

META PLATFORMS INC.

Competition knocks growth and raises expenses


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UNITED STATES | INTERNET | 4Q21 RESULTS

7 February 2022

- 4Q21 earnings in line with expectations. FY21 revenue/PATMI at 102/105% of our FY21e forecasts
- Apple iOS 14 privacy changes decreases the accuracy of FB's targeted ads, making it increasingly tougher to track and measure the outcomes of these ad campaigns
- The company guided weak 1Q22 revenue growth of 3-11% and FY22e expenses to rise at least 26% to US\$90bn-95bn. FB is also undertaking major capital expenditure of US\$29bn-34bn to beef up its IT infrastructure.
- We maintain a BUY recommendation with a reduced DCF target price from US\$424.00 to US\$312.00 (WACC 6.6%, g 3.5%). Our target price is lowered due to growth pressures from increased competition and reduced earnings of 24% due to increased expenditures.

Results at a glance

USD (bn)	4Q21	4Q20	YoY	3Q21	QoQ	Comments YoY%
Revenue	33.7	28.1	19.9%	29.0	16.1%	
- Family of Apps	32.8	27.4	19.9%	28.5	15.3%	
- Reality Labs	0.9	0.7	22.3%	0.6	57.2%	
Operating Income	12.6	12.8	-1.5%	10.4	20.7%	Operating Margin down 9% YoY
PATMI	10.3	11.2	-8.3%	9.2	11.9%	Net Margin down 10% YoY
CAPEX	5.4	4.6	16.4%	4.5	18.3%	Continued investments in IT infrastructure
Total Expenses	21.1	15.3	37.8%	18.6	13.4%	G&A expense up 107% YoY
MAP (bn)	3.6	3.3	8.8%	3.6	0.3%	
ARPP (\$)	9.39	8.62	8.9%	8.18	14.8%	
EPS (\$)	3.67	3.88	-5.4%	3.22	14.0%	

Source: Company, PSR

The Positive

+ Revenue growth still positive for the quarter. FB reported 20% YoY revenue growth for 4Q21, and 37% YoY revenue growth for FY21. This was supported by a 9% YoY increase in user growth, 6% YoY increase in prices of digital ads, and 13% YoY increase in ad impressions.

The Negatives

- Reduced effectiveness of targeted advertising due to Apple iOS 14 privacy changes. Apple's iOS 14 privacy changes continue to affect FB's core advertising business, decreasing the accuracy of its targeted ads, and making it tougher for the company to track and measure the outcomes of these ad campaigns. As a result, advertisers have begun reallocating portions of their ad budget away from FB, and towards competitors like GOOGL and AMZN.

- Increasing competition from TikTok and other social media companies. The emergence and growth in popularity of short-form video apps like TikTok continue to be a threat to FB, particularly with its younger users. User growth has begun to slow down, with only 0.3% QoQ for 4Q21. As a result, FB has begun transitioning its own services towards more short-form video like Reels, in an effort to better serve its younger audiences. They have also scaled up hiring in this area, leading to higher total expenses and lowered margins - by almost 10%. This shift in format could be accompanied by near term pressures on impression growth, as well as slower monetization rates.

- Weak 1Q22 and FY22e guidance of increased expenses. FB guided weak 1Q22 revenue growth of just 3-11%, impacted by headwinds in both ad impressions and prices. It also expects FY22e total expenditure to rise at least 26% to US\$90bn-95bn on the back of increasing CAPEX by at least 56%, as it scales up investments in tech talent and IT infrastructure to better compete with its competitors.

BUY (Maintained)

CLOSING PRICE	USD 237.09
FORECAST DIV	USD 0.00
TARGET PRICE	USD 312.00
TOTAL RETURN	31.6%

COMPANY DATA

Bloomberg CODE:	FB US
O/S SHARES (MN):	2,722
MARKET CAP (SGD bn / USD bn):	1185 / 879
52 - WK HI/LO (SGD):	384.33 / 253.5
3M Average Daily T/O (mn):	21.12

MAJOR SHAREHOLDERS

Vanguard Group Inc/The	7.9%
BlackRock Inc	6.8%
Capital Group Cos Inc/The	5.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(4.0)	(1.5)	(4.0)
NASDAQ RETURN	(9.7)	(9.9)	(10.0)

PRICE VS. NASDAQ



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, USD (bn)	FY20	FY21	FY22e	FY23e
Revenue	86.0	117.9	131.6	156.7
EBITDA	39.5	54.7	50.8	72.9
Net Profit	29.1	39.4	33.9	50.5
EPS (USD)	10.1	13.8	11.8	17.6
P/E (X)	27.0	24.4	26.2	28.3
ROE	22.7%	31.5%	23.2%	28.0%
ROA	18.3%	23.7%	17.6%	21.7%

Source: Company, PSR

VALUATION METHOD

Discounted Cash-Flow, WACC 6.6%, g 3.5%

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Overall FY21 performance was good, with 37% YoY growth in revenue, and around 35% YoY increases in PATMI and EPS. User growth was solid at 9% YoY, with net margins relatively stable at 33% (Figure 1).

