

Alphabet (GOOG US)

Increase AI investment to unlock growth opportunities in FY25

Alphabet reported 4Q24 results: net revenue (excl. TAC) grew by 13% YoY to US\$81.6bn, and net income increased by 28% YoY to US\$26.5bn, both in line with Bloomberg consensus estimate. FY24 net income was up by 36% YoY to US\$100.1bn, primarily due to the enhanced operating efficiency and savings of exit charges related to the global office space optimization. Looking ahead, management guided total capex to reach c.US\$75bn in FY25E (+43% YoY) and expected headcount growth in key areas such as AI and cloud, which will impact the margin outlook in FY25E. Thus, we lower our FY25-26E net income forecast by 1-2% to factor in the higher-than-expected AI investment. We fine-tune our target price to US\$234.0 based on 26x FY25E PE (previous: US\$218.0 based on 24x FY25E PE). Maintain BUY.

- **Google Advertising maintained solid growth.** Within Google Advertising: 1) Google Search & other revenue was up by 12.5% YoY to US\$54.0bn in 4Q24, driven by growth of ad spend from financial services and retail sectors; 2) YouTube ad revenue grew by 13.8% YoY to US\$10.5bn in 4Q24, primarily attributable to the strong ad spend on US elections, which almost doubled compared to the 2020 election; 3) Google Network revenue declined by 4% YoY to US\$8.0bn in 4Q24. For FY25E, management noted several headwinds that might impact advertising revenue growth: 1) lapping the one-time strength in the financial service vertical throughout 2024; 2) strengthening of the USD versus other key currencies. AI continued to improve user experience and create new monetization opportunities. Lens is used for over 20bn visual search queries per month and the majority of these searches are incremental; AI-powered campaigns on YouTube deliver 17% higher return on ad spend than manual campaigns.
- **Cloud revenue growth decelerated on supply constraint.** Google Cloud revenue increased by 30% YoY to US\$12.0bn in 4Q24 (3Q24/2Q24: +35/29% YoY). Management attributed the deceleration to the high base in 4Q23 and the supply constraint of computing power despite strong demand for AI computing. Vertex AI, the enterprise AI platform, saw 5x increase in customers and 20x increase in usage during 2024. As a result, Google will continue to step up investment to increase its AI capacity to capture the growing demand; but management also expected greater variability in cloud revenue growth rates in 2025, depending on the timing of deployment of new capacity. For Waymo, it is now averaging over 150,000 trips each week and plans to expand its operation to Austin and Atlanta in 2025.
- **Step up AI investment to unlock growth potential.** OPM grew by 4.6ppt YoY to 32.1% in 4Q24, thanks to enhanced operating efficiency and organization optimization. Overall, Alphabet returned US\$69.6bn via share buybacks and dividends in 2024 (+13% YoY), equivalent to c.3% of market cap (as of 4 Feb). Management expected to invest c.US\$75bn in capex (+43% YoY) in 2025, primarily for servers, data centres and networking, which will increase pressure on margin in the form of higher depreciation. Management also expected headcount growth in key areas such as AI and cloud in 2025.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	307,394	350,018	392,269	433,135	476,607
Net profit (US\$ mn)	73,795.0	100,118.0	110,719.9	124,431.3	138,566.5
Consensus EPS (US\$)	5.84	8.13	9.14	10.28	11.44
P/E (x)	33.1	23.8	21.1	18.8	16.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$234.00
(Previous TP US\$218.00)
Up/Downside 21.1%
Current Price US\$193.30

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Stock Data

Mkt Cap (US\$ mn)	2,381,262.7
Avg 3 mths t/o (US\$ mn)	3,301.0
52w High/Low (US\$)	207.71/132.56
Total Issued Shares (mn)	12319.0

Source: FactSet

Shareholding Structure

Larry Page	5.7%
Sergey Brin	5.4%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	-2.4%	-1.3%
3-mth	8.4%	4.7%
6-mth	20.4%	0.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Alphabet: forecast revision

US\$ bn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY26E	FY27E	FY27E
Revenue	392.3	433.1	476.6	392.6	437.6	NA	-0.1%	-1.0%	NA
Gross profit	228.3	252.9	278.8	229.9	258.7	NA	-0.7%	-2.2%	NA
Operating profit	126.7	142.9	159.2	126.5	144.9	NA	0.2%	-1.4%	NA
Net profit	110.7	124.4	138.6	112.7	126.1	NA	-1.8%	-1.4%	NA
EPS (US\$)	9.1	10.3	11.4	9.1	10.2	NA	0.7%	1.1%	NA
Gross margin	58.2%	58.4%	58.5%	58.5%	59.1%	NA	-0.3 ppt	-0.7 ppt	NA
Operating margin	32.3%	33.0%	33.4%	32.2%	33.1%	NA	0.1 ppt	-0.1 ppt	NA
Net margin	28.2%	28.7%	29.1%	28.7%	28.8%	NA	-0.5 ppt	-0.1 ppt	NA

