Datadog (DDOG US)

Observability pioneer with solid revenue growth trajectory; initiate at BUY

Datadog is a modern observability and security tools provider, starting with infrastructure monitoring and expanding to Application Performance Monitor (APM), Log Management, Network Performance Monitoring (NPM), Real User Monitoring (RUM), User Experience (UX), and cloud security on the unified platform. Riding on the tide of cloud migration and leveraging its superior full observability capability, Datadog has sustained solid revenue growth and established a strong customer mindset. Compared to some of the incumbent industry peers, Datadog's product is cloud-native and has the fullest technology stack integration, which in our view better suits the modern hybrid multi-cloud/local environments. We believe Datadog is well-positioned to benefit from the long-term cloud migration trend and AI wave. On a 2023-26E revenue CAGR of 24%, we estimate non-GAAP net income CAGR of 27%. Our TP of US$154.3 is based on 16.1x 2025E EV/Sales, inline with its two-year average plus one s.d. We see catalysts from: 1) increase in ARR from AI-native customers; 2) better-than-expected FCF growth aided by solid revenue growth and unleashing of operating leverage. Initiate at BUY.

- **Riding on the secular tailwinds of digital transformation and cloud migration.** According to Gartner, 65.9% of spending on application software will be directed towards cloud technologies in 2025, up from 57.7% in 2022. Datadog has established strong leadership in the cloud observability sector, the TAM of which is expected to have reached US$51bn in 2023 and is expected to achieve a CAGR of 11% over 2023-2027E, based on the same source. For the cloud security market that Datadog has currently operated in, per Gartner, the market reached US$21bn as of 2023, and is expected to achieve a CAGR of 16% over 2023-2027E.

- **Platform strategy maximizing client potential and forming competitive edge.** Datadog is one of the first companies to combine monitoring capabilities with infrastructure, applications, log management, security functions and so on in one solution to realize full-stack observability. It has more advanced ability to meet enterprises' needs for holistic and integrated IT operations and security solutions, in our view, and this has resulted in high stickiness of enterprise customers. By the end of 2023, Datadog's platform had over 27,300 customers, up 18% YoY. The number of large customers with an ARR of US$100,000+ reached 3,190 during the same period, contributing 86% of the company's total ARR. As of 3Q24, c. 83% and 49% of customers used more than 2 and 4 products of the company respectively, up 1ppts and 3ppts respectively YoY.

- **Product-led growth model to deliver quality growth.** Under Datadog's product-led growth business model, the company's S&M expense ratio is lower than that of peers, in tandem with continuously enhanced customer connection, cost optimization and solid topline growth aided by cross-selling. Datadog's S&M expense ratio declined from 38.9% in 2019 to 23.5% in 2023. We expect its solid revenue growth will drive the unleashing of operating leverage and OPM expansion. We expect non-GAAP OPM to expand from 23.0% in 2023 to 25.8% in 2026E, with non-GAAP operating income to achieve a CAGR of 29% over 2023-26E.

BUY (Initiate)

Target Price	**US$154.30**
Up/Downside	**20.1%**
Current Price	**US$128.45**

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Stock Data

Mkt Cap (US$ mn)	46,057.8
Avg 3 mths t/o (US$ mn)	315.2
52w High/Low (US$)	136.15/104.97
Total Issued Shares (mn)	358.6

Source: FactSet

Shareholding Structure

Vanguard Group Inc	9.2%
Blackrock Inc.	6.8%

Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-0.5%	-4.5%
3-mth	12.5%	0.3%
6-mth	10.0%	-5.8%

Source: FactSet

12-mth Price Performance
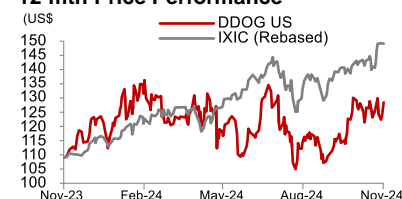
Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US$ mn)	1,675	2,128	2,660	3,281	4,046
YoY growth (%)	62.8	27.1	25.0	23.3	23.3
Gross margin (%)	79.3	80.7	80.8	80.8	81.0
Net profit (US$ mn)	(50.2)	48.6	182.0	269.3	342.9
Adjusted net profit (US$ mn)	276.7	464.0	631.8	770.6	958.9
YoY growth (%)	65.9	67.7	36.2	22.0	24.4
EPS (Adjusted) (US$)	0.80	1.33	1.76	2.07	2.47
Consensus EPS (US$)	na	na	1.77	2.05	2.57

Source: Company data, Bloomberg, CMBIGM estimates

Contents

Investment Thesis

Riding on secular tailwinds of digital transformation and cloud migration

Datadog is a leading cloud-native observability and security company for developers, IT operations and business-related professionals to monitor their infrastructure, applications and other virtual instances in real time. We believe Datadog is well-positioned to benefit from the secular tailwinds of digital transformation and cloud migration. Per Gartner, 65.9% of spending on application software will be directed toward cloud technologies in 2025, up from 57.7% in 2022. Both the geometrically increase of data usage in multi-cloud hybrid environments and the dramatically increased monitoring complexity will raise the demand for full-stack observability tools, in our view. Datadog has established strong leadership in the cloud observability market (Datadog was recognized as a leader continuously by Gartner), the TAM of which is expected to have reached US$51bn as of 2023 and achieve a CAGR of 11% over 2023-2027E, per Gartner. For the cloud security market that Datadog has currently entered, according to Gartner, the market is expected to have reached US$21bn as of 2023, and is expected to achieve a CAGR of 16% over 2023-2027E.

Platform strategy maiximizing client potential and honing competitive edge

The needs of enterprises have been gradually shifting from single function monitoring products to holistic and unified IT operations and securing solutions, in our view. Datadog is one of the first companies to combine monitoring capabilities with infrastructure, applications, log management and security functions in one solution to realize full observability. The company continues to introduce and integrate new functions to drive high quality growth. Datadog also deployed its products to newer cloud computing architectures such as Serverless and Docker Container earlier than peers to provide efficient solutions to customers under a modern hybrid cloud environment. Also, Datadog supports more than peers' level of 800+ built-in integrations to see across the system, apps and services. It is one of the industry-leading players to launch multiple AI tools and actively integrate major AI applications and servers.

Datadog's platform strategy is well received by customers, which in our view is evidenced by the high gross revenue retention rate of mid- to high-90s. By the end of 2023, the company had over 27,300 customers, up 18% YoY. During the same period, the number of large customers with an ARR of US$100,000+ reached 3,190, and those large customers contributed 86% of the company's total ARR. As of 3Q24, c. 83% and 49% of customers used more than 2 and 4 products of the company respectively, up 1ppts and 3ppts respectively YoY.

Product-led growth model to drive quality growth

We like Datadog because its product-led growth business model delivers high quality growth. The company's S&M expense ratio has continued to decline, at a level significantly lower than peers, while it still maintains solid topline growth. Datadog's S&M expense ratio declined from 38.9% in 2019 to 23.5% in 2023, while its competitors Dynatrace (DT US) and Splunk (acquired by Cisco (CSCO US) in 2023) had an S&M expense ratio of 33.9% and 33.2% in FY23 (see detailed note of respective fiscal year information in Figure 37), respectively. We expect the solid revenue growth to aid the unleashing of operating leverage and drive the expansion of OPM over 2024-2026E. We estimate non-GAAP operating income to achieve a CAGR of 29% over 2023-26E and reach US$1.0bn in 2026E, with non-GAAP OPM expanding from 23.0% in 2023 to 25.8% in 2026E, and non-GAAP net margin to expand from 21.8% in 2023 to 23.7% in 2026E.

Datadog: a leading observability and security SaaS platform for cloud applications

Company history: evolving from ITIM to service provider covering customers' entire technology stack

Founded in 2010, Datadog is a leading cloud-native observability and security company for developers, IT Ops teams and business-related professionals to monitor their applications and other virtual instances in real time. Datadog's unified SaaS platform breaks down the silos between DevOps and security teams by integrating and automating IT infrastructure monitoring (ITIM), application performance monitoring (APM), log management, real user monitoring (RUM) and many other capabilities to provide unified, real-time observability and security for their customers' entire technology stack. It enables better user experiences, faster problem detection and resolution and more impactful business decisions through the process of digital transformation and cloud migration.

2017 marked the milestone for Datadog's business development. Datadog was committed to ITIM before 2017 and realized global leadership. After 2017, the business scope expanded rapidly, gradually supporting APM, log Management, RUM, Cloud SIEM, Continuous Profile and other business sectors.

After the IPO in 2020, the company entered the security monitoring space and launched a cloud security monitoring platform, which effectively brings the security team, along with development and operations into the observability mix. In Aug 2023, Datadog adopted large language models for monitoring systems and launched the Bits AI artificial intelligence assistant to support the organisations on their full stack observability. By the end of 2023, Datadog's product portfolio had grown to 22, per company data.

Observability in one platform

The Datadog platform combines the power of metrics, traces, logs, user sessions, security signals, and other data from a single agent and over 800 integrations (data as of Nov 2024) to provide a unified view of infrastructure, application performance and the real-time events impacting performance. In the unified platform, it enables correlating front-end performance with business impact. The load times, front-end errors, and resources for every user session can be visualized, and data can be sliced and diced using custom attributes.

Figure 1: Extensive product portfolio offered on the Datadog platform
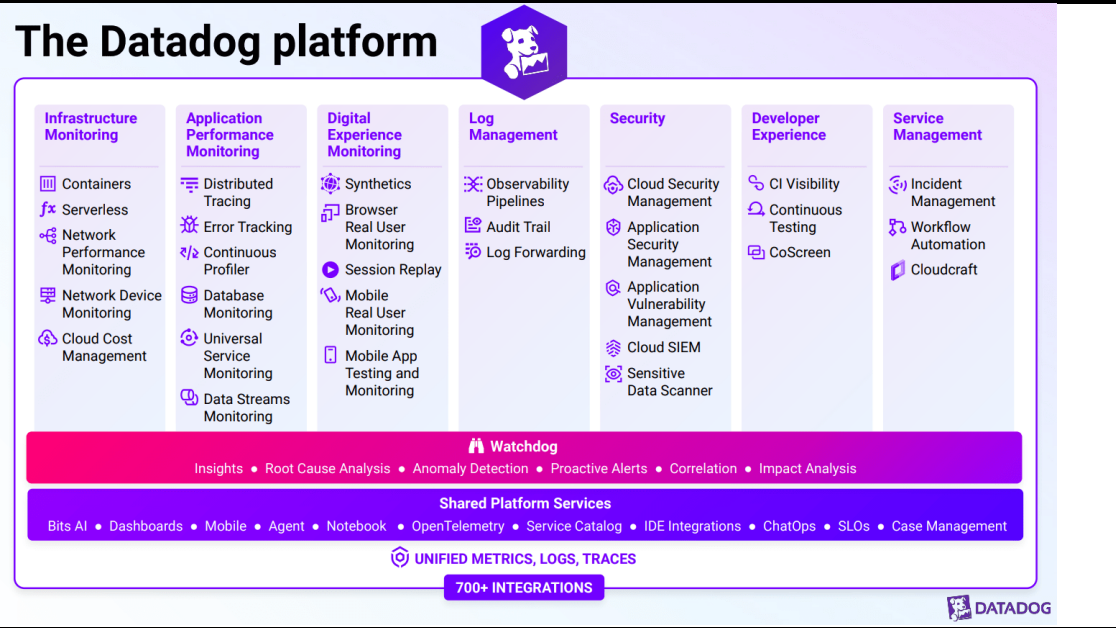
Source: Company data, CMBIGM

Since inception, Datadog has been built for the cloud and offered as a full service on a SaaS basis, with a built-in understanding of modern technology stacks and extensive customizations. Datadog is cloud agnostic and can be deployed across their customers' entire infrastructure, including on-premise, hybrid, IoT, and multi-cloud environments, making it ubiquitous for developers, operations engineers, security professionals, and business leaders to break down silos and drive business performance.

Figure 2: Datadog: Breaking down silos with unified platform
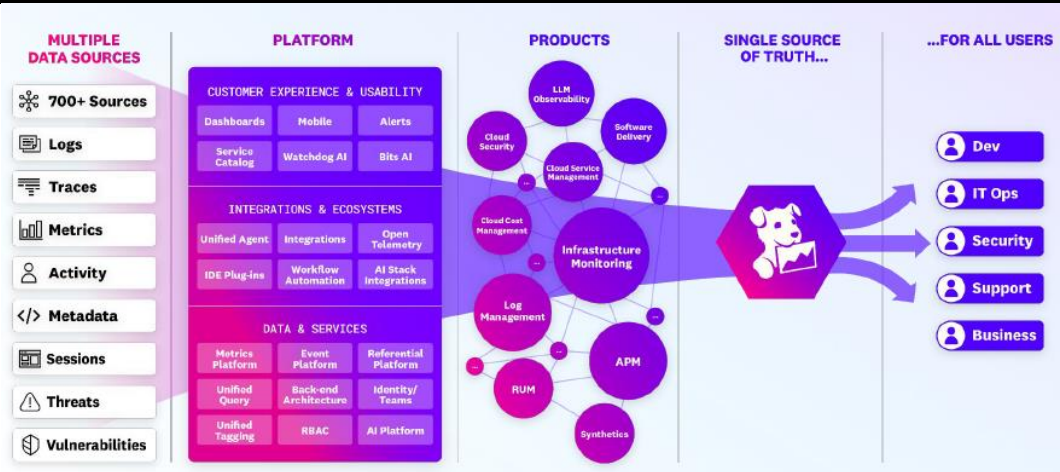
Source: Company data, CMBIGM

Datadog's monitoring ecosystem is highly open and easy to use. The platform can be integrated with a wide range of technology stacks and bring together all of the metrics and logs, and thus allow collaborative analysis. With 800+ built-in integrations, Datadog provides insights across the systems, apps and services. Based on integrations as existing data sources, auto-generated and customizable drag-and-drop dashboards, a vast library of real-time visualization tools, and fault alerts, Datadog's platform is ready to use out of the box. Beginners and even business operations staff can easily get started with the platform.

