23 Jul 2026

CMB International Global Markets | Equity Research | Company Update

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Alphabet (GOOG US)

2Q26 results: Strong AI demand continues to drive cloud acceleration and solid core search

Alphabet reported 2Q26 results: total revenue grew by 24% YoY to US$119.8bn, 2% ahead of Visible Alpha (VA) consensus due to the strong growth of Google Cloud revenue; operating income was up by 30% YoY to US$40.8bn and in line with VA consensus. Strong AI momentum drove acceleration in cloud revenue growth and AI investment. Total capex was up by 100% YoY to US$44.9bn and led to negative free cash flow of US$5.9bn in 2Q26. This raised certain investors' concern on the short-term cash flow and ROIC, especially given the recent delay of Gemini 3.5 Pro launch. That said, we remain constructive on the company's full-stack AI approach, which shall continue to support its robust cloud revenue growth, solid core search business and leadership in frontier AI model race. In view of the strong cloud backlog, we raise FY26-28 total revenue forecasts by 2-9%. We raise our target price to US$428.0 based on 35x FY26E PE (previous: US$425.0 based on 35x FY26E PE). Maintain BUY.

- **AI drove solid core search business.** Google Search & other revenue was up by 17% YoY to US$63.3bn in 2Q26. AI-powered features continued to drive search usage, with currently AI Mode MAUs surpassing 1bn and billions of clicks sent to Google every week through its AI search features. AI also enhanced ad monetization efficiency: 1) the company uses Gemini's reasoning capability to improve understanding of user query, driving a 20% increase in the relevancy of shopping ads; 2) 0.5mn advertisers have adopted AI advertising tools like AI Max and saw an average of 15% more conversion on search. YouTube ads revenue grew by 13% YoY to US$11.1bn in 2Q26, driven by both Direct Response and Brand.
- **Strong cloud business momentum and margin expansion.** Google Cloud revenue delivered a robust growth of 82% YoY to US$24.8bn in 2Q26 (1Q26/4Q25: +63%/48% YoY), driven by the strong growth of core GCP, AI solutions and AI infra. The company also began to recognize revenues from TPU sales in 2Q26, though management anticipates most of the revenues from TPU sales agreements will be realized in 2027. Google Cloud's backlog grew by over US$50bn QoQ to US$514bn in 2Q26, and management expects to recognize just over 50% of the total backlog as revenue over the next 24 months. Google Cloud OPM also increased by 15ppt YoY to 35.6% in 2Q26, but the company plans to expand third-party cloud capacity in 3Q26, which could put certain pressure on cloud OPM.
- **Raised capex guidance.** Management lifted FY26 total capex guidance from previously US$180-190bn to US$195-205bn (+113%-124% YoY), primarily due to an acceleration in the delivery of capacity to meet growing demand. Management also expects the free cash flow will remain under pressure, mainly due to the investment in AI infra. In terms of the Gemini model upgrade, management noted that Gemini 3.5 Pro is currently in testing and the company has also started pre-training for Gemini 4, which will be a larger base model to compete at the frontier level.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US$ mn)	350,018	402,836	494,003	625,397	710,066
Net profit (US$ mn)	100,118.0	132,170.0	254,281.5	184,469.8	213,412.2
EPS (Reported) (US$)	8.13	10.91	20.93	15.18	17.56
Consensus EPS (US$)	8.13	10.91	14.56	14.97	17.67
P/E (x)	42.1	31.3	16.3	22.5	19.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$428.00**
(Previous TP	US$425.00)
Up/Downside	**25.2%**
Current Price	**US$341.91**

US Internet

Saiyi HE, CFA
(852) 3916 1739
hesaiyi@cmbi.com.hk

Wentao LU, CFA
luwentao@cmbi.com.hk

Ye TAO, CFA
(852) 3850 5226
franktao@cmbi.com.hk

Shuyin GUO
(852) 3916 3716
guoshuyin@cmbi.com.hk

Stock Data

Mkt Cap (US$ mn)	4,154,548.4
Avg 3 mths t/o (US$ mn)	3,525.4
52w High/Low (US$)	399.04/189.95
Total Issued Shares (mn)	12151.0