Source: CMBIGM estimates

Figure 2: Alphabet: CMBIGM estimates vs consensus

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	392.3	433.1	476.6	383.4	434.1	479.9	2.3%	-0.2%	-0.7%
Gross profit	228.3	252.9	278.8	226.9	252.0	279.4	0.6%	0.4%	-0.2%
Operating profit	126.7	142.9	159.2	129.0	139.5	155.9	-1.8%	2.5%	2.1%
Net profit	110.7	124.4	138.6	110.1	123.5	140.2	0.6%	0.7%	-1.2%
EPS (US\$)	9.1	10.3	11.4	9.0	10.3	11.7	1.1%	-0.4%	-2.0%
Gross margin	58.2%	58.4%	58.5%	59.2%	58.1%	58.2%	-1.0 ppt	0.3 ppt	0.3 ppt
Operating margin	32.3%	33.0%	33.4%	33.7%	32.1%	32.5%	-1.4 ppt	0.9 ppt	0.9 ppt
Net margin	28.2%	28.7%	29.1%	28.7%	28.5%	29.2%	-0.5 ppt	0.3 ppt	-0.1 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value Alphabet at US\$234.0 per share based on 26x 2025E P/E. Our target PE multiple is a premium to the sector average (25x), 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	110,720
Target 2025E P/E	26
Target equity valuation	2,878,717
Valuation per share (US\$)	234.0

Source: Company data, CMBIGM estimates

Figure 4: Global online ad platforms: valuation comparison

Companies	Ticker	Price (LC)	2024E	PE (x) 2025E	2026E	2024E	PS (x) 2025E	2026E	EPS CAGR 24-26E
Global ads									
Alphabet	GOOGL US	206.4	25.1	22.5	19.6	8.5	7.3	6.5	20%
Meta	META US	704.2	29.6	27.0	23.5	10.9	9.5	8.3	26%
Pinterest	PINS US	33.4	21.8	18.8	15.6	6.2	5.4	4.7	27%
Snap	SNAP US	11.6	43.9	31.1	19.8	3.6	3.2	2.8	98%
Average			30.1	24.8	19.6	7.3	6.3	5.6	
Global tech									
Microsoft	MSFT US	412.4	34.9	31.1	27.2	12.5	11.0	9.7	16%
Amazon	AMZN US	242.1	36.4	33.6	28.2	4.0	3.6	3.3	31%
Netflix Inc	NFLX US	994.9	NA	40.1	32.7	11.0	9.6	8.5	36%
Salesforce	CRM US	344.1	42.0	34.3	30.7	9.5	8.7	7.9	32%
Adobe Inc	ADBE US	440.2	24.1	21.6	19.1	8.9	8.2	7.4	13%
Average			34.3	32.1	27.6	9.2	8.2	7.4	

Source: Bloomberg, CMBIGM

Note: data as of 4 Feb

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Revenue	282,836	307,394	350,018	392,269	433,135	476,607
Cost of goods sold	(126,203)	(133,332)	(146,306)	(163,991)	(180,194)	(197,772)
Gross profit	156,633	174,062	203,712	228,278	252,941	278,835
Operating expenses	(81,791)	(89,769)	(91,322)	(101,563)	(110,016)	(119,628)
Selling expense	(26,567)	(27,917)	(27,808)	(30,382)	(32,052)	(34,554)
Admin expense	(15,724)	(16,425)	(14,188)	(14,720)	(15,160)	(16,443)
R&D expense	(39,500)	(45,427)	(49,326)	(56,462)	(62,805)	(68,631)
Others	0	0	0	0	0	0
Operating profit	74,842	84,293	112,390	126,715	142,925	159,207
Other income/expense	(3,514)	1,424	7,425	5,884	3,465	3,813
Pre-tax profit	71,328	85,717	119,815	132,599	146,390	163,019
Income tax	(11,356)	(11,922)	(19,697)	(21,879)	(21,958)	(24,453)
After tax profit	59,972	73,795	100,118	110,720	124,431	138,566
Net profit	59,972	73,795	100,118	110,720	124,431	138,566
Adjusted net profit	79,334	96,255	122,903	136,255	152,627	169,592