Figure 3: Out-of-the-box integrations and monitoring of dynamic hybrid cloud environments in real time
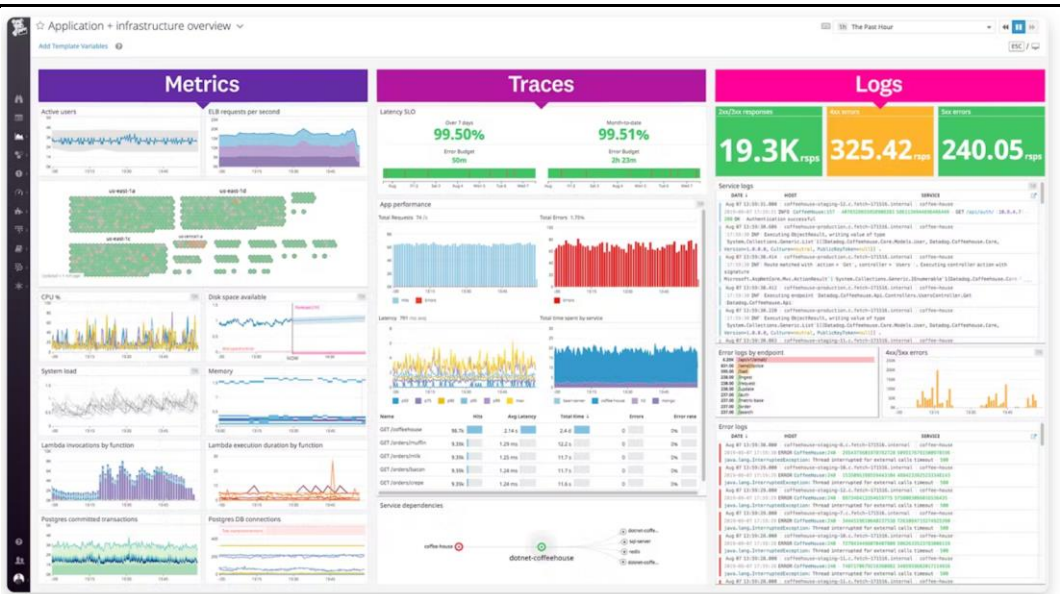
Source: Company data, CMBIGM

Datadog's platform can deliver tangible value drivers that are most critical for the customers during their digital transformation. According to management, compared to the multi-product adoption, Datadog's unified platform can save up to 2/3 of annualized cost for customer in some E-commerce and Health services user cases. The value driver also comes from increased productivity for the DevOps teams. In addition, the unit economics improves as the customer grows with Datadog. For example, Datadog empowers the customer to process all the logs and just use a small fraction of them for real-time analytics and pay for those only. Also, Datadog continually strives to make their products less expensive by pursuing innovative technologies and building out new things to help customers ultimately save money with Datadog.

Figure 4: Datadog can effectively help lower customers' annualized cost
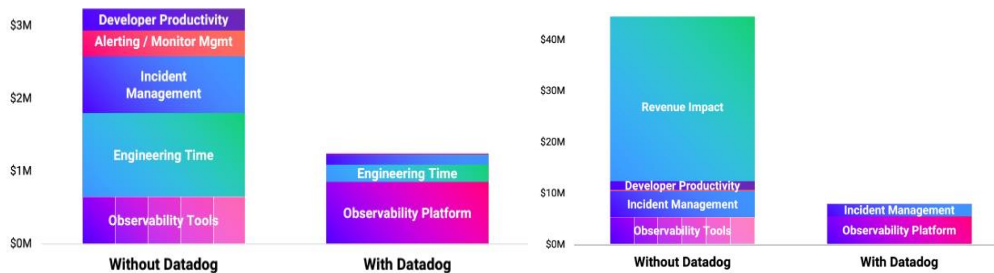
Source: Company data, CMBIGM

Datadog's pricing structure is segmented by different products and generally cumulative by usage or consumption, whether by host, number of log events, test runs or user sessions. Some products also offer additional options or advanced features. For the case of per-host pricing, a host is any physical or virtual operating system instance. Multiple containers are allowed within each host up to a certain number.

Figure 5: Datadog: pricing of different products
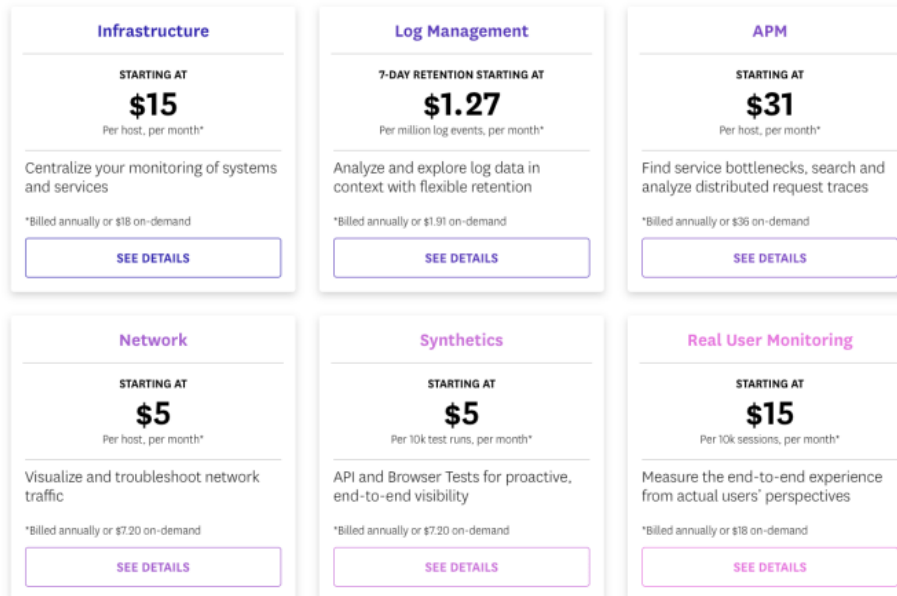
Source: Company data, CMBIGM

Company margin improved along with solid revenue growth

Datadog is well-positioned to ride on the tide of growing cloud and DevOps markets, in our view, fuelled by the rising demand for sophisticated and consolidated observability solutions, as well as the wide range of services and strong partnerships that DDOG provides. The company grows rapidly as it offers enterprises across various industries effective tools to manage their increasingly complex operations. As of 3Q24, Datadog had over 29,200 customers from small businesses to large names such as Adobe, Airbnb, and Spotify, up from about 26,800 a year earlier. Robust cloud partnerships with major cloud providers further underscore its strong presence in the market.

In 2023, Datadog's revenues reached US$2.13bn with an increase of 27% YoY, representing a CAGR of 42.5% over 2019-2023. In 2023, Datadog achieved a 23% non-GAAP operating margin and 28% free cash flow margin. Datadog had US$2.6bn in cash and cash equivalents and short-term investments at end-4Q23. In addition, the company reached a significant milestone in achieving its first fiscal year of a positive GAAP net income in 2023.

Figure 6: Datadog: total revenue and YoY growth
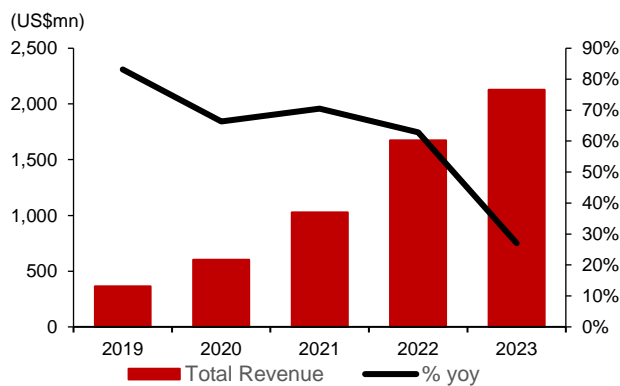
Source: Company data, CMBIGM

Figure 7: Datadog: non-GAAP OP and FCF margin
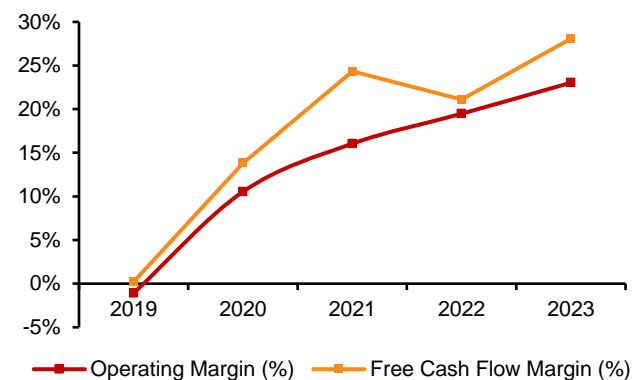
Source: Company data, CMBIGM

Observability: riding on secular tailwinds of digital transformation and cloud migration

We expect the observability sector to benefit from the secular tailwinds of digital transformation and cloud migration. Per Gartner, 65.9% of spending on application software will be directed toward cloud technologies in 2025 (2022: 57.7%). Both the geometrically increase of data usage in multi-cloud hybrid environments and the dramatically increased monitoring complexity may raise demand for full-stack observability tools, which lead to the continuous expanding TAM of the observability and security market.

According to Gartner, IT operations management (ITOM) can be defined into three categories: automation, experience management and monitoring. In 2022, the monitoring segment accounted for approximately 44% of the overall ITOM market in terms of the revenue contribution estimated by Gartner, with monitoring tools continuing to gain market share.

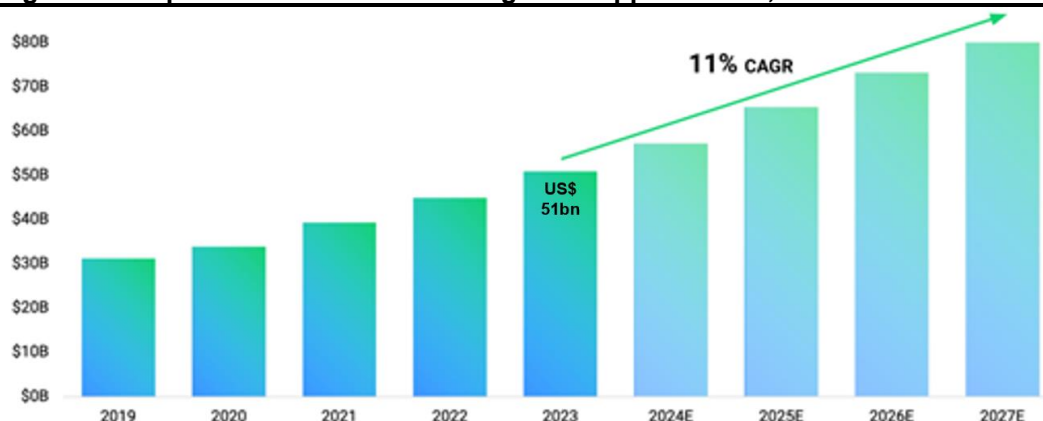**Figure 8: ITOM market segmentation**
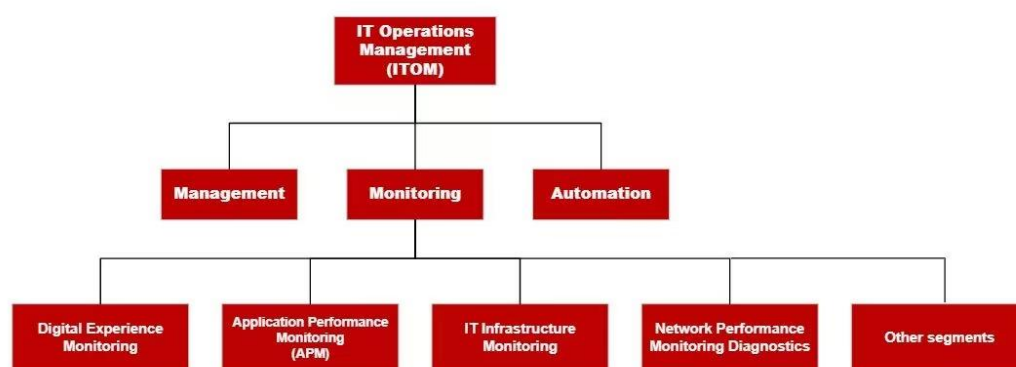
Source: Gartner, company data, CMBIGM

Per Gartner, the IT operations market reached US$51bn in 2023, and is expected to achieve a 2023-2027E CAGR of 11%, driven by the increased IT system complexity and enterprises' ongoing digital transformation.

Figure 9: IT operations market size and growth opportunities, 2019-2027E

Source: Gartner, company data, CMBIGM

According to Gartner, enterprise IT spending on public cloud computing, within addressable market segments, will gradually overtake spending on traditional IT over 2023-2025. By 2025, 51% of IT spending in application software, infrastructure software, business process services, and system infrastructure will have shifted from traditional solutions to the public cloud, compared to 41% in 2022. Almost two-thirds (65.9%) of spending on application software will be directed towards cloud technologies in 2025, up from 57.7% in 2022.

