

Alphabet (GOOG US)

3Q24 results beat; Google Cloud maintains strong momentum

Alphabet announced 3Q24 results: total revenue was up by 15% YoY to US\$88.3bn, largely in line with Bloomberg consensus estimate (US\$86.5bn); net income grew by 34% YoY to US\$26.3bn, 15% ahead of consensus estimate, primarily attributable to effective headcount & facilities management. Google Cloud was a solid beat this quarter thanks to the increasing adoption of GenAI offerings, with revenue up by 35% YoY (consensus: +28% YoY) and OPM expanding by 14ppts YoY. Underpinned by the solid efficiency gains for Google Cloud and the group level, we raise FY24-26E earnings forecast by 6-8%. We maintain target price of US\$218.0 based on 24x FY25E PE (previously 26x). Maintain BUY.

■ **GenAI revamping search experience.** Google Search & other revenue maintained solid YoY growth of 12% to US\$49.4bn in 3Q24 (2Q24/1Q24: +14/14% YoY) despite the high-base effect, led by the strength in financial and retail verticals. Leveraging AI, Google continues to revamp the search experience, increase overall search usage and user satisfaction. AI Overviews has been rolled out in over 100 countries and served over 1bn users on a monthly basis. And Google started to integrate search & shopping ads into AI Overviews for mobile users in the US, further unleashing the AI monetization opportunities. Circle to Search is now available on over 150mn Android devices. YouTube ad revenue was up by 12% YoY to US\$8.9bn in 3Q24 (2Q24/1Q24: +13/21% YoY), driven by robust growth in watch time across the platform. Daily video views of YouTube Shorts reached 70bn, with narrowing monetization gap of Shorts relative to in-stream viewing.

■ **Google Cloud deliver strong revenue and margin performance.** Google Cloud revenue saw accelerated growth to 35% YoY (2Q24/1Q24: +29/28% YoY), reaching US\$11.4bn in 3Q24, mainly driven by robust growth in GCP across AI infra, GenAI solution and other core GCP products. Vertex AI, the enterprise AI platform, saw 14x growth in Gemini API calls in a six-month period. Google cloud OPM was up by 14ppts YoY and 6ppts QoQ to a record high of 17% in 3Q24, primarily driven by the operating leverage, and improved efficiency of workforce and tech infrastructure.

■ **Solid margin expansion.** Alphabet OPM rose by 4.5ppts YoY to 32.3% in 3Q24, mainly attributable to effective headcount & facilities management. Total capex was up by 62% YoY to US\$13.1bn in 3Q24, with investment focusing on servers and data centres. Looking ahead, management expects the capex level to be relatively stable QoQ in 4Q24E, and to further increase YoY (but likely at a slower rate) in 2025E. We expect OPM to continue to rise but at a slower pace to 32.2/33.1% in 2025/2026E from 31.4% in 2024E, as increase in depreciation expenses offset efficiency gains.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	282,836	307,394	349,697	392,623	437,569
YoY growth (%)	9.8	8.7	13.8	12.3	11.4
Net profit (US\$ mn)	59,972.0	73,795.0	99,190.1	112,743.7	126,143.7
Consensus EPS (US\$)	4.59	5.84	7.65	8.75	10.00
P/S (x)	7.5	6.9	6.1	5.4	4.9
P/E (x)	37.3	29.3	21.4	18.8	16.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$218.00
Up/Downside 27.4%
Current Price US\$171.14

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Stock Data

Mkt Cap (US\$ mn)	2,124,703.1
Avg 3 mths t/o (US\$ mn)	978.7
52w High/Low (US\$)	192.66/125.30
Total Issued Shares (mn)	12415.0

Source: FactSet

Shareholding Structure

Larry Page	5.7%
Sergey Brin	5.4%

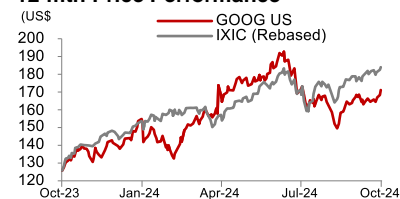
Source: Company data

Share Performance

	Absolute	Relative
1-mth	2.4%	-0.5%
3-mth	-0.4%	-8.7%
6-mth	3.9%	-13.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Alphabet: forecast revision

US\$ bn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	349.7	392.6	437.6	344.9	383.5	423.1	1.4%	2.4%	3.4%
Gross Profit	202.6	229.9	258.7	196.9	219.9	243.8	2.9%	4.5%	6.1%
Operating Profit	109.7	126.5	144.9	104.8	118.6	133.4	4.6%	6.7%	8.7%
Net profit	99.2	112.7	126.1	92.0	104.1	116.9	7.8%	8.3%	7.9%
EPS (US\$)	8.0	9.1	10.2	7.4	8.4	9.4	7.8%	8.3%	7.9%
Gross Margin	58.0%	58.5%	59.1%	57.1%	57.4%	57.6%	0.9 ppt	1.2 ppt	1.5 ppt
Operating Margin	31.4%	32.2%	33.1%	30.4%	30.9%	31.5%	1.0 ppt	1.3 ppt	1.6 ppt
Net margin	28.4%	28.7%	28.8%	26.7%	27.1%	27.6%	1.7 ppt	1.6 ppt	1.2 ppt

