



January 27, 2015

BUY

Facebook, Inc. (FB)

FB US
Current Price: \$77.8
 (26/01/15)

Target Price: \$89.3

FB to Ride on Higher Ad Prices in 4Q14

Rapid rise in mobile monetization fueled by 150% rise in ad prices during 9M14, confirms leadership position of Facebook in the social networking space. The company has ample opportunity to propel growth as it hasn't even begun scratching the surface of its potential on platforms including WhatsApp, Instagram, Messenger, Search, QuickFire, etc. The revenue is expected to grow at 46% y/y in 4Q14e, in-line with the management estimates. We have a "BUY" rating on the stock given robust increase in ad prices and the growing mobile advertising business and expect the company to maintain a target price of \$89/share, based on 38x our 2015 estimate.

KEY TAKEAWAYS

Higher Ad Revenue to Fuel Growth Rate

FB recorded 64.5% y/y growth in 3Q14 driving ad revenue to total revenue to 92.3% in 3Q14 (3Q13: 89.2%). Increase in ad primarily in the non-News-Feed ads where the number of ads displayed declined, is delivering strong results. The company is likely to remain robust fuelled by focused advertising. Investments for marketing, launch of newer ad products, and the growth enhancements on the mobile platform will continue to drive the momentum to slowdown on y/y basis.

Gearing to Monetize Non-Core Platforms

FB acquisitions of mobile-messaging app, popular photo-sharing app maker, Instagram, and video sharing app maker, QuickFire is expected to equip the Company to expand beyond the traditional messaging services. With over 1 billion monthly active users, WhatsApp and Instagram users work together to provide a huge user database offers enormous potential to drive the company's business in near future. The recent launch of Oculus VR provides further upside. Also, if virtual reality, entertainment, gaming, communications or computing space become the center of the new platform with its recently acquired device maker, Oculus.

Top-Line Growth Momentum Intact

We expect the Company to close FY14 with ~57% top-line growth and its operating margins to expand by ~620 bps. Increasing mobile ad revenues, growing popularity of its video platform and steady growth in its daily and monthly active users in 4Q14 is set to drive the full year performance.

MARKET DATA

Price (Current)	\$77.80
Diluted EPS	2.02
Market Cap	\$207.1B
52-Week Range	\$61.25 - \$79.30
Dividend Yield	0.5%
Volume	10.2M
Market	NASDAQ
Exchange	FB.O
Market	FB.O

Metric	2012	2013	2014e	2015e
Sales	5,089	7,872	12,389	17,023
% Growth	37.1%	51.7%	57.4%	37.4%
Adj. EBITDA	2,910	4,814	8,282	11,533
% Margin	57.2%	61.2%	66.8%	67.7%
Adj. PAT	1,310	2,202	4,355	6,155
% Margin	25.9%	28.0%	35.2%	36.2%

MANAGEMENT

Chairman & CEO	Mark E Zuckerberg
CFO	David M Wehner
COO	Sheryl Sandberg

SHAREHOLDINGS

Top 10 Institutions	(%)
Fidelity Management & Research Co.	6.2
The Vanguard Group, Inc.	4.7
SSGA Funds Management, Inc.	3.5
BlackRock Fund Advisors	3.4
T. Rowe Price Associates, Inc.	2.2
Jennison Associates LLC	1.4
Sands Capital Management LLC	1.3
JPMorgan Invst Mgmt Inc	1.1
Northern Trust Investments Inc.	1.1
Invesco PowerShares Mgmt LLC	0.9
TOTAL	25.9

Source: markets.ft.com



Q4FY14e Earnings Expectations:

