

ServiceNow (NOW US)

Solid 3Q24 results; riding on GenAI tailwind

ServiceNow announced 3Q24 results: total revenue increased by 22% YoY to US\$2.80bn, 2% ahead of Bloomberg consensus estimate; non-GAAP net income was up by 29% YoY to US\$775mn, 7% ahead of consensus estimate due to top-line outperformance and opex efficiencies. 3Q24 cRPO grew by 23.5% YoY at constant currency, which was 150bps above previous guidance, driven by the large deal momentum and solid adoption of GenAI solutions. For 4Q24E, management guided subscription revenue/cRPO to grow by 20.5/21.5% YoY on a constant currency basis, and non-GAAP OPM to be stable YoY at 29%. We raise our FY24-26E total revenue forecast by c.1% in view of the faster-than-expected pace of GenAI monetization. We roll over valuation window to FY25E, and raise our target price to US\$1,075.0 on 48x FY25E EV/EBITDA (previous: US\$900.0 on 50x FY24 EV/EBITDA). Maintain BUY.

- **cRPO growth maintains solid momentum.** Subscription revenue grew by 22.5% YoY on constant currency to US\$2.72bn in 3Q24, beating previous guidance by 2%; RPO/cRPO increased by 33%/23.5% YoY on constant currency to US\$19.5/9.36bn in 3Q24, a 150/100bps acceleration from 2Q24. The large deal momentum remains solid, and the number of customers with over US\$1mn/20mn ACV (annual contract value) grew by c.14/40% YoY in 3Q24. By vertical, TMT/retail & hospitality sectors were strong, with net new ACV up by over 100/80% YoY respectively in 3Q24. The industry solutions also had a strong quarter, with net new ACV tripling YoY in 3Q24.
- **GenAI continues to make steady progress.** The company 1) now has 44 customers spending over US\$1mn on Now Assist, with total ACV surpassing US\$85mn (c.1% of cRPO); 2) plans to integrate Agentic AI into its platform, with the first use cases to be launched in Nov for Customer Service Management and IT Service Management; 3) announced new solution Workflow Data Fabric, an integrated data layer that powers all workflows and AI agents with real-time data access, which is expected by management to double ServiceNow TAM to c.US\$500bn. Overall, underpinned by its first-mover advantages and product innovation capabilities, we expect ServiceNow to continue to benefit from the GenAI opportunities.
- **Margin expansion on improved operating efficiency.** Non-GAAP operating margin rose by 1.2ppt YoY to 31.2% in 3Q24 mostly due to enhanced operating efficiency. The company plans to prudently accelerate its headcount growth in the coming quarters, given the GenAI and other opportunities ahead. We expect the company's revenue growth will continue to outpace opex growth, and non-GAAP OPM to improve from 27.7% in 2023 to 29.4/30.5/31.9% in 2024/2025/2026E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	7,245	8,971	10,985	13,223	15,738
Adjusted net profit (US\$ mn)	1,543.0	2,215.0	2,860.7	3,537.7	4,395.0
YoY growth (%)	28.5	43.6	29.2	23.7	24.2
EPS (Adjusted) (US\$)	7.66	10.86	13.75	17.01	21.13
Consensus EPS (US\$)	7.66	10.86	13.78	16.50	20.01
P/S (x)	26.1	21.0	17.2	14.3	12.0
P/E (x)	562.6	107.0	142.7	107.7	80.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$1075.00
 (Previous TP US\$900.00)
Up/Downside 18.4%
Current Price US\$907.68

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Stock Data

Mkt Cap (US\$ mn)	188,797.4
Avg 3 mths t/o (US\$ mn)	320.2
52w High/Low (US\$)	944.69/530.17
Total Issued Shares (mn)	208.0

Source: FactSet

Shareholding Structure

The Vanguard Group	8.4%
BlackRock	8.0%

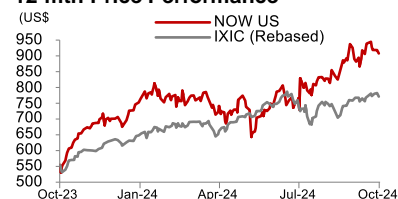
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-1.7%	-2.8%
3-mth	24.2%	17.8%
6-mth	21.6%	4.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: ServiceNow: forecast revision

