

Salesforce (CRM US)

cRPO growth reaccelerates; eyes on new AI product launch

Salesforce reported 2QFY25 financial results: total revenue grew by 8% YoY to US\$9.33bn, in line with consensus estimate; non-GAAP operating income was up by 16% YoY to US\$3.14bn, 6% ahead of consensus estimate thanks to the disciplined expense control. cRPO growth reaccelerated to +11% YoY on a constant currency basis in 2QFY25 (1QFY25: +10% YoY), primarily attributable to solid performance of multi-cloud large deals and early renewals. Looking ahead, management expects the measured buying environment to sustain, and guide total revenue to grow by 7% YoY to US\$9.31-9.36bn in 3QFY25E. Nonetheless, management maintained FY25E revenue guidance of US\$37.7-38.0bn (+8-9% YoY) and raised FY25E non-GAAP operating margin guidance to 32.8% (previous: 32.5%). Thus, we slightly raise our FY25E non-GAAP operating profit forecast and our target price to US\$336.5 based on 20x FY25E EV/EBITDA (previous: US\$335.0 on 20x FY25E EV/EBITDA). Maintain BUY.

- **Reaccelerating cRPO growth eases investor concern.** cRPO growth reaccelerated to +11% YoY on constant currency in 2QFY25 (1QFY25: +10% YoY), easing investor concern on the decelerating RPO growth trend amid a measured buying environment. Multi-cloud adoption and AI deals are the key drivers: 1) multi-cloud deals contributed c.80% of the new business in 2QFY25; 2) 1,500 AI-related deals were signed in 2QFY25, with bookings for AI products more than doubled QoQ. By segment, sales/service/platform & other/marketing & commerce/integration & analytics cloud revenue was up by 9/10/9/6/13% YoY in 2QFY25.
- **Eyes on Agentforce product launch in October.** Customers' interest in foundation models and generative AI applications drove strong demand for Salesforce's Data Cloud. The no. of paid Data Cloud customers grew by 130% YoY, and the no. of customers spending over US\$1mn annually also doubled YoY in 2QFY25, with the platform consumption up by 110% YoY. Salesforce plans to officially launch Agentforce in October, a new AI agent development platform, which can facilitate enterprises to build their own AI agents for different use cases (like sales/services/marketing) in a timely and cost-effective way. We expect this platform to further boost customer demand in Salesforce's AI offerings.
- **Raise FY25E margin guidance on efficiency gains.** Non-GAAP operating margin expanded by 2.1ppt YoY and 1.7ppt QoQ to 33.7% in 2QFY25, mainly due to disciplined control in S&M expenses. S&M expenses accounted for 34.6% of total revenue in 2QFY25, down from 36.2% in 2QFY24. Thanks to solid top-line growth and efficiency gains, management raised FY25E non-GAAP operating margin guidance to 32.8% (previous: 32.5%; FY24: 30.5%). Management also expects stronger operating cash flow growth of 23-25% in FY25E (previous: +21-24% YoY).

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	9,685.1	10,946.7	12,184.5
EPS (Adjusted) (US\$)	5.27	8.30	9.94	11.24	12.51
Consensus EPS (US\$)	5.27	8.30	9.92	11.06	12.41
P/E (x)	1,225.7	60.5	40.4	34.6	30.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$336.50
 (Previous TP US\$335.00)
Up/Downside 30.9%
Current Price US\$257.01

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	250,327.7
Avg 3 mths t/o (US\$ mn)	556.6
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%

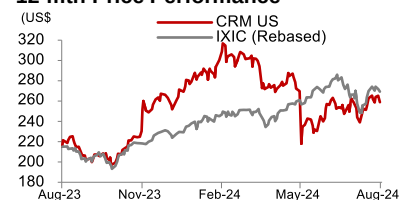
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-0.4%	-2.5%
3-mth	17.9%	12.6%
6-mth	-16.8%	-23.5%

