

Alphabet (GOOG US)

2Q25 results beat on solid search and cloud businesses

Alphabet reported 2Q25 financial results: total revenue was up by 14% YoY to US\$96.4bn, 3% ahead of Bloomberg consensus estimate; net income grew by 19% YoY to US\$28.2bn, beating consensus estimate by 5% thanks to the strong revenue growth and efficiencies in the expense base. For 2H25E, we expect advertising revenues to face high-base impact due to strength in the financial vertical and US presidential election in 2H24, while Google Cloud revenue growth should remain robust as more compute resources will be deployed in 2H25 to address the strong demand. Management has raised FY25 capex guidance to US\$85bn (previously: US\$75bn) and expect capex to further rise in FY26, given the strong demand for Google Cloud. In view of the strong outlook of Google Cloud business, we raise our FY25-27 total revenue forecast by 1-2%. We lift our target price to US\$221.0 based on 22x FY25E PE (previous: US\$218.0 on 22x FY25E PE). Maintain BUY.

■ **Search business momentum maintained.** Google Search & other revenue increased by 12% YoY to US\$54.2bn in 2Q25, 3% ahead of consensus estimate, mainly driven by strength in retail and financial service verticals. Both commercial queries and paid clicks grew YoY in 2Q25, which eased concerns on the threat from AI competitors and change of search behaviours. AI Overviews now has 2bn MAUs (up from 1.5bn in 1Q25), driving over 10% more queries of its type, at a monetization rate similar to non-AI search. The company also introduced new AI tools to improve its search campaigns: 1) AI Max and Search increase conversion of search campaigns by 14%; 2) Smart Bidding Exploration, an AI bidding tool, improves conversion by 19% on average. Over 2mn advertisers now use Google's AI-powered asset generation tools in the ad campaigns, up by 50% YoY. YouTube ads revenue grew by 13% YoY to US\$9.8bn in 2Q25.

■ **Strong Google Cloud performance on robust AI demand.** Google Cloud revenue increased by 32% YoY to US\$13.6bn in 2Q25, 4% ahead of consensus estimate, mainly thanks to the strong growth in Google Cloud Platform (GCP) across core and AI products. Google Cloud backlog grew by 18% QoQ and 38% YoY to US\$106bn in 2Q25, underpinned by the strong demand for AI products. The number of deals over US\$250mn doubled YoY, and the number of new GCP customers increased by 28% QoQ in 2Q25. Google Cloud OPM improved by 9ppt YoY and 3ppt QoQ to 20.7% in 2Q25, mainly driven by the strong revenue growth and enhanced operating efficiencies, partially offset by higher depreciation expenses.

■ **Increasing capex investment.** Total capex was up by 70% YoY to US\$22.4bn in 2Q25, and management has raised full-year capex to US\$85bn (previously: US\$75bn), which implies 2H25 capex could grow by 66% YoY to c.US\$45bn. The increase in capex will address the robust demand for Google Cloud but also put pressure on margin. Management expects several pressures on margin in 2H25, including the accelerating depreciation growth and headcount growth in key investment areas.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	307,394	350,018	393,330	438,647	486,267
Net profit (US\$ mn)	73,795.0	100,118.0	121,832.5	131,158.8	144,420.6
EPS (Reported) (US\$)	5.84	8.13	10.06	10.83	11.93
Consensus EPS (US\$)	5.84	8.13	9.63	10.29	11.64
P/E (x)	32.8	23.6	19.0	17.7	16.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$221.00
 (Previous TP) US\$218.00
Up/Downside 15.4%
Current Price US\$191.51

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Stock Data

Mkt Cap (US\$ mn)	2,318,803.1
Avg 3 mths t/o (US\$ mn)	1,826.9
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%

