

Amazon (AMZN US)

Robust earnings growth, pace of margin expansion likely to slow in 2025

Amazon released (7 Feb HKT) 4Q24 results: revenue was US\$187.8bn, up 10% YoY (4Q23: 14%), inline with both our forecast and Bloomberg consensus estimate, and total operating profit was US\$21.2bn, up 61% YoY, 15/13% better than our estimates/consensus, driven by the OPM margin beat for both North America (NA) and AWS segments, in our view aided by better execution in optimization of cost to serve, as well as operating efficiency improvement. For 2024, total revenue grew 11% YoY to US\$638.0bn and net profit grew 95% YoY to US\$59.2bn. Having noted the relatively high base in 1Q24 brought by the leap year effect (120bps positive impact on revenue growth in 1Q24) and foreign exchange headwind (150bps negative impact in 1Q25), management guided for US\$151.0bn-155.5bn revenue for 1Q25E (consensus: US\$158.9bn), implying 5-9% YoY growth, and US\$14.0-18.0bn operating profit (consensus: US\$18.2bn). Taking into account the better-than-expected margin expansion, we lift 25E/26E net profit by both 8%. We roll over our valuation period to 2025E, and our target price rises by 14% to US\$268.0 (was US\$235.0), based on 18.5x EV/EBITDA (was 18.2x), inline with the two-year trading average. We remain positive on Amazon's OP growth aided by optimization in cost to serve and improvement in scale effect, and are looking for 22% YoY growth in OP in 2025E. Maintain BUY.

- AWS: pace of margin expansion still better than consensus but likely to slow in 2025 due to incremental investment.** In 4Q24, AWS inked revenue of US\$28.8bn, up 18.9% YoY (4Q23: 13.2%; 3Q24: 19.1%), in line with consensus. Operating profit for AWS segment was US\$10.6bn in 4Q24, 5% ahead of consensus, and translating into a 36.9% OPM (4Q23: 29.6%; 3Q24: 38.1%), in our view still driven by change in estimated useful life of servers (c. 2ppts positive impact YoY) and unleashing of operating leverage aided by solid top line growth, while partly offset by incremental AI related investment. Management reiterated that supply constraint still persists and is currently looking for a relaxation in 2H25. Cash capex plus finance leases were US\$26.3bn in 4Q24, and management is expecting the 4Q run-rate of capex spending to continue in 2025 (which indicates >US\$100bn on an annual basis) to fulfil unmet demand. The elevated capex spending likely indicates a slowdown in the pace of margin expansion for AWS in 2025, in our view, given that AI-related cloud services currently have lower-than-segment-average margin, while management stated that the long-term margin profile of AI cloud should be comparable to that of non-AI cloud.
- NA segment saw ongoing margin expansion trend due to optimization in cost to serve.** The ongoing improvement in cost to serve continued to help drive operating margin expansion for NA segment in 4Q24. In 4Q24, Amazon's NA business recorded revenue of US\$115.6bn, up 9.5% YoY, 1% ahead of consensus, while OPM expanded by 1.9ppt YoY to 8.0% (consensus: 6.4%). Management highlighted that it has made a significant architectural change in inbound fulfillment network, and expects this to continue driving down cost-to-serve in 2025. For international segment, revenue was US\$43.4bn, up 7.9% YoY, 2% shy of consensus, in our view due to foreign exchange headwind, and operating margin improved by 4.0ppts YoY to 3.0%, in line with consensus.
- Ads revenue contribution continued expanding.** In 4Q24, Amazon's advertising services revenue grew 18.0% YoY (4Q23: 26.8%; 3Q24: 18.8%) to US\$17.3bn (consensus: US\$17.4bn). As a % of revenue, advertising services contributed 9.2% of the total in 4Q24, up from 8.6% in 4Q23.

