23 Jul 2026

CMB International Global Markets | Equity Research | Company Update

Alphabet (GOOG US)

2Q26 results: Strong AI demand continues to drive cloud acceleration and solid core search

Alphabet reported 2Q26 results: total revenue grew by 24% YoY to US$119.8bn, 2% ahead of Visible Alpha (VA) consensus due to the strong growth of Google Cloud revenue; operating income was up by 30% YoY to US$40.8bn and in line with VA consensus. Strong AI momentum drove acceleration in cloud revenue growth and AI investment. Total capex was up by 100% YoY to US$44.9bn and led to negative free cash flow of US$5.9bn in 2Q26. This raised certain investors' concern on the short-term cash flow and ROIC, especially given the recent delay of Gemini 3.5 Pro launch. That said, we remain constructive on the company's full-stack AI approach, which shall continue to support its robust cloud revenue growth, solid core search business and leadership in frontier AI model race. In view of the strong cloud backlog, we raise FY26-28 total revenue forecasts by 2-9%. We raise our target price to US$428.0 based on 35x FY26E PE (previous: US$425.0 based on 35x FY26E PE). Maintain BUY.

- **AI drove solid core search business.** Google Search & other revenue was up by 17% YoY to US$63.3bn in 2Q26. AI-powered features continued to drive search usage, with currently AI Mode MAUs surpassing 1bn and billions of clicks sent to Google every week through its AI search features. AI also enhanced ad monetization efficiency: 1) the company uses Gemini's reasoning capability to improve understanding of user query, driving a 20% increase in the relevancy of shopping ads; 2) 0.5mn advertisers have adopted AI advertising tools like AI Max and saw an average of 15% more conversion on search. YouTube ads revenue grew by 13% YoY to US$11.1bn in 2Q26, driven by both Direct Response and Brand.
- **Strong cloud business momentum and margin expansion.** Google Cloud revenue delivered a robust growth of 82% YoY to US$24.8bn in 2Q26 (1Q26/4Q25: +63%/48% YoY), driven by the strong growth of core GCP, AI solutions and AI infra. The company also began to recognize revenues from TPU sales in 2Q26, though management anticipates most of the revenues from TPU sales agreements will be realized in 2027. Google Cloud's backlog grew by over US$50bn QoQ to US$514bn in 2Q26, and management expects to recognize just over 50% of the total backlog as revenue over the next 24 months. Google Cloud OPM also increased by 15ppt YoY to 35.6% in 2Q26, but the company plans to expand third-party cloud capacity in 3Q26, which could put certain pressure on cloud OPM.
- **Raised capex guidance.** Management lifted FY26 total capex guidance from previously US$180-190bn to US$195-205bn (+113%-124% YoY), primarily due to an acceleration in the delivery of capacity to meet growing demand. Management also expects the free cash flow will remain under pressure, mainly due to the investment in AI infra. In terms of the Gemini model upgrade, management noted that Gemini 3.5 Pro is currently in testing and the company has also started pre-training for Gemini 4, which will be a larger base model to compete at the frontier level.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US$ mn)	350,018	402,836	494,003	625,397	710,066
Net profit (US$ mn)	100,118.0	132,170.0	254,281.5	184,469.8	213,412.2
EPS (Reported) (US$)	8.13	10.91	20.93	15.18	17.56
Consensus EPS (US$)	8.13	10.91	14.56	14.97	17.67
P/E (x)	42.1	31.3	16.3	22.5	19.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$428.00**
(Previous TP	US$425.00)
Up/Downside	**25.2%**
Current Price	**US$341.91**

US Internet

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

Wentao LU, CFA
luwentao@cmbi.com.hk

Ye TAO, CFA
(852) 3850 5226
franktao@cmbi.com.hk

Shuyin GUO
(852) 3916 3716
guoshuyin@cmbi.com.hk

Stock Data

Mkt Cap (US$ mn)	4,154,548.4
Avg 3 mths t/o (US$ mn)	3,525.4
52w High/Low (US$)	399.04/189.95
Total Issued Shares (mn)	12151.0