PARTICULARS (\$ in M)	1Q14	2Q14	3Q14	4Q14e	FY13	FY14e
Total Revenue	2,502.0	2,910.0	3,203.0	3,774.3	7,872.0	12,389.0
Y-o-Y growth %	71.6%	60.5%	58.9%	46.0%	34.7%	57.4%
Gross Profit	2,040.0	2,437.0	2,638.0	3,097.0	5,997.0	10,123.9
Margin %	81.5%	83.7%	82.4%	82.1%	76.2%	81.7%
EBITDA	1,339.0	1,647.0	1,685.0	2,781.0	3,815.0	8,281.6
Margin %	53.5%	56.6%	52.6%	73.7%	48.5%	66.8%
EBIT	1,075.0	1,390.0	1,307.0	1,950.4	2,804.0	6,752.4
Margin %	43.0%	47.8%	43.6%	51.7%	35.6%	54.5%
Earnings From Cont. Ops.	642.0	791.0	806.0	1,500.0	1,500.0	4,354.8
Margin %	25.7%	27.2%	25.2%	39.7%	19.1%	35.2%
Diluted EPS Excl. Extra Items	0.3	0.3	0.5	0.5	0.6	1.7
Y-o-Y growth %	17.8%	39.4%	44.3%	15.0%	200.0%	91.0%

Source: Company Report and JFS Securities Research



Source: JFS Securities Research

VALUATIONS

Our fair value estimate on 380x our non-GAAP FY15 EPS estimate. Our P/E ratio is in the range of the 30x to 46x forward earnings multiple range and the company's 5-year 12-month forward P/E average. Risk in attainment of our price includes slowdown in ad revenue growth and users base, launch of competitive networking website and apps and failure to successfully monetize the recent acquisitions.

COMPANY DESCRIPTION

Facebook, Inc., the social media giant was incorporated in July 29, 2004. The company provides Facebook's websites and mobile applications enabling customers to stay connected with their friends and family. FB's business focuses on creating value for users, marketers, and developers. FB's products are Facebook, Messenger, and Instagram. Facebook, mobile app and Website enable people to connect, share, discover, and communicate with each other on mobile devices and personal computers. Messenger, a mobile-to-mobile messaging application is available on iPhone Operating System (iOS) and Android phones. Instagram, mobile app and Website that enable people to take photos or videos, customize them with filter effects, and share them with friends and followers.

BULLS

- FB holds a strong market position with over one billion users worldwide. About 82% of which are located outside the US.
- WhatsApp has reduced number of servers and data centers to reduce costs.
- FB is embracing an Video Ads and Instagram besides it has introduced a new org that gives free internet services to a set of basic internet services health, education, employment and communication.

- FB has maintained its leverage ratio at comfortable levels despite continuous investments in growth areas.

BEARS

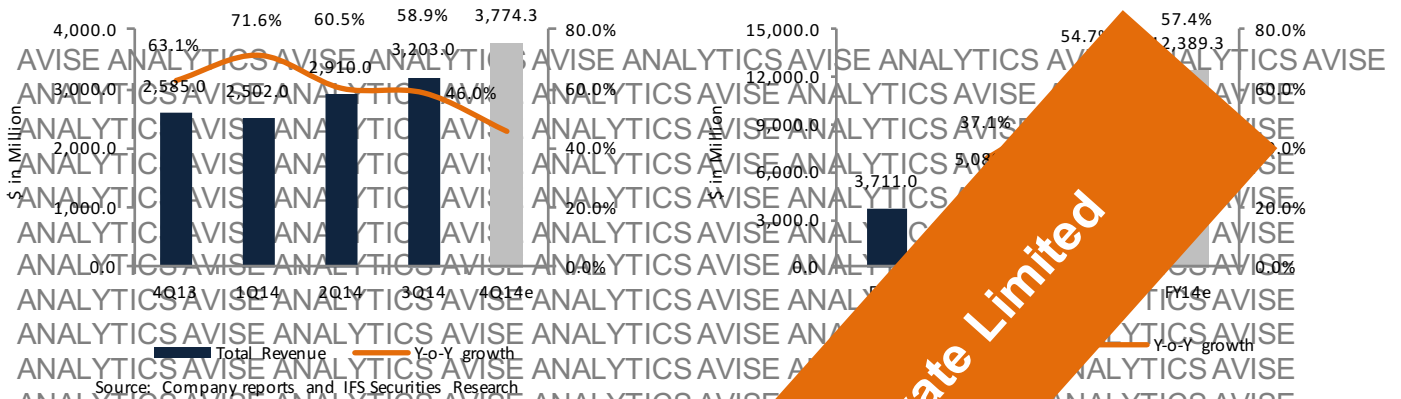
- Concentrated business model. About 90% of FB's revenues come from the advertisement business.
- About 10% of FB's revenues come from Payments and other fees revenue which comes from payments revenue from games played on personal computers. Payment revenues are expected to fall with declining usage of personal computers.
- Despite cost saving efforts FB is expected to report a 30%-35% increase in operational expenses related to its data centers and technical infrastructure.