Source: FactSet

12-month 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	37.8	40.9	44.0	0.0%	0.0%	0.0%
Gross profit	28.8	31.4	33.9	28.8	31.4	33.9	0.0%	0.0%	0.0%
Non-GAAP OP	12.4	14.1	15.7	12.3	14.0	15.8	0.6%	0.3%	-0.8%
Non-GAAP NP	9.7	10.9	12.2	9.3	10.6	12.0	3.9%	3.6%	1.8%
EPS (US\$)	9.9	11.2	12.5	9.6	10.9	12.3	3.9%	3.6%	1.8%
Gross Margin	76.0%	76.7%	77.0%	76.0%	76.7%	77.0%	0.0 ppt	0.0 ppt	0.0 ppt
Non-GAAP OPM	32.8%	34.4%	35.7%	32.6%	34.3%	36.0%	0.2 ppt	0.1 ppt	-0.3 ppt
Non-GAAP NPM	25.6%	26.8%	27.7%	24.6%	25.9%	27.2%	1.0 ppt	0.9 ppt	0.5 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	37.8	41.3	44.9	0.0%	-1.1%	-2.0%
Non-GAAP OP	12.4	14.1	15.7	12.3	14.0	16.0	0.8%	0.5%	-1.7%
Non-GAAP NP	9.7	10.9	12.2	9.8	11.0	12.2	-1.3%	-0.8%	-0.4%
EPS (US\$)	9.9	11.2	12.5	9.9	11.1	12.4	0.2%	1.6%	0.8%
Non-GAAP OPM	32.8%	34.4%	35.7%	32.5%	33.9%	35.6%	0.3 ppt	0.5 ppt	0.1 ppt
Non-GAAP NPM	25.6%	26.8%	27.7%	25.9%	26.7%	27.2%	-0.4 ppt	0.1 ppt	0.5 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Salesforce: quarterly financials

(US\$ bn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Cons.	Diff%
Sales	1,717	1,787	1,810	1,895	1,906	1,969	1,998	2,071		
YoY %	11.6%	12.7%	10.9%	11.8%	11.0%	10.2%	10.4%	9.3%		
Services	1,856	1,924	1,964	2,049	2,074	2,158	2,182	2,257		
YoY %	11.9%	12.5%	11.5%	12.1%	11.7%	12.2%	11.1%	10.2%		
Platform & Other	1,513	1,557	1,567	1,638	1,686	1,720	1,718	1,786		
YoY %	18.5%	15.3%	10.4%	10.8%	11.4%	10.5%	9.6%	9.0%		
Marketing & Commerce	1,129	1,177	1,170	1,238	1,230	1,274	1,282	1,308		
YoY %	12.2%	12.5%	7.4%	10.4%	8.9%	8.2%	9.6%	5.7%		
Integration and Analytics	1,018	1,344	1,131	1,186	1,245	1,627	1,405	1,342		
YoY %	13.1%	18.3%	18.4%	16.2%	22.3%	21.1%	24.2%	13.2%		
Total revenue	7,837	8,384	8,247	8,603	8,720	9,287	9,133	9,325	9,234	1.0%
YoY %	14.2%	14.4%	11.3%	11.4%	11.3%	10.8%	10.7%	8.4%		
Non-GAAP OP	1,777	2,447	2,274	2,721	2,717	2,920	2,928	3,144	2,955	6.4%
YoY %	30.9%	123.3%	73.9%	77.1%	52.9%	19.3%	28.8%	15.5%		
Non-GAAP OPM	22.7%	29.2%	27.6%	31.6%	31.2%	31.4%	32.1%	33.7%		
Non-GAAP NP	1,398	1,656	1,674	2,094	2,068	2,251	2,407	2,495	2,327	7.2%
YoY %	9.8%	96.4%	70.5%	76.0%	47.9%	35.9%	43.8%	19.1%		
Non-GAAP NPM	17.8%	19.8%	20.3%	24.3%	23.7%	24.2%	26.4%	26.8%		

Source: Company data, Bloomberg, CMBIGM estimates

Valuation

We value Salesforce at US\$336.5 per share based on 20x FY25E EV/EBITDA. Our target EV/EBITDA is at a discount to the sector average (22x), given Salesforce earnings growth has entered a more mature stage.

Figure 4: Salesforce: target valuation

EV/EBITDA Valuation (US\$m)	FY25E
Adjusted EBITDA	15,846
Target FY25E EV/EBITDA	20
Target EV	316,921
Net cash	14,197
Target equity valuation	331,118
Valuation per share (USD)	336.5