Source: FactSet

Shareholding Structure

BlackRock	3.4%
The Vanguard Group	2.9%

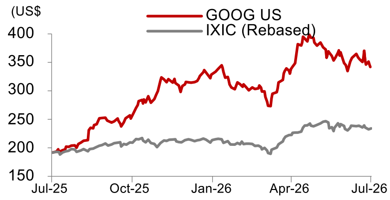
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-1.2%	-1.6%
3-mth	1.2%	-3.7%
6-mth	4.1%	-4.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Alphabet: forecast revision

	Current			Previous			Change (%)		
US$ bn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	494.0	625.4	710.1	482.4	573.4	669.6	2.4%	9.1%	6.0%
Gross profit	304.0	381.6	436.5	295.2	352.7	415.7	3.0%	8.2%	5.0%
Operating profit	169.8	213.4	247.0	165.4	200.2	238.3	2.7%	6.6%	3.6%
Net profit	254.3	184.5	213.4	175.8	173.0	202.9	44.6%	6.6%	5.2%
EPS (US$)	21.0	15.2	17.6	14.5	14.3	16.8	44.9%	6.6%	5.0%
Gross margin	61.5%	61.0%	61.5%	61.2%	61.5%	62.1%	0.3 ppt	-0.5 ppt	-0.6 ppt
Operating margin	34.4%	34.1%	34.8%	34.3%	34.9%	35.6%	0.1 ppt	-0.8 ppt	-0.8 ppt
Net margin	51.5%	29.5%	30.1%	36.4%	30.2%	30.3%	15.1 ppt	-0.7 ppt	-0.2 ppt

Source: CMBIGM estimates
Note: FY26E net income includes unrealized gain on equity securities of US$105.8bn.

Figure 2: Alphabet: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
US$ bn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	494.0	625.4	710.1	488.2	585.8	695.0	1.2%	6.8%	2.2%
Gross profit	304.0	381.6	436.5	301.2	364.5	435.6	1.0%	4.7%	0.2%
Operating profit	169.8	213.4	247.0	170.8	209.7	253.4	-0.6%	1.7%	-2.5%
Net profit	254.3	184.5	213.4	175.2	180.9	215.7	45.1%	2.0%	-1.1%
EPS (US$)	21.0	15.2	17.6	14.6	15.0	17.7	44.3%	1.9%	-0.2%
Gross margin	61.5%	61.0%	61.5%	61.7%	62.2%	62.7%	-0.1 ppt	-1.2 ppt	-1.2 ppt
Operating margin	34.4%	34.1%	34.8%	35.0%	35.8%	36.5%	-0.6 ppt	-1.7 ppt	-1.7 ppt
Net margin	51.5%	29.5%	30.1%	35.9%	30.9%	31.0%	15.6 ppt	-1.4 ppt	-1.0 ppt

Source: CMBIGM estimates, Visible Alpha consensus

Valuation

We value Alphabet at US$428.0 per share based on 35x 2026E P/E. Our target PE multiple is a premium to the global ads peers' average (17x), which mainly reflects Google's competitive edge in the search, enterprise AI and cloud markets.

Figure 3: Alphabet: target valuation

P/E valuation (US$mn)	2026E
Adjusted net income	148,481
Target 2026E P/E (x)	35
Target equity valuation	5,196,851
Valuation per share (US$)	428.0

Source: Company data, CMBIGM estimates
Note: net income is adjusted for unrealized gain on equity securities of US$105.8bn in 1H26

