招银国际
CMB INTERNATIONAL
招商银行全资附属机构
A Wholly Owned Subsidiary Of China Merchants Bank

ServiceNow (NOW US)

Strong adoption of GenAI solutions

BUY (Maintain)

Target Price	**US$895.00**
(Previous TP	US$897.80)
Up/Downside	**19.9%**
Current Price	**US$746.29**

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Stock Data

Mkt Cap (US$ mn)	150,325.2
Avg 3 mths t/o (US$ mn)	674.1
52w High/Low (US$)	812.94/430.51
Total Issued Shares (mn)	201.4

Source: FactSet

Shareholding Structure

The Vanguard Group	8.4%
BlackRock	8.0%

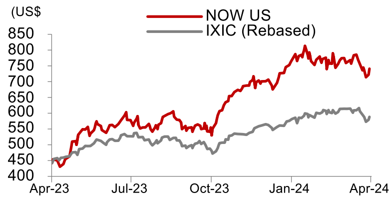
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-3.7%	0.5%
3-mth	-2.7%	-3.9%
6-mth	40.8%	14.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

ServiceNow announced 1Q24 results: total revenue increased by 24% YoY to US$2.60bn, in line with consensus estimate of US$2.59bn; non-GAAP net income grew by 46% YoY to US$707mn, beating consensus estimate by 7%, mainly driven by the enhanced operating efficiency. cRPO was up 21% YoY on a constant currency basis in 1Q24, which is a 100bps beat versus pervious guidance, thanks to the strong deal acquisition in 1Q24. For 2Q24E, management guide subscription revenue/cRPO to grow by 22/20.5% YoY on a constant currency basis, in line with the consensus estimates. We are upbeat on the company's positioning in enterprise AI solution market and note the strong adoption of its GenAI Pro Plus offerings. We maintain FY24-26 forecasts largely unchanged and fine-tune target price to US$895.0 on 50x FY24 EV/EBITDA (previous: US$897.8). Maintain BUY.

- **Subscription business maintained healthy growth.** Subscription revenue grew by 25% YoY to US$2.52bn in 1Q24. RPO reached US$17.7bn in 1Q24, up by 27% YoY on a constant currency basis, with strength in TMT/education/transportation industries. NNACV from TMT/education customers grew by over 100%/nearly 50% YoY in 1Q24. The company continued to see healthy growth from key account customers. The number of customers with over US$1mn/20mn ACV grew by 15%/over 50% respectively in 1Q24. Non-tech workflows also posted strong business growth. NNACV contribution from customer & employee workflows/creator workflows and others rose from 25/18% in 1Q23 to 30/18% in 1Q24.
- **Strong adoption of GenAI products.** ServiceNow continued to see strong momentum of its GenAI products. AI-powered Pro Plus offerings NNACV to date has exceeded ServiceNow's any new product launched for the comparable period. The company's GenAI products were bundled in seven of the top 10 deals in 1Q24. Management also noted the increasing enterprise IT budget for GenAI despite the stringent budget scrutiny amid macro headwinds, as GenAI helps enterprise increase productivity and cut costs. The GenAI deflection rates have doubled for ServiceNow's employees and customers, as per management, meaningfully enhancing enterprise efficiency.
- **Continued efficiency gains.** Non-GAAP operating margin expanded by 4.4ppt YoY and 1.4ppt QoQ to 30.4% in 1Q24, driven by the operating leverage. The company also utilizes GenAI to enhance its own operating efficiency (e.g., text-to-code GenAI tools), which we expect to further support its margin expansion in the long term. We are upbeat on ServiceNow's strong financial profile which adheres to the Rule of 50 (FCF margin + total revenue growth > 70% in 1Q24), which justifies trading at a premium versus peers. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US$ mn)	7,245	8,971	10,868	13,088	15,582
YoY growth (%)	22.9	23.8	21.1	20.4	19.1
Adjusted net profit (US$ mn)	1,543.0	2,215.0	2,862.0	3,528.2	4,381.5
YoY growth (%)	28.5	43.6	29.2	23.3	24.2
EPS (Adjusted) (US$)	7.66	10.86	14.03	17.30	21.48
Consensus EPS (US$)	7.66	10.86	13.25	16.08	19.82
P/E (x)	462.5	88.0	123.6	93.4	69.2