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									
HubSpot	HUBS US	493.2	9.6	8.3	7.0	47.5	39.4	30.1	18%
Five9	FIVN US	32.4	2.4	2.2	1.9	13.6	11.6	9.5	12%
ITSM									
ServiceNow	NOW US	814.1	15.1	12.5	10.4	43.5	37.1	31.0	21%
Atlassian	TEAM US	161.9	8.1	6.8	5.6	35.1	27.6	21.0	19%
Security									
CrowdStrike	CRWD US	264.2	15.6	12.5	10.3	60.5	47.8	40.1	25%
Okta	OKTA US	96.5	6.0	5.4	4.8	na	na	19.7	13%
ERP									
SAP	SAP US	216.9	7.8	7.0	6.2	30.4	21.1	18.1	11%
Oracle	ORCL US	137.9	8.0	7.2	6.5	15.4	13.5	11.8	11%
Collaboration									
Twilio	TWLO US	60.9	1.6	1.5	1.4	8.5	8.5	8.0	6%
Ring Central	RNG US	33.4	1.9	1.7	1.6	7.3	6.9	6.1	8%
Zoom	ZM US	70.7	3.2	3.1	3.0	8.0	7.8	7.3	3%
Average			7.2	6.2	5.3	27.0	22.1	18.4	

Source: Bloomberg, CMBIGM

Note: data are as of 28 Aug 2024

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)	(21,302)	(22,546)	(23,640)
Selling expense	(11,855)	(13,526)	(12,877)	(13,054)	(13,682)	(14,277)
Admin expense	(2,598)	(3,381)	(3,522)	(2,951)	(3,141)	(3,328)
R&D expense	(4,465)	(5,055)	(4,906)	(5,297)	(5,724)	(6,034)
Operating profit	548	1,030	5,011	7,449	8,804	10,224
Other expense	(227)	(131)	216	378	327	264
Other gains/(losses)	1,211	(239)	(277)	(76)	(82)	(88)
Pre-tax profit	1,532	660	4,950	7,751	9,049	10,400
Income tax	(88)	(452)	(814)	(1,550)	(1,810)	(2,080)
After tax profit	1,444	208	4,136	6,201	7,240	8,320
Net profit	1,444	208	4,136	6,201	7,240	8,320
Adjusted net profit	4,659	5,224	8,087	9,685	10,947	12,184

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan (US\$ mn)						
Current assets	22,850	26,395	29,074	35,858	41,486	49,148
Cash & equivalents	5,464	7,016	8,472	14,197	19,418	26,725
Account receivables	9,739	10,755	11,414	12,390	12,718	12,998
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	69,482	68,829	68,836
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	3,938	3,250	2,896
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	105,339	110,315	117,983
Current liabilities	21,788	25,891	26,631	27,518	26,652	27,231
Account payables	5,356	6,486	6,111	5,721	5,102	4,603
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	20,280	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	41,064	40,198	40,777
Share capital	1	1	1	1	1	1
Capital surplus	50,919	55,047	59,841	58,269	56,872	55,640
Retained earnings	7,377	7,585	11,721	17,922	25,162	33,482
Other reserves	(166)	(4,274)	(11,917)	(11,917)	(11,917)	(11,917)
Total shareholders equity	58,131	58,359	59,646	64,275	70,117	77,206
Total equity and liabilities	95,209	98,849	99,823	105,339	110,315	117,983

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan (US\$ mn)						
Operating						
Profit before taxation	1,532	660	4,950	7,751	9,049	10,400
Depreciation & amortization	3,298	3,786	3,959	3,441	2,902	2,320
Tax paid	(88)	(452)	(814)	(1,550)	(1,810)	(2,080)
Change in working capital	(2,869)	(1,830)	(2,573)	(171)	(1,274)	225
Others	4,127	4,947	4,712	3,178	3,352	3,519
Net cash from operations	6,000	7,111	10,234	12,649	12,221	14,384
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	14,197	19,418
Exchange difference	(33)	(8)	26	0	0	0
Cash at the end of the year	5,464	7,016	8,472	14,197	19,418	26,725
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%	48.6%	18.2%	16.1%
Net profit	(64.5%)	(85.6%)	1,888.5%	49.9%	16.7%	14.9%
Adj. net profit	1.7%	12.1%	54.8%	19.8%	13.0%	11.3%
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%	19.7%	21.5%	23.2%
Adj. net profit margin	17.6%	16.7%	23.2%	25.6%	26.8%	27.7%
Return on equity (ROE)	2.9%	0.4%	7.0%	10.0%	10.8%	11.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan						
Current ratio (x)	1.0	1.0	1.1	1.3	1.6	1.8
Receivable turnover days	134.2	125.2	119.5	119.5	113.5	107.9
Payable turnover days	(278.2)	(283.2)	(261.2)	(229.8)	(195.3)	(166.0)
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan						
P/E	170.0	1,225.7	60.5	40.4	34.6	30.1
P/E (diluted)	173.4	1,231.9	61.1	40.8	34.9	30.4
P/B	4.2	4.4	4.2	3.9	3.6	3.2

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.