BUY (Maintain)

Target Price US\$268.00
(Previous TP US\$235.00)
Up/Downside 17.0%
Current Price US\$229.15

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Stock Data

Mkt Cap (US\$ mn)	2,511,903.1
Avg 3 mths t/o (US\$ mn)	8,233.6
52w High/Low (US\$)	242.06/161.02
Total Issued Shares (mn)	10961.8

Source: FactSet

Shareholding Structure

Jeffrey P. Bezos	8.7%
The Vanguard Group, Inc.	7.7%

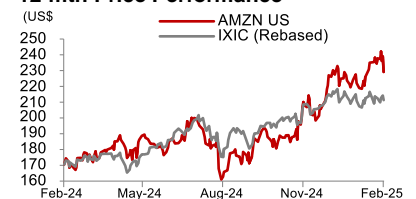
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	3.2%	3.0%
3-mth	9.1%	7.7%
6-mth	40.8%	16.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

- **Impact from accounting changes of fixed assets on OP.** Management guided for an aggregate negative impact of US\$400mn on OP arising from change in accounting estimates in 2025. Factoring in this impact, we are estimating OP of US\$83.8bn in 2025, up 22% YoY (2024: 86% YoY).

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	574,785	637,959	702,635	768,982	832,147
YoY growth (%)	11.8	11.0	10.1	9.4	8.2
Net profit (US\$ mn)	30,425.0	59,248.0	71,222.9	88,409.1	108,588.6
YoY growth (%)	na	94.7	20.2	24.1	22.8
EPS (Reported) (US\$)	2.90	5.61	6.67	8.20	9.98
Consensus EPS (US\$)	na	na	6.30	7.71	9.14
P/E (x)	79.0	40.9	34.4	27.9	23.0
P/B (x)	11.9	8.7	6.6	5.1	4.1

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Amazon quarterly results review and comparison with consensus

