

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**

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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%

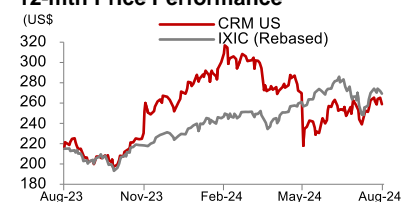
Source: Company data

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-mth 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\$mn)	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.

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