

Meta (META US)

2Q24 earnings beat; intact FY24 earnings growth outlook despite AI investment

Meta announced 2Q24 results: total revenue increased by 22% YoY to US\$39.1bn, 2% ahead of Bloomberg consensus estimate; net income grew by 73% YoY to US\$13.5bn, beating consensus estimate by 10%, primarily due to effective control in headcount-related expenses. For 3Q24E, management expects total revenue to grow by 13-20% YoY to US\$38.5-41.0bn, which is largely in line with consensus estimate (US\$39.2bn) and remains resilient despite the high-base effect. Despite stepped-up Capex investment, management maintains its FY24 full-year total expenses guidance unchanged at US\$96-99bn, which should ease investor concern on its margin expansion trajectory in FY24. Overall, we raise FY24-26E total revenue forecast by 1-2% in view of the solid ad demand across verticals. We lift our TP by 5% to US\$565.0 on 27x FY24 PE. Maintain BUY.

- Ad business maintained solid growth.** Family of Apps' ad revenue grew by 22% YoY to US\$38.3bn in 2Q24 (4Q23/1Q24: +25%/27% YoY), led by strong growth in online commerce, gaming, and entertainment verticals. Total number of ad impressions and average price per ad both grew 10% YoY in 2Q24, mainly due to the enhanced user engagement and improved ad performance. In 2Q24, Meta launched the full-screen video player and unified the video recommendation systems of Facebook Reels, Long Video and Live. This integration led to increased engagement on Reels and created opportunities to grow ad inventory on the Facebook platform. For 3Q24, management expects resilient growth of total revenue (+13-20% YoY), attributed to healthy global ad demand and ad performance improvement.
- GenAI brings new opportunities.** Meta AI has received billions of queries since its launch and is on track of becoming the most used AI assistant by end-FY24, per management. Meta has recently launched AI Studio, which allows millions of creators on Meta to create their own AI agents. These initiatives will improve user experience, enrich Meta AI use cases, and create monetization opportunities, in our view. Meta also leverages AI to improve ad performance for advertisers. US advertisers saw a 22% higher ROI after the adoption of Advantage+ Shopping campaigns, per management.
- Steady margin expansion in FY24.** OPM expanded by 9ppt YoY to 38.0% in 2Q24, due to decline in marketing personnel expenses and restructuring costs, partially offset by an increase in R&D expenses (+13% YoY). Management has raised the low-end of FY24 capex guidance and now anticipates FY24 capex to grow by 36-47% YoY to US\$37-40bn (previous: US\$35-40bn). Management also expects significant capex growth in FY25, as Meta invests to support AI development. We are upbeat on OPM expansion in FY24 due to efficiency gains, but expect the OPM expansion to slow down meaningfully from FY25 onward. We forecast a net income CAGR of 21% over FY24-26E. We believe the current valuation of 20x FY25E PE remains attractive. BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	116,609	134,901	159,691	181,507	201,747
Net profit (US\$ mn)	23,200.0	39,098.0	53,140.1	61,031.2	69,392.2
EPS (Reported) (US\$)	8.63	15.19	20.93	24.03	27.33
Consensus EPS (US\$)	8.63	15.19	20.21	23.30	26.99
P/S (x)	10.5	9.1	7.7	6.7	6.1
P/E (x)	55.0	31.3	22.7	19.8	17.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$565.00

(Previous TP) US\$542.00

Up/Downside 19.0%

Current Price US\$474.83

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)	1,222,212.4
Avg 3 mths t/o (US\$ mn)	1,670.3
52w High/Low (US\$)	539.91/283.25
Total Issued Shares (mn)	2574.0

Source: FactSet

Shareholding Structure

Mark Zuckerberg	14.0%
The Vanguard Group	6.9%

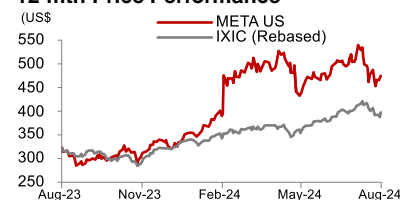
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-5.9%	-4.4%
3-mth	8.1%	-4.1%
6-mth	20.3%	5.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Meta: forecast revision

US\$ bn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	159.7	181.5	201.7	158.1	179.4	199.3	1.0%	1.2%	1.2%
Gross profit	129.3	147.0	163.4	128.1	145.3	161.4	1.0%	1.2%	1.2%
Operating profit	61.7	71.3	80.8	59.8	69.0	78.2	3.2%	3.3%	3.3%
Net profit	53.1	61.0	69.4	51.5	59.1	67.2	3.2%	3.3%	3.3%
EPS (US\$)	20.9	24.0	27.3	20.0	23.0	26.1	4.6%	4.7%	4.7%
Gross margin	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	0.0 ppt	0.0 ppt	0.0 ppt
Operating margin	38.6%	39.3%	40.0%	37.8%	38.5%	39.2%	0.8 ppt	0.8 ppt	0.8 ppt
Net margin	33.3%	33.6%	34.4%	32.6%	32.9%	33.7%	0.7 ppt	0.7 ppt	0.7 ppt