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Current assets	164,795	171,530	163,711	203,449	284,548	401,496
Cash & equivalents	21,879	24,048	23,466	58,059	134,439	246,513
Account receivables	40,258	47,964	52,340	57,485	62,204	67,078
Inventories	2,670	0	0	0	0	0
Financial assets at FVTPL	91,883	86,868	72,191	72,191	72,191	72,191
Other current assets	8,105	12,650	15,714	15,714	15,714	15,714
Non-current assets	200,469	230,862	286,545	340,079	377,665	404,660
PP&E	112,668	134,345	171,036	224,570	262,156	289,151
Right-of-use assets	14,381	14,091	13,588	13,588	13,588	13,588
Deferred income tax	5,261	12,169	17,180	17,180	17,180	17,180
Investment in JVs & assos	30,492	31,008	37,982	37,982	37,982	37,982
Intangibles	2,084	2,084	2,084	2,084	2,084	2,084
Goodwill	28,960	29,198	31,885	31,885	31,885	31,885
Other non-current assets	6,623	7,967	12,790	12,790	12,790	12,790
Total assets	365,264	402,392	450,256	543,527	662,214	806,156
Current liabilities	69,300	81,814	89,122	95,916	101,797	108,005
Account payables	5,128	7,493	7,987	8,773	9,447	10,162
Tax payable	0	0	0	0	0	0
Other current liabilities	12,278	13,013	14,838	15,802	16,685	17,598
Accrued expenses	51,894	61,308	66,297	71,341	75,664	80,245
Non-current liabilities	39,820	37,199	36,050	36,050	36,050	36,050
Long-term borrowings	14,701	13,253	10,883	10,883	10,883	10,883
Obligations under finance leases	12,501	12,460	11,691	11,691	11,691	11,691
Deferred income	599	911	911	911	911	911
Other non-current liabilities	12,019	10,575	12,565	12,565	12,565	12,565
Total liabilities	109,120	119,013	125,172	131,966	137,847	144,055
Capital surplus	68,184	76,534	84,800	60,558	48,931	48,099
Retained earnings	195,563	211,247	245,084	355,804	480,235	618,802
Other reserves	(7,603)	(4,402)	(4,800)	(4,800)	(4,800)	(4,800)
Total shareholders equity	256,144	283,379	325,084	411,562	524,367	662,101
Total equity and liabilities	365,264	402,392	450,256	543,527	662,214	806,156

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	71,328	85,717	119,815	132,599	146,390	163,019
Depreciation & amortization	15,287	11,946	15,311	21,390	27,384	32,581
Tax paid	(11,356)	(11,922)	(19,697)	(21,879)	(21,958)	(24,453)
Change in working capital	(2,235)	(3,845)	(8,406)	1,649	1,162	1,334
Others	18,471	19,850	18,276	25,535	28,196	31,026
Net cash from operations	91,495	101,746	125,299	159,294	181,173	203,507
Investing						
Capital expenditure	(31,485)	(32,251)	(52,535)	(74,923)	(64,970)	(59,576)
Acquisition of subsidiaries/ investments	(6,969)	(495)	(2,931)	0	0	0
Others	18,156	5,683	9,930	0	0	0
Net cash from investing	(20,298)	(27,063)	(45,536)	(74,923)	(64,970)	(59,576)
Financing						
Net borrowings	(1,196)	(760)	888	0	0	0
Share repurchases	(59,296)	(61,504)	(62,222)	(49,778)	(39,822)	(31,858)
Others	(9,265)	(9,829)	(18,399)	0	0	0
Net cash from financing	(69,757)	(72,093)	(79,733)	(49,778)	(39,822)	(31,858)
Net change in cash						
Cash at the beginning of the year	20,945	21,879	24,048	23,466	58,059	134,439
Exchange difference	(506)	(421)	(612)	0	0	0
Cash at the end of the year	21,879	24,048	23,466	58,059	134,439	246,513
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	9.8%	8.7%	13.9%	12.1%	10.4%	10.0%
Gross profit	6.8%	11.1%	17.0%	12.1%	10.8%	10.2%
Operating profit	(4.9%)	12.6%	33.3%	12.7%	12.8%	11.4%
Net profit	(21.1%)	23.0%	35.7%	10.6%	12.4%	11.4%
Adj. net profit	(13.2%)	21.3%	27.7%	10.9%	12.0%	11.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	55.4%	56.6%	58.2%	58.2%	58.4%	58.5%
Operating margin	26.5%	27.4%	32.1%	32.3%	33.0%	33.4%
Adj. net profit margin	28.0%	31.3%	35.1%	34.7%	35.2%	35.6%
Return on equity (ROE)	23.6%	27.4%	32.9%	30.1%	26.6%	23.4%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.4	2.1	1.8	2.1	2.8	3.7
Receivable turnover days	52.0	57.0	54.6	53.5	52.4	51.4
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	42.1	33.1	23.8	21.1	18.8	16.9
P/E (diluted)	42.4	33.3	24.0	21.4	19.0	17.1
P/B	9.9	8.6	7.3	5.7	4.5	3.5

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

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