Source: CMBIGM estimates

Figure 2: Alphabet: CMBIGM estimates vs consensus

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	349.7	392.6	437.6	346.7	384.8	425.3	0.9%	2.0%	2.9%
Gross Profit	202.6	229.9	258.7	199.6	222.0	245.2	1.5%	3.6%	5.5%
Operating Profit	109.7	126.5	144.9	108.6	124.8	133.0	1.0%	1.4%	9.0%
Net profit	99.2	112.7	126.1	95.2	107.0	119.7	4.2%	5.4%	5.4%
EPS (US\$)	8.0	9.1	10.2	7.7	8.8	10.0	4.4%	3.8%	1.7%
Gross Margin	58.0%	58.5%	59.1%	57.6%	57.7%	57.7%	0.4 ppt	0.9 ppt	1.5 ppt
Operating Margin	31.4%	32.2%	33.1%	31.3%	32.4%	31.3%	0.0 ppt	-0.2 ppt	1.9 ppt
Net margin	28.4%	28.7%	28.8%	27.5%	27.8%	28.1%	0.9 ppt	0.9 ppt	0.7 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value Alphabet at US\$218.0 per share based on 24x 2025E P/E. Our target PE multiple is a premium to the sector average (23x), reflecting Alphabet's leadership in global advertising market and its potential to leverage AI to revitalize its businesses.

Figure 3: Alphabet: target valuation

P/E valuation (US\$mn)	2025E
Net income	112,744
Target 2025E P/E	24
Target equity valuation	2,705,850
Valuation per share (US\$)	218.0

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									
Alphabet	GOOG US	171.1	21.4	19.3	17.2	7.2	6.2	5.5	18%
Meta	META US	593.3	28.4	24.7	21.7	9.5	8.4	6.0	21%
Pinterest	PINS US	32.4	22.3	19.4	15.9	6.1	5.3	4.5	25%
Snap	SNAP US	10.9	NA	27.2	20.4	3.3	2.9	3.1	92%
Average			24.0	22.7	18.8	6.5	5.7	4.8	
Global tech									
Microsoft	MSFT US	432.0	36.6	32.6	27.9	13.1	11.5	9.7	17%
NVIDIA	NVDA US	141.3	NA	NA	37.5	58.6	28.8	17.5	126%
Amazon	AMZN US	190.8	34.0	28.0	23.6	3.1	2.8	2.5	28%
Tesla Inc	TSLA US	259.5	NA	NA	NA	8.3	7.1	5.3	13%
Netflix Inc	NFLX US	759.4	39.7	33.1	27.7	8.4	7.5	5.6	31%
Salesforce	CRM US	298.9	36.5	30.2	27.2	8.3	7.7	6.1	31%
Adobe Inc	ADBE US	485.4	26.7	23.6	20.7	10.0	9.0	9.2	14%

Intuit Inc	INTU US	623.7	37.1	32.6	28.3	10.8	9.6	8.8	16%
ServiceNow	NOW US	953.1	NA	NA	47.4	18.0	14.9	10.6	24%
Average			35.1	30.0	30.0	15.4	11.0	8.4	