Source: FactSet

Shareholding Structure

BlackRock	3.4%
The Vanguard Group	2.9%

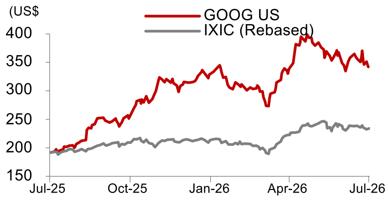
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-1.2%	-1.6%
3-mth	1.2%	-3.7%
6-mth	4.1%	-4.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Alphabet: forecast revision

	Current			Previous			Change (%)		
US$ bn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	494.0	625.4	710.1	482.4	573.4	669.6	2.4%	9.1%	6.0%
Gross profit	304.0	381.6	436.5	295.2	352.7	415.7	3.0%	8.2%	5.0%
Operating profit	169.8	213.4	247.0	165.4	200.2	238.3	2.7%	6.6%	3.6%
Net profit	254.3	184.5	213.4	175.8	173.0	202.9	44.6%	6.6%	5.2%
EPS (US$)	21.0	15.2	17.6	14.5	14.3	16.8	44.9%	6.6%	5.0%
Gross margin	61.5%	61.0%	61.5%	61.2%	61.5%	62.1%	0.3 ppt	-0.5 ppt	-0.6 ppt
Operating margin	34.4%	34.1%	34.8%	34.3%	34.9%	35.6%	0.1 ppt	-0.8 ppt	-0.8 ppt
Net margin	51.5%	29.5%	30.1%	36.4%	30.2%	30.3%	15.1 ppt	-0.7 ppt	-0.2 ppt

Source: CMBIGM estimates
Note: FY26E net income includes unrealized gain on equity securities of US$105.8bn.

Figure 2: Alphabet: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
US$ bn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	494.0	625.4	710.1	488.2	585.8	695.0	1.2%	6.8%	2.2%
Gross profit	304.0	381.6	436.5	301.2	364.5	435.6	1.0%	4.7%	0.2%
Operating profit	169.8	213.4	247.0	170.8	209.7	253.4	-0.6%	1.7%	-2.5%
Net profit	254.3	184.5	213.4	175.2	180.9	215.7	45.1%	2.0%	-1.1%
EPS (US$)	21.0	15.2	17.6	14.6	15.0	17.7	44.3%	1.9%	-0.2%
Gross margin	61.5%	61.0%	61.5%	61.7%	62.2%	62.7%	-0.1 ppt	-1.2 ppt	-1.2 ppt
Operating margin	34.4%	34.1%	34.8%	35.0%	35.8%	36.5%	-0.6 ppt	-1.7 ppt	-1.7 ppt
Net margin	51.5%	29.5%	30.1%	35.9%	30.9%	31.0%	15.6 ppt	-1.4 ppt	-1.0 ppt

Source: CMBIGM estimates, Visible Alpha consensus

Valuation

We value Alphabet at US$428.0 per share based on 35x 2026E P/E. Our target PE multiple is a premium to the global ads peers' average (17x), which mainly reflects Google's competitive edge in the search, enterprise AI and cloud markets.

Figure 3: Alphabet: target valuation

P/E valuation (US$mn)	2026E
Adjusted net income	148,481
Target 2026E P/E (x)	35
Target equity valuation	5,196,851
Valuation per share (US$)	428.0

Source: Company data, CMBIGM estimates
Note: net income is adjusted for unrealized gain on equity securities of US$105.8bn in 1H26

Figure 4: Global online ad platforms: valuation comparison

Companies	Ticker	Price	PE (x)		PS (x)		EPS CAGR
		(LC)	2026E	2027E	2026E	2027E	25-27E
Global ads							
Alphabet	GOOG US	341.9	29.5	19.9	8.4	6.7	30%
Meta	META US	627.2	16.9	14.6	6.5	5.4	16%
Pinterest	PINS US	22.5	11.6	10.0	2.6	2.3	18%
Snap	SNAP US	4.5	8.1	5.9	1.1	1.0	40%
Average			**16.5**	**12.6**	**4.7**	**3.9**	
Global tech							
Microsoft	MSFT US	390.3	23.0	20.0	9.0	7.7	19%
Amazon	AMZN US	244.9	21.4	19.9	3.2	2.8	15%
Netflix Inc	NFLX US	68.5	19.2	18.5	5.6	5.0	18%
Uber	UBER US	70.3	20.8	15.9	2.5	2.2	33%
Average			**21.1**	**18.5**	**5.1**	**4.4**	

