AIRS at c.US$170mn ARR five quarters after General Availability (GA). SASE ARR grew 30% YoY. Product revenue rose 37% YoY to US$595mn (11% above consensus), helped by purchases ahead of component-driven price increases, neocloud build-outs and vendor consolidation. A record c.170 net new platformizations in a seasonally soft 1Q show demand broadening beyond single products.
- **Demand tailwinds support further raises.** Critical and severe vulnerabilities are being found at nearly 7x last year's monthly average, per management, and it expects heavy patching for at least 18 months, driving demand for virtual patching across c.70,000 network security customers and for vendor consolidation; it expects cyber budgets to rise over the next two years. 2QFY27 guidance calls for revenue of US$3.53bn-3.55bn (+36-37% YoY, 3-4% above consensus) and non-GAAP EPS of US$1.01-1.03. Management raised FY27 NGS ARR guidance to US$11.475bn-11.525bn and non-GAAP EPS to US$4.26-4.30 (from US$4.16-4.19), with non-GAAP OPM of 29.5% and adjusted FCF margin of 38% kept despite higher component costs. We still see upside to the new outlook, driven by strong industry demand and PANW's industry-leading position amid the backdrop of platformization trend.
- **Upbeat on sector; TP raised to US$404.0.** AI adoption expands what needs securing: agentic traffic on PANW's SASE rose c.9x YoY, and Prisma AIRS is priced on inspected tokens. The US$4.5bn all-stock Applied Compute deal (expected to close in 3QFY27) targets over US$1bn of incremental NGS ARR by FY29. Our TP of US$404.0 is based on an unchanged 22.7x FY27E EV/sales, and the increase in TP mainly reflects our higher revenue forecast.

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Stock Data

Mkt Cap (US$ mn)	286,931.4
Avg 3 mths t/o (US$ mn)	1,146.8
52w High/Low (US$)	419.91/141.67
Total Issued Shares (mn)	844.1

Source: FactSet

Shareholding Structure

Blackrock Inc.	7.8%
Vanguard Group Inc	6.3%

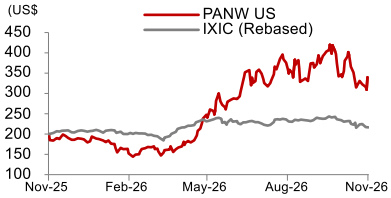
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-2.0%	6.0%
3-mth	-5.5%	1.8%
6-mth	41.6%	49.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Jul)	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (US$ mn)	9,222	11,480	14,557	16,282	18,213
YoY growth (%)	14.9	24.5	26.8	11.8	11.9
Net profit (US$ mn)	1,133.9	307.0	1,452.6	1,727.1	2,382.8
Adjusted net profit (US$ mn)	2,344.5	2,931.0	3,609.1	4,163.3	4,816.5
YoY growth (%)	20.3	25.0	23.1	15.4	15.7
EPS (Adjusted) (US$)	3.31	3.83	4.28	4.88	5.63
Consensus EPS (US$)	3.34	3.84	4.18	4.87	5.69

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PANW: quarterly results trend

(USDmn)	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27	1QFY27 consensus	Diff%
Revenue	**2,474**	**2,594**	**3,002**	**3,410**	**3,445**	**3,306**	**4.2%**
Growth - YoY	*15.7%*	*14.9%*	*31.1%*	*34.4%*	*39.2%*		
Product revenue	**434**	**514**	**594**	**738**	**595**	**537**	**10.8%**
Growth - YoY	*22.7%*	*21.9%*	*31.2%*	*28.6%*	*37.1%*		
Subscription and support revenue	**2,040**	**2,080**	**2,408**	**2,672**	**2,850**	**2,756**	**3.4%**
Growth - YoY	*14.3%*	*13.3%*	*31.1%*	*36.2%*	*39.7%*		
Subscription revenue as % of total revenue	*82.5%*	*80.2%*	*80.2%*	*78.4%*	*82.7%*		
Gross profit	**1,902.0**	**1,975.0**	**2,276.0**	**2,552.0**	**2,589.0**	**2,497.7**	**3.7%**
GAAP R&D expenses	528.0	511.0	734.0	779.0	798.0		
GAAP S&M expenses	820.0	823.0	1,161.0	1,127.0	1,167.0		
GAAP G&A expenses	179.0	178.0	316.0	226.0	281.0		
Operating profit - GAAP	**309.0**	**397.0**	**(183.0)**	**172.0**	**96.0**		
Net profit - GAAP	**334.0**	**432.0**	**(177.0)**	**(282.0)**	**482.0**	**323.5**	**49.0%**
Operating profit - non-GAAP	**746.0**	**785.0**	**814.0**	**1,011.0**	**1,059.0**	**969.6**	**9.2%**
Net profit - non-GAAP	**662.0**	**732.0**	**684.0**	**853.0**	**881.0**	**818.2**	**7.7%**
Growth - YoY	*21.5%*	*29.4%*	*21.9%*	*26.7%*	*33.1%*		
Margins							
GPM	76.9%	76.1%	75.8%	74.8%	75.2%	75.6%	-0.4 ppt
R&D expenses ratio	21.3%	19.7%	24.5%	22.8%	23.2%		
S&M expenses ratio	33.1%	31.7%	38.7%	33.0%	33.9%		
G&A expenses ratio	7.2%	6.9%	10.5%	6.6%	8.2%		
OPM	12.5%	15.3%	-6.1%	5.0%	2.8%		
NPM	13.5%	16.7%	-5.9%	-8.3%	14.0%	9.8%	4.2 ppt
Non-GAAP OPM	30.2%	30.3%	27.1%	29.6%	30.7%	29.3%	1.4 ppt
Non-GAAP NPM	26.8%	28.2%	22.8%	25.0%	25.6%	24.7%	0.8 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 2: PANW: changes in CMBI forecast

