



Facebook Inc.
Buy: \$206.94 (+24.9%)

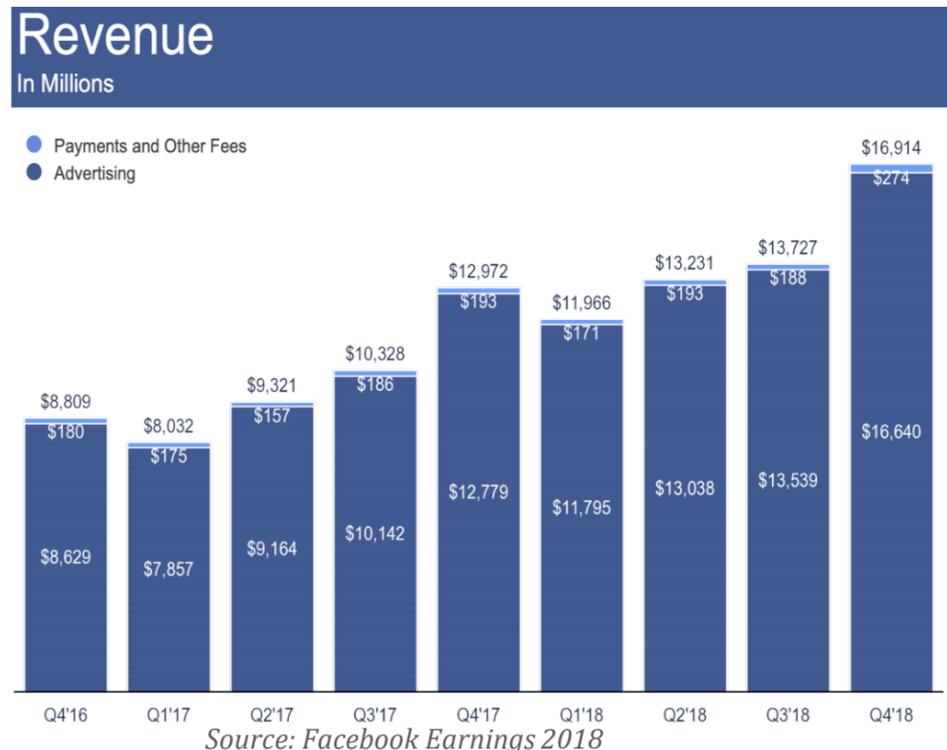
A Strong Case for Facebook

16 February 2019



Company Overview

Figure 1. Revenue by Segments

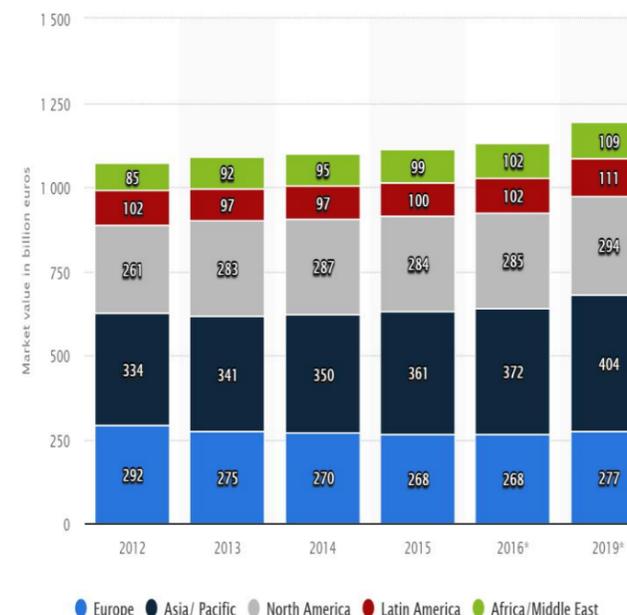


Facebook, Inc. provides various products including Facebook Website, mobile application that enables people to connect, share, discover, and communicate with each other on mobile devices and personal computers.

(USD\$ B)	FY17A	FY18A	FY19E	FY20E
Revenue	40.7	55.8	68.8	83.1
Gr Rate (%)	-	37.4	23.3	20.8
EBITDA	23.2	29.2	36.3	43.6
Margin (%)	57.1	52.3	52.8	52.4
Net Income	15.9	22.1	21.8	25.2
Margin (%)	44.8	39.6	37.4	35.3
ROA	21.3	24.3	20.3	19.2
ROE	23.8	27.9	21.8	20.5
EV/EBITDA	20.3	11.4	11.7	9.7
P/E Ratio	34.5	26.6	18.6	15.9

12M Industry Outlook

Figure 2. Global telecommunications services market value from 2012 to 2019



Source: Statista

1. Changing demographics in the advertising world.

There has been a paradigm shift in the advertising world. From the traditional platforms of newspapers and radios, to digital platforms like social media, we have seen advertising revenue in the digital world exceeding that of the traditional platforms.

2. Growth of the industry as a whole.

There is a proliferation of mobile broadband usage throughout the world, and there is increasing traffic on these networks, especially in developing countries. As such, people in these economies have a higher propensity to spend. With more people going online, technological companies are able to garner more information about consumers and thus target a wider pool of consumers for advertising.

3. Growing concern on data protection.

There has been a growing concern about the breach of data privacy and protection around technological companies today. However, with the European Union's General Data Protection Regulation (GDPR), the new California law and further discussions about the Federal Trade Commission (FTC) privacy enforcement power, the negative consumer sentiment on data privacy may be appeased.

Investment Thesis

- Huge Potential for Growth through Stories and More Room for Ads;** Stories are becoming increasingly important for the mobile experience, with mobile ad revenue accounting for 94% of Facebook's advertising revenue. However, only 2 million firms are currently advertising on Stories, out of 7 million firms advertising on Facebook. Furthermore, stories will rectify the ad load problem for Facebook, the case whereby Facebook Feed has been fully saturated with ads, which had caused a deceleration in revenue growth in recent years.
- Facebook Ecosystem Has Everything: Complete Stickiness;** Facebook's focus on product development and horizontal integration will create a complete ecosystem for a consumer, beyond just being a social network. Facebook Watch, Marketplace and Messenger have the potential to completely capture a consumer's online attention. This results in consumers spending more time on Facebook, increasing exposure to ads and giving more data to Facebook.
- Steady Rise in Emerging Economies;** Facebook's current user growth y-o-y (9%) is being propelled by developing countries in the Asia Pacific such as Indonesia and Philippines, due to increased smartphone penetration. However, the ARPU for Asia Pacific is US\$2.96 and US\$34.86 for America and Canada. With the West as a baseline, ARPU for Asia Pacific has huge potential for growth, especially when said economies continue to grow and consumer propensity to spend increase.

Valuations

Figure 4. Valuation Summary



Our 12 month price target from date of coverage is \$206.94USD, which is a 24.9% upside from the current price of \$165.58 USD. Our projected target blended 12 months P/E is at 23.34x, which is the mean blended +1 forward P/E over the last 3 years. Given Facebook's growing MAUs,, increasing user stickiness from its services upgrades, and rapid projected growth in the tech industry, we expect robust volume growth going forward.

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