Source: Visible Alpha, CMBIGM
Note: data as of 22 Jul

Risks

1) AI investment impacts short-term earnings and cash flow; 2) intensifying competition in AI cloud and LLM markets; and 3) slowdown in search revenue growth.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Revenue	**307,394**	**350,018**	**402,836**	**494,003**	**625,397**	**710,066**
Cost of goods sold	(133,332)	(146,306)	(162,535)	(189,986)	(243,812)	(273,517)
Gross profit	**174,062**	**203,712**	**240,301**	**304,018**	**381,585**	**436,549**
Operating expenses	**(89,769)**	**(91,322)**	**(111,262)**	**(134,183)**	**(168,232)**	**(189,588)**
Selling expense	(27,917)	(27,808)	(28,693)	(34,789)	(40,651)	(42,604)
Admin expense	(16,425)	(14,188)	(21,482)	(21,853)	(24,390)	(26,272)
R&D expense	(45,427)	(49,326)	(61,087)	(77,541)	(103,191)	(120,711)
Others	0	0	0	0	0	0
Operating profit	**84,293**	**112,390**	**129,039**	**169,835**	**213,353**	**246,961**
Other income/expense	1,424	7,425	29,787	140,985	6,254	7,101
Pre-tax profit	**85,717**	**119,815**	**158,826**	**310,820**	**219,607**	**254,062**
Income tax	(11,922)	(19,697)	(26,656)	(56,539)	(35,137)	(40,650)
After tax profit	**73,795**	**100,118**	**132,170**	**254,281**	**184,470**	**213,412**
Net profit	**73,795**	**100,118**	**132,170**	**254,281**	**184,470**	**213,412**
Adjusted net profit	**96,255**	**122,903**	**158,393**	**286,439**	**225,181**	**259,635**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Current assets	**171,530**	**163,711**	**206,038**	**388,056**	**355,151**	**380,019**
Cash & equivalents	24,048	23,466	30,708	103,902	52,808	67,111
Account receivables	47,964	52,340	62,886	75,576	93,763	104,328
Inventories	0	0	0	0	0	0
Financial assets at FVTPL	86,868	72,191	96,135	192,270	192,270	192,270
Other current assets	12,650	15,714	16,309	16,309	16,309	16,309
Non-current assets	**230,862**	**286,545**	**389,243**	**561,285**	**797,804**	**1,000,206**
PP&E	134,345	171,036	246,597	418,639	655,158	857,560
Right-of-use assets	14,091	13,588	15,221	15,221	15,221	15,221
Deferred income tax	12,169	17,180	9,113	9,113	9,113	9,113
Investment in JVs & assos	31,008	37,982	68,687	68,687	68,687	68,687
Intangibles	2,084	2,084	2,084	2,084	2,084	2,084
Goodwill	29,198	31,885	33,380	33,380	33,380	33,380
Other non-current assets	7,967	12,790	14,161	14,161	14,161	14,161
Total assets	**402,392**	**450,256**	**595,281**	**949,341**	**1,152,955**	**1,380,225**
Current liabilities	**81,814**	**89,122**	**102,745**	**114,797**	**137,937**	**149,465**
Account payables	7,493	7,987	12,200	13,975	17,576	19,323
Tax payable	0	0	0	0	0	0
Other current liabilities	13,013	14,838	17,442	19,634	22,776	24,601
Accrued expenses	61,308	66,297	73,103	81,187	97,585	105,540
Non-current liabilities	**37,199**	**36,050**	**77,271**	**128,889**	**128,889**	**128,889**
Long-term borrowings	13,253	10,883	46,547	98,165	98,165	98,165
Obligations under finance leases	12,460	11,691	12,744	12,744	12,744	12,744