Figure 10: Enterprise IT spending on traditional IT and cloud worldwide, 2019 -2025E
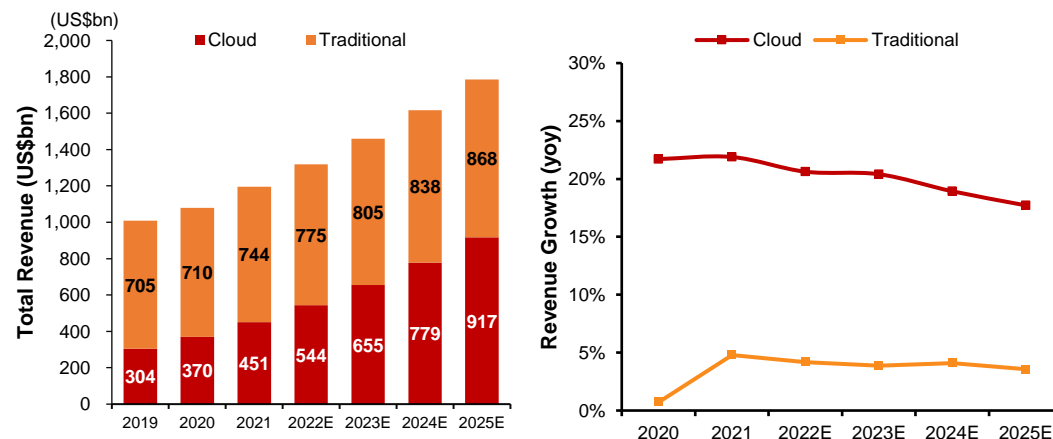

Source: Gartner, CMBIGM

Note: Gartner's "cloud shift" research includes only those enterprise IT categories that can transition to cloud, within the application software, infrastructure software, business process services and system infrastructure markets.

Increased IT system complexity and accelerated global digital transformation and cloud migration raise the demand for unified monitoring toolsets. The rapid breakthroughs and development of next-gen information technologies such as cloud-native, IoT and AI have led to the continuous expansion of scale of enterprises' IT systems and increased complexity of deployment methods, access devices and the types of data generated. Meanwhile, most organizations are citing the high priority of cost-effective solutions rather than simply adding IT spending to cope with complexity. Full observability tools can reduce operational costs by breaking down the data silos among different teams across the lifecycle and enabling unified management of resources.

Concurrently, rapid AI development compounds complexity. Per IDC, the generative AI spending is projected to reach US$143bn by 2027 with a 2022-2027E CAGR of 73.3%, which creates a wide scope for the LLM monitoring market. The exponential growth in the demand for computing power and data for AI large language models (LLMs) imposed higher complexity for the modern production environments. This places greater emphasis on gaining and managing the most and best data in real time, and we believe the complex data resources collected, monitored and managed by Datadog's unified platform solutions will bring even greater value to the customers for the AI era.

Figure 11: AI compounds complexity
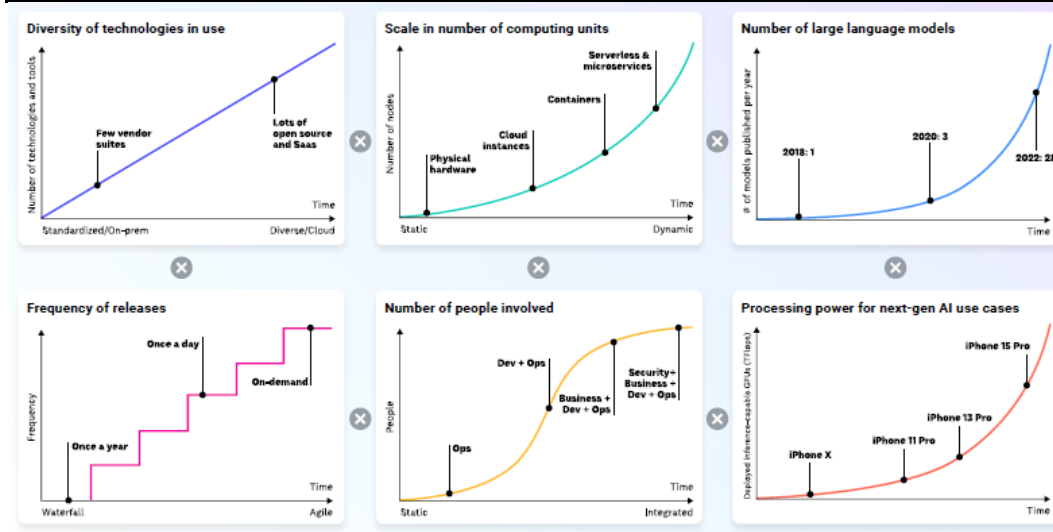
Source: Company data, CMBIGM

After the completion of the LLM training phase, the main demand for AI servers will shift to the inference side in the future, in our view. According to the prediction of IDC, 62.2% of AIGC's computing power will be used for model inferencing by 2026. In the next step of LLM, the increasing inference workload and the massive built-in AI functionality in applications and production environments will then generate rising demand for real-time full-stack observability tools. In the long run, the explosion of enterprises' demand for AI tools will also further promote the cloud transformation process.

By the end of 3Q24, about 3,000 customers used one or more of Datadog's AI integrations to get visibility into their increasing use of AI, and Datadog's AI-native customers have already contributed to over 6% to ARR, while there is significant room for expansion along with the increase in AI adoption, in our view.

For the cloud security market that Datadog currently has business operation, according to Gartner, the market has reached US$21bn in 2023, and is expected to achieve a 2023-2027E CAGR of 16%. As AI training and inference tasks on the cloud become a mandate, the importance of data security and monitoring is highlighted. Cloud monitoring and security tools provide users a complete picture of the use of resources on the cloud, the operational status of the business, and receive abnormal alerts in time in response to ensure the safe operation of the business.

Figure 12: Cloud security: TAM and growth opportunity
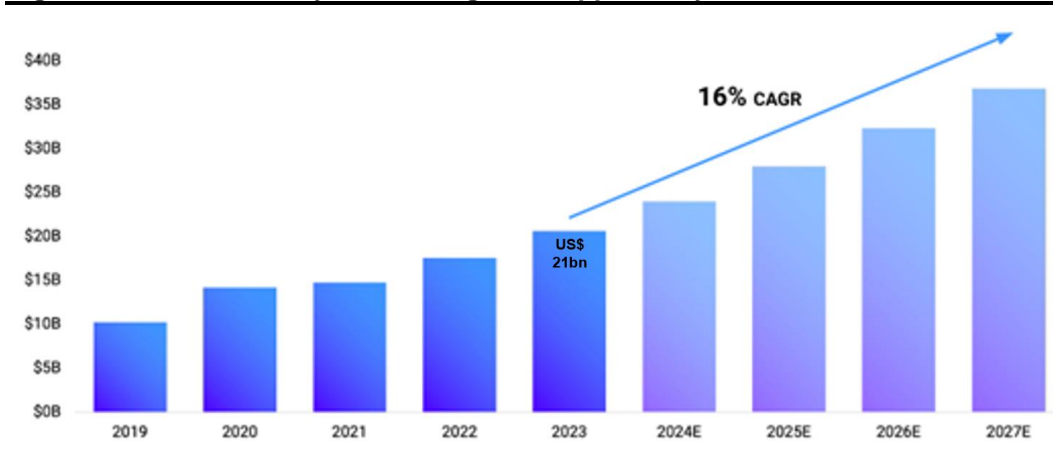
Source: Gartner, company data, CMBIGM

Datadog: grabbing market share with expanding product landscape

Datadog captured the trend of cloud-native, integrated and platform-based observability tools to quickly gain market share. Most vendors before Datadog only focus on some specific areas of monitoring, but Datadog aims at building a consolidated cloud-native platform since its inception.

Datadog was recognized as a leader in Gartner Magic Quadrant for APM and Observability in 2023 and The Forrester Wave of Artificial Intelligence for IT Operations 2022, which in our view demonstrates its strong market position and excellent product capabilities.

Figure 13: Magic Quadrant for APM and Observability

Source: Gartner, CMBIGM
Note: As of Jul 2023

Figure 14: The Forrester Wave: Artificial Intelligence for IT Operations, 4Q22
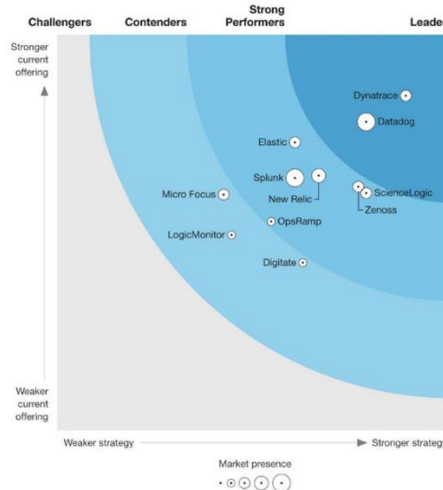
Source: Forrester, CMBIGM

Datadog mainly faces the competition from four sources with its comprehensive product matrix: ITIM providers that solely focus on on-premise, service providers that offer APM (ie, Cisco (AppDynamics), New Relic, Dynatrace), log management providers (ie. Splunk and Elastic), and cloud platform providers who also provide embedded cloud infrastructure monitoring services (Google, Amazon, Microsoft, etc.).

Figure 15: Datadog's major sources of competition

Source: Company data, CMBIGM
Note: Service providers listed above have relatively comprehensive coverage of observability products. The offerings are not limited to one single category, and we categorize the companies based on their areas of strength.

Expanding from infrastructure monitoring

One of Datadog's core competencies lays in infrastructure monitoring. Its infrastructure monitoring platform provides real-time monitoring solutions across public, private and hybrid environments, as well as container and server-less architectures, to ensure the performance and usability of IT infrastructure. Over years of development, Datadog has established several core technical advantages across the data collection - analysis – alerting - fault resolution process, and established solid leadership in the sector.

For example, in the field of data acquisition, Datadog has self-developed a powerful probe collection tool, Datadog Agent, which can handle more than 100 million events in a single day, higher than some of the peers. In the field of analyzing and alerting, Datadog's infrastructure monitoring products are more automated. Compared with its peers, Datadog can support automatically distinguishing alerts under three categories: low, medium, and high, and accordingly take three different forms of processing: logging, alerting, or popping up.

With the increasing adoption of hybrid and multi-cloud environments with a wide range of components, the complexity of managing and monitoring these diverse technologies has increased. The number of infrastructure hosts, containers and serverless functions has been increased at a CAGR of 28%, 69% and 53% respectively during 2019-2023.

Figure 16: Infrastructure monitoring expansion
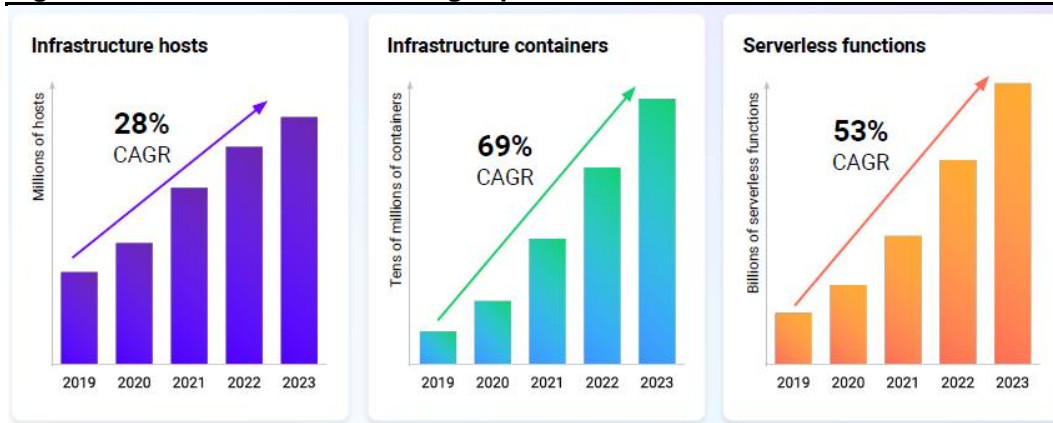
Source: Company data, CMBIGM

Cloud-native APM with full stack observability and AI solutions

Datadog launched its APM product in 2017, which represented a natural extension as a leader in infrastructure monitoring. Its APM service is part of an extensive portfolio of complementary monitoring and observability solutions. Although entering the field later than some of the peers, due to its cloud-native nature, Datadog's APM solutions can better support modern applications and distributed architecture, in our view. Gartner estimated the global APM market size to reach US$11.1bn in 2027 and achieve a 2021-2027E CAGR of 8.3%.

Datadog addresses the major issue with previous APM solutions by building infrastructure solutions to address the dynamic and ephemeral nature of cloud hosting. Previous APM solutions are designed on the premise that servers are typically static instances tied directly to the physical hardware of the data center. As a result, it did not adapt well initially to cloud environments, where each customer release may incur a new set of application servers.

According to Gartner's Emerging Technology Maturity Curve released in 2023, cloud native is currently at peak of inflated expectations, a change that will place new requests on APM. The Datadog platform is cloud-native and was developed to adapt to modern technologies such as microservices, containers, and serverless computing. The data model is also designed to scale elastically, with datasets capable of processing more than a trillion events per day. Datadog's cloud-native APM solutions are poised to benefit from this trend, in our view.

