

## EQUITY RESEARCH

13 July 2023

## Meta Platforms Inc

AI improvements and operational efficiency to boost earnings

## Company Overview

**Meta Platforms, Inc. (META)** operates as a social technology company. META builds applications and technologies that help people connect, find communities, and grow businesses. META operates under two segments: Family of Apps (FoA) and Reality Labs (RL). Daily active users in Meta Platforms stand at 3.0bn compared to its major competitor TikTok which has an estimated user base of 1.6bn.

## Investment Overview

**Reels has been META's primary initiative to improve revenue driven by increased monetization.** Reels is expected to enhance net income from FY23F or early FY24F as META focuses on improving the monetization efficiency of Reels, which is presently lower than Feeds. An estimated 40% of META advertisers are leveraging on Reels. META recorded its highest ever Daily Active Users/Monthly Active Users of 67.5% in 4Q22 (66.2% in 4Q21) driven by Reels and short form video integration. Meta has been investing in Artificial Intelligence (AI) and Machine Learning (ML) to better deliver personalized content & drive engagement with Reels.

**Savings of US\$6.5bn in opex due to layoffs to drive net income.** Meta's cost saving initiatives have proven to be meaningful following the second layoff announcement & fourth expense outlook reduction in four months. Overall, the company has announced 21k layoffs (- 24% vs. end of 3Q22) and has reduced its FY23 expense outlook by US\$6.5bn at the midpoint since the initial guide for FY23 provided in 3Q22 (excluding the US\$4.0bn restructuring cost). META guides expense to be US\$86bn-US\$90bn for FY23F. META's revenue per employee improved to US\$372k in 4Q22, when the first layoffs took place, from US\$317k in 3Q22. The projected net cost savings for FY23F are estimated to be US\$5.2bn assuming a 20% tax rate.

**Meta is leveraging AI and ML to rebuild its privacy-safe ad stack while continue investing on Metaverse.** Advantage+, Meta's AI-based automation ad tool, has gained attention for optimizing campaigns based on campaign goals and delivering impressive results. META noted that, In a study of 15 A/B tests, Advantage+ Shopping campaigns showed a 12% lower cost per purchase conversion and a 32% increase in Return on Ad Spend (ROAS). Advantage+ Creative enhancements also resulted in 14% more incremental purchases per dollar spent. AI is a key investment area for Meta, and these product enhancements are expected to support continued reacceleration of Meta's core ad business. Furthermore, Building the metaverse remains the company's long-term goal to support the future of social connection & next-generation of computing. Meta indicated in Dec 22 that ~80% of its investments support the core ads business/Family of Apps, while the remaining 20% goes toward Reality Labs. META's Reality Labs recorded an operating loss of US\$13.7bn (+34% y-o-y) in FY22 and it expects the operating loss for its metaverse projects to rise further in FY23F.

**BUY META with a higher TP of US\$280 (prev US\$245) based on upward revision in street earnings.** Our TP for META is based on peer P/E of 22.5x, using META's 12m blended net profit of US\$32bn at 25% margin (prev US\$28bn at 22% margin). Street has revised revenue for FY23F/24F by 3% each and also earnings by 14% each for FY23F/FY24F, mainly due to (i) cost savings in opex (ii) improvements in artificial intelligence (AI) and machine learning (ML) are expected to enhance ad return on investments (ROIs), resulting in healthier top-line growth (iii) the ramp-up of engagement and monetization in META's Reels feature could serve as a tailwind to revenue, (iv) potential ban on TikTok in the US may create upside for Meta. Based on these factors, we believe it justifies a higher TP of US\$280, reflecting the upward revision in street earnings and the positive outlook for the company's growth drivers.

