

Salesforce (CRM US)

cRPO growth moderating on macro headwind

Salesforce announced 1QFY25 financial results: total revenue grew 11% YoY to US\$9.13bn, in line with consensus estimate; non-GAAP operating income grew by 29% YoY to US\$2.93bn, in line with consensus estimate. The market is concerned that its cRPO growth rate decelerated to 10% YoY in 1QFY25 (4QFY24: +12% YoY) and was below the company guidance (+11% YoY), primarily due to clients' more measured buying behaviour and Salesforce's changes of go-to-market organization. In view of the macro headwind, management adjusted down FY25 subscription & support revenue growth guidance to slightly below 10% (previous: +10% YoY), while keeping non-GAAP operating margin guidance unchanged. We lower FY25-27E total revenue forecast by 1-2% on the persistent headwind for bookings growth. We lower our target price to US\$335.0 on 20x FY25 EV/EBITDA (previous: US\$350.0 on 22x FY25 EV/EBITDA) to reflect the changes. Maintain BUY.

- Moderating bookings growth on measured buying behaviour.** Both cRPO and RPO were under pressure due to measured buying environment and customers' preference for shorter-duration contracts. cRPO/RPO grew by 10/15% YoY in 1QFY25 (vs. +12/+17% YoY in 4QFY24). Sales/Service Cloud revenue grew by 10/11% YoY to US\$2.0/2.2bn in 1QFY25. Integration and Analytics Cloud revenue was up by 24% YoY to US\$1.4bn in 1QFY25, underpinned by the strong demand for data cloud and multi-cloud adoption. By industry, public and financial sectors delivered resilient growth, while tech and retail sectors were under pressure in 1QFY25. For 2QFY25E, management guided total revenue to grow by 7-8% YoY to US\$9.20-9.25bn, below consensus estimate of US\$9.35bn.
- Data cloud maintained strong momentum.** Supported by the tailwind of generative AI, Salesforce continued to see strong demand for its data cloud solution. In 1QFY25, data cloud was already included in 25% of Salesforce's million-dollar-plus deals. Eight trillion records were ingested and two quadrillion records were processed in data cloud in 1QFY25, which were up 42% YoY and 217% YoY respectively. The company created the Zero Copy Partner Network with Amazon, Google, Microsoft, and Snowflake in April 2024, which enables customers to access data across different locations with lower costs and higher efficiency. With its strong data cloud and multi-cloud integration capability, Salesforce is well-positioned to benefit from generative AI development, in our view.
- Committed to margin expansion.** Non-GAAP operating margin improved by 4.5ppt YoY to 32.1% in 1QFY25, mainly driven by the efficiency gains in S&M and G&A. S&M expense ratio was down by 2.8ppt YoY and 1.5ppt QoQ to 35.5% in 1QFY25, thanks to the adjustment of go-to-market organization. Salesforce remains committed to productivity gains and margin expansion, maintaining FY25 non-GAAP operating margin guidance at 32.5% (+2ppt YoY). We continue to expect it to release operating leverage.

Earnings Summary

(YE 31 Jan)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	31,352	34,857	37,836	40,884	43,982
Adjusted net profit (US\$ mn)	5,224.0	8,087.0	9,321.3	10,568.6	11,970.2
YoY growth (%)	12.1	54.8	15.3	13.4	13.3
EPS (Adjusted) (US\$)	5.27	8.30	9.57	10.85	12.29
Consensus EPS (US\$)	5.27	8.30	9.79	11.09	12.96
P/S (x)	6.8	6.1	5.6	5.2	4.8
P/E (x)	1,039.7	51.3	35.6	30.4	26.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$335.00
(Previous TP)	US\$350.00)
Up/Downside	53.7%
Current Price	US\$218.01

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Stock Data

Mkt Cap (US\$ mn)	212,341.7
Avg 3 mths t/o (US\$ mn)	676.5
52w High/Low (US\$)	316.88/196.25
Total Issued Shares (mn)	974.0

Source: FactSet

Shareholding Structure

The Vanguard Group	8.6%
BlackRock	7.5%

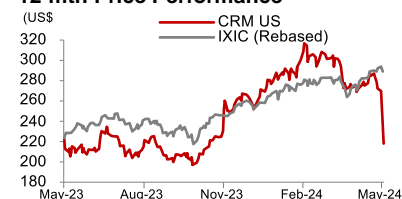
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-18.9%	-24.2%
3-mth	-29.4%	-32.1%
6-mth	-13.5%	-26.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Salesforce: forecast revision