Figure 17: Gartner: Hype Cycle for cloud computing, 2023
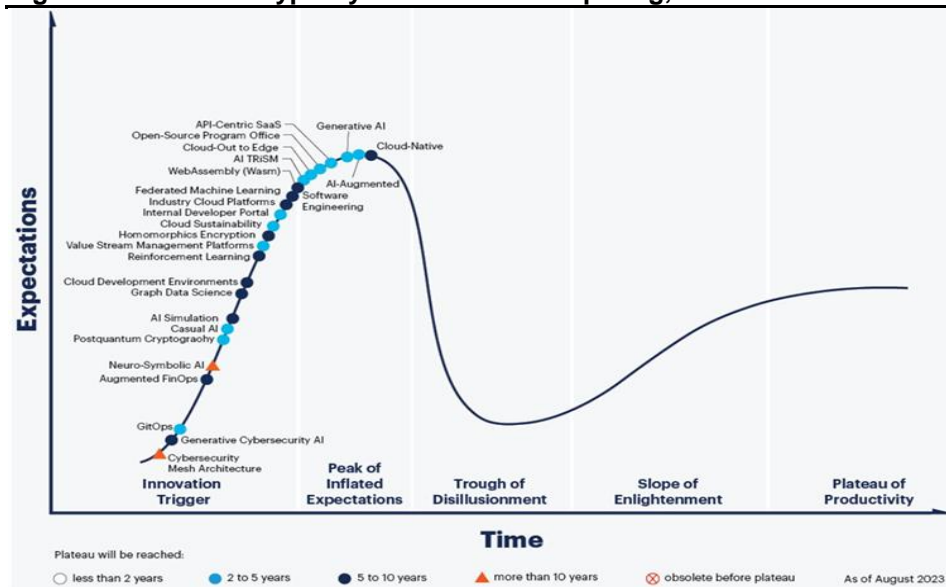
Source: Gartner, CMBIGM

In addition to the cloud-native nature, Datadog's advantage over industry peers comes from its differentiated ability to provide a unified platform solution. Some of the industry peers have traditionally split APM and Log management in development, which has left them relatively behind in the full observability layout. Compared with these peers, Datadog offers more advanced infrastructure monitoring and log management features and handles the entire DevOps and site reliability engineering (SRE) workflow.

Observability relies on metrics, traces, and logs. Logs record system behavior at a given time. Metrics show software changes over time and reflect health and performance. Traces capture the end-to-end flow. Only when combining these three pillars, full visibility across the whole stack in one unified platform can be realized. Datadog is positioned to be one of the first companies to address the three pillars of observability in one toolset.

Figure 18: Three core pillars of observability: metrics, traces, and logs
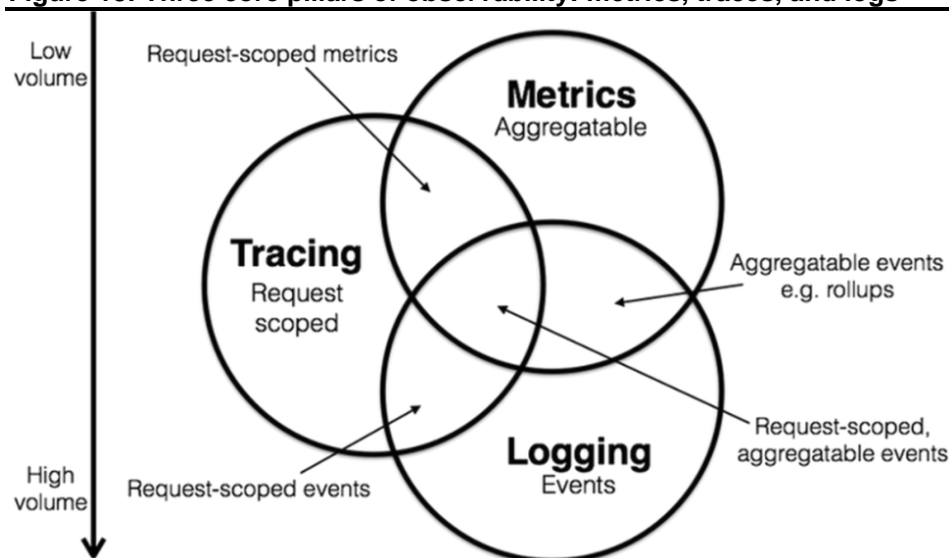
Source: webdevlog.com, CMBIGM

Datadog also differs from some of its industry peers in terms of go-to-market strategy. Datadog adopts a bottom-up sales and marketing strategy, initially targeting small and medium-sized enterprises (SMEs). After landing the basic monitoring tools, Datadog's sales team will try to upsell more complete observability tools to these SMEs as they grow. In comparison, customers of its peer Dynatrace are mainly traditional large enterprises.

According to the APM and observability capabilities survey conducted by Gartner in Aug 2024, Datadog's APM scores consistently high on all critical capabilities, frequently appearing near the top of most categories. The offering scores high in application debugging, distributed tracing and continuous profiling. The result proved Datadog's strong functionality in correlating traces where it connects distributed traces to infrastructure, metrics, logs, network calls and processes in a single screen for troubleshooting application performance.

Moreover, Datadog promotes industry-leading integration of AI capabilities into APM. Datadog introduced their "Watchdog" AI services to analyse application performance data and applies anomaly detection to flag unusual trends and alert operators of potential issues ahead of them occurring, which reduce mean time to resolution (MTTR). It also provides specialized insights for the AI application stack.

Figure 19: Resolve incidents faster with AI "Watchdog"
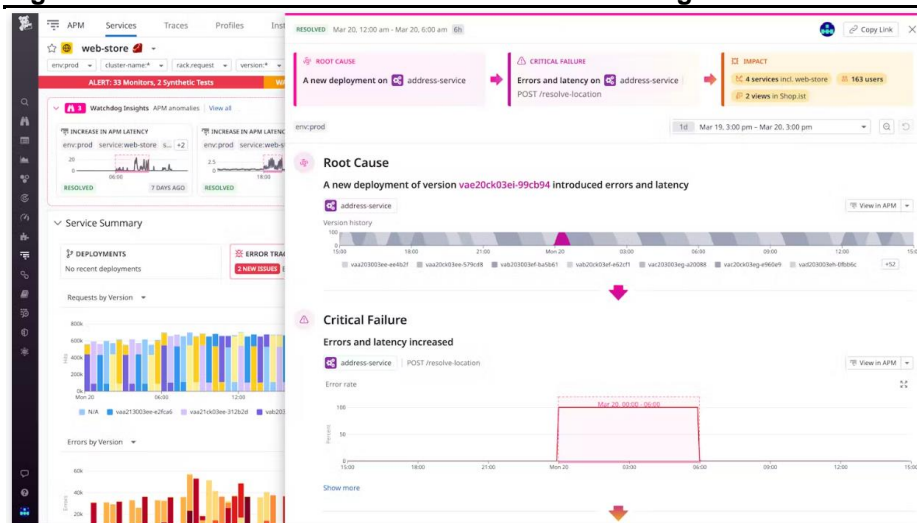
Source: Company Official Website, CMBIGM

Efficient and cost-effective real time log management capability

Entering the field in 2018, Datadog continues to optimize its log management products with its differentiated cost-effective processing approach, solving the dilemma of the trade-off between efficiency and cost of traditional log management products. Now the log management products become a key driver of growth and an integral part of its product matrix.

Gartner defines log management as the process of collecting, storing, and analyzing logs from various sources, including applications, servers, and networks, to help organizations detect and respond to security threats, troubleshoot issues, and improve operational efficiency.

Log management has two main technology schools: the old school one and the new school one, with key difference centering on whether logs are processed and stored in "Schema on read" or "Schema on write". Schema on write method structures data such as logs at write time, with the advantages of easy input, fast results for each future query, and the fact that these structured logs can bring a lot of added value for future analysis. This is especially critical when real-time and performance are more important for the tasks. The on read method, on the other hand, will enter unstructured data into the database at high speed and only phrase it on each call. However, it is inferior in the analysis of complex datasets.

For observability software, only structured data can correlate Log, Metric and Trace, and to issue a query that can be switched between any of the three to get a holistic view of the cause, effect and the best solution of the event. Schema on write is better in this case.

Figure 20: Two methodologies to handle log information
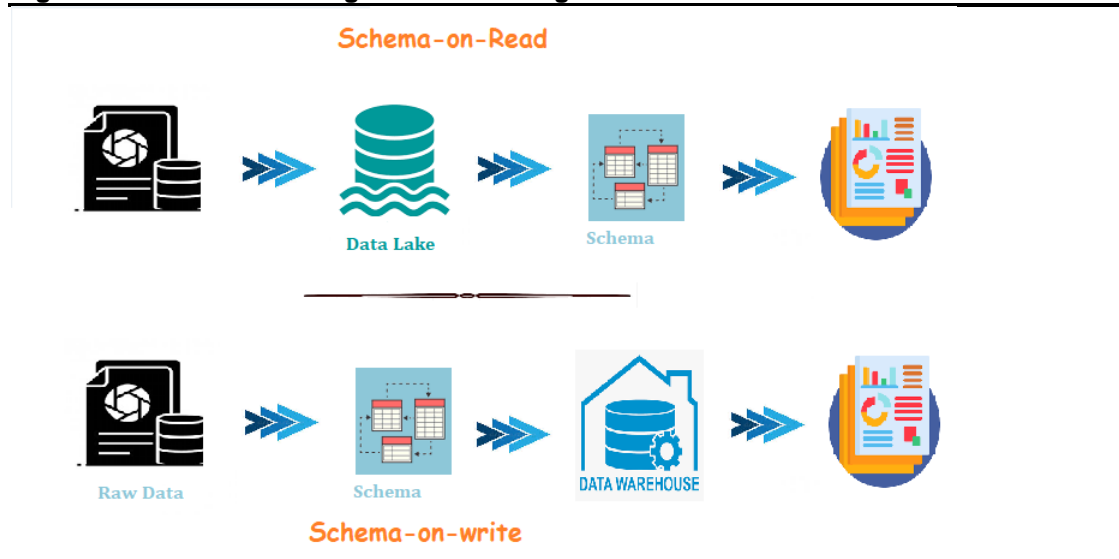
Source: Medium.com, CMBIGM

Additionally, Datadog's differentiated data processing approach mitigates the front-end resource consumption problem of Schema on write and offers a more efficient and cost-effective solutions. The solution concept of Datadog is to split all logs into two categories, thus archiving all logs cost-effectively while indexing only some of the valuable logs: those will be used for search, analytics, alerts, dashboards, and log/metric/trace correlation. It can flexibly store all logs at any retention and querying capacity to meet the budget and users' query needs. Datadog address the dilemma of traditional log management: if ingest all logs and index them the cost is prohibitive; if filter and index only a portion of the logs, the visibility is compromised.

In 2Q24, Datadog unveiled the Flex Logs, which extends its logging without limits approach and allows customers to scale storage and compute separately for cost efficiency. Organisations nowadays are facing a challenging environment of increased cost pressure, while enduring an explosive increase in data generated by complex, distributed cloud-native environments. The growing demand for an efficient and cost-effective solution well explains why Datadog has achieved fast growth, and we expect Datadog will continue to benefit from this trend.

Figure 21: Logging without limits while limiting the granularity of data indexed
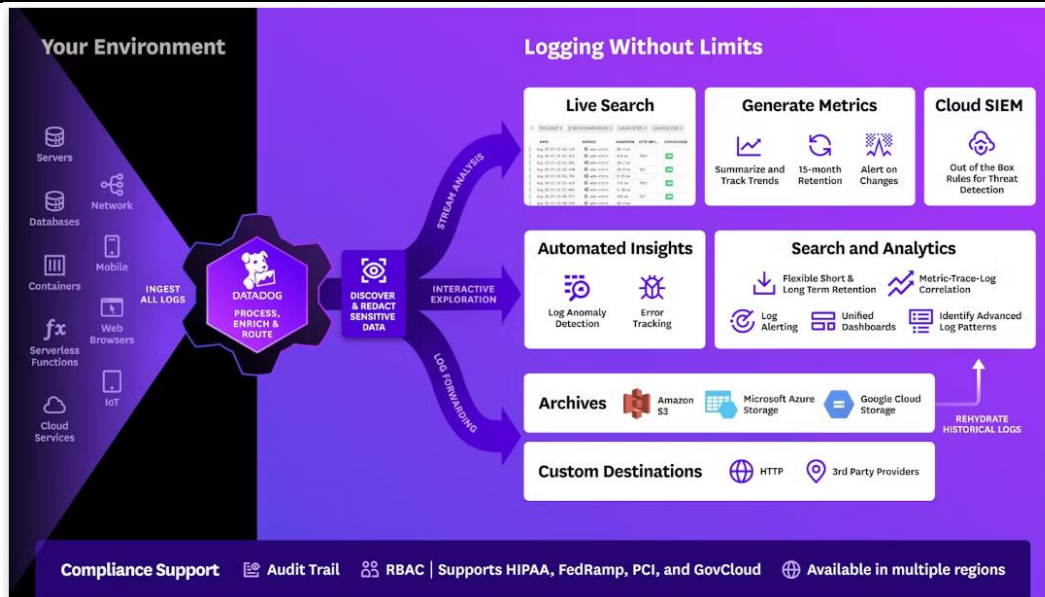
Source: Company data, CMBIGM

Additionally, Datadog's APM and Log Management use uniform tagging rules to provide correlation between logs, metrics and traces. It is intended to complete the observability ability of Datadog since the inception. Datadog's log management is not limited to log data processing. Datadog's advantage lies in its one agent technology that enables one-stop collection and monitoring of logs, metrics, and call chaining of multiple types of data with a clear full-stack coverage capability. It helps to further optimise the overall resource overhead of users IT operations management, and greatly reduce the difficulty and intensity of the user's work.