Figure 1: FB's FY21 YoY results

Results at a glance				
USD (bn)	FY21	FY20	YoY	Comments YoY%
Revenue	117.9	86.0	37.2%	
- Family of Apps	115.7	84.8	36.3%	
- Reality Labs	2.3	1.1	99.6%	
Operating Income	46.8	32.7	43.1%	Operating Margin up 2% YoY
PATMI	39.4	29.1	35.1%	Net Margin down 0.5% YoY
CAPEX	18.6	15.1	22.8%	Continued investments in IT infrastructure
MAP (bn)	3.6	3.3	8.8%	
ARPP (\$)	33.7	27.5	22.4%	
EPS (\$)	13.77	10.09	36.5%	

Source: Company, PSR

Outlook

FB guided a relatively weak 1Q22, and set a negative outlook for the rest of FY22. The company guided 1Q22 revenue of US\$27bn-29bn, representing only a 3-11% YoY range for growth, with several headwinds such as increased competition and macroeconomic pressures as reasons for the weak guidance.

The company also guided FY22 total expenditure of US\$90bn-95bn, driven by investments in technical talent, and infrastructure-related costs, as it pivots towards a short-form video heavy format, and increases focus on developing Reality Labs. Guidance for FY22 CAPEX was in the US\$29bn-34bn range – a 56-83% YoY increase, in line with the company's accelerated investments in data centers, servers, network infrastructure, and office facilities (Figure 2).

Figure 2: Company guidance and PSR forecast summary for FY22e

Forecast Summary			
USD (bn)	FB		PSR FY22e
	FY21	FY22 Guidance	
Revenue	117.9	N/A	131.6
CAPEX	18.6	29 - 34	31.9
Total Expenses	71.2	90 - 95	90.8
PATMI	39.4	N/A	33.9
Net Margins	33%	N/A	26%
MAP (bn)	3.6	N/A	3.8

Source: Company, PSR

We have adjusted some of our FY22e estimates largely due to tougher competition, an increasingly negative effect of Apple's iOS 14 changes on targeted ads, and increasing spend on OPEX and CAPEX to boost IT talent and infrastructure. Total revenue was adjusted down by slightly more than 5% to US\$131.6bn, with PATMI reduced by 24% to US\$33.9bn as a result of a 6.5% decrease in net margins to 26% (Figure 3).

We forecast revenue growth for FY22e to be around 12% YoY, significantly below its 5-yr CAGR of 34%, with concerns about several headwinds for growth. PATMI is expected to shrink 14% YoY, largely due to significant increases in OPEX and CAPEX, and a 6.5% reduction in net margins.

We expect FY22e to be a transition year for FB, as it continues to battle headwinds from regulators and competitors to maintain its leading position in the social media industry.

Figure 3: PSR Model changes for FY22e

Summary Model Changes

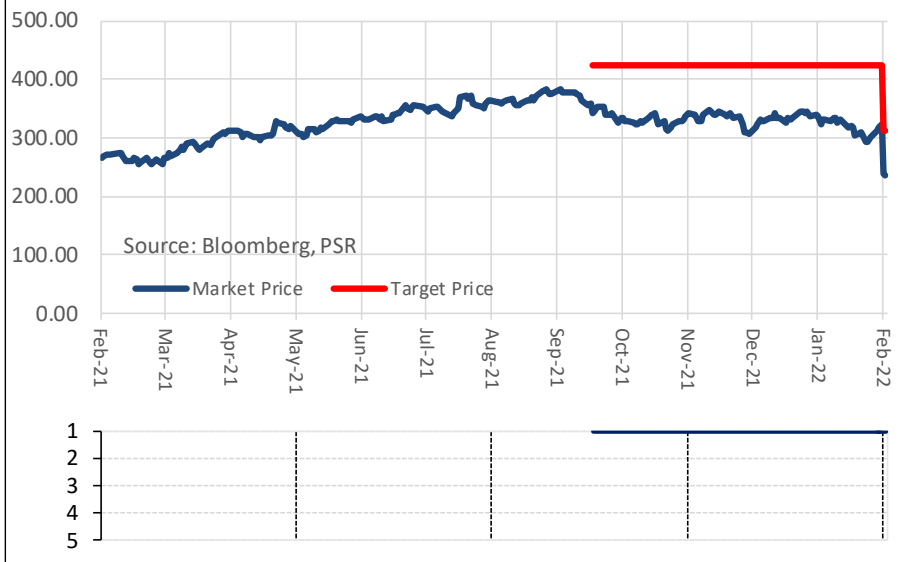
USD (bn)	New FY22e	Old FY22e	Diff.	Comments
Revenue	131.6	138.8	-5.2%	Increased competition and macroeconomic challenges
Operating Income	40.8	54.1	-24.6%	
<i>Operating Margins</i>	31%	39%	-8.0%	Expected increase in OPEX
PATMI	33.9	44.7	-24.3%	
<i>Net Margins</i>	26%	32%	-6.5%	
EPS (\$)	11.85	15.89	-25.4%	

Source: Company, PSR

Maintain BUY with a reduced target price of US\$312.00

We maintain a BUY rating with a reduced target price of US\$312.00, from US\$424.00, with a WACC of 6.6%, and a slightly reduced terminal growth rate of 3.5%. Revenue was adjusted down 5% to reflect increased competition and macroeconomic challenges. PATMI was also reduced 24% with lowered net margins to reflect the expected 24-32% increase in total expenditure for FY22e.