US\$ bn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	37.8	40.9	44.0	38.1	41.3	44.6	-0.6%	-1.1%	-1.5%
Gross profit	28.8	31.4	33.9	28.9	31.7	34.4	-0.7%	-1.2%	-1.6%
Non-GAAP OP	12.3	14.0	15.8	12.5	14.2	16.1	-1.0%	-1.2%	-1.6%
Non-GAAP NP	9.3	10.6	12.0	9.4	10.7	12.2	-1.2%	-1.2%	-1.7%
EPS (US\$)	9.6	10.9	12.3	9.7	11.0	12.5	-1.2%	-1.2%	-1.7%
Gross margin	76.0%	76.7%	77.0%	76.0%	76.7%	77.1%	0.0 ppt	0.0 ppt	-0.1 ppt
Non-GAAP OPM	32.6%	34.3%	36.0%	32.7%	34.4%	36.1%	-0.1 ppt	0.0 ppt	-0.1 ppt
Non-GAAP NPM	24.6%	25.9%	27.2%	24.8%	25.9%	27.3%	-0.1 ppt	0.0 ppt	0.0 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	37.8	40.9	44.0	38.0	42.0	47.0	-0.5%	-2.5%	-6.3%
Gross profit	28.8	31.4	33.9	30.2	33.4	37.0	-4.8%	-6.1%	-8.6%
Non-GAAP OP	12.3	14.0	15.8	12.4	14.1	16.4	-0.3%	-0.7%	-3.1%
Non-GAAP NP	9.3	10.6	12.0	9.7	11.1	12.8	-3.8%	-4.6%	-6.8%
EPS (US\$)	9.6	10.9	12.3	9.8	11.1	13.0	-2.3%	-2.2%	-5.2%
Gross margin	76.0%	76.7%	77.0%	79.5%	79.6%	78.9%	-3.5 ppt	-2.9 ppt	-1.9 ppt
Non-GAAP OPM	32.6%	34.3%	36.0%	32.5%	33.7%	34.8%	0.0 ppt	0.7 ppt	1.2 ppt
Non-GAAP NPM	24.6%	25.9%	27.2%	25.5%	26.4%	27.3%	-0.9 ppt	-0.6 ppt	-0.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Salesforce: quarterly financials

(US\$ mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Cons.	Diff%
Sales	1,695	1,717	1,787	1,810	1,895	1,906	1,969	1,998		
YoY %	14.8%	11.6%	12.7%	10.9%	11.8%	11.0%	10.2%	10.4%		
Services	1,828	1,856	1,924	1,964	2,049	2,074	2,158	2,182		
YoY %	14.3%	11.9%	12.5%	11.5%	12.1%	11.7%	12.2%	11.1%		
Platform & Other	1,478	1,513	1,557	1,567	1,638	1,686	1,720	1,718		
YoY %	52.5%	18.5%	15.3%	10.4%	10.8%	11.4%	10.5%	9.6%		
Marketing & Commerce	1,121	1,129	1,177	1,170	1,238	1,230	1,274	1,282		
YoY %	17.4%	12.2%	12.5%	7.4%	10.4%	8.9%	8.2%	9.6%		
Integration and Analytics	1,021	1,018	1,344	1,131	1,186	1,245	1,627	1,405		
YoY %	11.8%	13.1%	18.3%	18.4%	16.2%	22.3%	21.1%	24.2%		
Total revenue	7,720	7,837	8,384	8,247	8,603	8,720	9,287	9,133	9,145	-0.1%
YoY %	21.8%	14.2%	14.4%	11.3%	11.4%	11.3%	10.8%	10.7%		
Non-GAAP OP	1,536	1,777	2,447	2,274	2,721	2,717	2,920	2,928	2,948	-0.7%
YoY %	19.0%	30.9%	123.3%	73.9%	77.1%	52.9%	19.3%	28.8%		
Non-GAAP OPM	19.9%	22.7%	29.2%	27.6%	31.6%	31.2%	31.4%	32.1%		
Non-GAAP NP	1,190	1,398	1,656	1,674	2,094	2,068	2,251	2,407	2,347	2.6%
YoY %	-15.1%	9.8%	96.4%	70.5%	76.0%	47.9%	35.9%	43.8%		
Non-GAAP NPM	15.4%	17.8%	19.8%	20.3%	24.3%	23.7%	24.2%	26.4%		

Source: Company data, CMBIGM estimates

Valuation

We value Salesforce at US\$335.0 per share based on 20x FY25E EV/EBITDA. Our target EV/EBITDA is at a discount to the sector average (25x), given Salesforce earnings growth has entered a more mature stage.

