

Amazon (AMZN US)

Structural margin improvement trend intact

Amazon released (1 Nov HKT) 3Q24 results: revenue was US\$158.9bn, up 11% YoY (3Q23: 13%), and was 2%/1% better than our estimates/Bloomberg consensus, while total operating profit was US\$17.4bn, up 56% YoY, 18/16% better than our estimates/consensus, driven by an all-round OPM margin beat for all three business segments (North America, International, and AWS). Management guided for US\$181.5bn-188.5bn revenue for 4Q24E, implying 7-11% YoY growth, and US\$16.0-20.0bn operating profit (consensus: US\$17.5bn). We believe Amazon's structural YoY margin expansion trend is on track, aided by the continued improvement in cost to serve, as well as increase in revenue contribution from relatively high-margin ads and AWS businesses. We roll over our valuation period to 4Q24-3Q25E, and our target price rises by 14% to US\$235.0 (was US\$207.0), based on 18.2x EV/EBITDA (was 18.8x), inline with the two-year trading average. Maintain BUY.

- AWS: strong margin expansion well above consensus.** In 3Q24, AWS inked revenue of US\$27.5bn, up 19.1% YoY (3Q23: 12.3%; 2Q24: 18.7%), inline with consensus. Operating profit for AWS segment was US\$10.4bn in 3Q24, 15% ahead of consensus, and translating into a 38.1% OPM (3Q23: 30.3%; 2Q24: 35.5%), mainly driven by: 1) change in estimated useful life of servers (c. 2ppts positive impact YoY); 2) solid top line growth which aided the unleash of operating leverage; 3) continued cost control efforts, which includes a measured pace of hiring, and a focus on driving efficiencies on infrastructure. Management stressed that it believes more demand could be fulfilled if more capacity is available, and guided for US\$75bn Capex for 24E (9M24: US\$51.9bn) based on significant demand signals.
- North America (NA) and International business saw ongoing margin expansion trend.** 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 3Q24. Amazon is making progress in improving fulfillment network cost structure, driven in part by improved inventory placement, which in our view could support sustained margin expansion. In addition, the improvement in product selection and delivery speed could help drive better consumer demand. As of 3Q24, Amazon had improved its ability to spread inventory across fulfillment centres in NA by 25% YoY, and over 40mn customers experienced same-day delivery, also up 25% YoY. In 3Q, Amazon's NA business recorded revenue of US\$95.5bn, up 9% YoY, inline with consensus, while OPM expanded by 1ppt YoY to 5.9% (consensus: 5.5%). For international segment, revenue was US\$35.9bn, up 12% YoY, 4% ahead of consensus, and operating margin improved by 3.9ppts YoY to 3.6% (consensus: 1.2%).
- Ads revenue contribution has potential to further expand.** In 3Q24, Amazon's advertising services revenue grew 19% YoY (3Q23: 26%; 2Q24: 20%) to US\$14.3bn, aided by strong performance in sponsored ads, as well as incremental revenue contribution generated from Amazon Prime Video ads. As a percentage of revenue, advertising services contributed 9.0% of the total in 3Q24, up from 8.4% in 3Q23.

BUY (Maintain)

Target Price **US\$235.00**
 (Previous TP US\$207.00)
Up/Downside **18.7%**
Current Price **US\$197.93**

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Stock Data

Mkt Cap (US\$ mn)	2,076,681.6
Avg 3 mths t/o (US\$ mn)	2,757.3
52w High/Low (US\$)	200.00/138.07
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	6.9%	5.0%
3-mth	7.5%	1.4%
6-mth	10.6%	-5.4%

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	637,141	705,513	771,822
YoY growth (%)	9.4	11.8	10.8	10.7	9.4
Net profit (US\$ mn)	(2,722.0)	30,425.0	54,662.0	65,815.2	82,209.2
YoY growth (%)	na	na	79.7	20.4	24.9
EPS (Reported) (US\$)	(0.27)	2.90	5.17	6.15	7.59
Consensus EPS (US\$)	na	na	4.72	5.85	7.39
P/E (x)	ns	68.3	38.3	32.2	26.1
P/B (x)	14.0	10.3	7.7	5.9	4.6

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Amazon quarterly results review and comparison with consensus

