

# FAANGM Monthly – June 22

Attractive despite recession fears

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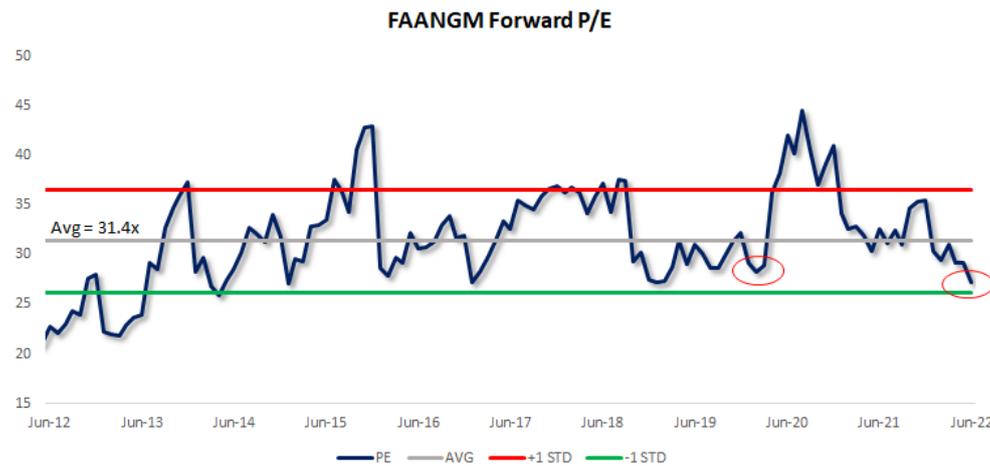
- The FAANGM declined 7.9% in June, modestly better than the Nasdaq’s drop of 9.0%. The S&P 500 also dropped 8.4% for the month. META was the laggard, down 16.7%, with GOOGL the best performer, losing only 4.2%.
- High inflation, weakening consumer sentiment, tightening fiscal policy, and the increased fear of a recession continues to place downward pressure on the overall market as investors remain cautious. However, we remain optimistic on FAANGM. Long-term secular tailwinds from digital advertising, increasing cloud adoption, and increasing global digitalisation remain intact.
- We remain OVERWEIGHT on FAANGM as they continue to remain at attractive valuations, trading at the lower quartile of their historical valuations at 27x forward PE (Figure 1). We lowered our target prices as we raised WACC assumptions (Figure 2).

## OVERWEIGHT

### PRICE PERFORMANCE (%)

30 Jun 2022	1MTH	3MTH	YTD
META INC	(16.7)	(27.9)	(53.4)
APPLE INC	(8.1)	(22.3)	(24.0)
AMAZON INC	(11.6)	(34.9)	(36.1)
NETFLIX INC	(11.4)	(53.3)	(70.9)
ALPHABET INC	(4.2)	(22.0)	(25.2)
MICROSOFT CORP	(5.5)	(16.9)	(23.9)
FAANGM	(7.9)	(24.0)	(30.1)
S&P 500	(8.4)	(16.4)	(20.6)
NASDAQ	(9.0)	(22.5)	(29.5)

Figure 1: FAANGM valuations below pandemic lows



Source: Company, PSR

## Review

### Meta Platforms Inc (META US, BUY, TP US\$231)

- **COO stepping down.** Sheryl Sandberg, Chief Operating Officer of Meta, announced that she was stepping down from her position this coming fall, after almost 15 years of service to the company, mentioning that her plan moving forward was to focus more on her foundation, as well as more philanthropic work. Chief Growth Officer, Javier Olivan, is to take over the role when Sandberg departs.

*Comment: The departure of Meta’s COO and several other key employees, a tougher 2H22 outlook due to weak consumer sentiment, and continued scrutiny by government antitrust regulators caused Meta’s stock to perform poorly in June.*

### RETURNS VS. S&P 500



Source: Bloomberg, PSR

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### Apple Inc (AAPL US, BUY, TP US\$194)

- **Launched new M2 Chip at Worldwide Developers Conference (WWDC).** Apple launched the new models of the Macbook Air (starting from US\$1,199) and Macbook Pro (US\$1,299) laptops, powered by the new M2 processor chip at this year's WWDC. The new M2 chip is said to be twice as efficient as other comparable PC chips. The new MacBook Air is roughly 20% more expensive than its predecessor, with the price increase supposedly more than covering the additional increases in component pricing.
- **Landmark 10-Yr deal with Major League Soccer (MLS).** Apple secured a 10-year media rights deal with the MLS worth a minimum of US\$250mn per year. This marks the first major US sports league to align itself with a digital media company, and could pave the way for other leagues to follow suit.

*Comment: Apple's M2 chips should be a gamechanger for the company due to their increased efficiency compared with an already efficient set of M1 chips. MacBook sales numbers would be worth watching to see if the company can pass down the increased costs of these chips to its consumer, especially amidst weakening consumer demand.*

### Amazon Inc (AMZN US, BUY, TP US\$156)

- **Start of Prime Air drone deliveries.** Amazon recently announced that it would start using drones for its Prime Air deliveries later this year. The service will be initially available only in Lockeford, California as its pilot location, before using feedback and data to improve and expand its operations into other locations.
- **Amazon Prime Day 2022.** Amazon's annual Prime Day slated for mid-July is a test of US consumer demand, especially amidst the current macroeconomic climate. Prime Day is also considered to be a core driver of Prime Membership adoption for Amazon, which leads to increasing revenues as Prime members generally spend 2-3x on average more than non-members.