Figure 4: Salesforce: target valuation

EV/EBITDA Valuation (US\$m)	FY25E
Adjusted EBITDA	15,842
Target FY25E EV/EBITDA	20
Target EV	316,833
Net cash	12,810
Target equity valuation	329,643
Valuation per share (USD)	335.0

Source: Company data, CMBIGM estimates

Figure 5: SaaS: valuation comparison

Companies	Ticker	Price (Local)	EV/Sales (x)			EV/EBITDA (x)			Rev CAGR 24-26E
			2024E	2025E	2026E	2024E	2025E	2026E	
CRM									
Salesforce	CRM US	271.6	6.9	6.3	5.6	17.3	15.8	14.2	10%
HubSpot	HUBS US	648.2	12.6	10.6	9.2	66.3	52.7	39.4	18%
Five9	FIVN US	47.8	3.4	2.8	2.4	18.8	15.0	11.2	18%
ITSM									
ServiceNow	NOW US	731.1	13.5	11.2	9.4	39.3	32.1	25.8	21%
Atlassian	TEAM US	165.8	10.0	8.3	6.7	44.7	36.4	28.2	21%
Security									
CrowdStrike	CRWD US	349.5	20.5	16.2	13.2	79.0	58.5	45.5	26%
Okta	OKTA US	96.4	6.1	5.4	4.7	NA	NA	19.8	13%
ERP									
SAP	SAP US	190.4	6.8	6.1	5.5	26.2	19.0	16.7	11%
Oracle	ORCL US	123.7	8.1	7.5	6.8	16.6	15.0	13.3	9%
Collaboration									
Twilio	TWLO US	57.8	1.7	1.6	1.5	11.2	9.8	11.7	7%
Ring Central	RNG US	34.5	2.0	1.8	1.7	7.8	7.3	7.3	8%
Zoom	ZM US	61.4	2.6	2.5	2.4	6.5	6.2	7.3	3%
Average			7.9	6.7	5.8	31.6	25.2	20.6	

Source: Bloomberg, CMBIGM

Note: data are as of 29 May 2024

Risks

An intensified competitive environment from hyperscalers and other SaaS providers, deceleration of RPO and revenue growth on adverse economic conditions, and increased privacy concerns and restrictions of cross-border data transfers.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan (US\$ mn)						
Revenue	26,492	31,352	34,857	37,836	40,884	43,982
Cost of goods sold	(7,026)	(8,360)	(8,541)	(9,086)	(9,533)	(10,118)
Gross profit	19,466	22,992	26,316	28,751	31,351	33,864
Operating expenses	(18,918)	(21,962)	(21,305)	(21,188)	(22,426)	(23,512)
Selling expense	(11,855)	(13,526)	(12,877)	(13,054)	(13,682)	(14,277)
Admin expense	(2,598)	(3,381)	(3,522)	(2,838)	(3,020)	(3,200)
R&D expense	(4,465)	(5,055)	(4,906)	(5,297)	(5,724)	(6,034)
Operating profit	548	1,030	5,011	7,562	8,925	10,352
Other expense	(227)	(131)	216	189	204	220
Other gains/(losses)	1,211	(239)	(277)	(288)	(409)	(440)
Pre-tax profit	1,532	660	4,950	7,463	8,721	10,132
Income tax	(88)	(452)	(814)	(1,493)	(1,744)	(2,026)
After tax profit	1,444	208	4,136	5,970	6,976	8,106
Net profit	1,444	208	4,136	5,970	6,976	8,106
Adjusted net profit	4,659	5,224	8,087	9,321	10,569	11,970
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan (US\$ mn)						
Current assets	22,850	26,395	29,074	34,223	41,486	49,479
Cash & equivalents	5,464	7,016	8,472	12,810	19,673	27,317
Account receivables	9,739	10,755	11,414	12,142	12,464	12,738
Prepayment	1,120	1,356	1,561	1,644	1,723	1,798
Financial assets at FVTPL	5,073	5,492	5,722	5,722	5,722	5,722
Other current assets	1,454	1,776	1,905	1,905	1,905	1,905
Non-current assets	72,359	72,454	70,749	69,410	68,740	68,747
PP&E	2,815	3,702	3,689	3,762	3,797	4,157
Deferred income tax	2,623	2,800	3,433	3,433	3,433	3,433
Investment in JVs & assos	4,784	4,672	4,848	4,848	4,848	4,848
Intangibles	8,978	7,125	5,278	3,867	3,161	2,808
Goodwill	47,937	48,568	48,620	48,620	48,620	48,620
Other non-current assets	5,222	5,587	4,881	4,881	4,881	4,881
Total assets	95,209	98,849	99,823	103,633	110,226	118,227
Current liabilities	21,788	25,891	26,631	26,156	27,252	28,378
Account payables	5,356	6,486	6,111	5,721	5,702	5,750
Other current liabilities	4	1,182	999	999	999	999
Lease liabilities	800	847	518	518	518	518
Contract liabilities	15,628	17,376	19,003	18,918	20,033	21,111
Non-current liabilities	15,290	14,599	13,546	13,546	13,546	13,546
Long-term borrowings	10,592	9,419	8,427	8,427	8,427	8,427
Other non-current liabilities	4,698	5,180	5,119	5,119	5,119	5,119
Total liabilities	37,078	40,490	40,177	39,702	40,798	41,924
Share capital	1	1	1	1	1	1
Capital surplus	50,919	55,047	59,841	58,156	56,676	55,445
Retained earnings	7,377	7,585	11,721	17,691	24,668	32,774
Other reserves	(166)	(4,274)	(11,917)	(11,917)	(11,917)	(11,917)
Total shareholders equity	58,131	58,359	59,646	63,931	69,428	76,303
Total equity and liabilities	95,209	98,849	99,823	103,633	110,226	118,227