Figure 4: Global online ad platforms: valuation comparison

Companies	Ticker	Price (LC)	PE (x) 2026E	PE (x) 2027E	PS (x) 2026E	PS (x) 2027E	EPS CAGR 25-27E
Global ads							
Alphabet	GOOG US	341.9	29.5	19.9	8.4	6.7	30%
Meta	META US	627.2	16.9	14.6	6.5	5.4	16%
Pinterest	PINS US	22.5	11.6	10.0	2.6	2.3	18%
Snap	SNAP US	4.5	8.1	5.9	1.1	1.0	40%
Average			**16.5**	**12.6**	**4.7**	**3.9**	
Global tech							
Microsoft	MSFT US	390.3	23.0	20.0	9.0	7.7	19%
Amazon	AMZN US	244.9	21.4	19.9	3.2	2.8	15%
Netflix Inc	NFLX US	68.5	19.2	18.5	5.6	5.0	18%
Uber	UBER US	70.3	20.8	15.9	2.5	2.2	33%
Average			**21.1**	**18.5**	**5.1**	**4.4**	

Source: Visible Alpha, CMBIGM
Note: data as of 22 Jul

Risks

1) AI investment impacts short-term earnings and cash flow; 2) intensifying competition in AI cloud and LLM markets; and 3) slowdown in search revenue growth.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Revenue	**307,394**	**350,018**	**402,836**	**494,003**	**625,397**	**710,066**
Cost of goods sold	(133,332)	(146,306)	(162,535)	(189,986)	(243,812)	(273,517)
Gross profit	**174,062**	**203,712**	**240,301**	**304,018**	**381,585**	**436,549**
Operating expenses	**(89,769)**	**(91,322)**	**(111,262)**	**(134,183)**	**(168,232)**	**(189,588)**
Selling expense	(27,917)	(27,808)	(28,693)	(34,789)	(40,651)	(42,604)
Admin expense	(16,425)	(14,188)	(21,482)	(21,853)	(24,390)	(26,272)
R&D expense	(45,427)	(49,326)	(61,087)	(77,541)	(103,191)	(120,711)
Others	0	0	0	0	0	0
Operating profit	**84,293**	**112,390**	**129,039**	**169,835**	**213,353**	**246,961**
Other income/expense	1,424	7,425	29,787	140,985	6,254	7,101
Pre-tax profit	**85,717**	**119,815**	**158,826**	**310,820**	**219,607**	**254,062**
Income tax	(11,922)	(19,697)	(26,656)	(56,539)	(35,137)	(40,650)
After tax profit	**73,795**	**100,118**	**132,170**	**254,281**	**184,470**	**213,412**
Net profit	**73,795**	**100,118**	**132,170**	**254,281**	**184,470**	**213,412**
Adjusted net profit	**96,255**	**122,903**	**158,393**	**286,439**	**225,181**	**259,635**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Current assets	**171,530**	**163,711**	**206,038**	**388,056**	**355,151**	**380,019**
Cash & equivalents	24,048	23,466	30,708	103,902	52,808	67,111
Account receivables	47,964	52,340	62,886	75,576	93,763	104,328
Inventories	0	0	0	0	0	0
Financial assets at FVTPL	86,868	72,191	96,135	192,270	192,270	192,270
Other current assets	12,650	15,714	16,309	16,309	16,309	16,309
Non-current assets	**230,862**	**286,545**	**389,243**	**561,285**	**797,804**	**1,000,206**
PP&E	134,345	171,036	246,597	418,639	655,158	857,560
Right-of-use assets	14,091	13,588	15,221	15,221	15,221	15,221
Deferred income tax	12,169	17,180	9,113	9,113	9,113	9,113
Investment in JVs & assos	31,008	37,982	68,687	68,687	68,687	68,687
Intangibles	2,084	2,084	2,084	2,084	2,084	2,084
Goodwill	29,198	31,885	33,380	33,380	33,380	33,380
Other non-current assets	7,967	12,790	14,161	14,161	14,161	14,161
Total assets	**402,392**	**450,256**	**595,281**	**949,341**	**1,152,955**	**1,380,225**
Current liabilities	**81,814**	**89,122**	**102,745**	**114,797**	**137,937**	**149,465**
Account payables	7,493	7,987	12,200	13,975	17,576	19,323
Tax payable	0	0	0	0	0	0
Other current liabilities	13,013	14,838	17,442	19,634	22,776	24,601
