



Facebook

Interactive Media and Services

NASDAQ: FB

Market Outperform | Buy



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Recommendation:

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Valuation

Current share price	\$311.54
Target price old	\$435.00
Target price new	\$450.00
Holding period return	17%
Discount Rate	8.70%
TV/EBITDA	18.5 x
Conviction	Buy

Facebook reported strong 2Q revenues with 51% FXN ad revenue growth driven by broad-based strength across advertiser types and verticals (ecommerce, retail, and CPG as well as recovery in COVID-affected verticals like travel and media). FB expects modestly decelerating growth on a two-year basis in 2H as comps intensify and greater 2H privacy impact (e.g. IDFA), though the company noted that the macro backdrop remains strong. We believe that the strength in the broader digital advertising industry is likely to persist driven by continued digital transformation, and that Facebook is a key beneficiary. As such, our 2021/2022 revenue estimates increase by 3.5%/4.6%. **We are maintaining our buy stance based on:**

1. Continuing to expect solid long-term revenue growth
2. Monetization of newer platforms is present with FB
3. The valuation remains attractive at ~20x GAAP EPS vs 15-20% LT EPS growth

Market profile

52 week range	\$ 168.34	\$ 315.88
Market cap (\$mm)	\$885,295	
Net debt (\$mm)	-\$62,195	
Enterprise Value (\$mm)	\$1,331,608	
Beta (5 year)	1.29	

2Q21 Positives stances:

1. Broad based ad strenght: revenues accelerated to +51% YoY. Global growth shows continued strength: US & Canada (+48% YoY); Europe (+63% YoY); APAC (+56%- the most exciting); and ROW (+86% YoY).

Metrics	2021 P	2022 P	2023 P
Revenue	\$103,008	\$122,580	\$143,418
EBITDA	\$48,789	\$60,119	\$69,895
EPS	\$14.09	\$14.37	\$16.82
P/E	27.7 x	29.7 x	31.7 x
EV/EBITDA	16.7 x	18.6 x	20.5 x

2. Pricing trends are in favour of FB: pricing trends were up notably over the quarter, ad pricing increased by +47% YoY. This increase was driven by lapping depressed pricing from the onset of the pandemic and more video inventory.

3. EBITDA upside: Adj. EBITDA was up 9%/18% YoY, which beat our estimate. This was driven by strong revenue upside.

2Q21 Neutral stances:

1. Mix engagement metrics: Family DAUs of 2.76 bln, increased by 12% YoY (vs. 15% in 1Q21). Core FB DAUs were flat for the quarter and declined by .5% QoQ in Europe with accelerated growth in APAC of +13% YoY.

2. Slower impression growth: ad impressions slowed to 6% YoY vs 12% in 1Q21. This was in part due to tougher comps, and a mix shift to video ads - which FB is learning to better monetize. However, FB remains positive on impression growth from new services such as IG Explore, IG Reels, and Marketplace.

Guidance/Valuation:

Management guidance: FB expects comp-driven decelerations in 3Q21 & 4Q21 with two-year growth rates decelerating modestly during the 2nd half of the year vs 2Q21. Continues to expect targeting and measurement headwinds in 2021 due to platform changes (most notably Apple IOS 14.5+) and within the regulatory landscape.

Valuation: Our target price is up from \$435 to \$450 reflecting a 25x 2022E EPS implying a PEG of 1.5x (inline with the industry).