Source: Company data, Bloomberg, CMBIGM estimates

Business forecasts update and valuation

Figure 1: ServiceNow: forecast revision

	Current			Previous			Change (%)		
US$ bn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	10.6	12.8	15.3	10.6	12.8	15.3	-0.2%	-0.2%	-0.2%
Gross profit	8.6	10.4	12.5	8.6	10.5	12.5	-0.1%	-0.2%	-0.2%
Operating profit	3.1	3.9	4.9	3.2	3.9	4.9	-0.4%	-0.5%	-0.4%
Non-GAAP net profit	2.9	3.5	4.4	2.9	3.5	4.4	-0.3%	-0.4%	-0.4%
Non-GAAP EPS (US$)	14.0	17.3	21.5	14.1	17.4	21.6	-0.3%	-0.4%	-0.4%
Gross margin	81.5%	81.7%	81.8%	81.4%	81.7%	81.8%	0.1 ppt	0.0 ppt	0.0 ppt
Non-GAAP OPM	29.7%	30.7%	32.0%	29.8%	30.8%	32.1%	-0.1 ppt	-0.1 ppt	-0.1 ppt
Non-GAAP net margin	27.1%	27.6%	28.7%	27.1%	27.7%	28.7%	0.0 ppt	-0.1 ppt	-0.1 ppt

Source: CMBIGM estimates

Figure 2: ServiceNow: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
US$ bn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	10.6	12.8	15.3	10.9	13.2	15.8	-3.0%	-2.7%	-3.0%
Gross profit	8.6	10.4	12.5	9.0	10.8	13.0	-4.0%	-3.6%	-4.0%
Operating profit	3.1	3.9	4.9	3.2	3.9	4.9	-0.6%	0.0%	-0.2%
Non-GAAP net profit	2.9	3.5	4.4	2.8	3.4	4.3	3.3%	3.9%	3.0%
Non-GAAP EPS (US$)	14.0	17.3	21.5	13.2	16.1	19.8	5.9%	7.5%	8.4%
Gross margin	81.5%	81.7%	81.8%	82.3%	82.4%	82.6%	-0.8 ppt	-0.7 ppt	-0.8 ppt
Non-GAAP OPM	29.7%	30.7%	32.0%	29.0%	29.9%	31.1%	0.7 ppt	0.8 ppt	0.9 ppt
Non-GAAP net margin	27.1%	27.6%	28.7%	25.4%	25.8%	27.0%	1.7 ppt	1.8 ppt	1.7 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: ServiceNow: quarterly financials

(US$ mn)	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	Cons.	Diff%
Subscription Revenue	1,658	1,742	1,860	2,024	2,075	2,216	2,365	2,523		
YoY %	24.7%	22.1%	22.1%	24.1%	25.2%	27.2%	27.2%	24.7%		
Professional Services and Other	94	89	80	72	75	72	72	80		
YoY %	19.0%	4.7%	-13.0%	-20.9%	-20.2%	-19.1%	-10.0%	11.1%		
Total revenue	**1,752**	**1,831**	**1,940**	**2,096**	**2,150**	**2,288**	**2,437**	**2,603**	2,591	0.5%
YoY %	24.3%	21.1%	20.1%	21.7%	22.7%	25.0%	25.6%	24.2%		
Gross profit	**1,363**	**1,431**	**1,525**	**1,658**	**1,679**	**1,792**	**1,921**	**2,083**		
GPM	77.8%	78.2%	78.6%	79.1%	78.1%	78.3%	78.8%	80.0%		
Non-GAAP OP	**399**	**480**	**544**	**552**	**544**	**676**	**717**	**791**		
Non-GAAP OPM	22.8%	26.2%	28.0%	26.3%	25.3%	29.5%	29.4%	30.4%		
Non-GAAP NP	**329**	**398**	**464**	**483**	**486**	**603**	**643**	**707**	658	7.4%
YoY %	14.6%	26.8%	56.8%	37.2%	47.7%	51.5%	38.6%	46.4%		
Non-GAAP NPM	18.8%	21.7%	23.9%	23.0%	22.6%	26.4%	26.4%	27.2%		

