

# FAANGM Monthly – Aug 22

Seeing some stabilisation

UNITED STATES | TECHNOLOGY | UPDATE

7 September 2022

- The FAANGM declined 5.0% in August, modestly better than the Nasdaq's loss of 5.2%. The S&P 500 also declined 4.2% for the month
- Elevated inflationary pressures, macroeconomic weakness and interest rate uncertainty continue to place downward pressure on FAANGM in Aug, after a brief relief rally in July. Now, we are starting to see FAANGM stabilise after its steep sell-off earlier this year, down only 0.7% over the last 3 months.
- We remain OVERWEIGHT on FAANGM as we continue to believe that they will be long-term winners. Secular tailwinds remain intact for streaming, cloud, cybersecurity, and digital advertising.

## Review

### Meta Platforms Inc (META US, BUY, TP US\$221)

- **Planning to sell US\$10bn worth of bonds.** Meta announced that it is jumping into the corporate bond market by issuing US\$10bn worth of AA-rated bonds in 4 different parts, with the 40-year bonds yielding 165bps above treasury yields. The company saw almost US\$30bn in demand for its bond offering. It is expected that the issuance will help to alleviate the company's shrinking cash position as expenditures continue to increase.
- **Launching grocery delivery in India within WhatsApp.** Partnering with Jio Platforms in India, Meta announced that it would allow customers in India to access JioMart's full catalog of groceries, and purchase them all within WhatsApp. It's estimated that around 500 million people use WhatsApp in India.

*Comment: The issuance of bonds seems like a very calculated strategy for the company, especially as it has seen a US\$24bn YoY decrease in its cash position due to an increase in spending on the metaverse. The launch of end-to-end grocery purchases within WhatsApp is in line with the company's continued focus on increasing monetization in its business messaging products. We do expect this expansion of monetization to continue across more products and geographies.*

### Apple Inc (AAPL US, BUY, TP US\$198)

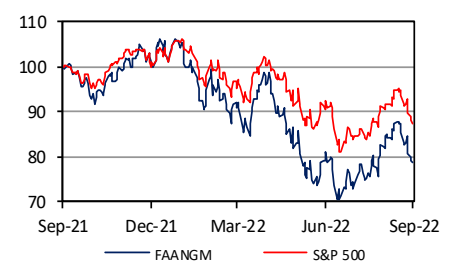
- **Cutting iPhone 14 production lag.** Apple is preparing to manufacture its new iPhone in India months earlier than it did previous models, a sign that the company is boosting production outside of its traditional base in China. Foxconn, Apple's Taiwan-based supplier, has studied the process of shipping items from China and assembling iPhone 14 at its plant outside Chennai in southern India. The new iPhone models would be made for both domestic consumption as well as exports. As of 2021, India accounted for about 3.1% of Apple's global manufacturing base, up from 1.3% in 2020, and is expected to reach 5-7% this year.
- **Moving forward iPhone 14 launch date.** Apple is expected to unveil the new iPhone 14 lineup during its biggest annual product launch event that is taking place on 7 Sep 22. This year's event is scheduled at an earlier date than previous years, and some analysts believe this would allow the company to capture more sales in the July-September quarter.

## OVERWEIGHT

### PRICE PERFORMANCE (%)

31 Aug 2022	1MTH	3MTH	YTD
META INC	2.4	(16.4)	(53.2)
APPLE INC	(3.3)	4.9	(13.3)
AMAZON INC	(6.1)	5.6	(23.6)
NETFLIX INC	(0.6)	13.3	(62.7)
ALPHABET INC	(6.7)	(5.5)	(26.2)
MICROSOFT CORP	(6.9)	(4.1)	(22.8)
FAANGM	(5.0)	(0.7)	(24.7)
S&P 500	(4.2)	(4.3)	(17.0)
NASDAQ	(5.2)	(2.9)	(24.8)

### RETURNS VS. S&P 500



Source: Bloomberg, PSR

Jonathan Woo (+65 6212 1852)  
Senior Research Analyst  
jonathanwookj@phillip.com.sg

Maximilian Koeswoyo (+65 6212 1852)  
Research Analyst  
maximilian@phillip.com.sg

*Comment: Apple's move to boosting its production outside of China is an indication that the company is attempting to mitigate concentration risks, especially during the recent heightened political tension between USA and China. However, such transition may pose a challenge as it requires Apple's suppliers to make substantial investments on building new production plants. Both skilled and unskilled workers in India may not be as available as they are in China with India's infrastructure also lagging. Apple fans are also excited about the annual product launch event taking place on 7 Sep 22. The attractiveness of the to-be-launched products will likely be the key sales growth driver for FY23.*