Accrued expenses	61,308	66,297	73,103	81,187	97,585	105,540
Non-current liabilities	**37,199**	**36,050**	**77,271**	**128,889**	**128,889**	**128,889**
Long-term borrowings	13,253	10,883	46,547	98,165	98,165	98,165
Obligations under finance leases	12,460	11,691	12,744	12,744	12,744	12,744
Deferred income	911	911	911	911	911	911
Other non-current liabilities	10,575	12,565	17,069	17,069	17,069	17,069
Total liabilities	**119,013**	**125,172**	**180,016**	**243,686**	**266,826**	**278,354**
Capital surplus	76,534	84,800	93,126	138,279	142,423	152,079
Retained earnings	211,247	245,084	324,055	569,292	745,622	951,709
Other reserves	(4,402)	(4,800)	(1,916)	(1,916)	(1,916)	(1,916)
Total shareholders equity	**283,379**	**325,084**	**415,265**	**705,655**	**886,129**	**1,101,871**
Total equity and liabilities	**402,392**	**450,256**	**595,281**	**949,341**	**1,152,955**	**1,380,225**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**85,717**	**119,815**	**158,826**	**310,820**	**219,607**	**254,062**
Depreciation & amortization	11,946	15,311	21,136	30,500	44,909	67,423
Tax paid	(11,922)	(19,697)	(26,656)	(56,539)	(35,137)	(40,650)
Change in working capital	(3,845)	(8,406)	618	(638)	4,952	963
Others	19,850	18,276	10,789	32,158	40,711	46,223
Net cash from operations	**101,746**	**125,299**	**164,713**	**316,301**	**275,042**	**328,021**
Investing						
Capital expenditure	(32,251)	(52,535)	(91,447)	(202,541)	(281,429)	(269,825)
Acquisition of subsidiaries/ investments	(495)	(2,931)	(1,592)	0	0	0
Others	5,683	9,930	(27,252)	(96,135)	0	0
Net cash from investing	**(27,063)**	**(45,536)**	**(120,291)**	**(298,676)**	**(281,429)**	**(269,825)**
Financing						
Net borrowings	(760)	888	32,137	51,618	0	0
Proceeds from share issues	na	na	na	49,562	0	0
Share repurchases	(61,504)	(62,222)	(45,709)	(36,567)	(36,567)	(36,567)
Others	(9,829)	(18,399)	(23,816)	(9,044)	(8,140)	(7,326)
Net cash from financing	**(72,093)**	**(79,733)**	**(37,388)**	**55,569**	**(44,707)**	**(43,893)**
Net change in cash						
Cash at the beginning of the year	21,879	24,048	23,466	30,708	103,902	52,808
Exchange difference	(421)	(612)	208	0	0	0
Cash at the end of the year	**24,048**	**23,466**	**30,708**	**103,902**	**52,808**	**67,111**
GROWTH	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Revenue	8.7%	13.9%	15.1%	22.6%	26.6%	13.5%
Gross profit	11.1%	17.0%	18.0%	26.5%	25.5%	14.4%
Operating profit	12.6%	33.3%	14.8%	31.6%	25.6%	15.8%
Net profit	23.0%	35.7%	32.0%	92.4%	(27.5%)	15.7%
Adj. net profit	21.3%	27.7%	28.9%	80.8%	(21.4%)	15.3%
PROFITABILITY	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Gross profit margin	56.6%	58.2%	59.7%	61.5%	61.0%	61.5%
Operating margin	27.4%	32.1%	32.0%	34.4%	34.1%	34.8%
Adj. net profit margin	31.3%	35.1%	39.3%	58.0%	36.0%	36.6%
Return on equity (ROE)	27.4%	32.9%	35.7%	45.4%	23.2%	21.5%
GEARING/LIQUIDITY/ACTIVITIES	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Current ratio (x)	2.1	1.8	2.0	3.4	2.6	2.5
Receivable turnover days	57.0	54.6	57.0	55.8	54.7	53.6
VALUATION	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
P/E	58.5	42.1	31.3	16.3	22.5	19.5
P/E (diluted)	58.9	42.5	31.6	16.5	22.7	19.6
P/B	15.2	13.0	10.0	5.9	4.7	3.8

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888   Fax: (852) 3900 0800

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