	Current			Previous			Change (%)		
USD mn	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	14,557.1	16,281.5	18,212.7	14,197.7	15,642.5	17,205.9	2.5%	4.1%	5.9%
Gross profit	9,894.2	11,185.4	12,624.0	10,013.6	11,404.1	12,573.5	-1.2%	-1.9%	0.4%
Non-GAAP net profit	3,609.1	4,163.3	4,816.5	3,526.5	4,012.4	4,571.2	2.3%	3.8%	5.4%
Gross margin	68.0%	68.7%	69.3%	70.5%	72.9%	73.1%	-2.6 ppt	-4.2 ppt	-3.8 ppt
Non-GAAP net margin	24.8%	25.6%	26.4%	24.8%	25.7%	26.6%	0.0 ppt	-0.1 ppt	-0.1 ppt

Source: CMBIGM estimates

Figure 3: PANW: target valuation

EV/S Valuation (US$mn)	FY27E
FY27E revenue	14,557
Target EV/Sales	22.7x
Enterprise value	330,446
+ net cash	10,794
Equity value	341,240
No. of shares outstanding (diluted; mn)	844
Target price (USD)	**404.0**

Source: Company data, CMBIGM estimates

Risks

1) Slower-than-expected margin expansion owing to intensified market competition; 2) slower-than-expected NGS ARR growth owing to slower-than-expected customer acquisition and ramp-up in cross-selling and platformization.

Financial Summary

INCOME STATEMENT	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul (US$ mn)						
Revenue	**8,028**	**9,222**	**11,480**	**14,557**	**16,282**	**18,213**
Cost of goods sold	(2,059)	(2,452)	(3,403)	(4,663)	(5,096)	(5,589)
Gross profit	**5,968**	**6,770**	**8,077**	**9,894**	**11,185**	**12,624**
Operating expenses	**(5,284)**	**(5,527)**	**(7,382)**	**(8,942)**	**(9,657)**	**(10,516)**
Selling expense	(2,795)	(3,100)	(3,931)	(4,817)	(5,313)	(5,878)
Admin expense	(681)	(443)	(899)	(954)	(971)	(1,034)
R&D expense	(1,809)	(1,984)	(2,552)	(3,171)	(3,372)	(3,604)
Operating profit	**684**	**1,243**	**695**	**952**	**1,529**	**2,108**
Other income	313	356	(159)	203	518	754
Interest expense	(8)	(3)	0	(8)	(11)	(11)
Pre-tax profit	**988**	**1,596**	**536**	**1,147**	**2,036**	**2,852**
Income tax	1,589	(462)	(229)	306	(309)	(469)
Others	0	0	0	0	0	0
Net profit	**2,578**	**1,134**	**307**	**1,453**	**1,727**	**2,383**
Adjusted net profit	**1,948**	**2,345**	**2,931**	**3,609**	**4,163**	**4,817**