Deferred income	911	911	911	911	911	911
Other non-current liabilities	10,575	12,565	17,069	17,069	17,069	17,069
Total liabilities	**119,013**	**125,172**	**180,016**	**243,686**	**266,826**	**278,354**
Capital surplus	76,534	84,800	93,126	138,279	142,423	152,079
Retained earnings	211,247	245,084	324,055	569,292	745,622	951,709
Other reserves	(4,402)	(4,800)	(1,916)	(1,916)	(1,916)	(1,916)
Total shareholders equity	**283,379**	**325,084**	**415,265**	**705,655**	**886,129**	**1,101,871**
Total equity and liabilities	**402,392**	**450,256**	**595,281**	**949,341**	**1,152,955**	**1,380,225**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**85,717**	**119,815**	**158,826**	**310,820**	**219,607**	**254,062**
Depreciation & amortization	11,946	15,311	21,136	30,500	44,909	67,423
Tax paid	(11,922)	(19,697)	(26,656)	(56,539)	(35,137)	(40,650)
Change in working capital	(3,845)	(8,406)	618	(638)	4,952	963
Others	19,850	18,276	10,789	32,158	40,711	46,223
Net cash from operations	**101,746**	**125,299**	**164,713**	**316,301**	**275,042**	**328,021**
Investing						
Capital expenditure	(32,251)	(52,535)	(91,447)	(202,541)	(281,429)	(269,825)
Acquisition of subsidiaries/ investments	(495)	(2,931)	(1,592)	0	0	0
Others	5,683	9,930	(27,252)	(96,135)	0	0
Net cash from investing	**(27,063)**	**(45,536)**	**(120,291)**	**(298,676)**	**(281,429)**	**(269,825)**
Financing						
Net borrowings	(760)	888	32,137	51,618	0	0
Proceeds from share issues	na	na	na	49,562	0	0
Share repurchases	(61,504)	(62,222)	(45,709)	(36,567)	(36,567)	(36,567)
Others	(9,829)	(18,399)	(23,816)	(9,044)	(8,140)	(7,326)
Net cash from financing	**(72,093)**	**(79,733)**	**(37,388)**	**55,569**	**(44,707)**	**(43,893)**
Net change in cash						
Cash at the beginning of the year	21,879	24,048	23,466	30,708	103,902	52,808
Exchange difference	(421)	(612)	208	0	0	0
Cash at the end of the year	**24,048**	**23,466**	**30,708**	**103,902**	**52,808**	**67,111**
GROWTH	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Revenue	8.7%	13.9%	15.1%	22.6%	26.6%	13.5%
Gross profit	11.1%	17.0%	18.0%	26.5%	25.5%	14.4%
Operating profit	12.6%	33.3%	14.8%	31.6%	25.6%	15.8%
Net profit	23.0%	35.7%	32.0%	92.4%	(27.5%)	15.7%
Adj. net profit	21.3%	27.7%	28.9%	80.8%	(21.4%)	15.3%
PROFITABILITY	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Gross profit margin	56.6%	58.2%	59.7%	61.5%	61.0%	61.5%
Operating margin	27.4%	32.1%	32.0%	34.4%	34.1%	34.8%
Adj. net profit margin	31.3%	35.1%	39.3%	58.0%	36.0%	36.6%
Return on equity (ROE)	27.4%	32.9%	35.7%	45.4%	23.2%	21.5%
GEARING/LIQUIDITY/ACTIVITIES	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Current ratio (x)	2.1	1.8	2.0	3.4	2.6	2.5
Receivable turnover days	57.0	54.6	57.0	55.8	54.7	53.6
VALUATION	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
P/E	58.5	42.1	31.3	16.3	22.5	19.5
P/E (diluted)	58.9	42.5	31.6	16.5	22.7	19.6
P/B	15.2	13.0	10.0	5.9	4.7	3.8

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.