

Alphabet (GOOG US)

Earnings beat on efficiency gains; maintain AI investment plan to drive long-term growth

Alphabet announced 1Q25 results: total revenues grew by 12% YoY to US\$90.2bn, in line with Bloomberg consensus estimate; operating income increased by 20% YoY to US\$30.6bn, 6% ahead of consensus estimate, primarily due to effective control in selling and marketing expenses (-4% YoY). Despite 1Q25 earnings beat, management expects the increase in capex will continue to drag earnings growth in FY25, as depreciation growth will accelerate throughout FY25 (1Q25: +31% YoY). The company maintained FY25E capex guidance of US\$75bn and expect headcount growth in key investment area to drive long-term sustainable growth. Overall, we maintain our FY25-27E total revenue forecast largely unchanged, but lower our target price to US\$218.0 based on 22x FY25E PE (previous: US\$234.0 based on 26x FY25E PE) in view of the decline in sector valuation. Maintain BUY.

- **Solid ad business performance.** Google Search & other revenue grew by 10% YoY to US\$50.7bn in 1Q25 (4Q24: +13% YoY), led by strength in financial services and retail sectors. AI Overviews and multimodal AI search continue to be a key driver of commercial queries. AI Overviews now has over 1.5bn users per month, with monetization rate similar to its core search; monthly visual searches with Lens have increased by 5bn since October 2024. Advertising AI tools like Demand Gen are also driving ad demand. Advertisers using Demand Gen saw an average 26% YoY increase in conversion per dollar spent. YouTube ad revenue increased by 10% YoY to US\$8.9bn in 1Q25 (4Q24: 14% YoY), mainly driven by direct response ad, followed by brand advertising. Looking ahead, management noted several headwinds for ad businesses: 1) lapping the strength in the financial service vertical in 2024; 2) decline in ad budget from certain APAC-based retailers due to the changes to the de minimis exemption.
- **Strong Google Cloud revenue growth with margin expansion.** Google Cloud revenue grew by 28% YoY to US\$12.3bn in 1Q25 (4Q24: +30% YoY), driven by growth in GCP across core products, AI infra and Gen AI solutions. Google Cloud business still operates in a tight demand-supply environment, in which its revenue will depend on capacity deployment. Google Cloud OPM was up by 8.4ppt YoY to 17.8% in 1Q25, as the company continues to drive improvement in efficiency and utilization of the fleet. The company released Gemini 2.5 Pro in Mar, which now has become SOTA (state-of-the-art) across multiple benchmarks. Active users in AI Studio and Gemini API have grown by over 200% since the beginning of 2025.
- **Maintain FY25 capex plan.** Overall OPM improved by 2.3ppt YoY to 33.9% in 1Q25, as S&M expenses declined by 4% YoY on decreased compensation expenses. Capex grew by 43% YoY to US\$17.2bn in 1Q25, which will drive acceleration in depreciation growth and impact margin in FY25E, per management. In 1Q25, the company returned US\$17.5bn (c.1% of mkt cap) to shareholders by share buyback (US\$15.1bn) and dividend (US\$2.4bn), and approved a new US\$70bn share repurchase program.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	307,394	350,018	390,735	432,575	476,044
YoY growth (%)	8.7	13.9	11.6	10.7	10.0
Net profit (US\$ mn)	73,795.0	100,118.0	120,158.3	127,312.4	142,018.2
EPS (Reported) (US\$)	5.84	8.13	9.92	10.51	11.73
Consensus EPS (US\$)	5.84	8.13	8.83	10.05	12.02
P/E (x)	28.0	20.2	16.5	15.6	14.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$218.00
(Previous TP US\$234.00)
Up/Downside 33.0%
Current Price US\$163.85

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Stock Data

Mkt Cap (US\$ mn) 1,983,895.8
Avg 3 mths t/o (US\$ mn) 2,856.7
52w High/Low (US\$) 207.71/146.58
Total Issued Shares (mn) 12108.0

