

Amazon (AMZN US)

2Q earnings beat; YoY margin expansion remains on track although the pace may slow

Amazon released (2 Aug HKT) 2Q24 results: revenue was US\$148.0bn, up 10% YoY, and was largely inline with Bloomberg consensus, and total operating profit was US\$14.7bn, up 70% YoY, 7% better than consensus, driven by OPM margin beat for AWS aided by efficient cost control. In view of this, customers are more careful with their spending. Management also turns more cautious, and guided for revenue of US\$154.0bn-158.5bn for 3Q24E, the mid-point of which is 1% lower than consensus. Also, the seasonally low 3Q OPM is likely to be dragged by Prime Day deals and marketing spending surrounding the event, as well as the ramp-up in capacity to handle 4Q holiday volume in fulfilment network. The guidance of US\$11.5bn-15.0bn for 3Q24E OP was shy of consensus at US\$15.8bn. Although the pace of overall OPM expansion likely falls short of market consensus in the short term, the YoY expansion trend remains on track aided by increase in revenue contribution from relatively higher-margin services & AWS, as well as cost optimization initiatives of first party business. To account for 1% lower 2024E EBITDA forecast and slightly higher-than-expected capex investment to aid cloud business expansion, our TP was trimmed to US\$207.0 (was US\$211.0) based on unchanged 18.8x EV/EBITDA. Reiterate BUY.

■ **AWS: acceleration in revenue growth and margin expansion sustained in 2Q.** In 2Q24, AWS reported revenue of US\$26.3bn, and the revenue growth further reaccelerated to 18.7% YoY (2Q23: 12.2%; 1Q24: 17.2%) with companies completed significant majority of their cost optimization efforts, 1% better than market expectation. Operating profit for AWS segment was US\$9.3bn in 2Q24, 11% ahead of consensus, and translates into 35.5% OPM (2Q23: 24.2%; 1Q24: 37.6%), mainly driven by the change in estimated useful life of servers, continued focus on cost control including a measured pace of hiring. Management expects OPM of AWS to fluctuate driven by the level of investments, while remains focused on driving efficiencies gains. Management guided for a higher capex in 2H24 compared to that in 1H24 to support cloud business expansion.

■ **YoY margin expansion sustained for North America (NA) and international business.** The ongoing improvement in cost to serve, as well as increase in revenue contribution from ads revenue continued driving YoY margin expansion for both NA and international business in 2Q24, and management believes that there is still room for further YoY margin expansion for both NA and international business. In 2Q, Amazon's North America (NA) business recorded revenue of US\$90.0bn, up 9% YoY, and OPM expanded by 1.7pp YoY to 5.6%, inline with consensus. Although the OPM for NA business dipped 0.2pp QoQ, management highlighted that OPM of core store business remained on expansion track QoQ, while this was offset by incremental investments in some of the new initiatives such as Kuiper. For international segment, revenue was US\$31.7bn, up 6.6% YoY, and operating margin improved by 3.9pp YoY to 0.9% (consensus: 1.0%).

■ **Increase in ads revenue contribution remains a long-term driver for margin expansion.** In 2Q24, Amazon's revenue of advertising services grew 20% YoY (2Q23: 22%; 1Q24: 24%) to US\$12.8bn, aided by strong performance in sponsored ads, as well as incremental revenue contribution generated from Amazon Prime ads. As a percentage of revenue, advertising services contributed to 8.6% of total in 2Q24, increasing from 7.9% in 2Q23.

BUY (Maintain)

Target Price US\$207.00
(Previous TP US\$211.00)
Up/Downside 23.3%
Current Price US\$167.90

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Stock Data

Mkt Cap (US\$ mn)	1,761,606.8
Avg 3 mths t/o (US\$ mn)	2,178.8
52w High/Low (US\$)	200.00/119.57
Total Issued Shares (mn)	10492.0

Source: FactSet

Shareholding Structure

Jeffrey P. Bezos	9.6%
The Vanguard Group, Inc.	7.1%

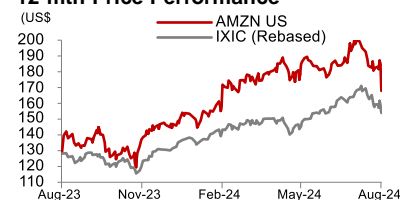
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-16.1%	-9.8%
3-mth	-9.1%	-14.2%
6-mth	-2.3%	-9.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	513,983	574,785	629,807	690,468	750,266
YoY growth (%)	9.4	11.8	9.6	9.6	8.7
Net profit (US\$ mn)	(2,722.0)	30,425.0	51,251.4	68,190.0	88,170.2
YoY growth (%)	na	na	68.5	33.1	29.3
EPS (Reported) (US\$)	(0.27)	2.90	4.85	6.37	8.14
Consensus EPS (US\$)	na	2.83	4.62	5.87	7.51
P/E (x)	ns	57.9	34.6	26.4	20.6
P/B (x)	11.9	8.7	6.7	5.0	3.9