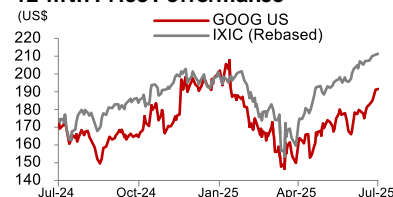
Source: Company data

Share Performance

	Absolute	Relative
1-mth	14.2%	8.2%
3-mth	18.6%	-3.1%
6-mth	-5.1%	-10.0%

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	393.3	438.6	486.3	390.7	432.6	476.0	0.7%	1.4%	2.1%
Gross profit	231.8	259.1	287.8	228.9	254.0	280.1	1.3%	2.0%	2.7%
Operating profit	129.9	147.7	165.0	129.7	145.5	162.3	0.2%	1.6%	1.7%
Net profit	121.8	131.2	144.4	120.2	127.3	142.0	1.4%	3.0%	1.7%
EPS (US\$)	10.1	10.8	11.9	9.9	10.5	11.7	1.4%	3.0%	1.7%
Gross margin	58.9%	59.1%	59.2%	58.6%	58.7%	58.8%	0.4 ppt	0.4 ppt	0.3 ppt
Operating margin	33.0%	33.7%	33.9%	33.2%	33.6%	34.1%	-0.2 ppt	0.1 ppt	-0.2 ppt
Net margin	31.0%	29.9%	29.7%	30.8%	29.4%	29.8%	0.2 ppt	0.5 ppt	-0.1 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	393.3	438.6	486.3	385.2	433.1	478.3	2.1%	1.3%	1.7%
Gross profit	231.8	259.1	287.8	229.0	253.7	278.8	1.2%	2.1%	3.3%
Operating profit	129.9	147.7	165.0	128.9	144.2	161.9	0.8%	2.5%	1.9%
Net profit	121.8	131.2	144.4	117.9	124.2	139.0	3.3%	5.6%	3.9%
EPS (US\$)	10.1	10.8	11.9	9.6	10.3	11.6	4.5%	5.3%	2.5%
Gross margin	58.9%	59.1%	59.2%	59.5%	58.6%	58.3%	-0.5 ppt	0.5 ppt	0.9 ppt
Operating margin	33.0%	33.7%	33.9%	33.5%	33.3%	33.9%	-0.4 ppt	0.4 ppt	0.1 ppt
Net margin	31.0%	29.9%	29.7%	30.6%	28.7%	29.1%	0.4 ppt	1.2 ppt	0.6 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value Alphabet at US\$221.0 per share based on 22x 2025E P/E. Our target PE multiple is a discount to the sector average (25x), which reflects the intensifying competition in the search market.

Figure 3: Alphabet: target valuation

P/E valuation (US\$m n)	2025E
Net income	121,833
Target 2025E P/E (x)	22
Target equity valuation	2,680,315
Valuation per share (US\$)	221.0

Source: Company data, CMBIGM estimates

Figure 4: Global online ad platforms: valuation comparison

Companies	Ticker	Price (LC)	PE (x)			PS (x)			EPS CAGR 25-27E
			2025E	2026E	2027E	2025E	2026E	2027E	
Global ads									
Alphabet	GOOG US	191.5	19.3	18.5	16.1	7.2	6.4	5.7	13%
Meta	META US	713.6	28.3	24.2	21.1	9.7	8.5	7.5	12%
Pinterest	PINS US	37.8	22.0	18.3	14.9	6.2	5.4	4.7	18%
Snap	SNAP US	10.1	29.8	20.3	15.3	2.8	2.5	2.3	36%
Average			24.8	20.3	16.8	6.5	5.7	5.1	
Global tech									
Microsoft	MSFT US	505.9	38.4	33.7	28.9	13.6	12.0	10.7	14%
Amazon	AMZN US	228.3	30.1	27.3	22.9	3.5	3.2	2.9	13%
Netflix Inc	NFLX US	1176.8	46.3	38.0	31.4	11.3	10.1	9.1	24%
Uber	UBER US	89.9	33.5	25.2	19.8	3.7	3.2	2.8	30%
Average			37.1	31.1	25.7	8.0	7.1	6.4	