*Comment: Amazon continues to work through its over-capacity and over-staffing issues which were a result of a surge in demand for its services during the pandemic – that has since tapered off. Sales numbers from its Prime Day event in July should be a good indication of which direction consumer demand is heading.*

### Netflix Inc (NFLX US, BUY, TP US\$399)

- **2<sup>nd</sup> round of job cutting.** Netflix laid off another 300 employees (~3% of total workforce) during the second round of job cuts, a month after its first round of cuts where it laid off 150 employees in May 2022. Most of these jobs were in the US, and come amidst waning consumer demand and recession fears.
- **Streaming is gaining share in TV usage.** According to a May 2022 report by Nielsen, streaming platforms as a share of total TV usage in the US increased about 1.6% MoM to 31.9%, taking share from all other traditional segments like cable and broadcast TV. Of the 31.9% share, Netflix leads all platforms at 6.8%, a MoM increase of about 0.2%.
- **In talks with partners for ad-supported service.** As mentioned in the company's 1Q22 earnings call, Netflix has begun exploring the possibility of easing its way into the advertising business, working with a host of different partners to come up with a solution that would best fit the company's plans as it attempts to create a service tier supported by advertising.

*Comment: Netflix continues to streamline its workforce, laying off another 300 employees as it attempts to better manage its expenses. Tailwinds from increasing popularity in streaming services compared to traditional TV should continue to help the company's long-term growth plans.*

**Alphabet Inc (GOOGL US, BUY, TP US\$2,879)**

- **Allowing rival ad placements on YouTube.** To settle an EU antitrust investigation without a hefty fine, Alphabet is easing some its user data restrictions by offering to let its advertising rivals place ads on YouTube. Even though an agreement has yet to be reached with regulators, both parties have indicated that they are on a path toward an agreement that would help Alphabet avoid a potential US\$15bn fine.

*Comment: Potential fines and more antitrust investigations are forcing Alphabet to make adjustments to parts of its business model, and is a trend that we can expect to continue moving forward. Investors can also look forward to the company's 20-for-1 stock split coming up on the 18<sup>th</sup> of July, which should make the stock more affordable to retail investors.*

**Microsoft Corp. (MSFT US, BUY, TP US\$338)**

- **Microsoft announced a quarterly dividend payout.** On Jun. 14, Microsoft declared a quarterly dividend of US\$0.62 per share. It's set to be paid on Sept. 8 to shareholders of record as of Aug. 18. The ex-dividend date is Aug. 17.

*Comment: Microsoft is gaining momentum with Azure, as the COVID-19 pandemic has accelerated migration to the cloud. Amid rising cybersecurity attacks and the ongoing Russia-Ukraine conflict, companies will continue to upgrade to higher-end licenses for enhanced security. Reopening of offices should also drive demand for Microsoft's productivity software from small and medium sized businesses.*

**Recommendation**

We remain OVERWEIGHT on the FAANGM. Overall, they remain attractive at 27x forward P/E, below pandemic lows – suggesting that inflated valuations over the last 2 years from Fed stimulus policies have largely been normalized. Our preferred picks are still GOOGL and MSFT due to high levels of corporate demand for their Cloud and productivity solutions. Long-term secular tailwinds for FAANGM industries remain intact.

We have reduced our Target Prices across the FAANGM companies as we increase the discount rate used in our DCF valuation metrics due to rising interest rates (Figure 2).

*Figure 2: Revised WACC and Target Price for FAANGM companies*

Company	WACC Old	Target Price (US\$) Old	WACC Revised	Target Price (US\$) Revised
<b>FAANGM</b>				
Meta Platforms	6.6%	312.00	7.3%	231.00
Apple Inc	5.8%	214.00	6.1%	194.00
Amazon.com Inc	6.2%	156.00	6.4%	133.00
Netflix Inc	11.5%	427.00	12.2%	399.00
Alphabet Inc	6.6%	3,493.00	7.3%	2,879.00
Microsoft Corp	6.2%	410.00	6.7%	338.00

Source: Company, PSR

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px (US\$)	Mkt. Cap. (US\$ mn)	PSR Rating	PSR Target Px (US\$)	PE Yr 0	PE Yr +1	PE Yr +2	P/BV Yr 0	Dividend Yield	ROE Yr 0	EV/ EBITDA	EBITDA Margin
<b>FAANGM</b>															
Meta Platforms	-1%	-24%	-51%	163.27	441,861	BUY	231.00	11.2	13.2	11.4	3.6	0.0%	29.1%	7.1	47.7%
Apple Inc	11%	-14%	-18%	145.86	2,360,770	BUY	194.00	24.9	23.6	22.8	35.1	0.6%	149.3%	17.4	33.3%
Amazon.com Inc	5%	-30%	-34%	109.22	1,111,249	BUY	133.00	33.3	53.7	27.2	8.3	0.0%	18.0%	15.6	14.1%
Netflix Inc	3%	-50%	-71%	174.45	77,504	BUY	399.00	15.1	15.2	14.4	4.4	0.0%	32.9%	12.2	22.9%
Alphabet Inc	7%	-12%	-21%	2,280.41	1,501,650	BUY	2,879.00	19.7	18.2	15.5	5.9	0.0%	30.8%	11.6	36.4%
Microsoft Corp	5%	-12%	-25%	253.67	1,897,206	BUY	338.00	31.0	26.3	23.7	11.7	0.9%	48.7%	18.8	49.8%
	7%	-17%	-25%		7,390,240			25.8	27.0	21.4	16.9	0.4%	71.2%	15.6	36.1%

Source: Bloomberg, 12 Jul 2022, PSR, Our PSR Target Prices have been lowered due to increase in our discount rate computation

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