Datadog currently has more than US$1bn in 4Q23 ARR for infrastructure monitoring, while it has over US$0.5bn in 4Q23 ARR for both the APM Suite and log management. Datadog maintains a balance among these three pillars of observability, indicating that it can establish genuine value in the form of a unified platform for customers.

Figure 22: ARR across the three pillars indicates a balanced, unified platform
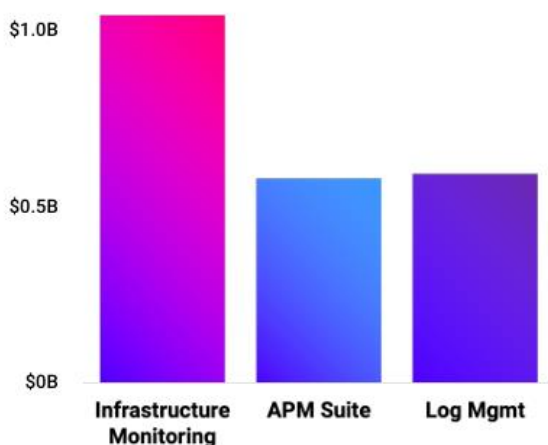
Source: Company data, CMBIGM
Note: APM Suite includes core APM, Synthetics, RUM, and Continuous Profiler

Observability leader to expand and enhance cloud security portfolio

Security Monitoring was announced by Datadog in November 2019 and launched in 2020. The vision of the product is to provide security teams with the same level of visibility into infrastructure, network and applications that DevOps teams have, and thus break down silos between DevOps and Security teams. This also allows all teams to take a more active role in monitoring the infrastructure for possible security issues, rather than relying on the security team alone to find vulnerabilities through a separate set of tools.

One core benefit of adopting Datadog's security tools for existing customers is that it already has the richest, deepest data and will not incur additional friction, data tax or cost overhead. Datadog's security monitoring products leverage existing data streams from infrastructure, networks, applications and security appliances to identify potential threats. Datadog provides a basic set of threat detection rules to reveal prevalent attacker techniques, and thus the security teams can then create and fine-tune their own rules to further refine coverage. These rules are applied at the point of data ingestion prior to indexing, therefore processing will not incur significant incremental log analysis costs with unlimited logs still apply. This is important as security analysis requires detailed examination of a large number of system logs and network traffic metrics.

As a unified DevSecOps tool, Datadog integrates security into all stages of the software delivery process. For example, unlike other security products designed to code for pre-production vulnerabilities, Datadog's application security monitoring (ASM) product leverages the full execution context of applications running in production environments, allowing teams to focus on critical provisioning protections and providing an immediately actionable path to remediation.

Figure 23: Datadog: From observability to security
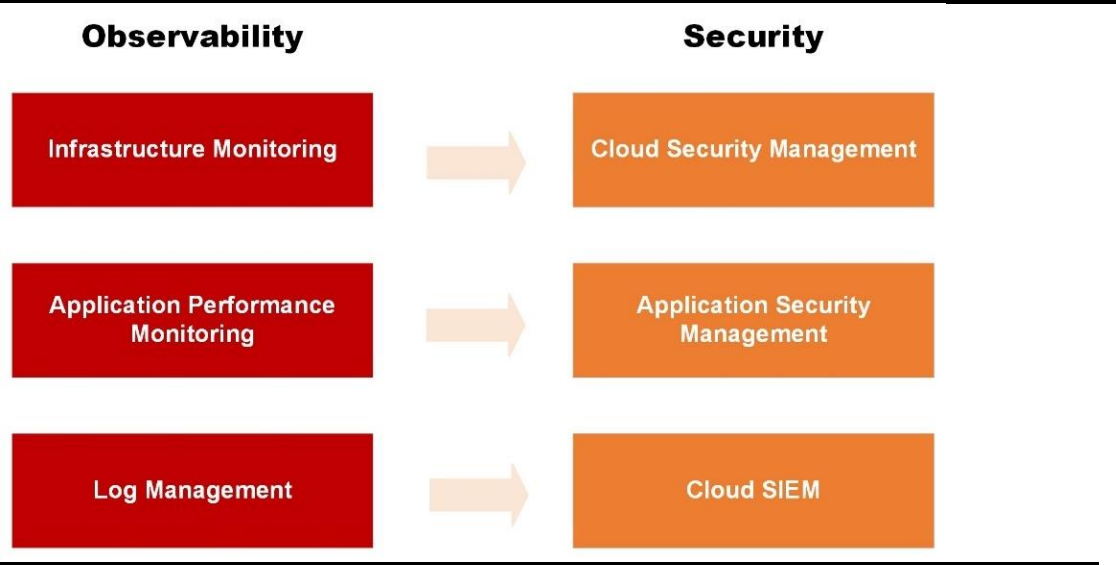
Source: Company data, CMBIGM

Datadog has been expanding into Cloud Service Management in Feb 2024, which covers across test session on the dev side to users' support, and thus helps the customer coordinate people and teams to manage, communicate, organize, take action and automate responses.

Datadog's advanced platform strategy is resonating with customers. Customers demand for more holistic tools to reduce the integration challenges associated with assembling a "best-of-breed," multivendor solution. The ability to provide customers with not just a single functional monitoring product, but a holistic, unified IT operations and security solution is a major future trend. We see Datadog is well-positioned to benefit from this trend and outperform the competitors in winning new logos.

Figure 24: Datadog's platform strategy is resonating with customers

Source: Company data, CMBIGM

Industry-leading level of integrations and AI capabilities

Datadog's monitoring ecosystem is highly open, providing strong multi-cloud support and a diverse integration environment. Datadog supports more than peers' level of 800+ built-in integrations to see across the system, apps and services. Also, it is one of the industry-leading players to launch multiple AI tools and actively integrate major AI applications and servers.

One feature that observability or broad data management SaaS tools needs to achieve is integration. The software solution that integrates the most popular and frequent-used open-source technology stacks as much as possible and in an efficient way will be considered as an excellent data management software by the users. The technology competition in the observability SaaS area is more like a race, as the speed of progress and the size of the lead gap are even more significant than the moat. At present, Datadog supports more than 800+ built-in integrations and can see across all systems, apps and services, which is higher than peers.

Figure 25: A variety of integrations are supported by Datadog

Source: Company official website, CMBIGM

Moreover, Datadog is one of the first vendors to integrate with major LLM applications and AI servers such as OpenAI, Vertex AI, Nvidia AI Enterprise, Amazon Bedrock and so on into their platform, aiming to monitor and rationally allocate costs based on token usage; and analyse API response times for troubleshooting and optimising performance. In anticipation of the explosive growth of Gen AI scale, we expect there will be significant room for LLM real-time monitoring tools.

Figure 26: Integration with OpenAI to help organisations monitor AI usage, cost and real-time performance
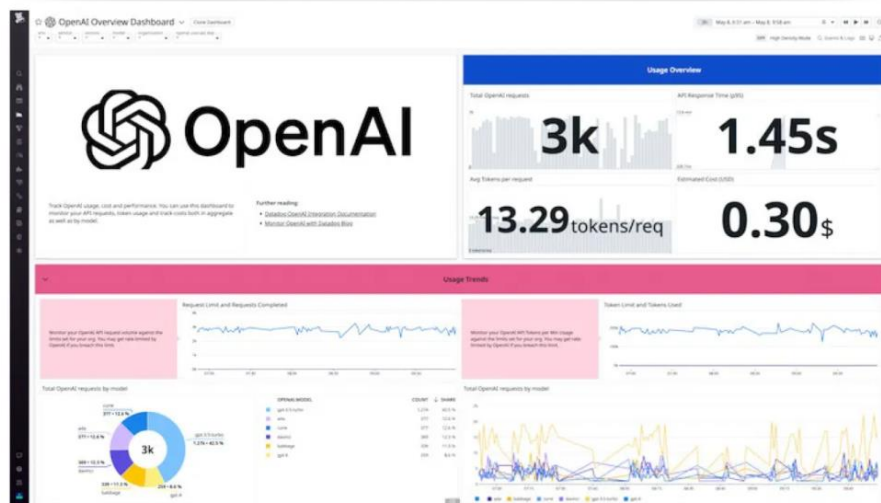
Source: Company official website, CMBIGM

In Aug 2023, Datadog launched the Bits AI, an artificial intelligence copilot to better support the organisations on their full stack observability. Bits AI enables users to use natural language to make complex queries and get synthesized insights from across the entire stack. It also guides end-to-end incident response by aiding investigation, facilitating cross-team collaboration, directing the user to AI-suggested code fixes, and pulling up internal documentation to help responders align with organization's best practices.

Figure 27: With Bits AI: Remediate issues faster
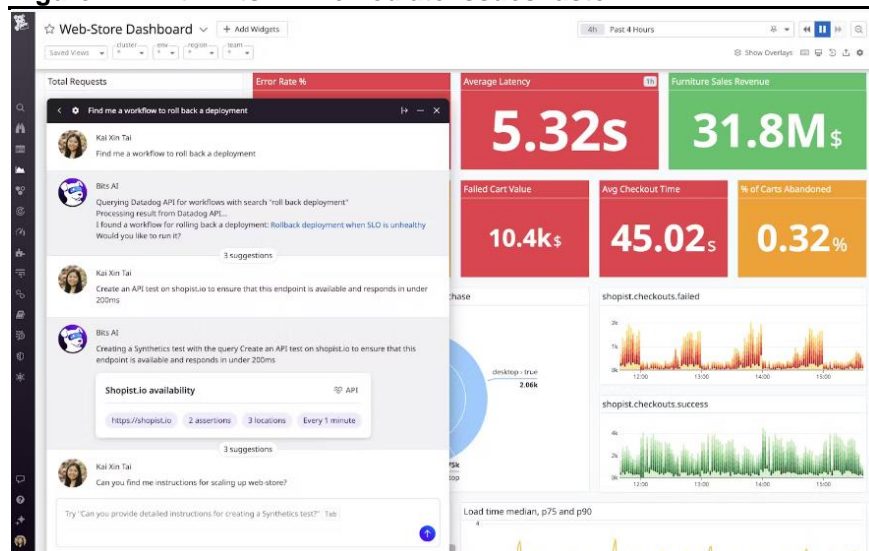
Source: Company official website, CMBIGM

Business performance analysis

Underlying Datadog's rapid revenue growth is an impressive velocity in customer additions and product expansions. Datadog achieves rapid growth by continuously adding new markets inside and beyond observability. In this way, Datadog maintains high customer retention and keeps winning new logos from multiple industries. Moreover, the ARPU also rises with the expanding product portfolio.

Figure 28: Revenue growth drivers for SaaS company
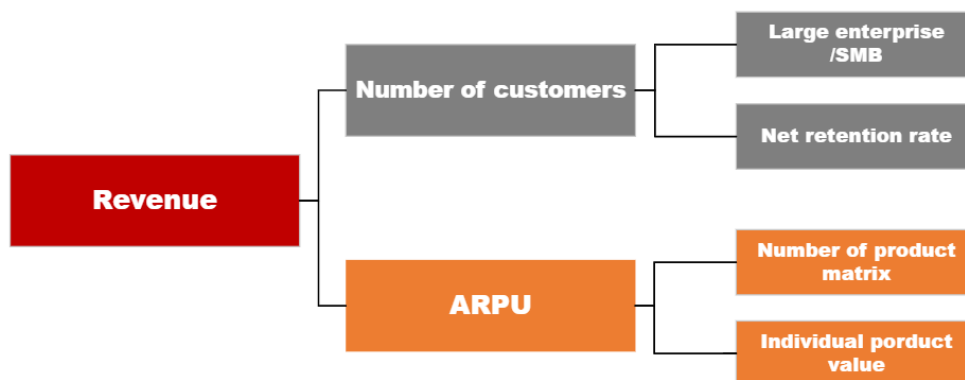
Source: Company data, CMBIGM

Under the global wave of cloud migration, Datadog has accelerated its customer expansion from internet-related industries (technology, e-commerce, gaming) to traditional industries such as media and entertainment, retail, finance, manufacturing/logistics, health/life sciences, as well as non-profit organisations.

Figure 29: Continuous new logos winning in various industries

Source: Company data, CMBIGM

The company's customer base continues to expand rapidly, with the proportion of enterprise customers (companies that have more than 5,000 employees, defined by Datadog) steadily on the rise. By the end of 2023, Datadog had a combined total of over 27,300 customers, up 18% YoY, with the number of large customers with an ARR of $100,000+ reaching 3,190, and those large customers contributing 86% of the company's total ARR. The number of customers with an ARR of more than US$1mn rose to 396, up 25% YoY, maintaining even more robust growth.