Source: Bloomberg, CMBIGM

Note: data as of 29 Oct

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	257,637	282,836	307,394	349,697	392,623	437,569
Cost of goods sold	(110,939)	(126,203)	(133,332)	(147,047)	(162,770)	(178,897)
Gross profit	146,698	156,633	174,062	202,650	229,853	258,672
Operating expenses	(67,984)	(81,791)	(89,769)	(92,949)	(103,338)	(113,768)
Selling expense	(22,912)	(26,567)	(27,917)	(28,256)	(31,410)	(34,130)
Admin expense	(13,510)	(15,724)	(16,425)	(14,687)	(16,490)	(18,378)
R&D expense	(31,562)	(39,500)	(45,427)	(50,007)	(55,438)	(61,260)
Others	0	0	0	0	0	0
Operating profit	78,714	74,842	84,293	109,700	126,515	144,904
Other income/expense	12,020	(3,514)	1,424	6,994	6,125	3,501
Pre-tax profit	90,734	71,328	85,717	116,694	132,640	148,404
Income tax	(14,701)	(11,356)	(11,922)	(17,504)	(19,896)	(22,261)
After tax profit	76,033	59,972	73,795	99,190	112,744	126,144
Net profit	76,033	59,972	73,795	99,190	112,744	126,144
Adjusted net profit	91,409	79,334	96,255	123,669	140,227	156,774
BALANCE SHEET						
YE 31 Dec (US\$ mn)						
Current assets	188,143	164,795	171,530	227,970	310,808	419,527
Cash & equivalents	20,945	21,879	24,048	72,796	150,052	253,126
Account receivables	39,304	40,258	47,964	55,656	61,238	66,883
Inventories	1,170	2,670	0	0	0	0
Financial assets at FVTPL	118,704	91,883	86,868	86,868	86,868	86,868
Other current assets	8,020	8,105	12,650	12,650	12,650	12,650
Non-current assets	171,125	200,469	230,862	258,336	282,997	306,210
PP&E	97,599	112,668	134,345	161,819	186,480	209,693
Right-of-use assets	12,959	14,381	14,091	14,091	14,091	14,091
Deferred income tax	1,284	5,261	12,169	12,169	12,169	12,169
Investment in JVs & assos	29,549	30,492	31,008	31,008	31,008	31,008
Intangibles	1,417	2,084	2,084	2,084	2,084	2,084
Goodwill	22,956	28,960	29,198	29,198	29,198	29,198
Other non-current assets	5,361	6,623	7,967	7,967	7,967	7,967
Total assets	359,268	365,264	402,392	486,306	593,805	725,737
Current liabilities	64,254	69,300	81,814	91,262	97,896	104,545
Account payables	6,037	5,128	7,493	8,098	8,785	9,462
Tax payable	0	0	0	0	0	0
Other current liabilities	12,284	12,278	13,013	18,125	19,842	21,640
Accrued expenses	45,933	51,894	61,308	65,039	69,269	73,443
Non-current liabilities	43,379	39,820	37,199	37,199	37,199	37,199
Long-term borrowings	14,817	14,701	13,253	13,253	13,253	13,253
Obligations under finance leases	11,389	12,501	12,460	12,460	12,460	12,460
Deferred income	535	599	911	911	911	911
Other non-current liabilities	16,638	12,019	10,575	10,575	10,575	10,575
Total liabilities	107,633	109,120	119,013	128,461	135,095	141,744
Capital surplus	61,774	68,184	76,534	51,810	39,931	39,070
Retained earnings	191,484	195,563	211,247	310,437	423,181	549,325
Other reserves	(1,623)	(7,603)	(4,402)	(4,402)	(4,402)	(4,402)
Total shareholders equity	251,635	256,144	283,379	357,845	458,709	583,993
Total equity and liabilities	359,268	365,264	402,392	486,306	593,805	725,737

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	90,734	71,328	85,717	116,694	132,640	148,404
Depreciation & amortization	11,555	15,287	11,946	21,484	26,380	31,484
Tax paid	(14,701)	(11,356)	(11,922)	(17,504)	(19,896)	(22,261)
Change in working capital	(1,523)	(2,235)	(3,845)	1,756	1,052	1,003
Others	5,587	18,471	19,850	24,479	27,484	30,630
Net cash from operations	91,652	91,495	101,746	146,909	167,659	189,260
Investing						
Capital expenditure	(24,640)	(31,485)	(32,251)	(48,958)	(51,041)	(54,696)
Acquisition of subsidiaries/ investments	(2,618)	(6,969)	(495)	0	0	0
Others	(8,265)	18,156	5,683	0	0	0
Net cash from investing	(35,523)	(20,298)	(27,063)	(48,958)	(51,041)	(54,696)
Financing						
Net borrowings	(1,236)	(1,196)	(760)	0	0	0
Share repurchases	(50,274)	(59,296)	(61,504)	(49,203)	(39,363)	(31,490)
Others	(9,852)	(9,265)	(9,829)	0	0	0
Net cash from financing	(61,362)	(69,757)	(72,093)	(49,203)	(39,363)	(31,490)
Net change in cash						
Cash at the beginning of the year	26,465	20,945	21,879	24,048	72,796	150,052
Exchange difference	(287)	(506)	(421)	0	0	0
Cash at the end of the year	20,945	21,879	24,048	72,796	150,052	253,126
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	41.2%	9.8%	8.7%	13.8%	12.3%	11.4%
Gross profit	50.0%	6.8%	11.1%	16.4%	13.4%	12.5%
Operating profit	90.9%	(4.9%)	12.6%	30.1%	15.3%	14.5%
Net profit	88.8%	(21.1%)	23.0%	34.4%	13.7%	11.9%
Adj. net profit	71.6%	(13.2%)	21.3%	28.5%	13.4%	11.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	56.9%	55.4%	56.6%	58.0%	58.5%	59.1%
Operating margin	30.6%	26.5%	27.4%	31.4%	32.2%	33.1%
Adj. net profit margin	35.5%	28.0%	31.3%	35.4%	35.7%	35.8%
Return on equity (ROE)	32.1%	23.6%	27.4%	30.9%	27.6%	24.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.9	2.4	2.1	2.5	3.2	4.0
Receivable turnover days	55.7	52.0	57.0	58.1	56.9	55.8
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	1.5	37.3	29.3	21.4	18.8	16.8
P/E (diluted)	1.5	37.6	29.5	21.6	19.0	17.0
P/B	0.5	8.7	7.6	5.9	4.6	3.6

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

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