

# FAANGM Monthly – Dec 21

Apple & Meta shine during the month

UNITED STATES | TECHNOLOGY | UPDATE

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- FAANGM lagged the S&P 500 in December, returning 3.1% vs 5.6% respectively.
- Outperformers were Apple and Meta, gaining 7.8% and 8.3%.
- We are OVERWEIGHT on FAANGM as secular tailwinds are intact. Our preference is Amazon as pressure on its share price from supply chain constraints lifts. We are cautious of regulatory headwinds, and we think Meta is facing more uncertainty.

## Review

FAANGM lagged the S&P 500 in December, returning 3.1% vs 5.6% respectively. Amazon and Netflix were the laggards, declining 3.2% and 2.5%. Outperformers were Apple and Meta, gaining 7.8% and 8.3%. Apple benefited from a successful appeal in the US appeals court for a delay in the App Store payment ruling which gave users the option to pay outside the App Store. Meta saw strong holiday demand for its Oculus products, with much talk focusing around its potential metaverse.

## Meta Platforms Inc (FB US, BUY, TP US\$424)

- **Instagram surpasses 2bn monthly active users.** According to an unnamed employee who leaked this information, Instagram crossed 2bn monthly active users (MAU) – 3 years after it hit 1bn in 2018, representing a 3-year CAGR of 26%. FB does not actually publicly disclose MAU for Instagram, but if these numbers are accurate, it definitely shows continued strength in user growth. Instagram’s 26% CAGR growth in MAU is more than triple Facebook’s (8%) MAU, proving again that its an additional growth driver for Meta Platforms.
- **WhatsApp introduces crypto payments feature on its platform.** Powered by Novi, which is a recently launched mobile wallet, this feature is currently on trial to a select group of users, allowing them to conduct cryptocurrency transactions seamlessly on the WhatsApp platform. The transactions can be conducted using USDP (US Pax Dollar), where 1 USDP = US\$1. We believe there is huge runway for revenue growth in the company’s payments vertical, given the tremendous potential in commercializing WhatsApp further.
- **Strong holiday demand for Oculus headsets.** Oculus was the top downloaded app in the US on Christmas day, showing signs of increasing consumer adoption and demand for the AR/VR headset.
- **FTC probe over new VR deal.** The Federal Trade Commission is currently probing into FBs proposed acquisition of Supernatural (US\$400mn) – a VR fitness app. Investigations are currently ongoing, which could delay the potential acquisition by up to a year, or longer.

## Apple Inc (AAPL US, BUY, TP US\$187)

- **App Store ruling delay a big positive.** On 8 December, Apple won the appeal to delay rolling out changes to its App Store payment system as part of its antitrust battle with Epic Games Inc. The US Court of Appeals decided Apple had demonstrated “at minimum, that its appeal raises serious questions on the merits of the district court’s determination that Epic Games Inc. failed to show Apple’s conduct violated any antitrust laws but did show that the same conduct violated California’s Unfair Competition Law.” Without the successful delay, Apple would have had to allow direct pay alternatives for in-app purchases starting 9 December 2021. The App Store is estimated to contribute around 10% of Apple’s gross profits.
- **iPhone 13 showing success in China.** According to Counterpoint Research, Apple claimed a 24% stake of China’s smartphone market in November, up from 22% in October, making it the top smartphone seller in China. Counterpoint said Apple has been helped by the popularity of its new line of iPhone 13 smartphones. The China

## OVERWEIGHT

### PRICE PERFORMANCE (%)

31 Dec 2021	1MTH	3MTH	YTD
META INC	8.3	(3.3)	22.1
APPLE INC	7.8	23.5	32.4
AMAZON INC	(3.2)	1.7	5.8
NETFLIX INC	(2.5)	(1.7)	15.5
ALPHABET INC	2.4	5.6	64.5
MICROSOFT CORP	1.9	16.2	53.4
FAANGM	3.1	10.8	34.7
S&P 500	5.6	9.4	28.8
NASDAQ	2.6	7.4	23.2

### RETURNS VS. S&P 500



Source: Bloomberg, PSR

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Academy of Information and Communications Technology (CAICT) also disclosed that Apple's shipments to China came in at 7.3mn units for November, higher than the historical average of 6.4mn and the highest for November since 2016. China contributed 19% of Apple's revenue in FY21.

- **New AR/VR headset set to be launched in 2H22.** Bloomberg reported that a new Apple Augmented Reality and Virtual Reality (AR/VR) headset may launch at the company's Worldwide Developers Conference in June 2022. The device, slated to be a "game changer" by some analysts, will make headway into the metaverse, focusing on communication, media consumption and gaming. The Apple AR headset could have the same computing power as a Mac and have significant processing power to operate independently without being tethered to a Mac or iPhone.
- **Easing lead times show supply demand stabilising.** As at end of December, delivery times for the iPhone 13 mini, 13, 13 Pro, and 13 Pro Max have eased to 3, 3, 5, and 3 days from 5, 5, 18 and 18 days at the beginning of December, according to Barrons. This is despite strong demand from China. Supply of semi-related components is improving and iPhone builds in the December quarter are stable at 82mn units. This could point to a better-than-expected 1Q22 results.
- **Moody's upgrades Apple to Aaa from Aa1 with a "stable" outlook.** Moody's Investors Service expects the tech giant to maintain its strong liquidity and earnings power over the next few years.