(USDbn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	3Q24 Consensus	Diff%	CMBI estimates	Diff%
Online Stores	51.1	53.0	57.3	70.5	54.7	55.4	61.4	59.6	3.0%	58.1	5.7%
YoY Growth	-0.1%	4.2%	7.1%	9.3%	7.0%	4.6%	7.2%			1.5%	
Third-Party Seller Services	29.8	32.3	34.3	43.6	34.6	36.2	37.9	38.2	-0.9%	38.3	-1.2%
YoY Growth	17.7%	18.1%	19.8%	19.9%	16.0%	12.0%	10.3%			11.6%	
AWS	21.4	22.1	23.1	24.2	25.0	26.3	27.5	27.5	-0.1%	27.4	0.0%
YoY Growth	15.8%	12.2%	12.3%	13.2%	17.2%	18.7%	19.1%			19.0%	
Subscription Services	9.7	9.9	10.2	10.5	10.7	10.9	11.3	11.2	1.0%	11.2	1.0%
YoY Growth	14.8%	13.5%	14.2%	14.1%	11.0%	9.8%	10.9%			9.8%	
Advertising Services	9.5	10.7	12.1	14.7	11.8	12.8	14.3	14.2	0.6%	14.2	0.7%
YoY Growth	20.7%	22.0%	26.3%	26.8%	24.3%	20%	19%			18.0%	
Physical Stores	4.9	5.0	5.0	5.2	5.2	5.2	5.2	5.2	1.2%	5.2	1.5%
YoY Growth	6.6%	6.4%	5.6%	3.9%	6.3%	3.6%	5.4%			3.9%	
Other (New)	1.0	1.3	1.2	1.4	1.3	1.3	1.3	1.3	0.9%	1.2	7.1%
YoY Growth	55.4%	25.6%	-2.9%	8.6%	22.9%	-6.3%	7.1%			0.0%	
Total revenue	127.4	134.4	143.1	170.0	143.3	148.0	158.9	157.3	1.0%	155.7	2.1%
YoY Growth	9.4%	10.8%	12.6%	13.9%	12.5%	10.1%	11.0%			8.8%	
Gross profit	59.6	65.0	68.1	77.4	70.7	74.2	77.9	77.0	1.2%	76.1	2.4%
Operating profit	4.8	7.7	11.2	13.2	15.3	14.7	17.4	14.7	18.1%	15.0	16.1%
Net profit	3.2	6.8	9.9	10.6	10.4	13.5	15.3	12.4	23.6%	13.5	13.7%
Revenue breakdown by segment											
North America	76.9	82.5	87.9	105.5	86.3	90.0	95.5	95.2	0.3%	94.5	1.1%
YoY Growth	11.0%	10.9%	11.5%	13.0%	12.3%	9.1%	8.7%			7.5%	
% of total revenue	60.4%	61.4%	61.4%	62.1%	60.2%	60.8%	60.1%			60.7%	
International revenue	29.1	29.7	32.1	40.2	31.9	31.7	35.9	34.6	3.9%	33.7	6.3%
YoY Growth	1.3%	9.7%	15.9%	16.8%	9.7%	6.6%	11.7%			5.0%	
% of total revenue	22.9%	22.1%	22.5%	23.7%	22.3%	21.4%	22.6%			21.7%	
AWS	21.4	22.1	23.1	24.2	25.0	26.3	27.5	27.5	-0.1%	27.4	0.0%
YoY Growth	15.8%	12.2%	12.3%	13.2%	17.2%	18.7%	19.1%			19.0%	
% of total revenue	16.8%	16.5%	16.1%	14.2%	17.5%	17.8%	17.3%			17.6%	
OP breakdown by segment											
North America	0.9	3.2	4.3	6.5	5.0	5.1	5.7	5.2	8.6%	5.3	7.0%
OPM	1.2%	3.9%	4.9%	6.1%	5.8%	5.6%	5.9%	5.5%	0.5 ppt	5.6%	0.3 ppt
International	(1.2)	(0.9)	(0.1)	(0.4)	0.9	0.3	1.3	0.4	220.4%	0.1	1105.1%
OPM	-4.3%	-3.0%	-0.3%	-1.0%	2.8%	0.9%	3.6%	1.2%	2.5 ppt	0.3%	3.3 ppt
AWS	5.1	5.4	7.0	7.2	9.4	9.3	10.4	9.1	14.6%	9.6	8.8%
OPM	24.0%	24.2%	30.3%	29.6%	37.6%	35.5%	38.1%	33.2%	4.9 ppt	35.0%	3.1 ppt
YoY Growth	-21.4%	-6.1%	29.1%	37.7%	83.9%	74.0%	49.8%			37.7%	
Margins (%)											
GPM	46.8%	48.4%	47.6%	45.5%	49.3%	50.1%	49.0%	49.0%	0.1 ppt	48.9%	0.2 ppt
OPM	3.7%	5.7%	7.8%	7.8%	10.7%	9.9%	11.0%	9.4%	1.6 ppt	9.6%	1.3 ppt
NPM	2.5%	5.0%	6.9%	6.3%	7.3%	9.1%	9.6%	7.9%	1.8 ppt	9.1%	0.5 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	637.1	705.5	771.8	629.8	690.5	750.3	1.2%	2.2%	2.9%
Gross Profit	310.7	348.9	386.0	306.6	339.9	373.5	1.3%	2.6%	3.3%
Operating Profit	65.9	81.2	99.3	62.6	78.4	97.2	5.2%	3.6%	2.2%
Net profit	54.7	65.8	82.2	51.3	68.2	88.2	6.7%	-3.5%	-6.8%
GPM	48.8%	49.5%	50.0%	48.7%	49.2%	49.8%	0.1 ppt	0.2 ppt	0.2 ppt
OPM	10.3%	11.5%	12.9%	9.9%	11.4%	12.9%	0.4 ppt	0.2 ppt	-0.1 ppt
NPM	8.6%	9.3%	10.7%	8.1%	9.9%	11.8%	0.4 ppt	-0.5 ppt	-1.1 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	637.1	705.5	771.8	635.7	704.6	780.9	0.2%	0.1%	-1.2%
Gross Profit	310.7	348.9	386.0	309.8	355.5	403.5	0.3%	-1.8%	-4.4%
Operating Profit	65.9	81.2	99.3	62.1	77.2	96.7	6.1%	5.2%	2.8%
Net profit	54.7	65.8	82.2	50.6	62.9	79.4	8.0%	4.6%	3.6%
GPM	48.8%	49.5%	50.0%	48.7%	50.5%	51.7%	0.0 ppt	-1.0 ppt	-1.7 ppt
OPM	10.3%	11.5%	12.9%	9.8%	11.0%	12.4%	0.6 ppt	0.6 ppt	0.5 ppt
NPM	8.6%	9.3%	10.7%	8.0%	8.9%	10.2%	0.6 ppt	0.4 ppt	0.5 ppt