Sample Report by Avisé Analytics Private Limited

Financial Performance

Revenue by Quarters: 4Q13 - 4Q14e

Revenue : FY11 - FY14e



For 4Q14 and FY14, we expect FB to report net revenues of \$3,774.3 mn and \$23,389.3 mn, implying y/y growth of 46.0% and 57.4% respectively.

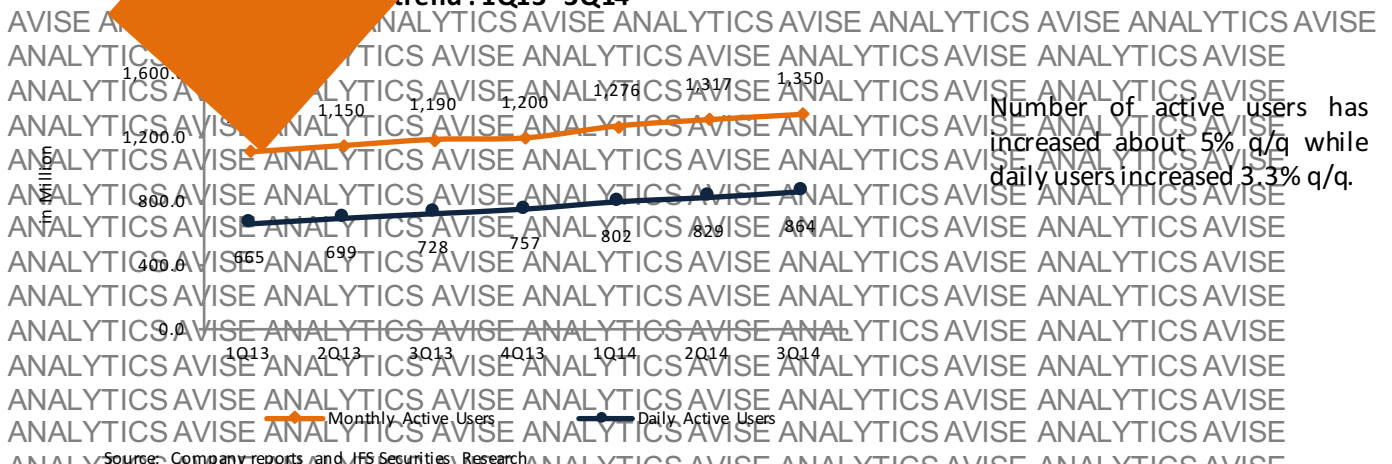
Profitability Margins By Quarters: 4Q13 - 4Q14e

Profitability Margins : FY11 - FY14e



Higher revenues and higher average monetization prices likely to improve profitability margins in 4Q14 and FY14.

User Trend : 1Q13 - 3Q14



Number of active users has increased about 5% q/q while daily users increased 3.3% q/q.

