

US EQUITY NOTE

META PLATFORMS INC

January 26, 2022

Planning for the Next Leap

Company Overview

Meta Platforms (formerly known as Facebook) is one of the world's most recognisable social media and technology companies. Meta owns Instagram, as well as popular messaging services Messenger and WhatsApp. Its top three social media platforms have a whopping combined total of 5.8bn users per month (FB: 2.8bn, WhatsApp: 2bn, Instagram: 1bn). The company has also expanded into virtual and augmented reality products via its Facebook Reality Labs platform, and is investing heavily in the development of the Metaverse.

Investment Overview

Broad user base continues to drive increased monetisation opportunities. Meta is well-positioned as the market leader and dominates the social media space via its popular Facebook and Instagram social platforms. With its huge reach, high user engagement, strength in data analytics and targeted advertising, Facebook is able to enjoy the network effect which in turn drives its growth and profitability. Given the fickle nature of social media users, Meta has continued to innovate and roll out new initiatives, with near-term emphasis on young adults (age 18-29) and video. Instagram Reels is now the primary driver behind engagement growth, and will continue to be integrated into the platforms in 2022. Facebook Watch and Shops are also new monetisation avenues. Meta could deliver mid-teens growth in the coming years, with stable and juicy EBITDA margins of >40% in these highly cash-generative businesses.

Long-term potential in the Metaverse ecosystem. A successful metaverse requires scale, time and network for widespread adoption and to gain critical momentum, hence it may take at least 5-10 years before its potential is realised. FB had highlighted its ambition to help the metaverse reach 1 billion people by the end of this decade. As an early mover in the space, Meta is well-positioned to capitalise on this opportunity when it materialises. Meta continues to invest in complementary companies and technology such as Oculus AR/VR products, as well as increasing data centre capacity and network infrastructure. Dedication to these efforts will pay off in the company's long-term growth.

Regulatory concerns may be overblown. Facebook has taken the brunt of negative headlines in recent times (Cambridge Analytica, Whistleblower testimony, iOS privacy related headwinds), and has been under the regulatory microscope. Thus far, FB has navigated well through the various regulatory changes (EU's General Data Protection Regulation, California Consumer Privacy Act) and may continue to do so. While the antitrust and regulatory concerns might limit Meta's ability to make meaningful acquisitions in the coming years, a break-up of the company looks unlikely. Such concerns are reflected in its share price, with FB currently trading at ~21x FY22E PE, below its historical 5 year average of 24x.

Risks

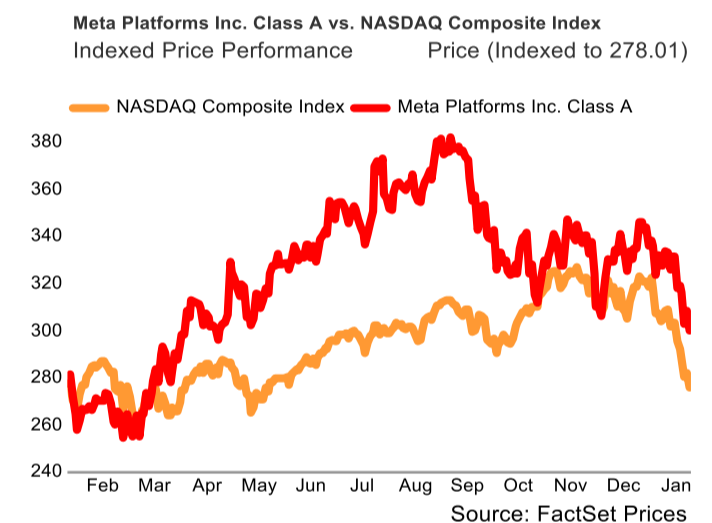
Increasing regulatory scrutiny and negative press about user privacy and data usage could result in poorer user perception and engagement. Meaningful acquisition opportunities look unlikely as Meta continues to remain under the regulatory microscope. Significant investment in Facebook Reality Labs could drag on valuation or profits in the near-term.

Key Financial Data

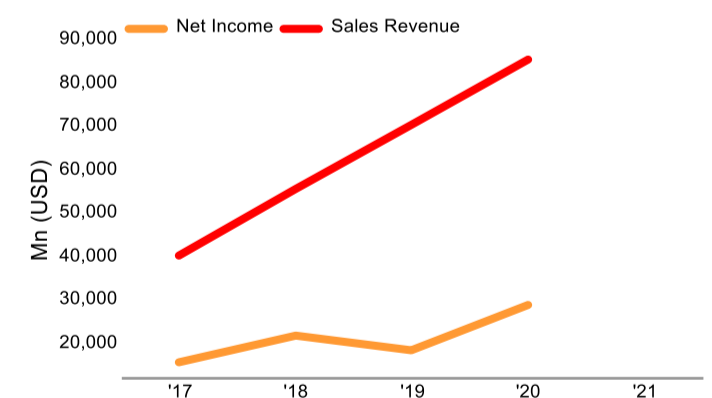
FactSet Ticker	FB-US
Sector	Communication Services
Share Price (USD)	300.2
FactSet Consensus Rating	Buy
Consensus TP Range (USD)	250 - 460
Market Cap (USD\$b)	835
Volume	25.1
Free float (%)	99.4
Dividend yield (%)	0.0
Net Debt to Equity (%)	-39.8
Fwd. P/E (x)	21.5
P/Book (x)	6.1
ROE (%)	25.4