US\$ bn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	11.0	13.2	15.7	10.9	13.1	15.6	1.1%	1.0%	1.0%
Gross profit	8.7	10.6	12.7	8.6	10.4	12.5	1.4%	1.5%	1.5%
Operating profit	3.2	4.0	5.0	3.1	3.9	4.9	2.7%	2.6%	2.5%
Non-GAAP net profit	2.9	3.5	4.4	2.9	3.5	4.4	0.0%	0.3%	0.3%
Non-GAAP EPS (US\$)	13.8	17.0	21.1	14.0	17.3	21.5	-2.0%	-1.7%	-1.6%
Gross margin	79.6%	80.2%	80.6%	81.5%	81.7%	81.8%	-1.9 ppt	-1.5 ppt	-1.2 ppt
Non-GAAP OPM	29.4%	30.5%	31.9%	29.7%	30.7%	32.0%	-0.4 ppt	-0.2 ppt	-0.1 ppt
Non-GAAP net margin	26.0%	26.8%	27.9%	27.1%	27.6%	28.7%	-1.0 ppt	-0.8 ppt	-0.7 ppt

Source: CMBIGM estimates

Figure 2: ServiceNow: CMBIGM estimates vs consensus

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	11.0	13.2	15.7	10.9	13.2	15.8	0.6%	0.5%	-0.4%
Gross Profit	8.7	10.6	12.7	9.0	10.9	13.1	-3.0%	-2.3%	-2.8%
Operating Profit	3.2	4.0	5.0	3.2	4.0	5.0	0.2%	0.8%	0.6%
Non-GAAP net profit	2.9	3.5	4.4	2.9	3.5	4.3	-0.4%	1.6%	2.7%
Non-GAAP EPS (US\$)	13.8	17.0	21.1	13.8	16.5	20.0	-0.2%	3.1%	5.6%
Gross Margin	79.6%	80.2%	80.6%	82.6%	82.5%	82.7%	-3.0 ppt	-2.3 ppt	-2.1 ppt
Non-GAAP OPM	29.4%	30.5%	31.9%	29.5%	30.4%	31.6%	-0.1 ppt	0.1 ppt	0.3 ppt
Non-GAAP net margin	26.0%	26.8%	27.9%	26.3%	26.5%	27.1%	-0.3 ppt	0.3 ppt	0.8 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

We value ServiceNow at US\$1075.0 per share based on 48x 2025E EV/EBITDA. Our target EV/EBITDA is at a premium to the sector average (30x), which is justified by ServiceNow's strong earnings growth outlook over 2024-2026E.

Figure 3: ServiceNow: target valuation

EV/EBITDA Valuation (US\$mn)	FY25E
Adjusted EBITDA	4,572
Target 2025E EV/EBITDA	48.0
Target EV	219,448
Net cash	4,144
Target equity valuation	223,592
Valuation per share (USD)	1,075.0

Source: Company data, CMBIGM estimates

Figure 4: SaaS: valuation comparison

Companies	Ticker	Price (Local)	2024E	EV/Sales (x)			EV/EBITDA (x)			Rev CAGR 24-26E
				2025E	2026E	2024E	2025E	2026E		
ITSM										
ServiceNow	NOW US	907.7	16.9	14.0	11.7	49.5	41.8	34.8	21%	
Atlassian	TEAM US	188.8	9.5	8.0	6.5	41.0	32.3	24.5	19%	
CRM										
Salesforce	CRM US	284.4	7.2	6.6	6.0	18.1	16.7	15.5	9%	
HubSpot	HUBS US	531.9	10.4	8.9	7.6	51.3	42.5	32.4	18%	
Five9	FIVN US	30.0	2.3	2.0	1.8	12.6	10.8	8.8	12%	
Security										
CrowdStrike	CRWD US	299.3	18.1	14.9	12.1	75.6	59.3	43.4	24%	
Okta	OKTA US	72.2	4.4	4.0	3.6	na	na	14.4	12%	
ERP										
SAP	SAP US	234.6	8.5	7.6	6.8	32.6	22.9	19.6	11%	
Oracle	ORCL US	173.1	9.7	8.7	7.6	19.1	16.6	14.5	12%	
Average			9.7	8.3	7.1	37.5	30.4	23.1		

Source: Bloomberg, CMBIGM

Note: data are as of 23 Oct 2024

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	5,896	7,245	8,971	10,985	13,223	15,738
Cost of goods sold	(1,353)	(1,573)	(1,921)	(2,245)	(2,623)	(3,051)
Gross profit	4,543	5,672	7,050	8,740	10,600	12,687
Operating expenses	(4,286)	(5,317)	(6,288)	(7,459)	(8,819)	(10,239)
Selling expense	(2,292)	(2,814)	(3,301)	(3,944)	(4,605)	(5,316)
Admin expense	(597)	(735)	(863)	(934)	(1,107)	(1,298)
R&D expense	(1,397)	(1,768)	(2,124)	(2,581)	(3,107)	(3,625)
Operating profit	257	355	762	1,282	1,781	2,448
Other income	20	71	(56)	(33)	13	16
Interest expense	(28)	(27)	302	384	397	472
Pre-tax profit	249	399	1,008	1,633	2,191	2,936
Income tax	19	74	(723)	310	438	587
After tax profit	230	325	1,731	1,323	1,753	2,349
Net profit	230	325	1,731	1,323	1,753	2,349
Adjusted net profit	1,201	1,543	2,215	2,861	3,538	4,395