Source: CMBIGM estimates, Bloomberg

Figure 4: Amazon: target price of US\$235.0 based on 18.2x EV/EBITDA

(USDmn)	
GAAP EBITDA (12-month forward)	136,009
GAAP EBITDA Margin %	19.9%
Target EV/EBITDA	18.2x
Enterprise Value	2,472,651
GAAP EBITDA CAGR (2023-2026E CAGR)	24%
Capital Structure Adjustments	
Adjusted Net Debt - 2025E	(130,816)
Shares Outstanding - 2025E	11,064
Valuation (USD)	235.0

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	637,141	705,513	771,822
Cost of goods sold	(272,344)	(288,831)	(304,739)	(326,483)	(356,585)	(385,851)
Gross profit	197,478	225,152	270,046	310,658	348,928	385,972
Operating expenses	(172,599)	(212,904)	(233,194)	(244,781)	(267,716)	(286,635)
Selling expense	(32,551)	(42,238)	(44,370)	(43,982)	(48,619)	(52,092)
Admin expense	(8,823)	(11,891)	(11,816)	(11,807)	(13,116)	(13,870)
R&D expense	(56,052)	(73,213)	(85,622)	(88,333)	(95,991)	(103,208)
Others	(75,173)	(85,562)	(91,386)	(100,659)	(109,990)	(117,465)
Operating profit	24,879	12,248	36,852	65,878	81,212	99,337
Interest income	448	989	2,949	4,589	4,522	7,061
Interest expense	(1,809)	(2,367)	(3,182)	(2,445)	(2,408)	(2,320)
Other income/expense	14,633	(16,806)	938	(2,718)	0	0
Pre-tax profit	38,151	(5,936)	37,557	65,303	83,326	104,077
Income tax	(4,791)	3,217	(7,120)	(10,557)	(17,498)	(21,856)
Others	4	(3)	(12)	(84)	(12)	(12)
After tax profit	33,364	(2,722)	30,425	54,662	65,815	82,209
Net profit	33,364	(2,722)	30,425	54,662	65,815	82,209