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Amazon quarterly results review and comparison with consensus

(USDbn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	2Q24 Consensus	Diff%
Online Stores	51.1	50.9	53.5	64.5	51.1	53.0	57.3	70.5	54.7	55.4	55.5	-0.3%
YoY Growth	-3.3%	-4.3%	7.1%	-2.3%	-0.1%	4.2%	7.1%	9.3%	7.0%	4.6%		
Third-Party Seller Services	25.3	27.4	28.7	36.3	29.8	32.3	34.3	43.6	34.6	36.2	36.7	-1.3%
YoY Growth	6.9%	9.1%	18.2%	19.9%	17.7%	18.1%	19.8%	19.9%	16.0%	12.0%		
AWS	18.4	19.7	20.5	21.4	21.4	22.1	23.1	24.2	25.0	26.3	26.0	1.1%
YoY Growth	36.6%	33.3%	27.5%	20.2%	15.8%	12.2%	12.3%	13.2%	17.2%	18.7%		
Subscription Services	8.4	8.7	8.9	9.2	9.7	9.9	10.2	10.5	10.7	10.9	10.9	-0.6%
YoY Growth	10.9%	10.1%	9.3%	13.1%	14.8%	13.5%	14.2%	14.1%	11.0%	9.8%		
Advertising Services	7.9	8.8	9.5	11.6	9.5	10.7	12.1	14.7	11.8	12.8	13.0	-1.6%
YoY Growth	23.4%	17.5%	25.4%	18.9%	20.7%	22.0%	26.3%	26.8%	24.3%	19.5%		
Physical Stores	4.6	4.7	4.7	5.0	4.9	5.0	5.0	5.2	5.2	5.2	5.3	-1.0%
YoY Growth	17.1%	12.5%	10.0%	5.7%	6.6%	6.4%	5.6%	3.9%	6.3%	3.6%		
Other (New)	0.7	1.1	1.3	1.3	1.0	1.3	1.2	1.4	1.3	1.3	1.4	12.7%
YoY Growth	26.1%	131.1%	163.7%	76.5%	55.4%	25.6%	-2.9%	8.6%	22.9%	-6.3%		
Total revenue	116.4	121.2	127.1	149.2	127.4	134.4	143.1	170.0	143.3	148.0	148.8	-0.5%
YoY Growth	7.3%	7.2%	14.7%	8.6%	9.4%	10.8%	12.6%	13.9%	12.5%	10.1%		
Gross profit	49.9	54.8	56.8	63.6	59.6	65.0	68.1	77.4	70.7	74.2	73.8	0.6%
Operating profit	3.7	3.3	2.5	2.7	4.8	7.7	11.2	13.2	15.3	14.7	13.7	6.9%
Net profit	-3.8	-2.0	2.9	0.3	3.2	6.8	9.9	10.6	10.4	13.5	11.2	20.5%
Revenue breakdown by segment												
North America	69.2	74.4	78.8	93.4	76.9	82.5	87.9	105.5	86.3	90.0	90.0	0.1%
YoY Growth	7.6%	10.2%	20.3%	13.4%	11.0%	10.9%	11.5%	13.0%	12.3%	9.1%		
% of total revenue	59.5%	61.4%	62.0%	62.6%	60.4%	61.4%	61.4%	62.1%	60.2%	60.8%		
International	28.8	27.1	27.7	34.5	29.1	29.7	32.1	40.2	31.9	31.7	32.9	-3.7%
YoY Growth	-6.2%	-11.9%	-4.9%	-7.5%	1.3%	9.7%	15.9%	16.8%	9.7%	6.6%		
% of total revenue	24.7%	22.3%	21.8%	23.1%	22.9%	22.1%	22.5%	23.7%	22.3%	21.4%		
AWS	18.4	19.7	20.5	21.4	21.4	22.1	23.1	24.2	25.0	26.3	26.0	1.1%
YoY Growth	36.6%	33.3%	27.5%	20.2%	15.8%	12.2%	12.3%	13.2%	17.2%	18.7%		
% of total revenue	15.8%	16.3%	16.2%	14.3%	16.8%	16.5%	16.1%	14.2%	17.5%	17.8%		
OP breakdown by segment												
North America	(1.6)	(0.6)	(0.4)	(0.2)	0.9	3.2	4.3	6.5	5.0	5.1	5.1	0.2%
OPM	-2.3%	-0.8%	-0.5%	-0.3%	1.2%	3.9%	4.9%	6.1%	5.8%	5.6%	5.6%	0.0 ppt
International	(1.3)	(1.8)	(2.5)	(2.2)	(1.2)	(0.9)	(0.1)	(0.4)	0.9	0.3	0.3	16.0%
OPM	-4.5%	-6.5%	-8.9%	-6.5%	-4.3%	-3.0%	-0.3%	-1.0%	2.8%	0.9%	1.0%	-0.1 ppt
AWS	6.5	5.7	5.4	5.2	5.1	5.4	7.0	7.2	9.4	9.3	8.4	11.3%
OPM	35.3%	29.0%	26.3%	24.3%	24.0%	24.2%	30.3%	29.6%	37.6%	35.5%	32.3%	3.2 ppt
YoY Growth	56.6%	36.3%	10.6%	-1.7%	21.4%	-6.1%	29.1%	37.7%	83.9%	74.0%		
Margins (%)												
GPM	42.9%	45.2%	44.7%	42.6%	46.8%	48.4%	47.6%	45.5%	49.3%	50.1%	49.6%	0.5 ppt
OPM	3.2%	2.7%	2.0%	1.8%	3.7%	5.7%	7.8%	7.8%	10.7%	9.9%	9.2%	0.7 ppt
NPM	-3.3%	-1.7%	2.3%	0.2%	2.5%	5.0%	6.9%	6.3%	7.3%	9.1%	7.5%	1.6 ppt