(USDbn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	4Q24 Consensus	Diff%
Online Stores	51.1	53.0	57.3	70.5	54.7	55.4	61.4	75.6	74.7	1.1%
YoY Growth	-0.1%	4.2%	7.1%	9.3%	7.0%	4.6%	7.2%	7.1%		
Third-Party Seller Services	29.8	32.3	34.3	43.6	34.6	36.2	37.9	47.5	48.0	-1.1%
YoY Growth	17.7%	18.1%	19.8%	19.9%	16.0%	12.0%	10.3%	9.0%		
AWS	21.4	22.1	23.1	24.2	25.0	26.3	27.5	28.8	28.8	-0.1%
YoY Growth	15.8%	12.2%	12.3%	13.2%	17.2%	18.7%	19.1%	18.9%		
Subscription Services	9.7	9.9	10.2	10.5	10.7	10.9	11.3	11.5	11.6	-0.6%
YoY Growth	14.8%	13.5%	14.2%	14.1%	11.0%	9.8%	10.9%	9.7%		
Advertising Services	9.5	10.7	12.1	14.7	11.8	12.8	14.3	17.3	17.4	-0.4%
YoY Growth	20.7%	22.0%	26.3%	26.8%	24.3%	20%	19%	18%		
Physical Stores	4.9	5.0	5.0	5.2	5.2	5.2	5.2	5.6	5.4	3.3%
YoY Growth	6.6%	6.4%	5.6%	3.9%	6.3%	3.6%	5.4%	8.3%		
Other (New)	1.0	1.3	1.2	1.4	1.3	1.3	1.3	1.6	1.3	19.9%
YoY Growth	55.4%	25.6%	-2.9%	8.6%	22.9%	-6.3%	7.1%	16.8%		
Total revenue	127.4	134.4	143.1	170.0	143.3	148.0	158.9	187.8	187.2	0.3%
YoY Growth	9.4%	10.8%	12.6%	13.9%	12.5%	10.1%	11.0%	10.5%		
Gross profit	59.6	65.0	68.1	77.4	70.7	74.2	77.9	88.9	88.1	0.9%
Operating profit	4.8	7.7	11.2	13.2	15.3	14.7	17.4	21.2	18.8	12.7%
Net profit	3.2	6.8	9.9	10.6	10.4	13.5	15.3	20.0	15.8	26.6%
Revenue breakdown by segment										
North America	76.9	82.5	87.9	105.5	86.3	90.0	95.5	115.6	114.3	1.1%
YoY Growth	11.0%	10.9%	11.5%	13.0%	12.3%	9.1%	8.7%	9.5%		
% of total revenue	60.4%	61.4%	61.4%	62.1%	60.2%	60.8%	60.1%	61.6%		
International revenue	29.1	29.7	32.1	40.2	31.9	31.7	35.9	43.4	44.1	-1.6%
YoY Growth	1.3%	9.7%	15.9%	16.8%	9.7%	6.6%	11.7%	7.9%		
% of total revenue	22.9%	22.1%	22.5%	23.7%	22.3%	21.4%	22.6%	23.1%		
AWS	21.4	22.1	23.1	24.2	25.0	26.3	27.5	28.8	28.8	-0.1%
YoY Growth	15.8%	12.2%	12.3%	13.2%	17.2%	18.7%	19.1%	18.9%		
% of total revenue	16.8%	16.5%	16.1%	14.2%	17.5%	17.8%	17.3%	15.3%		
OP breakdown by segment										
North America	0.9	3.2	4.3	6.5	5.0	5.1	5.7	9.3	7.3	26.4%
OPM	1.2%	3.9%	4.9%	6.1%	5.8%	5.6%	5.9%	8.0%	6.4%	1.6 ppt
International	(1.2)	(0.9)	(0.1)	(0.4)	0.9	0.3	1.3	1.3	1.3	-1.2%
OPM	-4.3%	-3.0%	-0.3%	-1.0%	2.8%	0.9%	3.6%	3.0%	3.0%	0.0 ppt
AWS	5.1	5.4	7.0	7.2	9.4	9.3	10.4	10.6	10.1	4.8%
OPM	24.0%	24.2%	30.3%	29.6%	37.6%	35.5%	38.1%	36.9%	35.2%	1.7 ppt
YoY Growth	-21.4%	-6.1%	29.1%	37.7%	83.9%	74.0%	49.8%	48.3%		
Margins (%)										
GPM	46.8%	48.4%	47.6%	45.5%	49.3%	50.1%	49.0%	47.3%	47.1%	0.3 ppt
OPM	3.7%	5.7%	7.8%	7.8%	10.7%	9.9%	11.0%	11.3%	10.1%	1.2 ppt
NPM	2.5%	5.0%	6.9%	6.3%	7.3%	9.1%	9.6%	10.7%	8.4%	2.2 ppt

Source: CMBIGM estimates, Bloomberg

Changes in forecast and valuation

Figure 2: Amazon forecast revision

USD bn	Current			Previous			Change (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	702.6	769.0	832.1	705.5	771.8	-	-0.4%	-0.4%	-
Gross profit	351.2	391.3	429.3	348.9	386.0	-	0.7%	1.4%	-
Operating profit	83.8	104.0	124.6	81.2	99.3	-	3.2%	4.7%	-
Net profit	71.2	88.4	108.6	65.8	82.2	-	8.2%	7.5%	-
GPM	50.0%	50.9%	51.6%	49.5%	50.0%	-	0.5 ppt	0.9 ppt	-
OPM	11.9%	13.5%	15.0%	11.5%	12.9%	-	0.4 ppt	0.7 ppt	-
NPM	10.1%	11.5%	13.0%	9.3%	10.7%	-	0.8 ppt	0.8 ppt	-

Source: CMBIGM estimates

Figure 3: Amazon: CMBI forecast vs consensus

USD bn	Current			Consensus			Difference (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	702.6	769.0	832.1	706.6	782.3	856.2	-0.6%	-1.7%	-2.8%
Gross profit	351.2	391.3	429.3	356.2	405.0	459.9	-1.4%	-3.4%	-6.7%
Operating profit	83.8	104.0	124.6	81.1	99.2	118.1	3.3%	4.9%	5.5%
Net profit	71.2	88.4	108.6	67.0	82.6	99.6	6.3%	7.1%	9.0%
GPM	50.0%	50.9%	51.6%	50.4%	51.8%	53.7%	-0.4 ppt	-0.9 ppt	-2.1 ppt
OPM	11.9%	13.5%	15.0%	11.5%	12.7%	13.8%	0.4 ppt	0.9 ppt	1.2 ppt
NPM	10.1%	11.5%	13.0%	9.5%	10.6%	11.6%	0.7 ppt	0.9 ppt	1.4 ppt