BALANCE SHEET	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul (US$ mn)						
Current assets	**6,850**	**7,523**	**8,643**	**12,524**	**19,700**	**27,709**
Cash & equivalents	1,535	2,269	2,514	6,183	12,649	19,889
Account receivables	2,619	2,965	3,629	4,121	4,618	5,158
Other current assets	2,696	2,289	2,500	2,220	2,432	2,663
Non-current assets	**13,141**	**16,053**	**39,817**	**41,119**	**40,056**	**38,975**
PP&E	361	387	523	785	753	693
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	4,173	5,556	4,835	6,080	6,080	6,080
Intangibles	375	763	7,017	6,023	4,895	3,767
Goodwill	3,350	4,567	22,010	22,559	22,559	22,559
Other non-current assets	4,882	4,781	5,432	5,672	5,770	5,876
Total assets	**19,991**	**23,576**	**48,460**	**53,642**	**59,756**	**66,684**
Current liabilities	**7,683**	**7,988**	**9,923**	**12,743**	**13,942**	**15,226**
Account payables	116	232	290	353	395	441
Other current liabilities	6,505	6,302	7,747	10,386	11,530	12,731
Accrued expenses	1,061	1,454	1,886	2,004	2,016	2,054
Non-current liabilities	**7,139**	**7,764**	**11,045**	**9,734**	**10,749**	**11,814**
Long-term borrowings	0	0	1,774	0	0	0
Other non-current liabilities	7,139	7,764	9,271	9,734	10,749	11,814
Total liabilities	**14,821**	**15,752**	**20,968**	**22,477**	**24,690**	**27,040**
Retained earnings	1,350	2,484	2,791	4,244	5,971	8,354
Other reserves	3,820	5,340	24,701	26,922	29,095	31,291
Total shareholders equity	**5,170**	**7,824**	**27,492**	**31,166**	**35,066**	**39,644**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**19,991**	**23,576**	**48,460**	**53,642**	**59,756**	**66,684**

CASH FLOW	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul (US$ mn)						
Operating						
Profit before taxation	**988**	**1,596**	**536**	**1,147**	**2,036**	**2,852**
Depreciation & amortization	283	343	855	1,388	1,388	1,388
Tax paid	1,589	(462)	(229)	306	(309)	(469)
Change in working capital	910	923	579	894	1,406	1,474
Others	(513)	1,316	2,812	2,161	2,173	2,195
Net cash from operations	**3,258**	**3,716**	**4,553**	**5,896**	**6,694**	**7,440**
Investing						
Capital expenditure	(157)	(246)	(440)	(465)	(228)	(200)
Others	(1,353)	(1,959)	(2,664)	(1,813)	0	0
Net cash from investing	**(1,510)**	**(2,205)**	**(3,104)**	**(2,278)**	**(228)**	**(200)**
Financing						
Share repurchases	(567)	0	(1,000)	0	0	0
Others	(776)	(779)	(202)	50	0	0
Net cash from financing	**(1,343)**	**(779)**	**(1,202)**	**50**	**0**	**0**
Net change in cash						
Cash at the beginning of the year	1,135	1,535	2,269	2,514	6,183	12,649
Exchange difference	0	0	0	1	0	0
Others	(5)	1	(3)	0	0	0
Cash at the end of the year	**1,535**	**2,269**	**2,514**	**6,183**	**12,649**	**19,889**

GROWTH	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul						
Revenue	16.5%	14.9%	24.5%	26.8%	11.8%	11.9%
Gross profit	19.8%	13.4%	19.3%	22.5%	13.1%	12.9%
Operating profit	76.6%	81.7%	(44.1%)	37.0%	60.6%	37.9%
Net profit	486.2%	(56.0%)	(72.9%)	373.2%	18.9%	38.0%
Adj. net profit	35.3%	20.3%	25.0%	23.1%	15.4%	15.7%

PROFITABILITY	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul						
Gross profit margin	74.3%	73.4%	70.4%	68.0%	68.7%	69.3%
Operating margin	8.5%	13.5%	6.1%	6.5%	9.4%	11.6%
Adj. net profit margin	24.3%	25.4%	25.5%	24.8%	25.6%	26.4%
Return on equity (ROE)	74.5%	17.5%	1.7%	5.0%	5.2%	6.4%

GEARING/LIQUIDITY/ACTIVITIES	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul						
Current ratio (x)	0.9	0.9	0.9	1.0	1.4	1.8
Receivable turnover days	117.4	115.8	113.8	101.9	0.0	0.0
Payable turnover days	23.2	38.3	37.6	34.2	0.0	0.0

VALUATION	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul						
P/E	45.3	212.6	846.8	197.5	167.8	122.1
P/E (diluted)	45.3	212.6	846.8	197.5	167.8	122.1
P/B	22.6	30.8	9.5	9.2	8.3	7.3
P/CFPS	37.7	69.5	63.2	52.8	44.8	40.2

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

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