Source: FactSet

Share Price



Revenue and Profit Trend



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Financial Summary

USDm	FY2017	FY2018	FY2019	FY2020	2021(E)	2022(E)
Sales	40653	55838	70697	85965	117590	139758
% y-o-y		37.4%	26.6%	21.6%	36.8%	18.9%
Gross Profit	35199	46483	57927	69273	94978	110797
% y-o-y		32.1%	24.6%	19.6%	37.1%	16.7%
EBITDA	23228	29228	34727	39533	64489	66701
% y-o-y		25.8%	18.8%	13.8%	63.1%	3.4%
Net Profit (Loss)	15920	22111	18485	29146	40042	40878
% y-o-y		38.9%	-16.4%	57.7%	37.4%	2.1%
FCF	17483	15359	21212	23632	35968	32184
% y-o-y		-12.1%	38.1%	11.4%	52.2%	-10.5%
CAPEX	6733	13915	15102	15115	19026	29328
% y-o-y		106.7%	8.5%	0.1%	25.9%	54.1%
EBITDA Margin %	57.14	52.34	49.12	45.99	54.84	47.73
Net Margin %	39.2	39.6	26.1	33.9	34.1	29.2
ROA (%)	21.3	24.3	16.0	19.9	22.3	18.7
ROE (%)	23.8	27.9	20.0	25.4	27.2	23.2
Tax Rate %	22.6	12.8	25.5	12.2	0.2	0.2

Source: FactSet

Valuation Metrics

	FY2017	FY2018	FY2019	FY2020	2021(E)	2022(E)
P/E	32.7	17.3	31.9	27.1	21.5	21.1
P/B	6.9	4.4	5.8	6.1	5.9	4.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	20.7	11.7	15.4	18.4	12.6	12.2
FCF Yield %	3.4%	4.0%	3.6%	3.0%	4.3%	3.9%

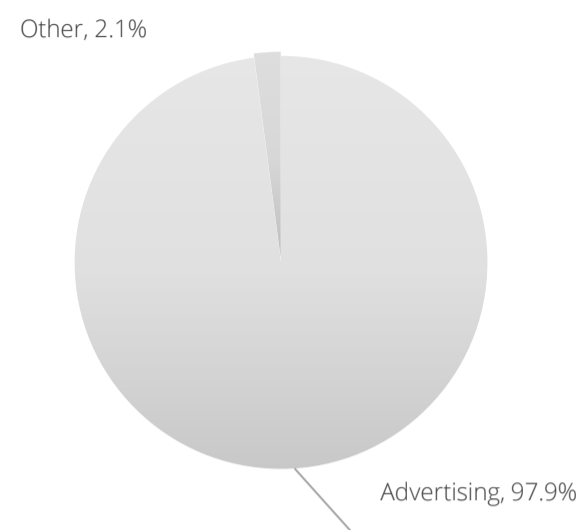
Source: FactSet

Credit & Cashflow Metrics

	FY2017	FY2018	FY2019	FY2020	2021(E)	2022(E)
Debt / Equity	0.00	0.01	0.11	0.09	0.00	0.00
Net Debt / Equity	-0.56	-0.48	-0.43	-0.40	-0.45	-0.40
Debt / Assets	0.00	0.01	0.08	0.07	0.00	0.00
Net Debt / Assets	-0.49	-0.42	-0.33	-0.32	-0.36	-0.33
EBITDA / Int Exp			1736.4		110.6	87.3
ST Debt / Total Debt	0.00	1.00	0.10	0.10		
Debt / EBITDA	0.00	0.02	0.32	0.28	0.00	0.00
[Cash + CFO] / ST Debt		78.6	48.3	51.8		
Receivables Days	44.1	43.9	44.2	44.3	42.6	41.2
Days Payable	45.2	41.6	51.6	51.1	30.0	28.6
Inventory Days						

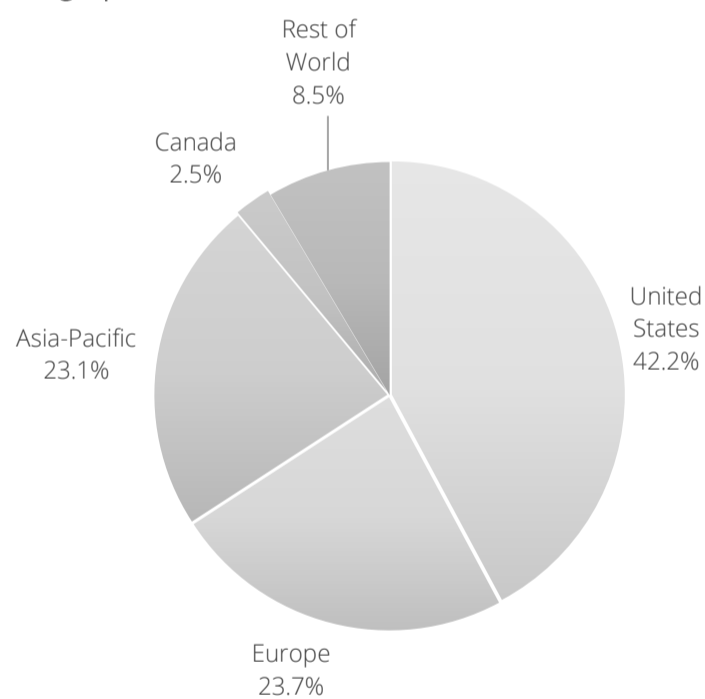
Source: FactSet

Segmental Sales Breakdown



Source: FactSet

Geographic Sales Breakdown



Source: FactSet

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