Source: FactSet

Shareholding Structure

Sergey Brin 6.0%
Larry Page 5.7%

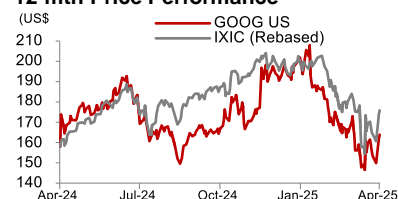
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-5.2%	-0.3%
3-mth	-18.8%	-6.8%
6-mth	-1.9%	4.5%

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	FY25E	FY26E	FY27E
Revenue	390.7	432.6	476.0	392.3	433.1	476.6	-0.4%	-0.1%	-0.1%
Gross profit	228.9	254.0	280.1	228.3	252.9	278.8	0.2%	0.4%	0.5%
Operating profit	129.7	145.5	162.3	126.7	142.9	159.2	2.4%	1.8%	2.0%
Net profit	120.2	127.3	142.0	110.7	124.4	138.6	8.5%	2.3%	2.5%
EPS (US\$)	9.9	10.5	11.7	9.1	10.3	11.4	9.1%	2.1%	2.9%
Gross margin	58.6%	58.7%	58.8%	58.2%	58.4%	58.5%	0.4 ppt	0.3 ppt	0.3 ppt
Operating margin	33.2%	33.6%	34.1%	32.3%	33.0%	33.4%	0.9 ppt	0.6 ppt	0.7 ppt
Net margin	30.8%	29.4%	29.8%	28.2%	28.7%	29.1%	2.6 ppt	0.7 ppt	0.7 ppt

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	390.7	432.6	476.0	383.4	434.1	479.9	1.9%	-0.3%	-0.8%
Gross profit	228.9	254.0	280.1	226.9	252.0	279.4	0.9%	0.8%	0.3%
Operating profit	129.7	145.5	162.3	126.7	141.7	162.9	2.4%	2.6%	-0.3%
Net profit	120.2	127.3	142.0	108.4	120.3	132.5	10.9%	5.9%	7.2%
EPS (US\$)	9.9	10.5	11.7	8.8	10.0	12.0	12.3%	4.7%	-2.4%
Gross margin	58.6%	58.7%	58.8%	59.2%	58.1%	58.2%	-0.6 ppt	0.7 ppt	0.6 ppt
Operating margin	33.2%	33.6%	34.1%	33.0%	32.7%	33.9%	0.1 ppt	1.0 ppt	0.2 ppt
Net margin	30.8%	29.4%	29.8%	28.3%	27.7%	27.6%	2.5 ppt	1.7 ppt	2.2 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value Alphabet at US\$218.0 per share based on 22x 2025E P/E. Our target PE multiple is a premium to the sector average (20x), 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	120,158
Target 2025E P/E	22
Target equity valuation	2,643,482
Valuation per share (US\$)	218.0

Source: Company data, CMBIGM estimates

Figure 4: Global online ad platforms: valuation comparison

Companies	Ticker	Price (LC)	2025E	PE (x) 2026E	2027E	2025E	PS (x) 2026E	2027E	EPS CAGR 25-27E
Global ads									
Alphabet	GOOGL US	159.3	17.6	15.4	13.4	6.0	5.4	4.8	13%
Meta	META US	533.2	21.1	18.1	15.8	7.2	6.4	5.6	12%
Pinterest	PINS US	25.8	15.0	12.4	10.1	4.2	3.7	3.2	18%
Snap	SNAP US	8.3	24.6	16.8	12.7	2.4	2.1	1.9	36%
Average			19.6	15.7	13.0	4.9	4.4	3.9	
Global tech									
Microsoft	MSFT US	387.3	29.4	25.8	22.1	10.4	9.2	8.2	14%
Amazon	AMZN US	186.5	24.6	22.3	18.7	2.8	2.6	2.4	13%
Netflix Inc	NFLX US	1096.9	43.2	35.4	29.3	10.5	9.4	8.5	24%
Uber	UBER US	78.1	29.1	21.9	17.2	3.2	2.8	2.5	30%
Average			31.6	26.4	21.8	6.7	6.0	5.4	