Sample Report by Avise Analytics Private Limited

Global Peer Comparison

PARTICULARS	Rank	Facebook, Inc.	Google Inc.	Baidu inc (ADR)	Twitter, Inc.	Microsoft Corporation
Currency		USD	USD	USD	USD	USD
Reuters Ticker Symbol		FB.O	GOOGL.O	BIDU.O	TWTR	MSFT.O
Share Price (01/23/2015)		72.8	542.0	233.3	15.5	47.2
% Shareholdings by Top 10 Institutional Shareholders	3	25.9%	30.6%	39.9%	25.9%	25.9%
KEY INFORMATION						
Revenue (B in USD) (TTM)	3	11.2	64.8	19.1	1.5	91.5
Net Income (B in USD) (TTM)	3	2.8	15.5	3.7	0.7	21.4
Market Cap (B in USD)	3	217.0	367.0	442.0	23.3	388.9
VALUATION RATIOS (%)						
Price/Earnings (TTM)	4	73.9	27.5	19.1	71.1	18.5
Price/Book Value (MRQ)	4	9.6	3.7	3.7	7.1	4.3
Price/Cash Flow (TTM)	4	56.4	20.0	19.1	71.1	14.4
Price/Sales (TTM)	4	19.4	2.7	2.7	21.4	4.3
Beta	4	1.0	1.0	1.0	1.0	1.0
EFFICIENCY (%)						
Asset Turnover (TTM)	2	0.6	0.6	0.6	0.4	0.6
Inventory Turnover (TTM)	3	--	--	--	--	10.5
Receivables Turnover (TTM)	3	--	--	--	--	10.5
MGMT EFFECTIVENESS (%)						
Return on Assets (TTM)	2	15.5%	15.5%	15.5%	(-29.9%)	13.7%
RoA - 5 Yr Avg	4	26.2%	26.2%	26.2%	(-53.1%)	17.6%
Return on Investment (TTM)	3	19.1%	19.1%	19.1%	(-53.1%)	18.4%
RoI - 5 Yr Avg	4	34.4%	34.4%	34.4%	(-57.6%)	24.9%
Return on Equity (TTM)	3	17.7%	17.7%	17.7%	(-57.6%)	24.9%
RoE - 5 Yr Avg	4	43.3%	43.3%	43.3%	(-57.6%)	32.8%
PROFITABILITY (%)						
Gross Margin (TTM)		59.5%	59.5%	61.6%	63.8%	67.1%
Gross Margin - 5 Yr Avg		60.8%	60.8%	68.5%	68.5%	75.0%
EBITDA Margin (TTM)		32.0%	32.0%	32.4%	32.4%	37.4%
EBITDA - 5 Yr Avg		44.2%	44.2%	50.8%	50.8%	40.7%
Operating Margin (TTM)		32.9%	32.9%	28.3%	(-81.5%)	29.7%
Operating Margin - 5 Yr Avg		32.9%	32.9%	28.4%	43.6%	34.3%
Net Profit Margin (TTM)		24.7%	24.7%	27.0%	(-82.6%)	23.4%
Net Profit Margin - 5 Yr Avg		17.4%	17.4%	23.8%	39.9%	27.7%
FINANCIAL STRENGTH						
Quick Ratio (MRQ)	3	4.5	4.5	4.5	4.5	4.5
LT Debt to Equity	1	0.6	3.3	44.4	40.2	20.5
Total Debt to Equity	1	1.3	5.3	49.8	43.3	26.3
Interest Coverage	1	36.0	--	--	-25.4	--
GROWTH RATE (%)						
Revenue (TTM) vs 5 Yr Avg	2	63.0%	19.4%	54.8%	118.3%	13.9%
Revenue (5 Yr growth rate)	1	96.0%	22.4%	58.5%	--	8.2%
CAPEX (5 Yr growth rate)	4	--	25.6%	50.5%	--	12.0%
DIVIDENDS (%)						
Dividend Yield	2	--	--	--	--	2.7%
Payout Ratio (TTM)	2	0.0%	0.0%	0.0%	--	44.4%
RANK	3					