Source: CMBIGM estimates, Bloomberg

Changes in forecast and valuation

Figure 2: Amazon forecast revision

USD bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	629.8	690.5	750.3	635.6	707.2	780.1	-0.9%	-2.4%	-3.8%
Gross profit	306.6	339.9	373.5	310.7	349.7	389.6	-1.3%	-2.8%	-4.1%
Operating profit	62.6	78.4	97.2	64.1	80.7	99.3	-2.3%	-2.8%	-2.1%
Net profit	51.3	68.2	88.2	51.0	69.9	89.5	0.4%	-2.5%	-1.5%
GPM	48.7%	49.2%	49.8%	48.9%	49.4%	49.9%	-0.2 ppt	-0.2 ppt	-0.2 ppt
OPM	9.9%	11.4%	12.9%	10.1%	11.4%	12.7%	-0.1 ppt	-0.1 ppt	0.2 ppt
NPM	8.1%	9.9%	11.8%	8.0%	9.9%	11.5%	0.1 ppt	0.0 ppt	0.3 ppt

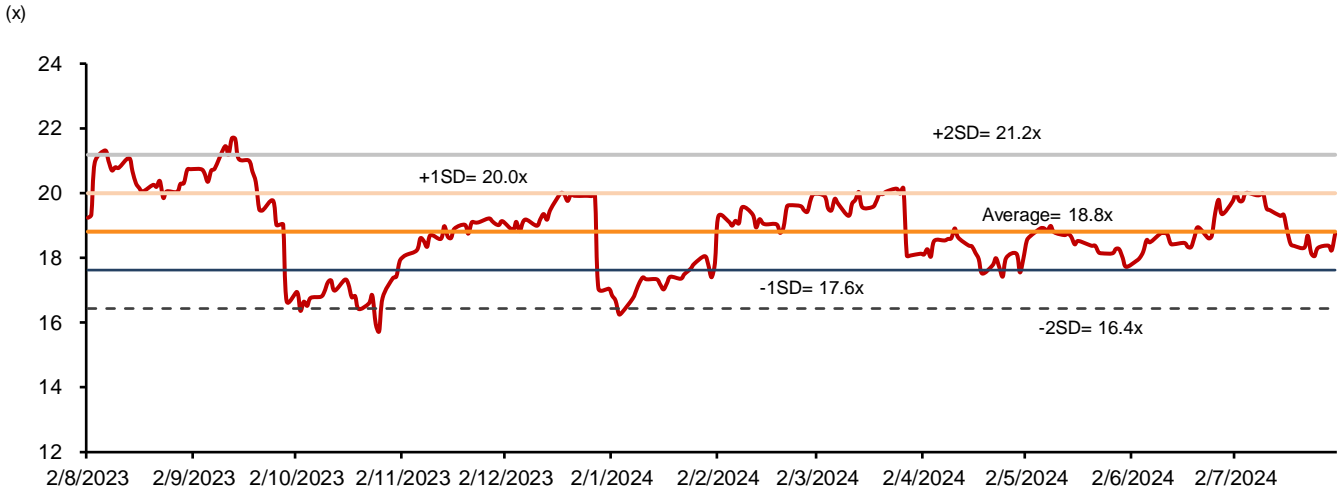
Source: CMBIGM estimates

Figure 3: Amazon: CMBI forecast vs consensus

USD bn	Current			Consensus			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	629.8	690.5	750.3	639.2	711.4	793.0	-1.5%	-2.9%	-5.4%
Gross profit	306.6	339.9	373.5	310.1	351.5	399.6	-1.1%	-3.3%	-6.5%
Operating profit	62.6	78.4	97.2	63.4	78.3	98.5	-1.1%	0.1%	-1.3%
Net profit	51.3	68.2	88.2	49.2	63.1	80.4	4.1%	8.1%	9.7%
GPM	48.7%	49.2%	49.8%	48.5%	49.4%	50.4%	0.2 ppt	-0.2 ppt	-0.6 ppt
OPM	9.9%	11.4%	12.9%	9.9%	11.0%	12.4%	0.0 ppt	0.3 ppt	0.5 ppt
NPM	8.1%	9.9%	11.8%	7.7%	8.9%	10.1%	0.4 ppt	1.0 ppt	1.6 ppt

Source: CMBIGM estimates, Bloomberg

Figure 4: Amazon: one-year EV/EBITDA band over the past year



Source: Bloomberg, CMBIGM

Figure 5: Amazon: target price of US\$207.0 based on 18.8x EV/EBITDA

(USDmn)	
GAAP EBITDA (2024E)	111,251
GAAP EBITDA Margin %	17.7%
EV / 2024 GAAP EBITDA	18.8x
Enterprise Value	2,092,634
GAAP EBITDA CAGR (2022-2025E CAGR)	20%
Capital Structure Adjustments	
Adjusted Net Debt - 2024E	(171,501)
Shares Outstanding - 2024E	11,089
Valuation (USD)	207.0