Figure 30: Datadog: number of total customers
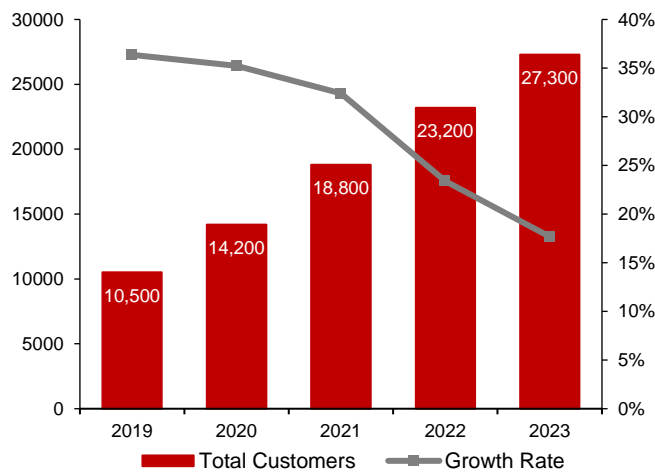
Source: Company data, CMBIGM

Figure 31: Datadog: number of customers with over $100K ARR and percentage of total ARR
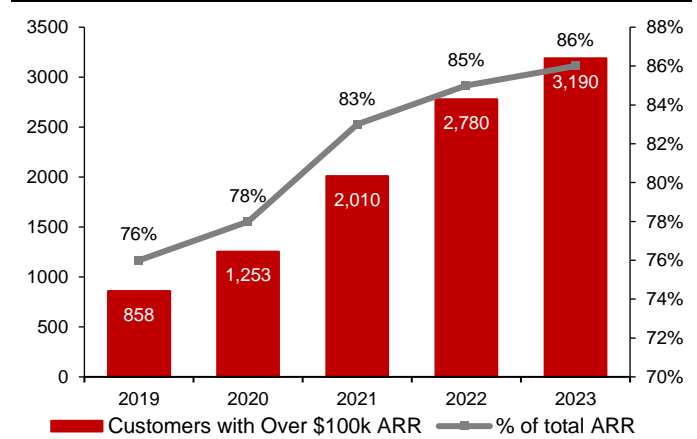
Source: Company data, CMBIGM

The steady growth in the number of large customers reveals the sustained increase in ARPU, which is primarily driven by the Product Led Growth (PLG) model adopted. The complementary characteristics of Datadog's expanding product portfolio contributes to the upselling and cross-selling. As of the end of 2023, about 83% of customers used more than 2 products of the company (up 2 ppts YoY); 47% of customers used more than 4 products of the company (up 5 ppts YoY); 22% of customers used more than 6 products of the company (up 4 ppts YoY); and 9% of customers used more than 8 products of the company (up 3 ppts YoY). The company's platform capability is further manifested.

Figure 32: Datadog's industry-universal nature enables continuous winning new logos in various industries
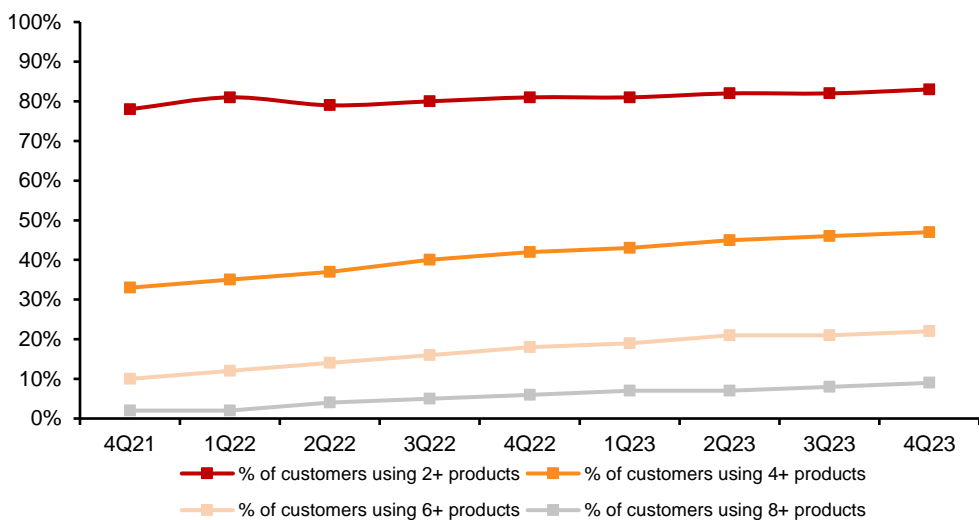
Source: Company data, CMBIGM

Datadog maintains a high gross revenue retention rate in the mid-90s for a long period, and the gross retention of Datadog's enterprise customers is 98% to 99%. The midmarket has been in the upper 90s, and SMB has been in the mid-90s. This is a fair signal to show the value that Datadog's platform delivers to their users.

Unlike some of its peers who have a strong focus on large enterprise customers with a relatively higher hourly pricing basis, Datadog's pricing structure that charges on a per host and usage basis allows companies to start from a small scale and then scale up their use as they grow. This price structure lowers the entry requirements for all types of customers and is likely to contribute most to Datadog's high net expansion rate. Under the flexible pricing structure, a

company could start with only one niche service and then add more over time. With growing customers' traffic and evolving cloud transformation, their spending on Datadog platform will also scale up.

On the 2024 Investor Day, Datadog describes the growth in ARR by customer cohort for the year they started using Datadog. The compounded growth in total spending is impressive as the number of customers increases each year. The management emphasized that Datadog's key focus of go-to-market strategy is landing new and then expanding.

Figure 33: Datadog: ARR continues to grow at a rapid compounded rate, 2016-2023
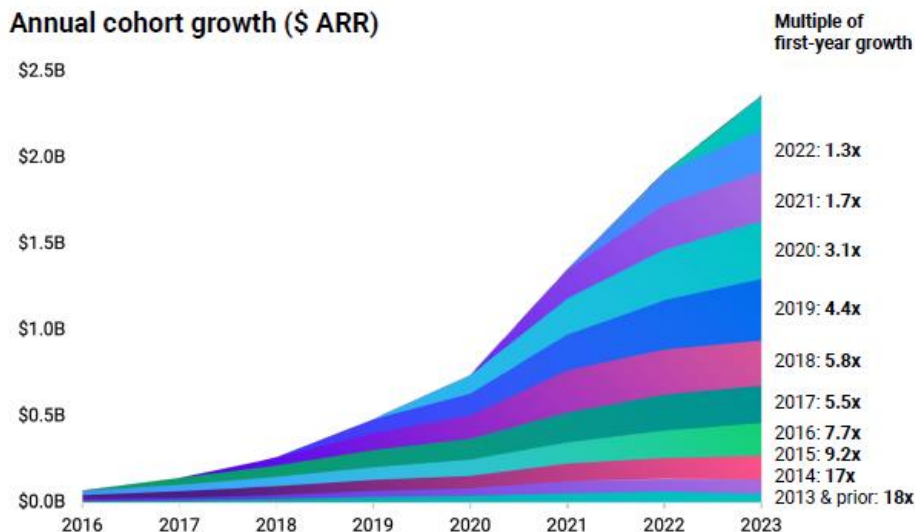
Source: Company data, CMBIGM

As customer longevity grows and Datadog continuously rolls out new products to address the diverse requirements of IT and business operations, Datadog's unified platform spanning all lifecycle promotes the usage of its products across the developers, operations, security as well as business users within the customer's organization. This encourages more substantial purchases from the organization. At the same time, with the increase of the number of access nodes, the data usage due to mutual data transmission will grow geometrically, driving compound growth in ARPU under Datadog's charging-by-usage model. The ARR added by cross-selling of new products and expansion of existing products from existing customer has constantly contributed to over half of the whole ARR added each year.

Figure 34: Datadog: Drivers of revenue growth
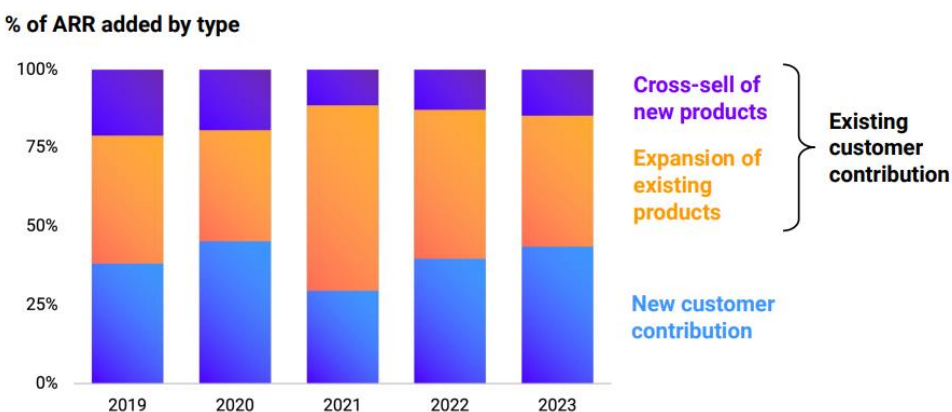
Source: Company data, CMBIGM

With a growth pattern like Datadog, there is significant room for continued cross-selling as 60% of Datadog customers have not adopted all 3 pillars. What is highly imaginative is that customers who adopt all 3 pillars spend on average 10x more with Datadog than customers who do not.

Figure 35: Datadog: Future opportunities for growth - Cross-selling of additional products
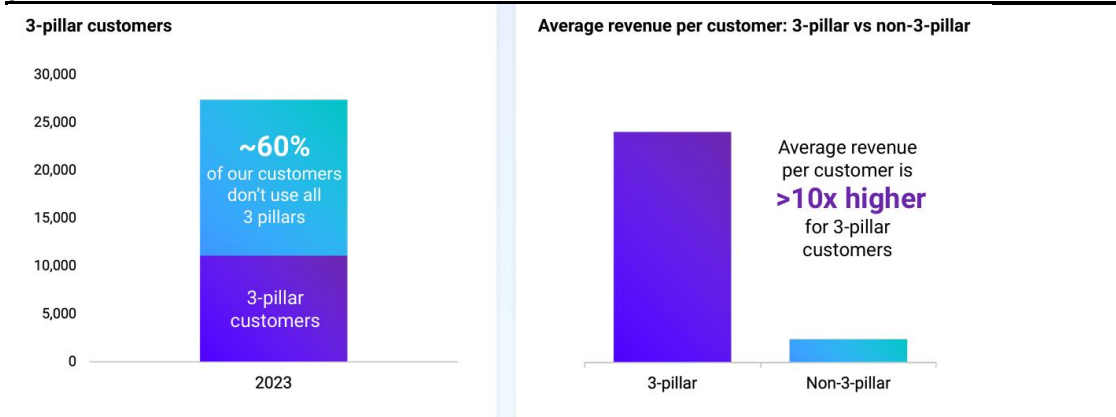
Source: Company data, CMBIGM
Note: 3-pillar customers use all 3 of core infrastructure monitoring, core APM and Log management.
Data as of Dec.2023.

Datadog's room for international expansion is also attractive. Datadog have been investing significantly in a number of markets such as Japan and Korea and it is now gradually paying off with the international revenue outside the US, which accounted for 30% of total revenue in 2023. Datadog is currently exploring new regions with great potential such as India, Singapore and Latin America. According to Capital IQ, 29% and 40% of Global 2000 companies are located in EMEA and Asia-Pacific. The unlock potential for Datadog's expansion in these areas remains significant over medium to long-term, in our view.

Figure 36: Datadog: Future opportunities for growth - geographic opportunities
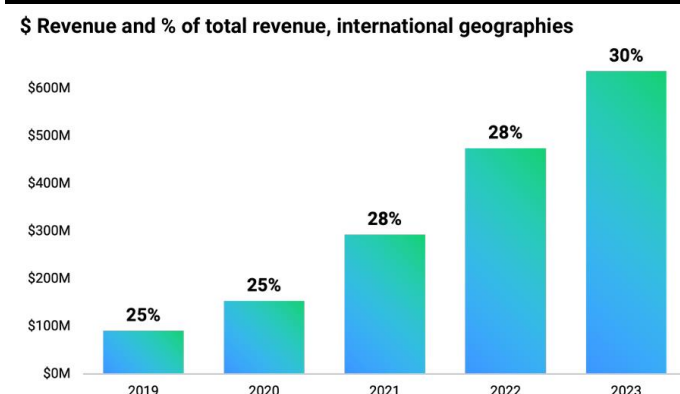
Source: Company data, CMBIGM

We expect the steady penetration of cross-selling, expansion of existing products, and international expansion to favorably support the company's solid revenue and earnings growth in the future.

Financial Analysis

Peers comparison: Higher than sector R&D ratio enhances product competitiveness

We choose peer companies Dynatrace and Splunk to compare with, as they also provide complete observability tools in their platforms. Splunk, as a traditional log management and security company with a wide range of business scopes, has larger revenue base with the licence business still accounts over half of its software revenue in 4QFY24 (Splunk's FY ended at 31 Jan), while cloud-native company Datadog continues to deliver above industry average revenue and RPO growth and gains market share robustly.

Due to weak customer cloud spending and optimisation behaviour during 2022-2023, Datadog's revenue growth curve was interrupted. Datadog's cloud-native characteristics and fast-growing product landscape resulted in faster revenue growth and consistently higher net retention, but the impact on its revenue under the spending fatigue was more pronounced as cloud-native organisations significantly tighten their spending in terms of cloud workload more than traditional enterprises. Dynatrace's and Splunk's predominantly traditional-enterprise customer mix resulted in relatively less volatility in revenue growth rates.

However, Datadog's RPO growth remained strong in 2023, especially in 4Q23. Its RPO surged to US$1.84bn in 4Q23, up 74% YoY, thanks to Datadog's ongoing efforts in expanding large enterprises with longer term commitment in recent years. According to the management, Datadog continues to see an increasing interest with their larger customers in multiyear commitments, which results in longer RPO duration in both total and current RPO. These longer-term strategic partnerships herald the potential of future recovery of customer cloud spending under the irreversible cloud migration and AI applications penetration trends. At the same time, Datadog's outstanding full observability and security capabilities help it win many big logos, and both the number of enterprise customers and their percentage of ARR contribution have been increasing.