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	161,580	146,791	172,351	200,362	273,438	382,121
Cash & equivalents	36,220	53,888	73,387	94,840	158,896	259,256
Restricted cash	60,080	24,093	32,328	36,661	41,608	46,648
Account receivables	32,640	34,405	33,318	34,431	36,467	38,108
Inventories	32,640	34,405	33,318	34,431	36,467	38,108
Contract obtaining costs	258,969	315,884	355,503	418,120	453,202	473,950
PP&E	160,281	186,715	204,177	247,203	282,285	303,033
Deferred income tax	0	0	0	0	0	0
Goodwill	15,371	20,288	22,789	23,081	23,081	23,081
Other non-current assets	420,549	462,675	527,854	618,483	726,640	856,072
Current liabilities	142,266	155,393	164,917	178,111	197,858	219,459
Account payables	78,664	79,600	84,981	92,082	103,329	114,213
Other current liabilities	11,827	13,227	15,227	16,751	18,604	20,308
Accrued expenses	51,775	62,566	64,709	69,278	75,924	84,938
Non-current liabilities	140,038	161,239	161,062	155,917	152,917	151,428
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	109,045	108,296	106,807
Total liabilities	282,304	316,632	325,979	334,028	350,774	370,887
Share capital	5	108	109	110	110	110
Capital surplus	55,538	75,066	99,025	122,455	148,052	175,161
Retained earnings	85,915	83,193	113,618	168,280	234,095	316,304
Other reserves	(3,213)	(12,324)	(10,877)	(9,755)	(9,755)	(9,755)
Total shareholders equity	138,245	146,043	201,875	281,090	372,502	481,821
Total equity and liabilities	420,549	462,675	527,854	615,119	723,276	852,708

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	38,151	(5,936)	37,557	65,303	83,326	104,077
Depreciation & amortization	34,296	41,461	48,663	51,416	60,498	64,452
Tax paid	(4,791)	3,217	(7,120)	(10,557)	(17,498)	(21,856)
Change in working capital	(19,611)	(20,886)	(11,541)	(10,180)	13,660	16,843
Others	(1,718)	28,896	17,387	22,911	25,585	27,097
Net cash from operations	46,327	46,752	84,946	118,893	165,570	190,613
Investing						
Capital expenditure	(55,396)	(58,321)	(48,133)	(74,978)	(95,320)	(85,630)
Acquisition of subsidiaries/ investments	(1,985)	(8,316)	(5,839)	(4,547)	0	0
Others	(773)	29,036	4,139	(1,394)	(2,933)	(3,565)
Net cash from investing	(58,154)	(37,601)	(49,833)	(80,919)	(98,252)	(89,194)
Financing						
Net borrowings	17,616	23,907	(11,224)	(14,565)	(2,251)	0
Share repurchases	0	(6,000)	0	0	0	0
Others	(11,325)	(8,189)	(4,655)	(2,186)	(1,010)	(1,059)
Net cash from financing	6,291	9,718	(15,879)	(16,751)	(3,261)	(1,059)
Net change in cash						
Cash at the beginning of the year	41,466	35,566	53,342	72,979	94,151	158,208
Others	(364)	(1,093)	403	(51)	0	0
Cash at the end of the year	35,566	53,342	72,979	94,151	158,208	258,568
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	21.7%	9.4%	11.8%	10.8%	10.7%	9.4%
Gross profit	29.3%	14.0%	19.9%	15.0%	12.3%	10.6%
Operating profit	8.6%	(50.8%)	200.9%	78.8%	23.3%	22.3%
Net profit	56.4%	na	na	79.7%	20.4%	24.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	42.0%	43.8%	47.0%	48.8%	49.5%	50.0%
Operating margin	5.3%	2.4%	6.4%	10.3%	11.5%	12.9%
Return on equity (ROE)	28.8%	(1.9%)	17.5%	22.6%	20.1%	19.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.1	0.9	1.0	1.1	1.4	1.7
Receivable turnover days	22.0	26.4	29.6	31.0	30.4	29.4
Inventory turnover days	37.3	41.8	40.0	37.4	35.8	34.8
Payable turnover days	104.0	99.2	100.4	101.5	104.3	106.6
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	60.0	ns	68.3	38.3	32.2	26.1
P/E (diluted)	61.6	ns	68.3	39.6	33.3	26.9
P/B	14.9	14.0	10.3	7.7	5.9	4.6
P/CFPS	ns	ns	56.4	49.3	31.2	21.1

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

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