Source: Bloomberg, CMBIGM

Note: data as of 23 Jul

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Revenue	282,836	307,394	350,018	393,330	438,647	486,267
Cost of goods sold	(126,203)	(133,332)	(146,306)	(161,522)	(179,506)	(198,440)
Gross profit	156,633	174,062	203,712	231,808	259,141	287,826
Operating expenses	(81,791)	(89,769)	(91,322)	(101,910)	(111,416)	(122,782)
Selling expense	(26,567)	(27,917)	(27,808)	(27,938)	(29,828)	(31,607)
Admin expense	(15,724)	(16,425)	(14,188)	(17,081)	(16,669)	(18,235)
R&D expense	(39,500)	(45,427)	(49,326)	(56,891)	(64,920)	(72,940)
Others	0	0	0	0	0	0
Operating profit	74,842	84,293	112,390	129,898	147,725	165,044
Other income/expense	(3,514)	1,424	7,425	16,945	6,580	4,863
Pre-tax profit	71,328	85,717	119,815	146,843	154,304	169,907
Income tax	(11,356)	(11,922)	(19,697)	(25,010)	(23,146)	(25,486)
After tax profit	59,972	73,795	100,118	121,833	131,159	144,421
Net profit	59,972	73,795	100,118	121,833	131,159	144,421
Adjusted net profit	79,334	96,255	122,903	147,437	159,713	176,075

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Current assets	164,795	171,530	163,711	203,645	268,512	374,712
Cash & equivalents	21,879	24,048	23,466	58,099	117,611	218,369
Account receivables	40,258	47,964	52,340	57,640	62,996	68,438
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	350,114	411,850	456,704
PP&E	112,668	134,345	171,036	234,605	296,341	341,195
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	553,759	680,362	831,416
Current liabilities	69,300	81,814	89,122	94,966	101,678	108,514
Account payables	5,128	7,493	7,987	8,641	9,411	10,196
Tax payable	0	0	0	0	0	0
Other current liabilities	12,278	13,013	14,838	15,831	16,834	17,853
Accrued expenses	51,894	61,308	66,297	70,494	75,433	80,465
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	131,016	137,728	144,564
Capital surplus	68,184	76,534	84,800	60,627	49,359	49,156
Retained earnings	195,563	211,247	245,084	366,917	498,075	642,496
Other reserves	(7,603)	(4,402)	(4,800)	(4,800)	(4,800)	(4,800)
Total shareholders equity	256,144	283,379	325,084	422,743	542,635	686,852
Total equity and liabilities	365,264	402,392	450,256	553,759	680,362	831,416

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	71,328	85,717	119,815	146,843	154,304	169,907
Depreciation & amortization	15,287	11,946	15,311	21,390	28,187	35,380
Tax paid	(11,356)	(11,922)	(19,697)	(25,010)	(23,146)	(25,486)
Change in working capital	(2,235)	(3,845)	(8,406)	543	1,357	1,394
Others	18,471	19,850	18,276	25,604	28,554	31,654
Net cash from operations	91,495	101,746	125,299	169,370	189,256	212,850
Investing						
Capital expenditure	(31,485)	(32,251)	(52,535)	(84,959)	(89,923)	(80,234)
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)	(84,959)	(89,923)	(80,234)
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	58,099	117,611
Exchange difference	(506)	(421)	(612)	0	0	0
Cash at the end of the year	21,879	24,048	23,466	58,099	117,611	218,369
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	9.8%	8.7%	13.9%	12.4%	11.5%	10.9%
Gross profit	6.8%	11.1%	17.0%	13.8%	11.8%	11.1%
Operating profit	(4.9%)	12.6%	33.3%	15.6%	13.7%	11.7%
Net profit	(21.1%)	23.0%	35.7%	21.7%	7.7%	10.1%
Adj. net profit	(13.2%)	21.3%	27.7%	20.0%	8.3%	10.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	55.4%	56.6%	58.2%	58.9%	59.1%	59.2%
Operating margin	26.5%	27.4%	32.1%	33.0%	33.7%	33.9%
Adj. net profit margin	28.0%	31.3%	35.1%	37.5%	36.4%	36.2%
Return on equity (ROE)	23.6%	27.4%	32.9%	32.6%	27.2%	23.5%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.4	2.1	1.8	2.1	2.6	3.5
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	41.7	32.8	23.6	19.0	17.7	16.1
P/E (diluted)	42.0	33.0	23.8	19.2	17.9	16.2
P/B	9.8	8.5	7.3	5.5	4.3	3.4

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

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