

Palo Alto Networks (PANW US)

AI-driven demand extends growth runway

Palo Alto Networks (PANW) announced 3QFY26 (year-end Jul) results: revenue rose 31% YoY to US\$3.0bn (or 14% YoY excluding the consolidation impact of CyberArk and Chronosphere), 2.0% ahead of Bloomberg consensus; non-GAAP net income reached US\$684mn, up 22% YoY and 5% above consensus. AI-driven demand is extending PANW's growth runway, in our view, as evidenced by early-stage results: 1) over US\$200mn ARR from a leading frontier AI lab that relies on PANW for observability across training and inference; and 2) over 300 Prisma AIRS customers in 3QFY26 (up from ~30/>100 in 1Q/2QFY26). Meanwhile, PANW's ~40% YoY growth in SASE (Secure Access Service Edge) ARR in 3QFY26 (accelerated from 36% in 3QFY25)—propelled by customers prioritizing unified protection across hybrid workforces and AI applications—was more than 2x average market growth, demonstrating PANW's strong market positioning. We remain positive that PANW is one of the key beneficiaries of the Gen-AI era, as demand for security should grow steadily alongside the increasing scale of AI-related deployments. We lift our FY26-28E revenue/non-GAAP net profit estimates by 1-5%/2-6%, driven by the stronger-than-expected ramp-up in security demand. We roll over our valuation window to FY27E and lift our TP to US\$299.7, based on a 16.5x EV/sales multiple (was 14.6x), in line with the stock's two-year average EV/sales plus 2 s.d. BUY.

■ **SASE ARR growth remained strong.** Continued momentum in platformization drove PANW's solid revenue growth in 3QFY26. As of end-3QFY26, PANW had achieved ~1,650 total platformizations (excl. identity & observability), with 110 net new adds QoQ (2QFY26: ~110 QoQ). Management highlighted that the net retention rate for platformized customers was 120% in 3QFY26 (2QFY26: 119%). Next-Generation Security (NGS) ARR reached US\$8.1bn by end-3QFY26, up 60% YoY (or 28% YoY excluding the contribution from the CyberArk and Chronosphere acquisitions). The number of accounts with >US\$5mn/>US\$10mn NGS ARR reached 195/67 respectively in 3QFY26, up 51%/49% YoY. SASE ARR grew c.40% YoY to over US\$1.6bn (2QFY26: 40%). PANW continued to gain share in the SASE market and remained the fastest-growing vendor at scale. Management guided for US\$8.9bn-8.95bn NGS ARR in 4QFY26E, implying 59-60% YoY growth, ahead of consensus at US\$8.47bn.

■ **The AI security platform is rapidly gaining traction.** PANW's Prisma AIRS recorded >300 customers in 3QFY26 (2QFY26: >100), and management expects >US\$100mn ARR for the platform within the next two quarters. Cortex XSIAM, the company's AI-driven security operations platform, is unifying security data for the AI SOC (Security Operations Centre), and its ARR rose ~100% YoY to over US\$600mn in 3QFY26. Cortex XSIAM now has over 740 customers, up 150% YoY. Chronosphere, the next-generation observability platform, saw its ARR surpass US\$300mn in 3QFY26 and is scaling alongside growing AI data and infrastructure.

■ **4QFY26 guidance was ahead of consensus.** Management expects: 1) total revenue of US\$3.345bn-3.355bn, up 32% YoY and 2% ahead of consensus; and 2) non-GAAP EPS of US\$0.96-0.98, also ahead of consensus at US\$0.94.