#### **Amazon Inc (AMZN US, NEUTRAL, TP US\$133)**

- **Shutting down Amazon Care telehealth unit.** Amazon is closing its in-house telehealth service built for employees and businesses following the purchase of 1Life Healthcare. The decision was made because the business did not meet the needs of potential business customers Amazon is targeting and the shutdown is expected to take place by year-end FY22.
- **Adding revenue streams ahead of holiday season.** Amazon is adding revenue streams ahead of the holiday season to counter inflationary pressures. The company is passing on some costs to sellers that use its e-commerce platform ("holiday peak fulfillment fee") as it attempts to offset increased operating costs during the holiday period. Amazon said it had previously absorbed such costs, but those expenses are reaching new heights. The company also plans to hold a second Prime Day-like event for the first time in 4Q22. The moves could help Amazon boost revenue and lessen YoY growth declines after the pandemic-induced shopping accelerated e-commerce.
- **Acquisition of iRobot.** Amazon is buying the Roomba (robo-vacuum) maker for US\$1.7bn, which would make it the fourth-largest acquisition by the company. The deal came as iRobot was struggling as it reported a 30% drop in sales in 2Q22 due to reduced orders, supply chain problems, and a stronger dollar. Amazon agreed to pay US\$61 a share in the all-cash deal, which represents a 22% premium.

*Comment: Amazon's move to counter inflationary pressure via new revenue streams may prove to be a creative way to boost FY22 performance, especially during the holiday season when retail sales are at its peak. The iRobot acquisition will allow Amazon to enhance its smart home capabilities as it adds Roomba to its portfolio alongside other existing products like Alexa virtual assistant speaker and Ring video doorbell.*

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

- **Planning US\$7-US\$9 per month for ad-supported tier.** Netflix is planning to price its new ad-supported subscription tier at around US\$7-US\$9 per month (vs standard plan ~US\$15.50), offering a customer-friendly low load (~4 mins per hour) of ads in the initial stages. Rival Disney+ ad-supported plans are priced at US\$7.99 per month.
- **Streaming takes top spot in US TV usage.** According to a July 2022 report by Nielsen, streaming platforms as a share of total TV usage in the US increased about 1.1% MoM to 33.7%, edging out other traditional segments like cable (34.4%) and broadcast TV (21.6%), marking the first time that Streaming has taken the top spot in these rankings. Of the 34.8% streaming share, Netflix leads all platforms at 8.0%, a MoM increase of about 0.3%.

*Comment: Netflix's development of its new ad-supported subscription tier seems to be well underway and on schedule, it would be interesting to see the take-up rate for this new plan, especially with a price point that is around half that of a standard plan. Streaming continues to grow from strength-to-strength in the US, finally surpassing cable TV with regard to total TV usage. This should continue to provide tailwinds for the overall streaming industry, which should directly benefit Netflix.*

**Alphabet Inc (GOOGL US, BUY, TP US\$139)**

- **Fined A\$60mn by Australian regulators for misleading users.** Regulators in Australia found that Google Australia had breached its consumer law with regard to personal data collection. This occurred between Jan 2017 and Dec 2018, with Google taking steps to resolve the issue by the end of 2018.
- **Fitbit announced 3 new devices set to ship later this month.** Alphabet's Fitbit unit recently announced a trio of new devices (Inspire 3, Sense 2, Versa 4) set to ship later this month. Both the Sense 2 and Versa 4 (smartwatches) are said to have more than 6 days of battery life, with a 12-minute fast charge representing 1 full day of battery life. This comes as Google continues to compete with other fitness accessory manufacturers like Apple and Garmin.

*Comment: Big Tech continues to be monitored very closely by regulators around the world, with Alphabet no exception to this. The latest fine by Australian regulators is just another example of attempts to keep Big Tech in check. We like Alphabet's continued investments in the pandemic-accelerated smart-fitness industry, especially as it leverages on its ecosystem of hardware products and fitness apps. We do believe that this industry will continue to grow in the long-term, especially as consumers focus more on their mental and physical well-being.*

**Microsoft Corp. (MSFT US, BUY, TP US\$332)**

- **Activision Blizzard deal faces in-depth scrutiny.** Microsoft's pending US\$69bn acquisition of gaming giant Activision Blizzard will face an in-depth scrutiny by the UK's antitrust authority. The Competition and Markets Authority cited competition concerns in the gaming consoles, multi-game subscription services and cloud gaming services. Microsoft and Activision have until 8 Sep 22 to come to an acceptable agreement with the regulator. If the companies do not provide suitable remedies, the deal would be automatically referred to an in-depth investigation.

*Comment: We believe that strong corporate demand for premium E5 licenses will continue to grow given the increasing cybersecurity attacks. The demand for cloud infrastructure Azure and Office 365 offerings will also continue to be robust as offices reopen and companies shift to the cloud.*

**Recommendation**

We remain **OVERWEIGHT** on the FAANGM. We believe that uncertainty over the severity of interest rate hikes will continue to dampen the overall market, but we expect FAANGM to be long-term winners given secular tailwinds for Cloud, Cybersecurity, and Streaming services still remaining intact.