Source: CMBIGM estimates

Figure 6: Amazon: SOTP valuation cross-check of US\$213.0 per ADS

#	Segment (USDmn)	Valuation method	2024E Rev (USDmn)	EV/S (x)	Val. US\$m	\$/share	Value split
1	First party retail (online stores + physical stores + Others)	0.9x 2024E PS	264,385	0.9	237,947	21.7	10%
2	Third party revenue (Retail Third-Party Seller Services + Retail Subscription Services)	5.0x 2024E PS	201,744	5.0	1,008,718	92.1	43%
3	Advertising services	5.0x 2024E PS	56,118	5.0	280,588	25.6	12%
4	AWS	7.5x 2024E PS	107,561	7.5	806,707	73.6	35%
Total (US\$m)						213.0	
#s of shares outstanding (mn)						10,958	

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	469,822	513,983	574,785	629,807	690,468	750,266
Cost of goods sold	(272,344)	(288,831)	(304,739)	(323,209)	(350,545)	(376,774)
Gross profit	197,478	225,152	270,046	306,598	339,924	373,492
Operating expenses	(172,599)	(212,904)	(233,194)	(243,962)	(261,512)	(276,334)
Selling expense	(32,551)	(42,238)	(44,370)	(43,862)	(46,931)	(48,277)
Admin expense	(8,823)	(11,891)	(11,816)	(11,808)	(12,982)	(13,638)
R&D expense	(56,052)	(73,213)	(85,622)	(88,031)	(94,716)	(101,150)
Others	(75,173)	(85,562)	(91,386)	(100,261)	(106,883)	(113,269)
Operating profit	24,879	12,248	36,852	62,636	78,412	97,158
Interest income	448	989	2,949	4,397	7,960	13,799
Interest expense	(1,809)	(2,367)	(3,182)	(2,384)	(2,221)	(2,140)
Other income/expense	14,633	(16,806)	938	(2,691)	0	0
Pre-tax profit	38,151	(5,936)	37,557	61,958	84,151	108,818
Income tax	(4,791)	3,217	(7,120)	(10,643)	(15,989)	(20,675)
Others	4	(3)	(12)	(64)	28	28
After tax profit	33,364	(2,722)	30,425	51,251	68,190	88,170
Net profit	33,364	(2,722)	30,425	51,251	68,190	88,170