## Risks

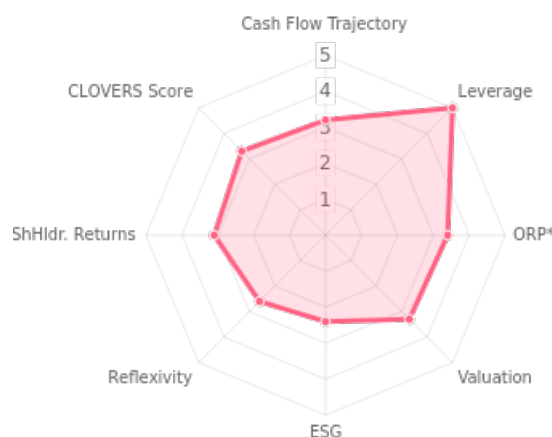
**Key Risks.** Facebook faces serious competitive pressure from TikTok and user activity shifting to TikTok will have a detrimental impact to META's revenue. META continues to diversify away from its high margin segment, which is advertising. As advertising contribution continues to reduce, META's margin would come under pressure. Long term upside potential stems from Reels witnessing strong user engagement and ramp up of monetization activity in this segment.

Key financial data based on the closing price

Bloomberg Ticker	META US
Sector	Information Technology
Share Price (USD)	298.29
DBS Rating	BUY
12-mth Target Price (USD)	280.0
Market Cap (USD\$b)	764.56
Volume (m shares)	0.00
Free float (%)	95.00
Dividend yield (%)	na
Net Debt to Equity (%)	0
Fwd. P/E (x)	na
P/Book (x)	na
ROE (%)	27.78

Source: Bloomberg Finance L.P.

## CLOVERS Diagram



Source: Company, DBS Bank

## CLOVERS Factors

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Source: Company, DBS Bank

## FINANCIAL SUMMARY (USD, M)

FY Dec	FY2020A	FY2021A	FY2022A	FY2023F	FY2024F
Sales	85,966	117,929	116,609	127,142	141,334
% y-o-y	0	0	0	0	0
Gross Profit	69,721	95,857	93,623	101,169	112,324
% y-o-y	1.2	1.4	1.0	1.1	1.1
EBITDA	46,069	63,882	53,746	62,847	73,198
% y-o-y	0	0	0	0	0
Net Profit (Loss)	33,732	46,185	33,543	36,530	43,472
% y-o-y	0	0	0	0	0
FCF	23,632	39,116	19,289	24,787	32,128
CAPEX	15,115	18,567	31,186	31,577	33,267
EBITDA Margin %	53.6	54.2	46.1	49.4	51.7
Net Margin %	39.2	39.2	28.8	28.7	30.7
ROA (%)	23.3	28.8	19.6	18.9	19.8
ROE (%)	29.8	37.4	27.8	27.7	28.2
Tax Rate %	15.4	17.5	19.9	17.2	17.7

Source: Visible Alpha

## VALUATION METRICS (USD, M)

FY Dec	FY2020A	FY2021A	FY2022A	FY2023F	FY2024F
P/E	23.4	20.8	9.7	20.6	17.0
P/B	6.1	7.7	2.6	5.5	4.5
Dividend Yield	()	()	()	()	()
EV/EBITDA (x)	nm	nm	nm	nm	nm
FCF Yield %	0.0	0.0	0.1	0.0	0.0

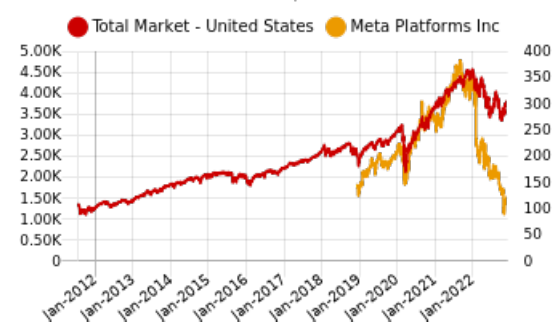
Source: Visible Alpha

## CREDIT &amp; CASHFLOW METRICS (USD, M)

FY Dec	FY2020A	FY2021A	FY2022A	FY2023F	FY2024F
Debt / Equity	8.3	11.1	21.2	17.7	14.9
Net Debt / Equity	(0.4)	(0.3)	(0.1)	(0.1)	(0.1)
Debt / Assets	6.7	8.4	14.3	12.2	10.6
Net Debt / Assets	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)
EBITDA / Int Exp	0	0	0	0	0
ST Debt / Total Debt	0.1	0.1	0.1	0.1	0.1
Debt / EBITDA	0.2	0.2	0.5	0.4	0.4
[Cash + CFO] / ST Debt	17.2	14.7	10.7	9.3	17.4
Receivables Days	48.1	43.5	42.2	41.3	40.6
Days Payable	10.3	15.9	19.1	17.0	17.3
Inventory Days	0	0	0	0	0