Source: CMBIGM estimates

Figure 2: Meta: CMBIGM estimates vs consensus

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	159.7	181.5	201.7	159.0	179.4	200.6	0.4%	1.2%	0.6%
Gross profit	129.3	147.0	163.4	129.1	145.0	161.6	0.2%	1.4%	1.1%
Operating profit	61.7	71.3	80.8	61.5	72.5	82.6	0.3%	-1.7%	-2.2%
Net profit	53.1	61.0	69.4	52.5	59.9	67.4	1.1%	1.9%	3.0%
EPS (US\$)	20.9	24.0	27.3	20.2	23.3	27.0	3.6%	3.2%	1.2%
Gross margin	81.0%	81.0%	81.0%	81.2%	80.8%	80.6%	-0.2 ppt	0.2 ppt	0.4 ppt
Operating margin	38.6%	39.3%	40.0%	38.7%	40.4%	41.2%	0.0 ppt	-1.1 ppt	-1.1 ppt
Net margin	33.3%	33.6%	34.4%	33.0%	33.4%	33.6%	0.2 ppt	0.2 ppt	0.8 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

We value Meta at US\$565.0 per share based on 27x 2024E P/E. Our target PE multiple is a premium to the sector average (22x), reflecting Meta's strong leadership in global social media space and capability to further unleash operating leverage.

Figure 3: Meta: target valuation

P/E valuation (US\$mn)	2024E
Net income	53,140
Target 2024E P/E	27.0
Target equity valuation	1,434,783
Valuation per share (US\$)	565.0

Source: Company data, CMBIGM estimates

Figure 4: Global online ad platforms: valuation comparison

Companies	Ticker	Price (LC)	PE (x)			PS (x)			EPS CAGR 24-26E
			2024E	2025E	2026E	2024E	2025E	2026E	
Global ads									
Meta	META US	474.8	22.7	19.8	17.4	7.6	6.7	6.0	21%
Alphabet	GOOGL US	171.5	21.5	19.3	17.3	7.3	6.2	5.5	18%
Pinterest	PINS US	32.0	21.9	19.1	15.7	6.0	5.2	4.5	25%
Snap	SNAP US	13.3	NA	33.3	24.9	4.1	3.6	3.1	92%
Average			22.0	22.9	18.8	6.2	5.4	4.8	
Global tech									
Microsoft	MSFT US	418.4	35.4	31.5	27.0	12.7	11.1	9.7	17%
NVIDIA	NVDA US	117.0	NA	43.4	31.1	48.5	23.9	17.5	126%
Amazon	AMZN US	187.0	33.3	27.5	23.2	3.0	2.7	2.5	28%
Tesla Inc	TSLA US	232.1	NA	NA	NA	7.5	6.4	5.3	13%
Salesforce	CRM US	258.8	31.6	26.1	23.5	7.2	6.6	6.1	31%
Netflix Inc	NFLX US	628.4	32.8	27.4	23.0	7.0	6.2	5.6	31%
Adobe Inc	ADBE US	551.7	30.4	26.8	23.5	11.4	10.2	9.2	14%
Intuit Inc	INTU US	647.4	38.5	33.8	29.4	11.2	10.0	8.8	16%
ServiceNow	NOW US	814.4	NA	49.3	40.5	15.4	12.8	10.6	24%
Average			33.7	33.2	27.6	13.8	10.0	8.4	

Source: Bloomberg, CMBIGM

Note: data as of 31 July 2024

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	117,929	116,609	134,901	159,691	181,507	201,747
Cost of goods sold	(22,649)	(25,249)	(25,958)	(30,341)	(34,486)	(38,332)
Gross profit	95,280	91,360	108,943	129,350	147,020	163,415
Operating expenses	(48,527)	(62,415)	(62,192)	(67,669)	(75,745)	(82,637)
Selling expense	(14,043)	(15,261)	(12,301)	(11,458)	(12,763)	(13,902)
Admin expense	(9,829)	(11,816)	(11,408)	(13,095)	(14,884)	(16,342)
R&D expense	(24,655)	(35,338)	(38,483)	(43,117)	(48,099)	(52,394)
Operating profit	46,753	28,945	46,751	61,681	71,275	80,778
Net Interest income/(expense)	531	(126)	677	837	527	860
Foreign exchange gain/loss	0	0	0	0	0	0
Other income/expense	0	0	0	0	0	0
Pre-tax profit	47,284	28,819	47,428	62,518	71,801	81,638
Income tax	(7,914)	(5,619)	(8,330)	(9,378)	(10,770)	(12,246)
After tax profit	39,370	23,200	39,098	53,140	61,031	69,392
Net profit	39,370	23,200	39,098	53,140	61,031	69,392
Adjusted net profit	48,534	35,192	53,125	68,402	78,115	88,031