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	161,580	146,791	172,351	211,657	310,814	430,443
Cash & equivalents	36,220	53,888	73,387	101,918	192,116	302,634
Restricted cash	60,080	24,093	32,328	42,193	47,966	54,381
Account receivables	32,640	34,405	33,318	33,773	35,367	36,714
Inventories	32,640	34,405	33,318	33,773	35,367	36,714
Contract obtaining costs	258,969	315,884	355,503	391,733	400,778	414,603
PP&E	160,281	186,715	204,177	230,939	239,984	253,809
Deferred income tax	0	0	0	0	0	0
Goodwill	15,371	20,288	22,789	22,879	22,879	22,879
Other non-current assets	420,549	462,675	527,854	603,390	711,592	845,046
Current liabilities	142,266	155,393	164,917	174,658	191,780	211,312
Account payables	78,664	79,600	84,981	90,323	100,211	110,034
Other current liabilities	11,827	13,227	15,227	16,382	17,936	19,448
Accrued expenses	51,775	62,566	64,709	67,954	73,633	81,830
Non-current liabilities	140,038	161,239	161,062	151,956	148,997	147,594
Long-term borrowings	48,744	67,150	58,314	46,872	44,621	44,621
Other non-current liabilities	91,294	94,089	102,748	105,084	104,376	102,973
Total liabilities	282,304	316,632	325,979	326,614	340,777	358,906
Share capital	5	108	109	110	110	110
Capital surplus	55,538	75,066	99,025	123,354	149,202	176,357
Retained earnings	85,915	83,193	113,618	164,869	233,059	321,230
Other reserves	(3,213)	(12,324)	(10,877)	(11,830)	(11,830)	(11,830)
Total shareholders equity	138,245	146,043	201,875	276,503	370,542	485,867
Total equity and liabilities	420,549	462,675	527,854	603,117	711,319	844,773

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	38,151	(5,936)	37,557	61,958	84,151	108,818
Depreciation & amortization	34,296	41,461	48,663	48,615	49,887	49,497
Tax paid	(4,791)	3,217	(7,120)	(10,643)	(15,989)	(20,675)
Change in working capital	(19,611)	(20,886)	(11,541)	(5,254)	12,418	15,595
Others	(1,718)	28,896	17,387	25,256	25,877	27,183
Net cash from operations	46,327	46,752	84,946	119,932	156,344	180,417
Investing						
Capital expenditure	(55,396)	(58,321)	(48,133)	(65,087)	(58,690)	(63,773)
Acquisition of subsidiaries/ investments	(1,985)	(8,316)	(5,839)	(3,925)	0	0
Others	(773)	29,036	4,139	(7,583)	(4,256)	(5,174)
Net cash from investing	(58,154)	(37,601)	(49,833)	(76,595)	(62,946)	(68,946)
Financing						
Net borrowings	17,616	23,907	(11,224)	(12,286)	(2,251)	0
Share repurchases	0	(6,000)	0	0	0	0
Others	(11,325)	(8,189)	(4,655)	(2,060)	(950)	(952)
Net cash from financing	6,291	9,718	(15,879)	(14,346)	(3,201)	(952)
Net change in cash						
Cash at the beginning of the year	41,466	35,566	53,342	72,979	101,230	191,427
Others	(364)	(1,093)	403	(741)	0	0
Cash at the end of the year	35,566	53,342	72,979	101,230	191,427	301,946
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	21.7%	9.4%	11.8%	9.6%	9.6%	8.7%
Gross profit	29.3%	14.0%	19.9%	13.5%	10.9%	9.9%
Operating profit	8.6%	(50.8%)	200.9%	70.0%	25.2%	23.9%
Net profit	56.4%	na	na	68.5%	33.1%	29.3%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	42.0%	43.8%	47.0%	48.7%	49.2%	49.8%
Operating margin	5.3%	2.4%	6.4%	9.9%	11.4%	12.9%
Return on equity (ROE)	28.8%	(1.9%)	17.5%	21.4%	21.1%	20.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.1	0.9	1.0	1.2	1.6	2.0
Receivable turnover days	22.0	26.4	29.6	31.0	30.1	29.1
Inventory turnover days	37.3	41.8	40.0	37.4	35.5	34.4
Payable turnover days	104.0	99.2	100.4	100.6	102.9	105.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	50.9	ns	57.9	34.6	26.4	20.6
P/E (diluted)	52.3	ns	57.9	35.9	27.3	21.4
P/B	12.6	11.9	8.7	6.7	5.0	3.9
P/CFPS	ns	ns	47.9	33.5	19.1	16.1

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

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