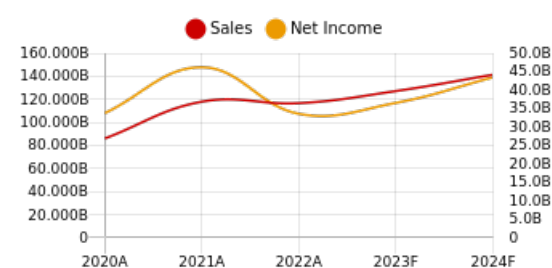
Source: Visible Alpha

## Indexed Share Price vs Composite Index Performance



Source: Refinitiv

## Revenue and Profit Trend



Source: Visible Alpha

## WHAT'S NEW

## US\$1.3bn fine for EU Data Privacy Rules violation

24 May 2023

- Ireland's Data Protection Commission has slapped META with a US\$1.2bn fine, in violation of General Data Protection Regulation (GDPR)
- META also has been ordered to discontinue transfer of personal data from EU to the US, within six months; META expects a new agreement between the US and EU to allow the transfer.
- META will appeal the decision since it sets a dangerous precedent for other companies that transfer data between EU and the US

EU slaps META with a record fine of US\$1.3bn for non-compliance with the EU's privacy rulebook. META continued to transfer data after a 2020 EU court decision that invalidated an EU-US data transfer agreement, forcing the fine from Ireland's Data Protection Commissioner (DPC). Shares of META were down 0.6% in premarket trading on Monday (22nd May 2023). The US\$1.3bn fine could dilute META's market cap by 0.2% (current market cap at US\$632bn) if it materialises. This fine had surpassed the prior record EU privacy penalties of US\$804m imposed on AMZN by Luxembourg in 2021. Additionally, META is given five months to "suspend any future transfer of personal data to the US" and six months to end "the unlawful processing, including storage, in the US" of the personal EU data that had been sent. The use of standard contractual clauses (SCCs) to transfer data from the European Union to the US is at the crux of this decision.

**META confirmed that it would appeal the decision, deeming it as unfair and will seek court proceedings.** META reaffirmed its expectation that a new agreement permitting the secure transfer of personal data of EU individuals to the US would be fully implemented before it had to suspend or stop transfers. That would mean that it would not have to act on its earlier warning that a stoppage might force it to cease Facebook services in Europe. For META's massive ad-targeting business, which depends on processing several streams of personal data from its consumers, data transfer to the US is essential. In 2022, META warned that if it couldn't transfer data back to the US, it might have to shut down Facebook and Instagram in the EU.

CLOVERS FACTORS

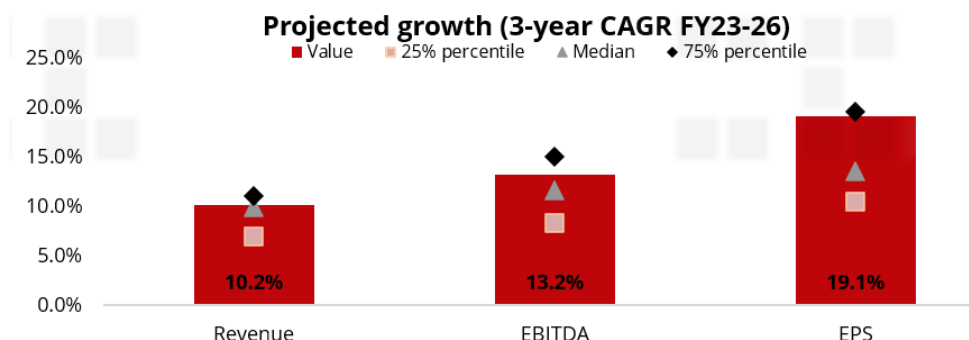
### Cash Flow Trajectory

The cash flow trajectory factor look at a company's inherent ability to generate free cash flow. Apart from looking at a company's track record in growing its revenue, earnings and free cash flows, the factor also takes into account the company's profitability and growth prospects.