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan (US\$ mn)						
Operating						
Profit before taxation	1,532	660	4,950	7,463	8,721	10,132
Depreciation & amortization	3,298	3,786	3,959	3,512	2,920	2,320
Tax paid	(88)	(452)	(814)	(1,493)	(1,744)	(2,026)
Change in working capital	(2,869)	(1,830)	(2,573)	(1,285)	695	777
Others	4,127	4,947	4,712	3,065	3,271	3,519
Net cash from operations	6,000	7,111	10,234	11,262	13,862	14,721
Investing						
Capital expenditure	(717)	(798)	(736)	(946)	(1,022)	(1,100)
Acquisition of subsidiaries/ investments	(14,876)	(439)	(82)	0	0	0
Net proceeds from disposal of short-term investments	(1,495)	(3,006)	(2,250)	0	0	0
Others	2,552	2,254	1,741	(1,228)	(1,228)	(1,228)
Net cash from investing	(14,536)	(1,989)	(1,327)	(2,173)	(2,250)	(2,327)
Financing						
Net borrowings	6,705	(4)	(1,182)	0	0	0
Share repurchases	0	(4,000)	(7,620)	(4,750)	(4,750)	(4,750)
Others	1,133	442	1,325	0	0	0
Net cash from financing	7,838	(3,562)	(7,477)	(4,750)	(4,750)	(4,750)
Net change in cash						
Cash at the beginning of the year	6,195	5,464	7,016	8,472	12,810	19,673
Exchange difference	(33)	(8)	26	0	0	0
Cash at the end of the year	5,464	7,016	8,472	12,810	19,673	27,317
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan						
Revenue	24.7%	18.3%	11.2%	8.5%	8.1%	7.6%
Gross profit	23.1%	18.1%	14.5%	9.3%	9.0%	8.0%
Operating profit	20.4%	88.0%	386.5%	50.9%	18.0%	16.0%
Net profit	(64.5%)	(85.6%)	1,888.5%	44.4%	16.9%	16.2%
Adj. net profit	1.7%	12.1%	54.8%	15.3%	13.4%	13.3%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan						
Gross profit margin	73.5%	73.3%	75.5%	76.0%	76.7%	77.0%
Operating margin	2.1%	3.3%	14.4%	20.0%	21.8%	23.5%
Adj. net profit margin	17.6%	16.7%	23.2%	24.6%	25.9%	27.2%
Return on equity (ROE)	2.9%	0.4%	7.0%	9.7%	10.5%	11.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan						
Current ratio (x)	1.0	1.0	1.1	1.3	1.5	1.7
Receivable turnover days	134.2	125.2	119.5	117.1	111.3	105.7
Payable turnover days	(278.2)	(283.2)	(261.2)	(229.8)	(218.3)	(207.4)
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan						
P/E	144.2	1,039.7	51.3	35.6	30.4	26.2
P/E (diluted)	147.1	1,045.0	51.9	35.9	30.7	26.5
P/B	3.6	3.7	3.6	3.3	3.1	2.8

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

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