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	66,666	59,549	85,365	102,970	152,683	215,590
Cash & equivalents	16,601	14,681	41,862	52,651	95,553	154,469
Account receivables	14,039	13,466	16,169	18,757	20,894	22,759
Financial assets at FVTPL	31,397	26,057	23,541	27,072	31,133	32,690
Other current assets	4,629	5,345	3,793	4,490	5,103	5,673
Non-current assets	99,321	126,178	144,258	159,954	171,663	179,595
PP&E	69,964	92,191	109,881	124,289	134,858	141,728
Investment in JVs & assos	6,775	6,201	6,141	6,141	6,141	6,141
Intangibles	634	897	788	827	869	912
Goodwill	19,197	20,306	20,654	20,654	20,654	20,654
Other non-current assets	2,751	6,583	6,794	8,042	9,141	10,161
Total assets	165,987	185,727	229,623	262,924	324,346	395,185
Current liabilities	21,135	27,026	31,960	36,407	40,391	43,878
Account payables	4,083	4,990	4,849	5,554	6,187	6,739
Other current liabilities	1,613	1,117	863	1,022	1,161	1,291
Lease liabilities	1,127	1,367	1,623	1,623	1,623	1,623
Accrued expenses	14,312	19,552	24,625	28,207	31,420	34,225
Non-current liabilities	19,973	32,988	44,495	44,495	44,495	44,495
Obligations under finance leases	12,746	15,301	17,226	17,226	17,226	17,226
Other non-current liabilities	7,227	17,687	27,269	27,269	27,269	27,269
Total liabilities	41,108	60,014	76,455	80,902	84,886	88,373
Capital surplus	55,811	64,444	73,253	48,967	45,373	43,334
Retained earnings	69,761	64,799	82,070	135,210	196,241	265,634
Other reserves	(693)	(3,530)	(2,155)	(2,155)	(2,155)	(2,155)
Total shareholders equity	124,879	125,713	153,168	182,022	239,460	306,812
Total equity and liabilities	165,987	185,727	229,623	262,924	324,346	395,185

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	47,284	28,819	47,428	62,518	71,801	81,638
Depreciation & amortization	7,967	8,686	11,178	11,413	12,910	14,008
Tax paid	(7,914)	(5,619)	(8,330)	(9,378)	(10,770)	(12,246)
Change in working capital	887	5,683	6,175	1,161	1,235	1,053
Others	9,459	12,906	14,662	15,262	17,084	18,638
Net cash from operations	57,683	50,475	71,113	80,977	92,260	103,091
Investing						
Capital expenditure	(18,690)	(31,431)	(27,266)	(25,861)	(23,520)	(20,921)
Acquisition of subsidiaries/ investments	(851)	(1,312)	(629)	0	0	0
Others	11,971	3,773	3,400	(4,780)	(5,160)	(2,576)
Net cash from investing	(7,570)	(28,970)	(24,495)	(30,640)	(28,680)	(23,497)
Financing						
Net borrowings	(677)	9,071	7,397	0	0	0
Share repurchases	(50,052)	(31,551)	(19,774)	(39,548)	(20,678)	(20,678)
Others	1	344	(7,123)	0	0	0
Net cash from financing	(50,728)	(22,136)	(19,500)	(39,548)	(20,678)	(20,678)
Net change in cash						
Cash at the beginning of the year	17,576	16,601	14,681	41,862	52,651	95,553
Exchange difference	(360)	(1,289)	63	0	0	0
Cash at the end of the year	16,601	14,681	41,862	52,651	95,553	154,469
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	37.2%	(1.1%)	15.7%	18.4%	13.7%	11.2%
Gross profit	37.5%	(4.1%)	19.2%	18.7%	13.7%	11.2%
Operating profit	43.1%	(38.1%)	61.5%	31.9%	15.6%	13.3%
Net profit	35.1%	(41.1%)	68.5%	35.9%	14.8%	13.7%
Adj. net profit	36.0%	(27.5%)	51.0%	28.8%	14.2%	12.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	80.8%	78.3%	80.8%	81.0%	81.0%	81.0%
Operating margin	39.6%	24.8%	34.7%	38.6%	39.3%	40.0%
Adj. net profit margin	41.2%	30.2%	39.4%	42.8%	43.0%	43.6%
Return on equity (ROE)	31.1%	18.5%	28.0%	31.7%	29.0%	25.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	3.2	2.2	2.7	2.8	3.8	4.9
Receivable turnover days	43.5	42.2	43.7	42.9	42.0	41.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	34.4	55.0	31.3	22.7	19.8	17.4
P/E (diluted)	34.5	55.3	31.9	23.4	20.4	17.9
P/B	10.8	10.1	8.0	6.6	5.0	3.9

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.