#### Amazon Inc (AMZN US, BUY, TP US\$4,157)

- **Amazon's cloud and advertising business facing increasing FTC scrutiny.** According to a Bloomberg report, Federal Trade Commission head Lina Khan is advancing an antitrust inquiry into Amazon's cloud computing business. Meanwhile, a complaint filed with the FTC on 8 December 2021 accused Amazon of "unlawful deception" in its advertising. The complainant, the Strategic Organizing Center, notes Amazon is not distinguishing its paid search results from organic results and is "unlawfully deceiving millions of consumers" in the process.

#### Netflix Inc (NFLX US, ACCUMULATE, TP US\$724)

- **NFLX slashes subscription prices in India by up to 60%.** Amidst growing competition in OTT media, NFLX slashed its subscription prices in India by up to 60% in an attempt to attract a newer set of audiences onto its platform. Currently, NFLX's biggest competitor in India, Disney+Hotstar, has been actively growing its market share, as they capitalise on significant advantages in their streaming products - such as the streaming of popular live sports.

#### Alphabet Inc (GOOGL US, ACCUMULATE, TP US\$3,380)

- **Teaming up with Verizon to deliver 5G mobile edge computing.** Verizon and Google Cloud announced a collaboration to support real time enterprise applications like autonomous mobile robots, intelligent logistics, factory automation. The goal of this collaboration is to enable more companies to gain operational efficiencies, provide high levels of security, as well as improved productivity, by leveraging on 5G technology.

#### Microsoft Corp (MSFT US, BUY, TP US\$405)

- **Nuance Communications acquisition approved by European Commission.** Microsoft was granted approval by the European Commission for its US\$16bn acquisition of speech recognition and artificial intelligence software company Nuance Communications. Nuance will allow Microsoft to expand into cloud services for healthcare where demand for speech recognition remains high, and the combination of Nuance's and Microsoft's capabilities will result in more sophisticated offerings and higher interoperability. The deal would be Microsoft's second largest, following its US\$26.2bn deal for LinkedIn. The deal is currently undergoing evaluation by British antitrust regulators.
- **More price increases for Office products for monthly subscriptions.** Microsoft intends to raise prices on its Office suite of products for some customers unless they switch to longer subscriptions, CNBC reports. The report cited some of Microsoft's partners who

have confirmed a 20% price hike for monthly subscriptions. This could drive customers to longer term subscriptions, improving Microsoft's income visibility.

### Recommendation

We are OVERWEIGHT on the FAANGM as secular tailwinds remain in tact. Our preference is Amazon as pressure on its share price lifts from the eventual easing of freight costs and supply constraints, as well as easier comparables this year vs 2021. We are cautious about regulatory headwinds, and we think Meta is of more concern.

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px (US\$)	Mkt. Cap. (US\$ m)	PSR Rating	PSR Target Px (US\$)	PE			P/BV	Dividend Yield	ROE Yr 0	EV/ EBITDA	EBITDA Margin
								Yr 0	Yr +1	Yr +2	Yr 0				
<b>FAANGM</b>															
Meta Platforms	3%	1%	-1%	331.79	922,960	BUY	424.00	31.7	21.9	21.6	6.9	0.0%	32.1%	13.8	47.6%
Apple Inc	1%	20%	-3%	172.17	2,812,288	BUY	187.00	29.7	30.1	28.7	44.8	0.5%	147.4%	22.4	33.3%
Amazon.com Inc	-8%	-2%	-2%	3,251.08	1,648,777	BUY	4,157.00	77.3	53.8	44.7	13.7	0.0%	25.8%	24.5	13.8%
Netflix Inc	-14%	-14%	-10%	541.06	239,664	ACCUMULATE	724.00	86.8	45.9	37.8	15.6	0.0%	39.4%	36.7	20.1%
Alphabet Inc	-7%	-2%	-5%	2,740.34	1,818,939	ACCUMULATE	3,380.00	45.2	23.5	22.3	7.4	0.0%	30.9%	15.9	31.3%
Microsoft Corp	-6%	7%	-7%	314.04	2,357,806	BUY	405.00	38.5	33.8	30.1	15.5	0.7%	49.3%	23.5	49.8%
	-4%	7%	-4%		9,800,435			44.3	33.3	30.1	21.3	0.3%	68.2%	21.4	34.7%

Source: Bloomberg, 7 Jan 2022, PSR

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