03 May 2023

META's cash flow trajectory score is above par, where forecasted EPS growth is 19% during FY23F-26F compared to sector average of 14%, which places META in the top 30th percentile, while its forecasted EBITDA growth is 13% above peer average of 12%. Furthermore, META's free cash flow to sales ratio (FY24F) is at 21% compared to peer median of 26% which had a negative impact to the overall scores.

Cash Flow Trajectory



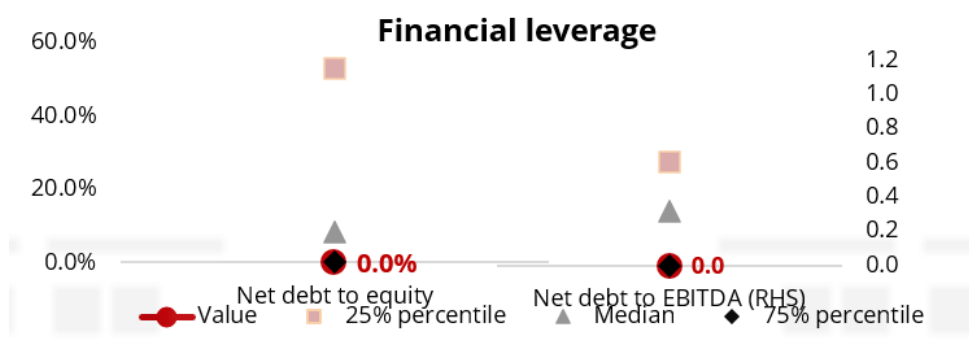
### Leverage

Leverage primarily assesses the company's level of indebtedness, including its short-term liquidity positions.

03 May 2023

META's leverage score is above peer's average. Credit metrics wise, META has a net cash position of more than US\$27.5bn as at 1Q23. Furthermore, strong short term liquidity metrics are well above peers at 3.4x compared to the peer median of 1.3x.

Leverage



### Operating Risk Profile

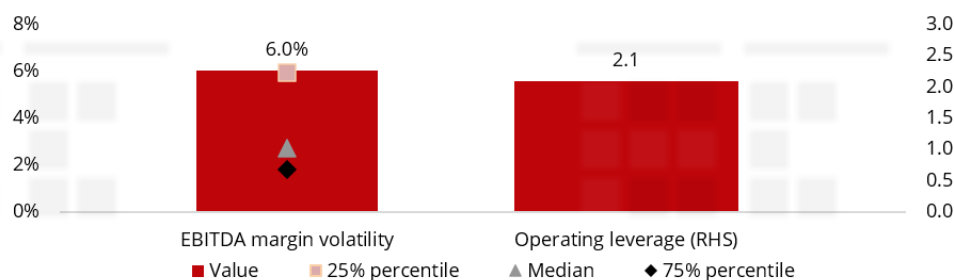
The operating risk profile segment evaluates the degree of operating leverage present in a company's business model, and the historical volatility of a company's operating margins.

03 May 2023

META's operating risk profile score is marginally below peer average. Margin volatility of 6.0% is relatively high compared to the peer average of 2.7%. META been able to execute consistent revenue and EBITDA growth in the past. Furthermore, degree of operating leverage at 2.1x is above peer average of 1.9x

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### Operating risk profile



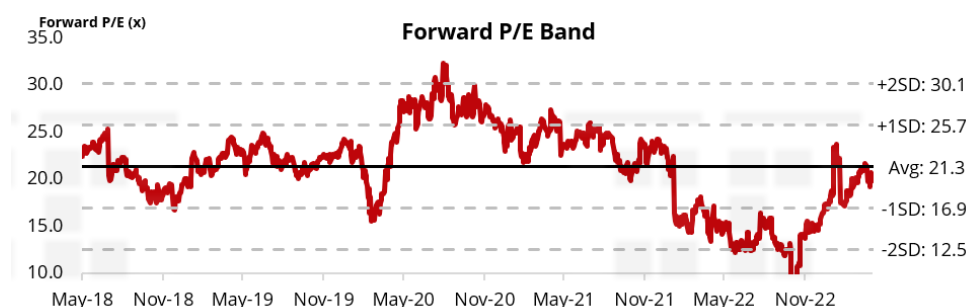
### Valuation

The valuation factor takes into account several metrics to determine if a company is under or over valued, by taking into account its justified valuation relative to its fundamentals and the company's current valuation relative to its historical band.