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Financials

Income Statement

Y/E Dec, USD mn	FY19	FY20	FY21	FY22e	FY23e
Revenue	70,697	85,965	117,929	131,563	156,650
Gross Profit	57,927	69,273	95,280	102,619	125,320
EBITDA	29,727	39,533	54,720	50,791	72,930
Depreciation & Amortization	(5,741)	(6,862)	(7,967)	(10,006)	(11,914)
EBIT	23,986	32,671	46,753	40,785	61,016
Interest Expense	826	509	531	859	1,022
Profit before tax	24,812	33,180	47,284	41,643	62,038
Taxation	(6,327)	(4,034)	(7,914)	(7,772)	(11,579)
PATMI	18,485	29,146	39,370	33,871	50,460

Per share data (USD)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
Diluted EPS	6.43	10.09	13.77	11.85	17.65

Cash Flow

Y/E Dec, USD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
PATMI	18,485	29,146	39,370	33,871	50,460
Adjustments	10,579	12,324	17,613	20,699	24,555
Change in WC	6,011	(2,196)	(241)	813	199
Change in Other Liabilities	1,239	(527)	941	941	941
Cash Flow from Operations	36,314	38,747	57,683	56,324	76,154
CFI					
CAPEX	(15,102)	(15,115)	(18,567)	(31,291)	(35,718)
Marketable Securities	(4,193)	(8,159)	12,179	(5,000)	(5,000)
Purchase of Equity Investments	(61)	(6,361)	(47)	-	-
Others	(508)	(424)	(1,135)	(252)	(252)
Cash Flow from Investing	(19,864)	(30,059)	(7,570)	(36,543)	(40,970)
CFF					
Repurchase of Equity	(4,202)	(6,272)	(44,537)	(20,000)	(25,000)
Taxes Paid Related to Share Settlements	(2,337)	(3,564)	(5,515)	(3,564)	(3,564)
Others	(760)	(456)	(676)	(456)	(456)
Cash Flow from Financing	(7,299)	(10,292)	(50,728)	(24,020)	(29,020)
Net Change in Cash	9,155	(1,325)	(1,089)	(4,239)	6,164
CCE, end	19,079	17,576	16,601	12,626	18,791

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, USD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Cash & Cash Equivalents	19,079	17,576	16,601	12,626	18,791
Marketable Securities	35,776	44,378	31,397	36,397	41,397
Accounts Receivable	9,518	11,335	14,039	17,859	22,406
Others	1,852	2,381	4,629	4,528	4,427
Total current assets	66,225	75,670	66,666	71,410	87,021
Equity Investments	86	6,234	6,775	6,775	6,775
PPE & IA	35,323	45,633	57,809	79,094	102,898
Others	31,742	31,779	34,737	35,341	35,945
Total non-current assets	67,151	83,646	99,321	121,210	145,618
Total Assets	133,376	159,316	165,987	192,620	232,639

LIABILITIES

Payables	2,249	2,424	5,135	6,144	7,236
Accrued Expenses and Others	12,804	12,557	16,000	19,522	23,076
Total current liabilities	15,053	14,981	21,135	25,666	30,313
Operating Lease	9,524	9,631	12,746	12,746	12,746
Others	7,745	6,414	7,227	8,168	9,109
Total non-current liabilities	17,269	16,045	19,973	20,914	21,855
Total liabilities	32,322	31,026	41,108	46,580	52,168

Equity

Share Capital & APIC	45,851	50,018	55,811	62,458	71,053
Shareholder Equity	101,054	128,290	124,879	146,040	180,471

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/B (X)	5.8	6.0	7.7	6.1	7.9
P/E (X)	31.7	27.0	24.4	26.2	28.3
EV/EBITDA (X)	18.1	18.3	16.9	16.8	19.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Growth & Margins

Growth					
Revenue	26.6%	21.6%	37.2%	11.6%	19.1%
EBITDA	1.7%	33.0%	38.4%	-7.2%	43.6%
EBIT	-3.7%	36.2%	43.1%	-12.8%	49.6%
PATMI	-16.4%	57.7%	35.1%	-14.0%	49.0%
Margins					
Gross profit	81.9%	80.6%	80.8%	78.0%	80.0%
EBITDA	42.0%	46.0%	46.4%	38.6%	46.6%
EBIT	33.9%	38.0%	39.6%	31.0%	39.0%
Net Margins	26.1%	33.9%	33.4%	25.7%	32.2%

Key Ratios

ROE	18.3%	22.7%	31.5%	23.2%	28.0%
ROA	13.9%	18.3%	23.7%	17.6%	21.7%

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