Source: Company data, Bloomberg, CMBIGM

Valuation/Risks

Figure 4: ServiceNow: target valuation

EV/EBITDA Valuation (US$mn)	FY24E
Adjusted EBITDA	3,607
Target 2024E EV/EBITDA	50
Target EV	180,350
Net cash	4,028
Targe equity valuation	184,377
Valuation per share (USD)	895.0

Source: Company data, CMBIGM estimates

We value ServiceNow at US$895.0 per share based on 50x 2024E EV/EBITDA. Our target EV/EBITDA is at a premium to the sector average (31x), which we think is justified given ServiceNow's strong EBITDA CAGR of 24% over 2024-2026E, per our estimate.

Risks: loss of momentum causinf a decline in valuation multiple; slower-than-expected GenAI product adoption; intensified competition.

Figure 5: SaaS: valuation comparison

Company	Ticker	Price	EV/Sales (x)			EV/EBITDA (x)			Rev CAGR
		(Local)	2024E	2025E	2026E	2024E	2025E	2026E	24-26E
ITSM									
ServiceNow	NOW US	746.3	13.8	11.5	9.6	40.1	32.7	26.3	21%
Atlassian	TEAM US	199.0	12.0	9.9	8.1	53.7	43.7	33.8	21%
CRM									
Salesforce	CRM US	276.2	7.0	6.4	5.7	17.6	16.0	14.4	10%
HubSpot	HUBS US	651.7	12.7	10.7	9.2	66.7	52.9	39.6	18%
Five9	FIVN US	60.3	4.2	3.6	3.0	23.7	18.9	14.2	18%
Secruity									
CrowdStrike	CRWD US	297.6	17.4	13.8	11.2	67.3	49.8	38.7	26%
Okta	OKTA US	93.8	5.9	5.3	4.6	na	na	19.3	13%
ERP									
SAP	SAP US	188.1	6.7	6.0	5.4	25.8	18.8	16.5	11%
Oracle	ORCL US	115.3	7.6	7.0	6.3	15.4	13.9	12.4	9%
Collaboration									
Twilio	TWLO US	61.0	1.8	1.7	1.6	11.9	10.3	12.4	7%
Ring Central	RNG US	30.3	1.7	1.6	1.5	6.8	6.4	6.4	8%
Zoom	ZM US	61.7	2.6	2.5	2.4	6.5	6.2	7.3	3%
Average			***7.8***	***6.7***	***5.7***	***30.5***	***24.5***	***20.1***	