03 May 2023

On the valuation front, META's score is above peer average. The company is currently trading at 12m forward PE of 19.7x which is at a 15% discount to peer median of 23.3x. Furthermore, META is currently trading at 12m forward EV/EBITDA of 8.9x, while peer median is 13.6x. Hence, at current prices, trading multiples are more than -0.1sd. The stock is trading marginally above its -1sd of 17x in terms of P/E.

### Valuation



### ESG

The ESG factor looks into a company's performance across various ESG barometers, as ESG is becoming increasingly pertinent in today's world given the shift towards ESG investing.

03 May 2023

On the ESG front, META's score is below par. The average ESG score for the peer group is around 2.8, whereas META is at 2.4 according to Refinitiv ESG scoring methodology. META hasn't scored well in all the ESG pillars as per Refinitiv ratings system.

### ESG

Refinitiv ESG Scores	31 Dec 2020	31 Dec 2021	31 Dec 2022
Environment	48.6	49.8	49.3
Social	59.1	59.6	66.9
Governance	41.0	69.1	72.9
<b>Combined</b>	<b>49.3</b>	<b>62.6</b>	<b>67.2</b>
Controversies Score	3.0	0.5	0.4
<b>Combined</b>	<b>26.1</b>	<b>31.6</b>	<b>33.8</b>

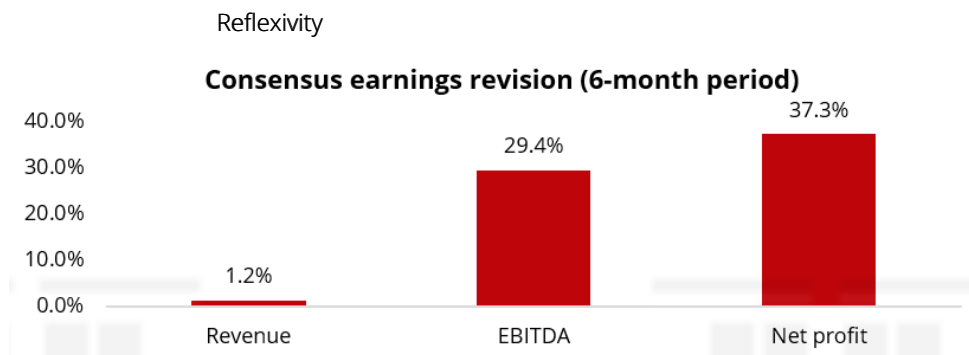
### Reflexivity

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Reflexivity takes into account live and higher frequency data points that reflects the sentiment of the market and the street on a company. In this factor, we consider technical indicators, changes in short interests and revisions to analysts estimates.

03 May 2023

On the reflexivity front, META's scores are below average. Especially the share price volatility of 58% is above the peer median of 31% while the analyst's projection are revised upwards compared to peer median which are revised downwards. Furthermore, RSI was at 82 while peer average is at 58.