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px (US\$)	Mkt. Cap. (US\$ mn)	PSR Rating	PSR Target Px (US\$)	PE Yr0	PE Yr+1	PE Yr+2	P/BV Yr0	Dividend Yield	ROE Yr0	EV/EBITDA	EBITDA Margin
<b>FAANGM</b>															
Meta Platforms	-5%	-19%	-53%	158.54	426,084	BUY	221.00	10.8	14.4	13.0	3.4	0.0%	25.5%	7.6	47.7%
Apple Inc	-7%	4%	-13%	154.53	2,483,413	BUY	198.00	26.2	24.9	24.3	42.8	0.6%	162.8%	18.6	33.3%
Amazon.com Inc	-10%	3%	-24%	126.11	1,284,752	NEUTRAL	133.00	38.5	75.1	32.5	9.8	0.0%	9.4%	18.9	14.1%
Netflix Inc	-4%	10%	-64%	218.39	97,119	BUY	399.00	19.0	19.9	17.1	5.1	0.0%	30.9%	16.5	22.9%
Alphabet Inc	-9%	-9%	-26%	106.81	1,393,230	BUY	139.00	18.3	18.8	16.4	5.5	0.0%	29.2%	11.3	36.4%
Microsoft Corp	-10%	-7%	-25%	253.25	1,888,711	BUY	332.00	26.0	24.8	21.3	11.4	1.0%	47.2%	17.0	50.6%
	-9%	-3%	-23%		7,573,309			25.8	31.6	22.7	19.8	0.4%	74.0%	16.2	35.6%

Source: Bloomberg, 7 Sep 2022, PSR

**Head of Research**Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)**Contact Information (Research Team)****Research Admin**Qystina Azli - [qystina@phillip.com.sg](mailto:qystina@phillip.com.sg)**Construction | Industrial | Conglomerates**Terence Chua – [terencechuatl@phillip.com.sg](mailto:terencechuatl@phillip.com.sg)**Property | REITs**Darren Chan – [darrenchanrx@phillip.com.sg](mailto:darrenchanrx@phillip.com.sg)**Banking & Finance**Glenn Thum – [glennthumjc@phillip.com.sg](mailto:glennthumjc@phillip.com.sg)**Credit Analyst**Shawn Sng – [shawnsngkh@phillip.com.sg](mailto:shawnsngkh@phillip.com.sg)**US Technology Analyst (Internet)**Jonathan Woo – [jonathannwookj@phillip.com.sg](mailto:jonathannwookj@phillip.com.sg)**US Technology Analyst (Software/Services)**Ambrish Shah – [amshah@phillipcapi.in](mailto:amshah@phillipcapi.in)**US Technology Analyst (Hardware)**Maximilian Koeswoyo – [maximilian@phillip.com.sg](mailto:maximilian@phillip.com.sg)**Technical Analyst**Zane Aw – [zaneawyx@phillip.com.sg](mailto:zaneawyx@phillip.com.sg)**Contact Information (Regional Member Companies)****SINGAPORE****Phillip Securities Pte Ltd**

Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poe.ms.com.sg](http://www.poe.ms.com.sg)

**JAPAN****Phillip Securities Japan, Ltd.**

4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**THAILAND****Phillip Securities (Thailand) Public Co. Ltd**

15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES****Phillip Capital Inc**

141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)

**INDIA****PhillipCapital (India) Private Limited**

No.1, 18th Floor, Urmī Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
Website: [www.phillipcapi.in](http://www.phillipcapi.in)

**MALAYSIA****Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poe.ms.com.my](http://www.poe.ms.com.my)

**INDONESIA****PT Phillip Securities Indonesia**

ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**FRANCE****King & Shaxson Capital Limited**

3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA****Phillip Capital Limited**

Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 8633 9803  
Fax +61-03 8633 9899  
Website: [www.phillipcapi.com.au](http://www.phillipcapi.com.au)

**TURKEY****PhillipCapital Menkul Degerler**

Dr. Cemil Bengü Cad. Hak İs Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapi.com.tr](http://www.phillipcapi.com.tr)

**HONG KONG****Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**CHINA****Phillip Financial Advisory (Shanghai) Co Ltd**

No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**UNITED KINGDOM****King & Shaxson Capital Limited**

6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**CAMBODIA****Phillip Bank Plc**

Ground Floor of B-Office Centre, #61-64,  
Norodom Blvd Corner Street 306, Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)

**DUBAI****Phillip Futures DMCC**

Member of the Dubai Gold and  
Commodities Exchange (DGCX)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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