Source: Bloomberg, CMBIGM

Note: data as of 24 Apr

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Revenue	282,836	307,394	350,018	390,735	432,575	476,044
Cost of goods sold	(126,203)	(133,332)	(146,306)	(161,873)	(178,545)	(195,903)
Gross profit	156,633	174,062	203,712	228,862	254,030	280,141
Operating expenses	(81,791)	(89,769)	(91,322)	(99,176)	(108,576)	(117,821)
Selling expense	(26,567)	(27,917)	(27,808)	(27,404)	(29,415)	(30,943)
Admin expense	(15,724)	(16,425)	(14,188)	(15,082)	(16,438)	(17,852)
R&D expense	(39,500)	(45,427)	(49,326)	(56,691)	(62,723)	(69,026)
Others	0	0	0	0	0	0
Operating profit	74,842	84,293	112,390	129,686	145,454	162,320
Other income/expense	(3,514)	1,424	7,425	15,691	4,326	4,760
Pre-tax profit	71,328	85,717	119,815	145,376	149,779	167,080
Income tax	(11,356)	(11,922)	(19,697)	(25,218)	(22,467)	(25,062)
After tax profit	59,972	73,795	100,118	120,158	127,312	142,018
Net profit	59,972	73,795	100,118	120,158	127,312	142,018
Adjusted net profit	79,334	96,255	122,903	145,594	155,472	173,007

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Current assets	164,795	171,530	163,711	212,198	296,429	416,761
Cash & equivalents	21,879	24,048	23,466	67,033	146,400	261,857
Account receivables	40,258	47,964	52,340	57,260	62,124	66,999
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	339,786	377,311	404,266
PP&E	112,668	134,345	171,036	224,277	261,802	288,757
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	551,984	673,740	821,027
Current liabilities	69,300	81,814	89,122	95,034	101,141	107,278
Account payables	5,128	7,493	7,987	8,660	9,361	10,066
Tax payable	0	0	0	0	0	0
Other current liabilities	12,278	13,013	14,838	15,759	16,670	17,583
Accrued expenses	51,894	61,308	66,297	70,614	75,110	79,629
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	131,084	137,191	143,328
Capital surplus	68,184	76,534	84,800	60,458	48,795	47,926
Retained earnings	195,563	211,247	245,084	365,242	492,555	634,573
Other reserves	(7,603)	(4,402)	(4,800)	(4,800)	(4,800)	(4,800)
Total shareholders equity	256,144	283,379	325,084	420,900	536,550	677,699
Total equity and liabilities	365,264	402,392	450,256	551,984	673,740	821,027

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	71,328	85,717	119,815	145,376	149,779	167,080
Depreciation & amortization	15,287	11,946	15,311	21,390	27,360	32,551
Tax paid	(11,356)	(11,922)	(19,697)	(25,218)	(22,467)	(25,062)
Change in working capital	(2,235)	(3,845)	(8,406)	992	1,244	1,262
Others	18,471	19,850	18,276	25,436	28,159	30,989
Net cash from operations	91,495	101,746	125,299	167,975	184,075	206,820
Investing						
Capital expenditure	(31,485)	(32,251)	(52,535)	(74,630)	(64,886)	(59,505)
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)	(74,630)	(64,886)	(59,505)
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	67,033	146,400
Exchange difference	(506)	(421)	(612)	0	0	0
Cash at the end of the year	21,879	24,048	23,466	67,033	146,400	261,857
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	9.8%	8.7%	13.9%	11.6%	10.7%	10.0%
Gross profit	6.8%	11.1%	17.0%	12.3%	11.0%	10.3%
Operating profit	(4.9%)	12.6%	33.3%	15.4%	12.2%	11.6%
Net profit	(21.1%)	23.0%	35.7%	20.0%	6.0%	11.6%
Adj. net profit	(13.2%)	21.3%	27.7%	18.5%	6.8%	11.3%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	55.4%	56.6%	58.2%	58.6%	58.7%	58.8%
Operating margin	26.5%	27.4%	32.1%	33.2%	33.6%	34.1%
Adj. net profit margin	28.0%	31.3%	35.1%	37.3%	35.9%	36.3%
Return on equity (ROE)	23.6%	27.4%	32.9%	32.2%	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	2.2	2.9	3.9
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	35.7	28.0	20.2	16.5	15.6	14.0
P/E (diluted)	36.0	28.2	20.4	16.7	15.7	14.1
P/B	8.4	7.3	6.2	4.7	3.7	2.9

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

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