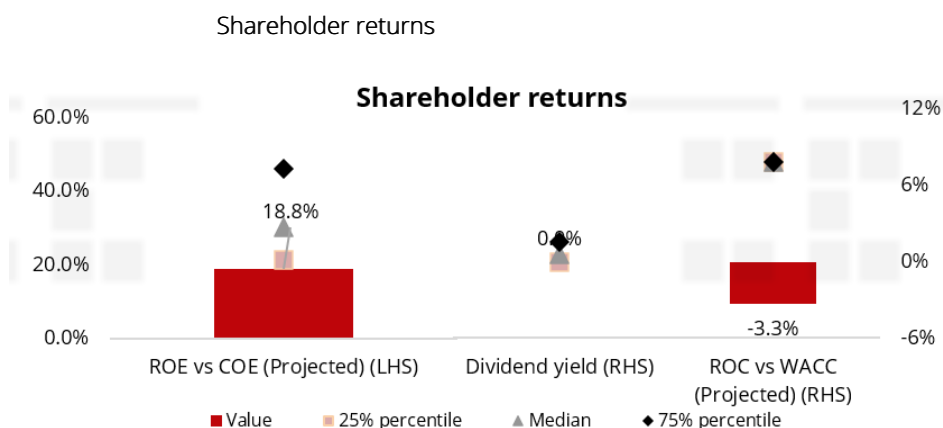


### Shareholder Returns

Shareholder returns measures a company's ability to create value for shareholders by evaluating the company's track record in generating returns in excess of its cost of capital returning capital to shareholders via both dividends and share repurchases.

03 May 2023

META scores are marginally above average in terms of shareholder returns. ROE vs COE, while staying healthy, is projected to marginally improve from historical levels, while dividend yields are zero as the company does not pay out dividends.

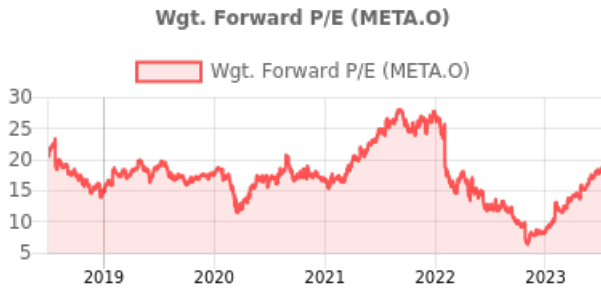


### PROFILE

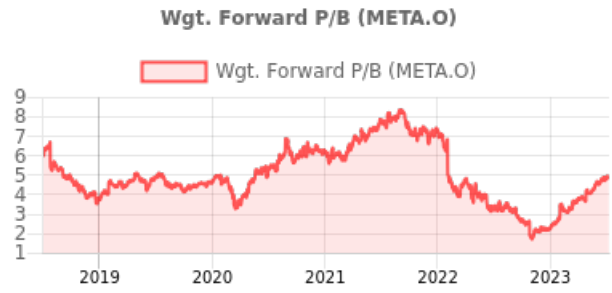
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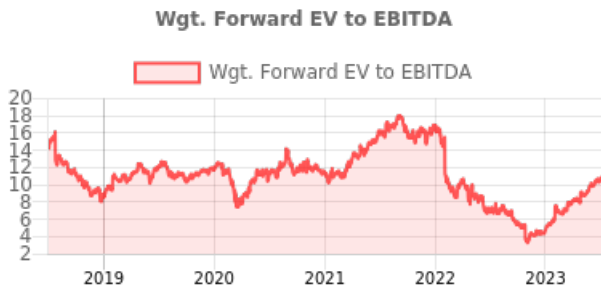
Wgt. Forward P/E (META.O)



Wgt. Forward P/B (META.O)



Wgt. Forward EV to EBITDA



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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)  
**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)  
**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)  
**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Target Price & Ratings History



Analysts: Sachin Mittal

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**DBS Regional Research Offices**

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**HONG KONG****DBS (Hong Kong) Ltd**

Contact: Dennis Che Jung LAM  
13th Floor One Island East,  
18 Westlands Road,  
Quarry Bay, Hong Kong  
Tel: 852 3668 4181  
Fax: 852 2521 1812  
e-mail: dbsvhk@dbs.com

**THAILAND****DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9th, 14th-15th Floor  
Rama 1 Road, Pathumwan,  
Bangkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
Securities and Exchange Commission,  
Thailand

**SINGAPORE****DBS Bank Ltd**

Contact: Paul Pau Lee YONG  
12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: 65 6878 8888  
e-mail: groupresearch@dbs.com  
Company Regn. No. 196800306E

**INDONESIA****PT DBS Vickers Sekuritas  
(Indonesia)**

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel: 62 21 3003 4900  
Fax: 6221 3003 4943  
e-mail: indonesiaresearch@dbs.com