Figure 37: Peers comparison: revenue growth
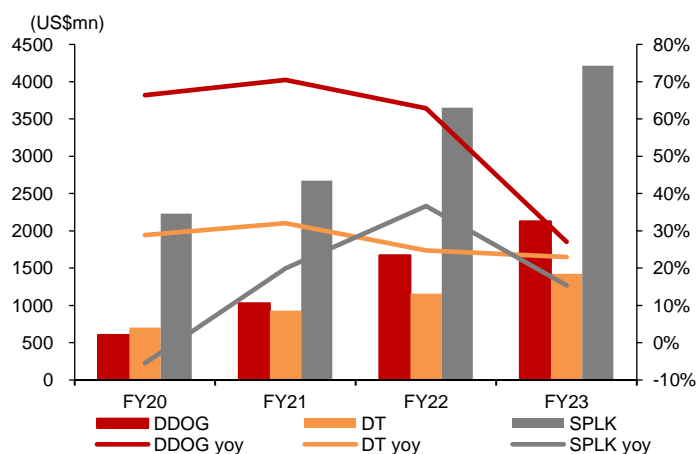
Source: Company data, CMBIGM
Note: DT and SPLK's fiscal year ended 31 Mar and 31 Jan, the data is adjusted one year forward for comparisons. DDOG's fiscal year ended 31 Dec.

Figure 38: Peers comparison: RPO growth

Source: Company data, CMBIGM
Note: DT and SPLK's fiscal year ended 31 Mar and 31 Jan, the data is adjusted one year forward for comparisons. DDOG's fiscal year ended 31 Dec.

Gross margins of the three companies are close since FY22 and are maintained at a high level, but in terms of operating profit margins, Datadog is a bit lower. It is mainly due to the company's product-led-growth strategy, in our view. The company continuously launches new products to improve the product matrix and actively embraces new technologies such as AI, which result in higher than sector R&D ratio. However, under such a platform strategy, along with the contribution of revenue from single large customers who adopt several Datadog's products, Datadog's S&M ratio reduces steadily over 2019-2023.

We are positive on the long-term improvement of operating margins of Datadog, as the commercialization of new products could aid revenue growth and optimization of expenses ratios, and the demand-side drivers, such as the reacceleration of cloud migration when macro environment normalize, and further promotion of enterprise-level AI applications over 2025-2026E, should provide additional support, in our view.

Figure 39: Peers comparison: gross margin

Source: Company data, CMBIGM
Note: DT and SPLK's fiscal year ended 31 Mar and 31 Jan, the data is adjusted one year forward for comparisons. DDOG's fiscal year ended 31 Dec.

Figure 40: Peers comparison: S&M ratio
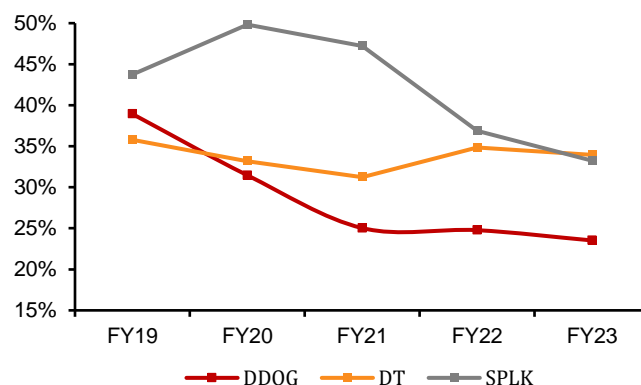
Source: Company data, CMBIGM
Note: DT and SPLK's fiscal year ended 31 Mar and 31 Jan, the data is adjusted one year forward for comparisons. DDOG's fiscal year ended 31 Dec.

Figure 41: Peers comparison: non-GAAP OP margin
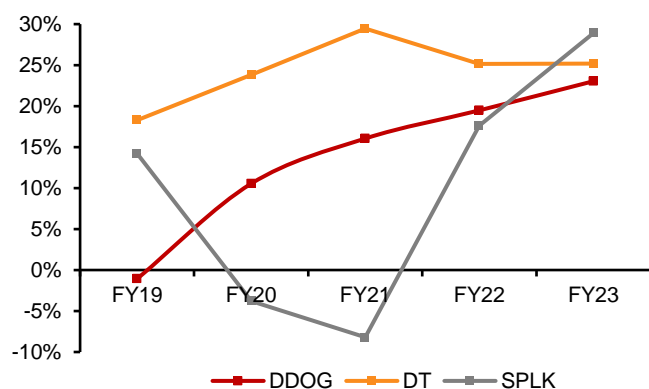
Source: Company data, CMBIGM
Note: DT and SPLK's fiscal year ended 31 Mar and 31 Jan, the data is adjusted one year forward for comparisons. DDOG's fiscal year ended 31 Dec.

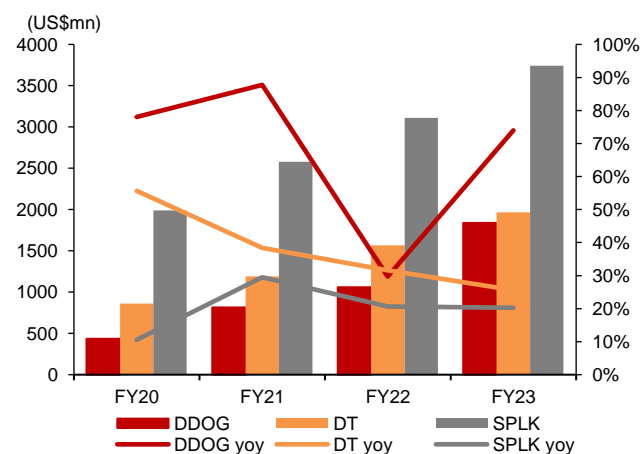**Figure 42: Peers comparison: R&D ratio**
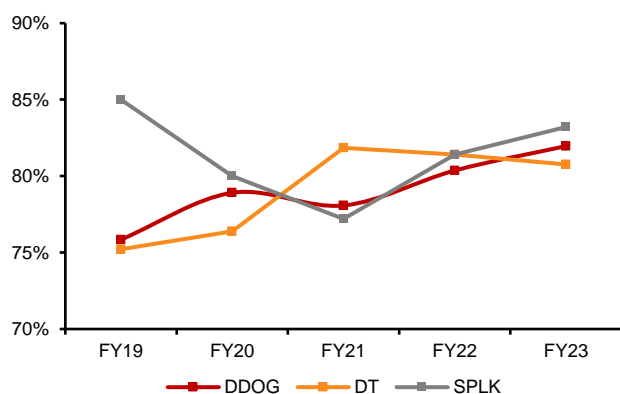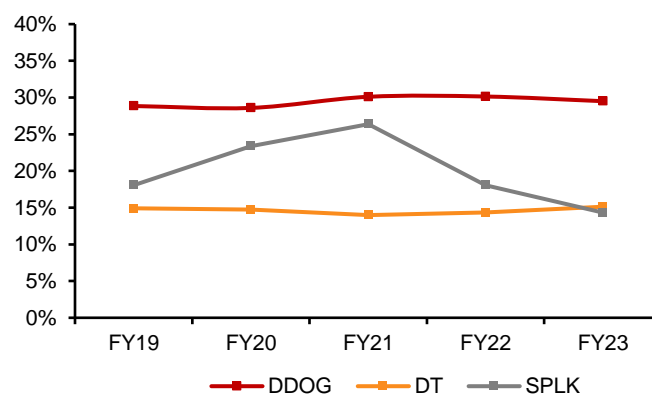

Source: Company data, CMBIGM
Note: DT and SPLK's fiscal year ended 31 Mar and 31 Jan, the data is adjusted one year forward for comparisons. DDOG's fiscal year ended 31 Dec.

Revenue and margin forecast

We forecast DDOG's revenue to achieve a CAGR of 23.9% over 23-26E and reach US$4.05bn in 2026E, driven by new customer acquisition, continuous cross-selling and existing product expansion, international expansion, recovery of weak customer cloud spending, and the potential contribution from AI-native customers.

Looking forward, to accelerate the market presence of the new security and AI-related products, compared to the conservative trajectory in 2023, we expect Datadog to strengthen the sales team and add more headcounts. Also, we expect Datadog to keep investing in R&D by hiring more technical professionals and enriching their Gen-AI capabilities and entire DevOpsSec ecosystem. Currently we are expecting S&M expense growth to be inline with revenue growth over 2024-2026E, and forecast a relatively stable non-GAAP S&M expense ratio at 23.5% due to the ramp up of sales capacity in undercovered areas, while we are positive that this could help drive long-term revenue and earnings growth. For non-GAAP R&D expense ratio, we estimate it to decline from 29.5% to 28.3/28.2/28.0% in 2024/2025/2026E, driven by the unleashing of operating leverage aided by solid revenue growth, although we still look to incremental investment to support long-term business development.

We estimate non-GAAP operating income to achieve a CAGR of 29% over 2023-26E and reach US$1.0bn in 2026E, with non-GAAP OPM expanding from 23.0% in 2023 to 25.8% in 2026E, mainly driven by the optimization in operating expenses ratio aided by solid revenue growth and relatively stable gross margins.

Figure 43: Datadog: total revenue trend
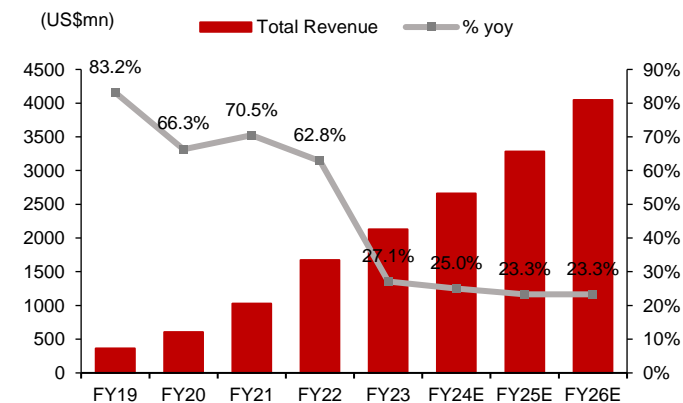
Source: Company data, CMBIGM estimates

Figure 44: Datadog: non-GAAP operating income
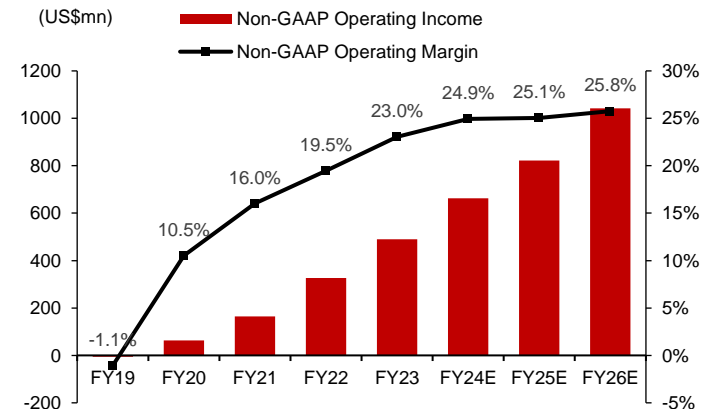
Source: Company data, CMBIGM estimates

Figure 45: Datadog: Operating expense ratios
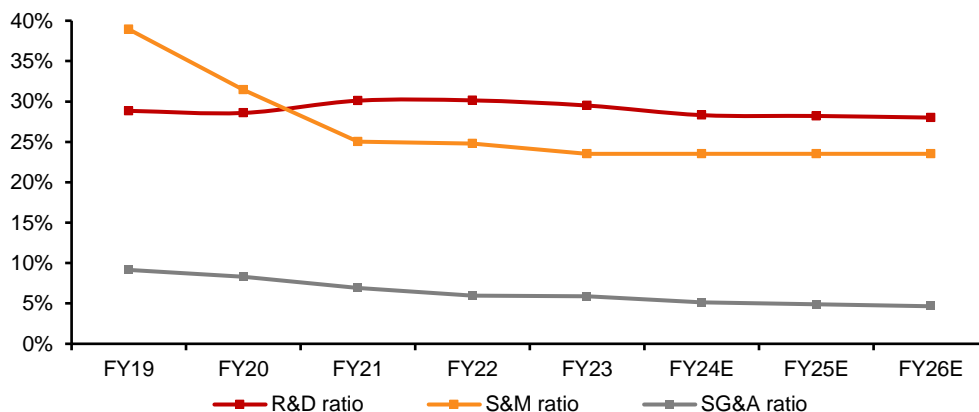
Source: Company data, CMBIGM estimates

Figure 46: Datadog: financial forecast

(US$ mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total revenue	1028.8	1675.1	2128.4	2660.4	3281.3	4046.0
YoY	70.5%	62.8%	27.1%	25.0%	23.3%	23.3%
Gross profit margin	78.1%	80.4%	82.0%	81.9%	81.7%	82.0%
Non-GAAP S&M expense ratio	25.0%	24.8%	23.5%	23.5%	23.5%	23.5%
Non-GAAP R&D expense ratio	30.1%	30.1%	29.5%	28.3%	28.2%	28.0%
Non-GAAP G&A expense ratio	6.9%	6.0%	5.9%	5.1%	4.9%	4.7%
Non-GAAP OPM	16.0%	19.5%	23.0%	24.9%	25.1%	25.8%
Non-GAAP operating income	165.1	326.3	490.2	663.3	822.1	1042.1
Non-GAAP net income margin	16.2%	20.2%	21.8%	23.7%	23.5%	23.7%
Non-GAAP net income	166.8	338.2	464.0	631.8	770.6	958.9

Source: Company data, CMBIGM estimates

Valuation: EV/Sales-based target price of US$154.3 per share

We believe EV/sales is a proper valuation method for Datadog, given its relative high revenue growth visibility supported by subscription model. We value Datadog at US$154.3 per share based on 16.1x 2025E EV/Sales, in line with two-year average plus one s.d, and we see catalysts from: 1) increase in ARR from AI-native customers; and 2) better-than-expected FCF growth aided by the unleashing of OP leverage. Our target EV/Sales is largely inline with that of average for comparable companies, which in our view could be justified by DDOG's solid revenue and earnings growth, as well as rapid ARR growth generated from security and AI.