BUY (Maintain)

Target Price	US\$299.70
(Previous TP)	US\$222.70)
Up/Downside	6.9%
Current Price	US\$280.43

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Stock Data

Mkt Cap (US\$ mn)	228,830.9
Avg 3 mths t/o (US\$ mn)	711.1
52w High/Low (US\$)	300.48/141.67
Total Issued Shares (mn)	816.0

Source: FactSet

Shareholding Structure

Blackrock Inc.	7.8%
Vanguard Group Inc	6.3%

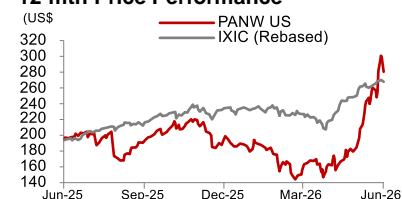
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	51.9%	41.8%
3-mth	76.9%	50.2%
6-mth	43.3%	25.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Jul)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US\$ mn)	8,028	9,222	11,424	14,283	16,054
YoY growth (%)	16.5	14.9	23.9	25.0	12.4
Net profit (US\$ mn)	2,577.6	1,133.9	777.5	1,452.2	2,110.1
Adjusted net profit (US\$ mn)	1,948.1	2,344.5	2,888.0	3,650.8	4,240.1
YoY growth (%)	35.3	20.3	23.2	26.4	16.1
EPS (Adjusted) (US\$)	5.67	3.31	3.77	4.27	4.93
Consensus EPS (US\$)	na	3.34	3.70	4.01	4.64

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PANW: quarterly results trend

(USD mn)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	3QFY26 consensus	Diff%
Revenue	2,139	2,257	2,289	2,536	2,474	2,594	3,002	2,944	2.0%
<i>Growth - YoY</i>	13.9%	14.3%	15.3%	15.8%	15.7%	14.9%	31.1%		
Product revenue	354	422	453	574	434	514	594	562	5.8%
<i>Growth - YoY</i>	3.7%	7.9%	15.8%	19.4%	22.7%	21.9%	31.2%		
Subscription and support revenue	1,785	1,836	1,836	1,962	2,040	2,080	2,408	2,372	1.5%
<i>Growth - YoY</i>	16.1%	15.9%	15.2%	14.8%	14.3%	13.3%	31.1%		
<i>Subscription revenue as % of total revenue</i>	83.5%	81.3%	80.2%	77.4%	82.5%	80.2%	80.2%		
Gross profit	1,651.9	1,726.9	1,738.7	1,920.7	1,900.0	1,973.0	2,270.0	2,239.7	1.4%
GAAP R&D expenses	480.4	505.7	494.5	503.5	528.0	511.0	734.0		
GAAP S&M expenses	720.1	758.3	792.5	829.3	820.0	823.0	1,161.0		
GAAP G&A expenses	97.7	153.8	163.9	27.3	179.0	178.0	316.0		
Operating profit - GAAP	286.5	240.4	218.8	497.2	309.0	397.0	(183.0)		
Net profit - GAAP	350.7	267.3	262.1	253.8	334.0	432.0	(177.0)		
Operating profit - non-GAAP	616.2	640.4	627.1	768.2	746.0	785.0	814.0	770.5	5.7%
Net profit - non-GAAP	544.9	565.7	560.9	673.0	662.0	732.0	684.0	652.4	4.8%
<i>Growth - YoY</i>	16.9%	12.1%	23.3%	28.9%	21.5%	29.4%	21.9%		
Margins									
GPM	77.2%	76.5%	76.0%	75.7%	76.8%	76.1%	75.6%	76.1%	-0.5 ppt
R&D expenses ratio	22.5%	22.4%	21.6%	19.9%	21.3%	19.7%	24.5%		
S&M expenses ratio	33.7%	33.6%	34.6%	32.7%	33.1%	31.7%	38.7%		
G&A expenses ratio	4.6%	6.8%	7.2%	1.1%	7.2%	6.9%	10.5%		
OPM	13.4%	10.6%	9.6%	19.6%	12.5%	15.3%	-6.1%		
NPM	16.4%	11.8%	11.5%	10.0%	13.5%	16.7%	-5.9%		
Non-GAAP OPM	28.8%	28.4%	27.4%	30.3%	30.2%	30.3%	27.1%	26.2%	0.9 ppt
Non-GAAP NPM	25.5%	25.1%	24.5%	26.5%	26.8%	28.2%	22.8%	22.2%	0.6 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 2: PANW: changes in CMBI forecast