Note: data are as of 24 Apr 2024
Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Revenue	**5,896**	**7,245**	**8,971**	**10,868**	**13,088**	**15,582**
Cost of goods sold	(1,353)	(1,573)	(1,921)	(2,251)	(2,639)	(3,077)
Gross profit	**4,543**	**5,672**	**7,050**	**8,616**	**10,449**	**12,505**
Operating expenses	**(4,286)**	**(5,317)**	**(6,288)**	**(7,496)**	**(8,869)**	**(10,301)**
Selling expense	(2,292)	(2,814)	(3,301)	(3,899)	(4,555)	(5,260)
Admin expense	(597)	(735)	(863)	(1,025)	(1,215)	(1,425)
R&D expense	(1,397)	(1,768)	(2,124)	(2,573)	(3,099)	(3,616)
Operating profit	**257**	**355**	**762**	**1,120**	**1,580**	**2,205**
Other income	20	71	(56)	54	65	78
Interest expense	(28)	(27)	302	366	393	467
Pre-tax profit	**249**	**399**	**1,008**	**1,540**	**2,038**	**2,750**
Income tax	19	74	(723)	308	408	550
After tax profit	**230**	**325**	**1,731**	**1,232**	**1,630**	**2,200**
Net profit	**230**	**325**	**1,731**	**1,232**	**1,630**	**2,200**
Adjusted net profit	**1,201**	**1,543**	**2,215**	**2,862**	**3,528**	**4,381**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Current assets	**5,220**	**6,654**	**7,777**	**11,876**	**16,846**	**22,791**
Cash & equivalents	1,728	1,470	1,897	5,516	9,956	15,336
Account receivables	1,390	1,725	2,036	2,368	2,737	3,129
Prepayment	223	280	403	474	553	639
Financial assets at FVTPL	1,576	2,810	2,980	2,980	2,980	2,980
Other current assets	303	369	461	539	619	707
Non-current assets	**5,578**	**6,645**	**9,610**	**9,967**	**10,430**	**11,014**
PP&E	766	1,053	1,358	1,588	1,895	2,308
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	3,203	3,203	3,203
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	1,498	1,654	1,825
Total assets	**10,798**	**13,299**	**17,387**	**21,843**	**27,276**	**33,805**
Current liabilities	**4,949**	**6,005**	**7,365**	**8,662**	**10,219**	**11,952**
Short-term borrowings	92	0	0	0	0	0
Account payables	89	274	126	143	163	184
Lease liabilities	82	96	89	89	89	89
Contract liabilities	3,836	4,660	5,785	6,958	8,379	9,977
Accrued expenses	850	975	1,365	1,472	1,587	1,703
Non-current liabilities	**2,154**	**2,262**	**2,394**	**2,419**	**2,441**	**2,465**
Long-term borrowings	1,484	1,486	1,488	1,488	1,488	1,488
Deferred income	63	70	81	106	128	152
Other non-current liabilities	607	706	825	825	825	825
Total liabilities	**7,103**	**8,267**	**9,759**	**11,081**	**12,659**	**14,417**
Share capital	0	0	0	0	0	0
Capital surplus	3,665	4,796	5,661	7,563	9,788	12,359
Retained earnings	30	236	1,967	3,199	4,829	7,029
Total shareholders equity	**3,695**	**5,032**	**7,628**	**10,762**	**14,617**	**19,388**
Total equity and liabilities	**10,798**	**13,299**	**17,387**	**21,843**	**27,276**	**33,805**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**249**	**399**	**1,008**	**1,540**	**2,038**	**2,750**
Depreciation & amortization	472	433	562	586	674	756
Tax paid	19	74	(723)	308	408	550
Change in working capital	58	174	(101)	715	893	1,021
Others	1,393	1,643	2,652	1,286	1,410	1,471
Net cash from operations	**2,191**	**2,723**	**3,398**	**4,434**	**5,422**	**6,548**
Investing						
Capital expenditure	(401)	(340)	(300)	(332)	(370)	(391)
Acquisition of subsidiaries/ investments	(565)	(566)	(717)	(205)	(236)	(260)
Net proceeds from disposal of short-term investments	(437)	(1,960)	(1,112)	0	0	0
Others	(204)	283	(38)	(278)	(376)	(518)
Net cash from investing	**(1,607)**	**(2,583)**	**(2,167)**	**(815)**	**(982)**	**(1,169)**
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	5,523	9,964
Exchange difference	(25)	(53)	1	0	0	0
Cash at the end of the year	**1,732**	**1,475**	**1,904**	**5,523**	**9,964**	**15,343**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	30.5%	22.9%	23.8%	21.1%	20.4%	19.1%
Gross profit	28.6%	24.9%	24.3%	22.2%	21.3%	19.7%
Operating profit	29.2%	38.1%	114.6%	46.9%	41.1%	39.5%
Net profit	94.1%	41.3%	432.6%	(28.8%)	32.4%	34.9%
Adj. net profit	29.7%	28.5%	43.6%	29.2%	23.3%	24.2%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	77.1%	78.3%	78.6%	79.3%	79.8%	80.3%
Operating margin	4.4%	4.9%	8.5%	10.3%	12.1%	14.1%
Adj. net profit margin	20.4%	21.3%	24.7%	26.3%	27.0%	28.1%
Return on equity (ROE)	7.0%	7.4%	27.3%	13.4%	12.8%	12.9%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.1	1.1	1.1	1.4	1.6	1.9
Receivable turnover days	86.0	86.9	82.8	79.5	76.3	73.3
Payable turnover days	(24.0)	(63.6)	(23.9)	(23.2)	(22.5)	(21.8)

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	642.5	462.5	88.0	123.6	93.4	69.2
P/E (diluted)	658.7	467.4	88.8	124.8	94.3	69.9
P/B	40.0	29.9	20.0	14.1	10.4	7.9

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

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