Figure 47: Datadog: EV/sales band over the past two years
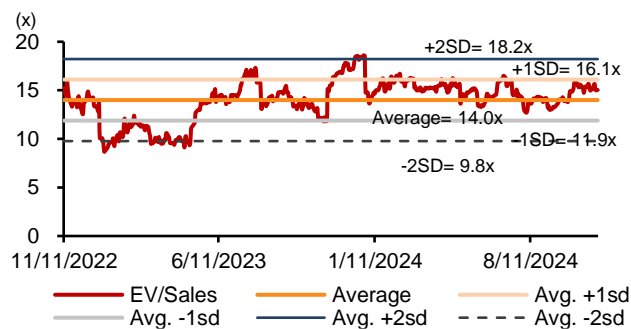
Source: Bloomberg, CMBIGM

Figure 48: Datadog: EV/FCF band over the past two years
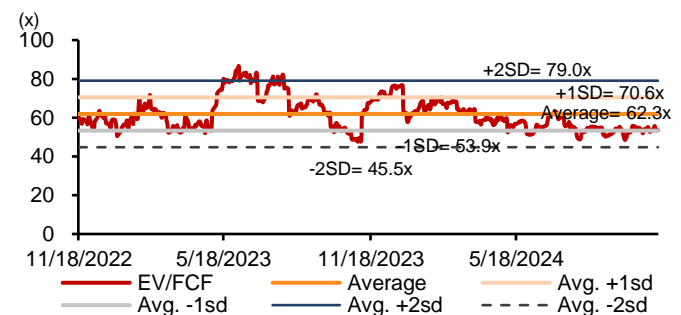
Source: Bloomberg, CMBIGM

Figure 49: Datadog: target valuation

EV/Sales Valuation	2025E
Revenue (US$mn)	3,281
Target 2024E EV/Sales	16.1
Target EV (US$mn)	52,828
Net cash (US$mn)	2,603
Target equity valuation (US$bn)	55,432
Total shares outstanding (Diluted; mn)	359.2
Valuation per share (US$)	**154.3**

Source: Company data, CMBIGM estimates

Figure 50: US SaaS companies valuation comparison

Companies	Ticker	Price (USD)	EV/Sales (x)			Price/Sales (x)			Rev CAGR 23-26E
			2024E	2025E	2026E	2024E	2025E	2026E	
ITOM									
Dynatrace	DT US	53.5	10.6	8.9	7.5	11.2	9.5	8.3	18.8
Security									
Palo Alto Networks	PANW US	398.0	15.8	13.6	11.4	16.3	14.3	12.3	15.4
Fortinet	FTNT US	99.2	12.4	10.7	9.2	12.9	11.5	10.2	12.0
Zscaler	ZS US	209.0	14.3	11.4	9.1	14.8	12.2	10.1	25.7
Crowdstrike	CRWD US	343.5	26.8	20.7	16.6	27.6	21.6	17.7	28.8
Plantir	PLTR US	59.9	47.4	38.0	30.6	48.7	39.4	32.5	23.6
ITSM									
ServiceNow	NOW US	1048.3	19.2	15.7	12.6	19.7	16.3	13.6	21.3
Atlassian	TEAM US	245.3	14.5	12.2	9.9	14.7	12.6	10.5	20.3
Average			**20.1**	**16.4**	**13.4**	**20.7**	**17.2**	**14.4**	

Source: Bloomberg, CMBIGM
Note: data as of 13 Nov 2024

Risks

1) Decline in sales productivity, which may dampen pace of margin expansion; 2) increase in industry competition, which may weigh on both revenue growth and dampen margin expansion; 3) optimization headwind persists.

Appendix

Figure 51: Datadog: Management profile

Name	Position	Prior experience
Olivier Pomel	Chief Executive Officer, Co-Founder and Director	Olivier Pomel is one of the co-founders of Datadog and has served as Chief Executive Officer and a member of board of directors since June 2010. Prior to co-founding Datadog, Mr. Pomel was Vice President of Technology at Wireless Generation, Inc., a SaaS technology company, from 2002 until its acquisition by News Corp. in 2010. Previously, Mr. Pomel held engineering positions at a number of technology and software companies, including IBM Research. Mr. Pomel received his M.S. in Computer Science from Ecole Centrale Paris.
Alexis Lê-Quôc	Chief Technology Officer, Co-Founder and Director	Alexis Lê-Quôc is one of the co-founders of Datadog and has served as Chief Technology Officer and a member of board of directors since June 2010. Prior to co-founding Datadog, Mr. Lê-Quôc worked at Wireless Generation from March 2004 to December 2010, where he most recently served as Director of Live Operations. Previously, Mr. Lê-Quôc held engineering positions at a number of technology and software companies, including IBM Research and France Télécom S.A. Mr. Lê-Quôc received his M.S. in Computer Science from CentraleSupélec.
Amit Agarwal	President	Amit Agarwal has served as President since August 2022 after serving as Chief Product Officer since April 2012. Prior to Datadog, Mr. Agarwal held senior product management and engineering positions at a number of software companies, including Quest Software and IBM. Mr. Agarwal received his M.B.A. in General Management from York University and his M.S. in Computer Science from Dalhousie University.
David Obstler	Chief Financial Officer	David Obstler has served as Chief Financial Officer since November 2018. Prior to joining datadog, Mr. Obstler held Chief Financial Officer positions at a number of other companies including TravelClick, Inc., a hospitality technology company, where he served from September 2014 to October 2018, OpenLink Financial LLC, a financial services software provider, where he served from November 2012 to July 2014, MSCI Inc., a financial index and investment management software company, where he served from June 2010 to September 2012, and Risk Metrics Group, Inc., a risk management and corporate governance service provider, where he served from January 2005 to June 2010. Mr. Obstler has served on the board of directors of Braze, Inc., a publicly held software company, since May 2021. Earlier in his career, Mr.Obstler held various investment banking positions at J.P. Morgan, Lehman Brothers and Goldman Sachs. Mr. Obstler received his M.B.A. from Harvard Business School and his B.A. from Yale University.
Kerry Acocella	General Counsel and Secretary	Kerry Acocella has served as General Counsel since January 2022 after serving as Chief Corporate Counsel since January 2019. Prior to joining Datadog, Ms. Acocella served as Corporate Counsel at Lindblad Expeditions, a Nasdaq-listed expedition travel company from October 2017 to December 2018. From February 2013 to October 2017, she served as Executive Director, Legal & Chief Compliance Officer of Fifth Street Asset Management, a Nasdaq-listed asset manager. Earlier in her career, Ms. Acocella held legal positions at WW International, Inc., formerly Weight Watchers International, Inc. and Morrison & Foerster LLP. Ms. Acocella received her J.D. from Benjamin N. Cardozo School of Law and her B.S. in Psychology from The University of Georgia.
Adam Blitzer	Chief Operating Officer	Adam Blitzer has served as Chief Operating Officer since May 2021. Prior to joining Datadog, Mr. Blitzer held senior management positions at Salesforce, a customer relationship management service platform, from December 2016 to May 2021 most recently as Executive Vice President and General Manager of Digital. From February 2007 to October 2012, Mr. Blitzer founded Pardot, a B2B marketing automation platform, which was acquired by ExactTarget in 2012 and ultimately Salesforce in 2013. Mr. Blitzer received a B.A. in Public Policy Studies from Duke University.

Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Revenue	**1,029**	**1,675**	**2,128**	**2,660**	**3,281**	**4,046**
Cost of goods sold	234	347	410	512	630	767
Gross profit	**795**	**1,328**	**1,718**	**2,149**	**2,651**	**3,279**
Operating expenses	**814**	**1,387**	**1,752**	**2,087**	**2,523**	**3,093**
Selling expense	299	495	609	751	920	1,135
Admin expense	94	139	180	196	227	270
R&D expense	420	752	962	1,140	1,375	1,687
Operating profit	**(19)**	**(59)**	**(33)**	**62**	**128**	**186**
Interest income	22	37	100	140	160	180
Interest expense	(21)	(17)	(6)	(4)	0	0
Pre-tax profit	**(18)**	**(38)**	**60**	**198**	**289**	**367**
Income tax	(2)	(12)	(12)	(16)	(19)	(24)
After tax profit	**(21)**	**(50)**	**49**	**182**	**269**	**343**
Net profit	**(21)**	**(50)**	**49**	**182**	**269**	**343**
Adjusted net profit	**167**	**277**	**464**	**632**	**771**	**959**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Current assets	**1,871**	**2,344**	**3,178**	**4,069**	**5,138**	**6,465**
Cash & equivalents	1,554	1,884	2,583	3,375	4,351	5,506
Account receivables	269	400	509	597	677	834
Prepayment	48	60	86	97	110	125
Non-current assets	**510**	**661**	**758**	**859**	**945**	**1,045**
PP&E	75	125	172	222	292	374
Right-of-use assets	61	88	127	169	169	169
Intangibles	16	16	10	4	4	4
Goodwill	292	348	353	353	353	353
Other non-current assets	65	83	97	111	127	145
Total assets	**2,381**	**3,005**	**3,936**	**4,928**	**6,083**	**7,510**
Current liabilities	**529**	**760**	**1,003**	**1,155**	**1,294**	**1,470**
Account payables	25	23	88	101	93	113
Other current liabilities	111	171	128	120	120	120
Lease liabilities	20	22	22	27	27	27
Contract liabilities	372	543	766	906	1,053	1,210
Non-current liabilities	**811**	**835**	**908**	**946**	**999**	**1,050**
Long-term borrowings	735	739	742	745	745	745
Deferred income	14	13	21	28	44	50
Other non-current liabilities	62	83	144	173	210	255
Total liabilities	**1,340**	**1,594**	**1,911**	**2,101**	**2,293**	**2,521**
Capital surplus	1,197	1,625	2,181	2,781	3,475	4,331
Retained earnings	(152)	(202)	(154)	28	298	640
Other reserves	(4)	(12)	(2)	18	18	18
Total shareholders equity	**1,041**	**1,411**	**2,025**	**2,827**	**3,791**	**4,989**
Total equity and liabilities	**2,381**	**3,005**	**3,936**	**4,928**	**6,083**	**7,510**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**(21)**	**(50)**	**49**	**182**	**269**	**343**
Depreciation & amortization	23	35	44	55	61	80
Change in working capital	63	6	45	(31)	82	38
Others	221	428	522	593	694	856
Net cash from operations	**287**	**418**	**660**	**799**	**1,107**	**1,316**
Investing						
Capital expenditure	(36)	(65)	(62)	(91)	(131)	(162)
Acquisition of subsidiaries/ investments	(215)	(46)	(12)	(1)	0	0
Net proceeds from disposal of short-term investments	(11)	(274)	(656)	(556)	0	0
Others	(12)	na	na	na	na	na
Net cash from investing	**(274)**	**(385)**	**(731)**	**(647)**	**(131)**	**(162)**
Financing						
Proceeds from share issues	35	24	58	31	0	0
Others	(0)	12	0	0	0	0
Net cash from financing	**35**	**36**	**58**	**31**	**0**	**0**
Net change in cash						
Cash at the beginning of the year	229	274	342	330	514	1,490
Exchange difference	(2)	(2)	1	2	0	0
Cash at the end of the year	**274**	**342**	**330**	**514**	**1,490**	**2,644**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	70.5%	62.8%	27.1%	25.0%	23.3%	23.3%
Gross profit	67.9%	67.2%	29.4%	25.0%	23.4%	23.7%
Operating profit	na	na	na	na	107.0%	45.5%
Net profit	na	na	na	274.7%	48.0%	27.3%
Adj. net profit	na	65.9%	67.7%	36.2%	22.0%	24.4%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	77.2%	79.3%	80.7%	80.8%	80.8%	81.0%
Operating margin	(1.9%)	(3.5%)	(1.6%)	2.3%	3.9%	4.6%
Adj. net profit margin	16.2%	16.5%	21.8%	23.7%	23.5%	23.7%
Return on equity (ROE)	(2.1%)	(4.1%)	2.8%	7.5%	8.1%	7.8%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.8)	(0.8)	(0.9)	(0.9)	(1.0)	(1.0)
Current ratio (x)	3.5	3.1	3.2	3.5	4.0	4.4
Receivable turnover days	76.7	72.8	77.9	75.9	70.9	68.2
Payable turnover days	36.3	25.7	49.5	67.4	56.3	49.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	856.9	237.5	167.1	136.6
P/E (diluted)	ns	ns	889.7	253.1	177.9	145.5
P/B	42.4	31.4	22.2	16.3	12.6	9.8

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

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