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	5,220	6,654	7,777	10,981	14,771	19,410
Cash & equivalents	1,728	1,470	1,897	3,615	5,632	8,171
Account receivables	1,390	1,725	2,036	2,493	2,941	3,360
Prepayment	223	280	403	479	565	652
Financial assets at FVTPL	1,576	2,810	2,980	3,874	5,036	6,547
Other current assets	303	369	461	521	596	680
Non-current assets	5,578	6,645	9,610	10,935	12,543	14,454
PP&E	766	1,053	1,358	1,630	1,946	2,368
Right-of-use assets	591	682	715	715	715	715
Deferred income tax	692	636	1,508	1,508	1,508	1,508
Investment in JVs & assos	1,630	2,117	3,203	4,164	5,309	6,636
Intangibles	287	232	224	224	224	224
Goodwill	777	824	1,231	1,231	1,231	1,231
Other non-current assets	835	1,101	1,371	1,463	1,610	1,772
Total assets	10,798	13,299	17,387	21,916	27,314	33,864
Current liabilities	4,949	6,005	7,365	8,732	10,240	11,978
Short-term borrowings	92	0	0	0	0	0
Account payables	89	274	126	143	159	179
Lease liabilities	82	96	89	89	89	89
Contract liabilities	3,836	4,660	5,785	7,033	8,466	10,076
Accrued expenses	850	975	1,365	1,467	1,526	1,633
Non-current liabilities	2,154	2,262	2,394	2,420	2,442	2,466
Long-term borrowings	1,484	1,486	1,488	1,488	1,488	1,488
Deferred income	63	70	81	107	129	153
Other non-current liabilities	607	706	825	825	825	825
Total liabilities	7,103	8,267	9,759	11,152	12,682	14,444
Share capital	0	0	0	0	0	0
Capital surplus	3,665	4,796	5,661	7,474	9,589	12,029
Retained earnings	30	236	1,967	3,290	5,042	7,391
Total shareholders equity	3,695	5,032	7,628	10,763	14,632	19,420
Total equity and liabilities	10,798	13,299	17,387	21,916	27,314	33,864

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	249	399	1,008	1,633	2,191	2,936
Depreciation & amortization	472	433	562	552	675	759
Tax paid	19	74	(723)	310	438	587
Change in working capital	58	174	(101)	709	773	1,010
Others	1,393	1,643	2,652	1,192	1,239	1,265
Net cash from operations	2,191	2,723	3,398	4,396	5,317	6,557
Investing						
Capital expenditure	(401)	(340)	(300)	(457)	(448)	(419)
Acquisition of subsidiaries/ investments	(565)	(566)	(717)	(152)	(223)	(246)
Net proceeds from disposal of short-term investments	(437)	(1,960)	(1,112)	(1,855)	(2,307)	(2,838)
Others	(204)	283	(38)	(215)	(321)	(515)
Net cash from investing	(1,607)	(2,583)	(2,167)	(2,679)	(3,299)	(4,018)
Financing						
Net borrowings	(61)	(94)	0	0	0	0
Others	(445)	(250)	(803)	0	0	0
Net cash from financing	(506)	(344)	(803)	0	0	0
Net change in cash						
Cash at the beginning of the year	1,679	1,732	1,475	1,904	3,622	5,640
Exchange difference	(25)	(53)	1	0	0	0
Cash at the end of the year	1,732	1,475	1,904	3,622	5,640	8,178
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	30.5%	22.9%	23.8%	22.4%	20.4%	19.0%
Gross profit	28.6%	24.9%	24.3%	24.0%	21.3%	19.7%
Operating profit	29.2%	38.1%	114.6%	68.2%	39.0%	37.5%
Net profit	94.1%	41.3%	432.6%	(23.6%)	32.5%	34.0%
Adj. net profit	29.7%	28.5%	43.6%	29.2%	23.7%	24.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	77.1%	78.3%	78.6%	79.6%	80.2%	80.6%
Operating margin	4.4%	4.9%	8.5%	11.7%	13.5%	15.6%
Adj. net profit margin	20.4%	21.3%	24.7%	26.0%	26.8%	27.9%
Return on equity (ROE)	7.0%	7.4%	27.3%	14.4%	13.8%	13.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.1	1.1	1.1	1.3	1.4	1.6
Receivable turnover days	86.0	86.9	82.8	82.8	81.2	77.9
Payable turnover days	(24.0)	(63.6)	(23.9)	(23.2)	(22.1)	(21.4)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	781.4	562.6	107.0	142.7	107.7	80.4
P/E (diluted)	801.1	568.4	108.0	142.7	107.7	80.4
P/B	48.6	36.3	24.3	17.5	12.9	9.7

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

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