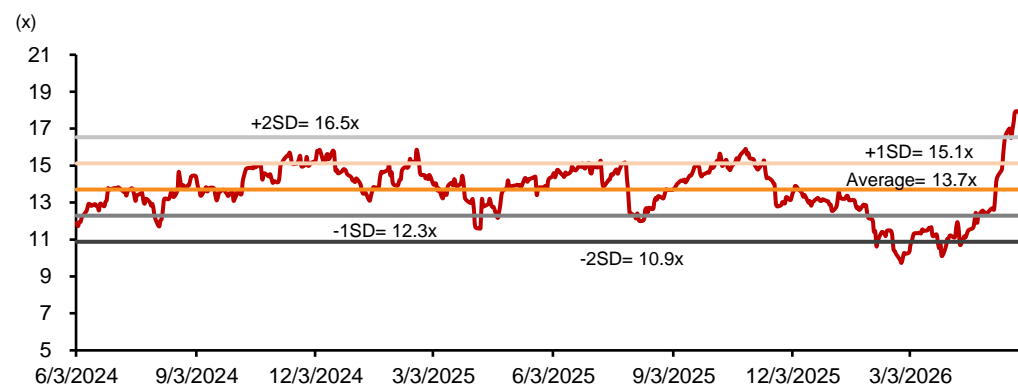
USD mn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	11,424.5	14,282.9	16,053.7	11,282.7	13,594.3	15,449.6	1.3%	5.1%	3.9%
Gross profit	8,061.1	9,809.4	11,127.1	8,210.5	9,850.2	11,219.4	-1.8%	-0.4%	-0.8%
Non-GAAP net profit	2,888.0	3,650.8	4,240.1	2,831.6	3,449.5	4,065.3	2.0%	5.8%	4.3%
Gross margin	70.6%	68.7%	69.3%	72.8%	72.5%	72.6%	-2.2 ppt	-3.8 ppt	-3.3 ppt
Non-GAAP net margin	25.3%	25.6%	26.4%	25.1%	25.4%	26.3%	0.2 ppt	0.2 ppt	0.1 ppt

Source: CMBIGM estimates

Figure 3: PANW: target valuation

EV/S Valuation (US\$mn)	FY27E
FY27E revenue	14,283
Target EV/Sales	16.5x
Enterprise value	236,182
+ net cash	8,340
Equity value	244,522
No. of shares outstanding (diluted; mn)	816
Target price (USD)	299.7

Source: Company data, CMBIGM estimates

Figure 4: PANW: EV/sales band over the past two years

Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul (US\$ mn)						
Revenue	6,893	8,028	9,222	11,424	14,283	16,054
Cost of goods sold	(1,910)	(2,059)	(2,452)	(3,363)	(4,474)	(4,927)
Gross profit	4,983	5,968	6,770	8,061	9,809	11,127
Operating expenses	(4,596)	(5,284)	(5,527)	(7,362)	(8,376)	(9,013)
Selling expense	(2,544)	(2,795)	(3,100)	(3,993)	(4,753)	(5,144)
Admin expense	(448)	(681)	(443)	(876)	(785)	(834)
R&D expense	(1,604)	(1,809)	(1,984)	(2,492)	(2,839)	(3,036)
Operating profit	387	684	1,243	699	1,433	2,114
Other income	206	313	356	344	370	428
Interest expense	(27)	(8)	(3)	0	(6)	(6)
Pre-tax profit	566	988	1,596	1,044	1,798	2,536
Income tax	(127)	1,589	(462)	(266)	(346)	(426)
Others	0	0	0	0	0	0
Net profit	440	2,578	1,134	778	1,452	2,110
Adjusted net profit	1,440	1,948	2,345	2,888	3,651	4,240