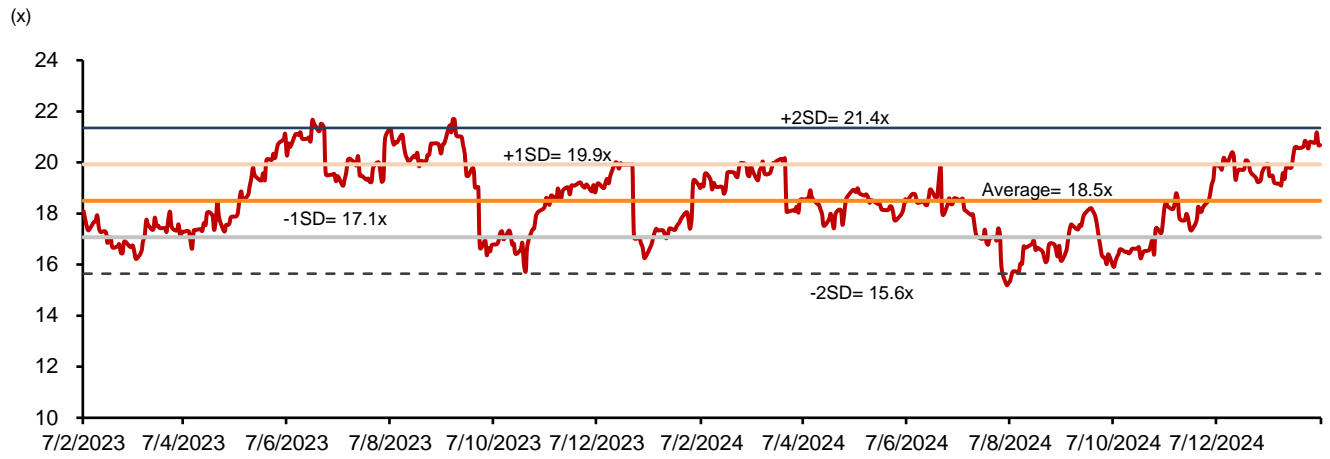
Source: CMBIGM estimates, Bloomberg

Figure 4: Amazon: target price of US\$268.0 based on 18.5x EV/EBITDA

(USDmn)	
GAAP EBITDA (12-month forward)	151,984
GAAP EBITDA Margin %	22.3%
Target EV/EBITDA	18.5x
Enterprise Value	2,811,698
GAAP EBITDA CAGR (2024-2027E CAGR)	18%
Capital Structure Adjustments	
Adjusted Net Debt - 2025E	(122,212)
Shares Outstanding - 2025E	10,962
Valuation (USD)	268.0