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul (US\$ mn)						
Current assets	6,048	6,850	7,523	10,081	15,329	21,981
Cash & equivalents	1,135	1,535	2,269	3,790	8,945	14,997
Account receivables	2,463	2,619	2,965	3,530	4,023	4,429
Other current assets	2,450	2,696	2,289	2,761	2,361	2,554
Non-current assets	8,453	13,141	16,053	38,114	37,346	36,299
PP&E	355	361	387	566	836	844
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	3,048	4,173	5,556	3,881	3,881	3,881
Intangibles	315	375	763	7,003	5,883	4,763
Goodwill	2,927	3,350	4,567	21,902	21,902	21,902
Other non-current assets	1,809	4,882	4,781	4,762	4,844	4,909
Total assets	14,501	19,991	23,576	48,195	52,675	58,280
Current liabilities	7,738	7,683	7,988	9,753	10,508	11,528
Account payables	132	116	232	311	368	412
Other current liabilities	6,666	6,505	6,302	7,791	8,352	9,113
Accrued expenses	939	1,061	1,454	1,650	1,789	2,002
Non-current liabilities	5,015	7,139	7,764	10,065	10,577	11,272
Long-term borrowings	0	0	0	1,192	1,192	1,192
Other non-current liabilities	5,015	7,139	7,764	8,873	9,385	10,080
Total liabilities	12,753	14,821	15,752	19,818	21,084	22,799
Retained earnings	(1,227)	1,350	2,484	3,262	4,714	6,824
Other reserves	2,976	3,820	5,340	25,115	26,877	28,657
Total shareholders equity	1,748	5,170	7,824	28,376	31,591	35,481
Minority interest	0	0	0	0	0	1
Total equity and liabilities	14,501	19,991	23,576	48,195	52,675	58,280

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul (US\$ mn)						
Operating						
Profit before taxation	566	988	1,596	1,044	1,798	2,536
Depreciation & amortization	282	283	343	848	1,336	1,336
Tax paid	(127)	1,589	(462)	(266)	(346)	(426)
Change in working capital	563	910	923	968	1,090	1,051
Others	1,492	(513)	1,316	2,143	1,762	1,780
Net cash from operations	2,778	3,258	3,716	4,736	5,640	6,277
Investing						
Capital expenditure	(146)	(157)	(246)	(451)	(486)	(225)
Others	(1,888)	(1,353)	(1,959)	(1,761)	0	0
Net cash from investing	(2,034)	(1,510)	(2,205)	(2,212)	(486)	(225)
Financing						
Share repurchases	(273)	(567)	0	(1,000)	0	0
Others	(1,454)	(776)	(779)	(5)	0	0
Net cash from financing	(1,726)	(1,343)	(779)	(1,005)	0	0
Net change in cash						
Cash at the beginning of the year	2,119	1,135	1,535	2,269	3,790	8,945
Exchange difference	0	0	0	0	0	0
Others	(1)	(5)	1	2	0	0
Cash at the end of the year	1,135	1,535	2,269	3,790	8,945	14,997
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul						
Revenue	25.3%	16.5%	14.9%	23.9%	25.0%	12.4%
Gross profit	31.7%	19.8%	13.4%	19.1%	21.7%	13.4%
Operating profit	na	76.6%	81.7%	(43.7%)	105.0%	47.5%
Net profit	na	486.2%	(56.0%)	(31.4%)	86.8%	45.3%
Adj. net profit	79.4%	35.3%	20.3%	23.2%	26.4%	16.1%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul						
Gross profit margin	72.3%	74.3%	73.4%	70.6%	68.7%	69.3%
Operating margin	5.6%	8.5%	13.5%	6.1%	10.0%	13.2%
Adj. net profit margin	20.9%	24.3%	25.4%	25.3%	25.6%	26.4%
Return on equity (ROE)	44.9%	74.5%	17.5%	4.3%	4.8%	6.3%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul						
Current ratio (x)	0.8	0.9	0.9	1.0	1.5	1.9
Receivable turnover days	128.7	117.4	115.8	111.2	101.4	0.0
Payable turnover days	28.7	23.2	38.3	40.7	37.4	0.0
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul						
P/E	207.2	37.4	175.4	276.2	165.3	114.2
P/E (diluted)	207.2	37.4	175.4	276.2	165.3	114.2
P/B	52.1	18.6	25.4	7.6	7.6	6.8
P/CFPS	34.6	31.1	57.3	50.1	46.6	39.8

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

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