Source: CMBIGM estimates

Figure 5: Amazon: one-year forward EV/EBITDA



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Revenue	513,983	574,785	637,959	702,635	768,982	832,147
Cost of goods sold	(288,831)	(304,739)	(326,288)	(351,389)	(377,653)	(402,843)
Gross profit	225,152	270,046	311,671	351,246	391,329	429,305
Operating expenses	(212,904)	(233,194)	(243,078)	(267,472)	(287,290)	(304,749)
Selling expense	(42,238)	(44,370)	(43,907)	(48,462)	(52,049)	(55,259)
Admin expense	(11,891)	(11,816)	(11,359)	(12,542)	(13,253)	(13,832)
R&D expense	(73,213)	(85,622)	(88,544)	(96,810)	(105,061)	(112,736)
Others	(85,562)	(91,386)	(99,268)	(109,658)	(116,927)	(122,923)
Operating profit	12,248	36,852	68,593	83,774	104,039	124,556
Interest income	989	2,949	4,677	4,319	7,644	12,040
Interest expense	(2,367)	(3,182)	(2,406)	(2,525)	(2,437)	(2,437)
Other income/expense	(16,806)	938	(2,250)	0	0	0
Pre-tax profit	(5,936)	37,557	68,614	85,568	109,246	134,159
Income tax	3,217	(7,120)	(9,265)	(14,265)	(20,757)	(25,490)
Others	(3)	(12)	(101)	(80)	(80)	(80)
After tax profit	(2,722)	30,425	59,248	71,223	88,409	108,589
Net profit	(2,722)	30,425	59,248	71,223	88,409	108,589
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Current assets	146,791	172,351	190,867	263,890	366,237	492,396
Cash & equivalents	53,888	73,387	78,779	162,129	264,560	388,565
Restricted cash	24,093	32,328	43,660	30,072	26,918	26,539
Account receivables	34,405	33,318	34,214	35,844	37,379	38,646
Inventories	34,405	33,318	34,214	35,844	37,379	38,646
Contract obtaining costs	315,884	355,503	434,027	470,635	501,903	529,949
PP&E	186,715	204,177	252,665	289,273	320,541	348,587
Deferred income tax	0	0	0	0	0	0
Goodwill	20,288	22,789	23,074	23,074	23,074	23,074
Other non-current assets	462,675	527,854	624,894	734,525	868,140	1,022,345
Current liabilities	155,393	164,917	179,431	197,247	218,409	239,267
Account payables	79,600	84,981	94,363	104,662	115,361	125,869
Other current liabilities	13,227	15,227	18,103	20,002	21,938	23,743
Accrued expenses	62,566	64,709	66,965	72,583	81,111	89,655
Non-current liabilities	161,239	161,062	159,493	152,781	151,290	149,185
Long-term borrowings	67,150	58,314	52,623	46,872	46,872	46,872
Other non-current liabilities	94,089	102,748	106,870	105,909	104,418	102,313
Total liabilities	316,632	325,979	338,924	350,028	369,699	388,452
Share capital	108	109	111	111	111	111
Capital surplus	75,066	99,025	120,864	144,857	170,392	197,256
Retained earnings	83,193	113,618	172,866	244,089	332,498	441,087
Other reserves	(12,324)	(10,877)	(7,871)	(7,871)	(7,871)	(7,871)
Total shareholders equity	146,043	201,875	285,970	381,186	495,130	630,582
Total equity and liabilities	462,675	527,854	624,894	731,214	864,829	1,019,034

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	(5,936)	37,557	68,614	85,568	109,246	134,159
Depreciation & amortization	41,461	48,663	52,795	68,210	73,665	77,018
Tax paid	3,217	(7,120)	(9,265)	(14,265)	(20,757)	(25,490)
Change in working capital	(20,886)	(11,541)	(15,541)	12,675	16,448	17,216
Others	28,896	17,387	19,274	23,913	25,455	26,784
Net cash from operations	46,752	84,946	115,877	176,101	204,058	229,686
Investing						
Capital expenditure	(58,321)	(48,133)	(77,658)	(104,208)	(104,208)	(104,208)
Acquisition of subsidiaries/ investments	(8,316)	(5,839)	(7,082)	0	0	0
Others	29,036	4,139	(9,602)	15,468	4,798	1,488
Net cash from investing	(37,601)	(49,833)	(94,342)	(88,740)	(99,410)	(102,720)
Financing						
Net borrowings	23,907	(11,224)	(9,100)	(5,751)	0	0
Share repurchases	(6,000)	0	0	0	0	0
Others	(8,189)	(4,655)	(2,712)	(1,571)	(2,217)	(2,961)
Net cash from financing	9,718	(15,879)	(11,812)	(7,322)	(2,217)	(2,961)
Net change in cash						
Cash at the beginning of the year	35,566	53,342	72,979	81,401	161,441	263,871
Others	(1,093)	403	(1,301)	0	0	0
Cash at the end of the year	53,342	72,979	81,401	161,441	263,871	387,876

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

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