Income Statement

PARTICULARS (\$ '000)	FY11	FY12	FY13	FY14e	FY15e
NET REVENUE					
Revenue	3,711.0	5,085.0	7,872.0	12,389.3	17,022.5
TOTAL REVENUES	3,711.0	5,085.0	7,872.0	12,389.3	17,022.5
<i>y/y growth</i>	371%	547%			234.5%
COST OF REVENUE					
Revenue	851.0	1,276.0	1,831.0	2,942.3	2,942.3
COST OF REVENUE	851.0	1,276.0	1,831.0	2,942.3	2,942.3
Adj. Gross Profit	2,860.0	3,815.0			14,080.2
Reported Gross Profit	2,851.0	3,725.0			7,114.0
Operating Expenses					
General and administrative Expenses	257.0	55.0		843.5	1,073.8
Research & Development Expenses, Net	274.0			1,315.0	1,780.2
Marketing & Sales Expenses	356.0			1,398.1	1,894.6
Total Operating expenses	887.0			3,371.5	4,563.6
Adj. EBIT	1,973.0		3.0	6,752.4	9,516.5
D&A	32.0		1,011.0	1,529.2	2,016.0
Adj. EBITDA	2,005.0		4,814.0	8,281.6	11,532.5
<i>As a % of Sales</i>			61.2%	66.8%	67.7%
<i>y/y growth</i>			65.4%	260.7%	296.3%
Reported EBITDA	1,996.0		2,804.0	3,861.0	3,861.0
Interest Expenses	31.0		56.0	65.0	65.0
Other Income/(Loss)	7.0		6.0	12.4	17.0
Adj. PBT	2,217.0		3,753.0	6,699.8	9,468.5
Income Tax Exp (benefit)	900.0		1,551.0	2,344.9	3,314.0
Adj. Net Profit from Cont Op	1,317.0		2,202.0	4,354.8	6,154.6
Less: Net income attributable to participants	332.0	21.0	9.0	14.0	16.0
Adj. Net Income	885.0	1,296.0	2,193.0	4,340.8	6,138.6
<i>As a % of Sales</i>			29.5%	27.9%	36.1%
<i>y/y growth</i>			46.4%	69.2%	373.7%
Reported Net Income	668.0	32.0	1,491.0	2,229.0	2,229.0





Balance Sheet

PARTICULARS (\$ in M)	FY11	FY12	FY13	FY14e
Assets				
Current Assets:				
Cash & Cash Equivalents	1,512.0	2,384.0	3,123.0	8,999.0
Marketable securities	2,896.0	7,242.0	5,251.0	5,251.0
Accounts Receivable, Net of Provisions	537.0	719.0	1,363.0	1,363.0
Prepaid expenses and other current assets	139.0	473.0	502.0	502.0
Income tax refundable	0.0	451.0	0.0	0.0
Total Current Assets	4,694.0	11,119.0	10,249.0	16,115.0
Total Current Assets (EXCL CASH)	3,092.0	8,735.0	7,126.0	7,126.0
Non-Current Assets:				
Property, Equipment & Software, Net	1,475.0	1,412.0	3,703.0	3,703.0
Goodwill and intangible assets, net	80.0	883.0	1,317.0	1,317.0
Goodwill	82.0	839.0	2,612.0	2,612.0
Other Assets, Net of Accumulated Amortization	0.0	221.0	441.0	441.0
Total Non-Current Assets	1,555.0	2,515.0	4,825.0	8,073.0
Total Assets	6,249.0	13,634.0	15,074.0	24,188.0
Liabilities & Shareholders' (Deficit)/Equity				
Current Liabilities:				
Accounts Payables	0.0	65.0	87.0	120.0
Developer partners payable	0.0	169.0	181.0	208.0
Accrued expenses and other current liabilities	0.0	423.0	555.0	709.0
Current portion of capital lease obligations	0.0	365.0	239.0	149.0
Deferred revenue and deposits	0.0	30.0	38.0	48.0
Total Current Liabilities	0.0	1,052.0	1,100.0	1,234.0
Non-Current Liabilities:				
Long-Term Debt	0.0	1,500.0	0.0	0.0
Capital lease obligations, less current portion	398.0	491.0	237.0	129.0
Other Long-Term Liabilities	135.0	305.0	1,088.0	1,587.0
Total Non-Current Liabilities	533.0	2,296.0	1,325.0	1,716.0
Total Liabilities	533.0	3,348.0	2,425.0	2,950.0
Shareholders' Equity:				
Convertible preferred stock	615.0	0.0	0.0	0.0
Common Stock (par \$0.01)	0.0	0.0	0.0	0.0
Treasury Stock	0.0	0.0	0.0	0.0
Additional Paid-in Capital	2,684.0	10,094.0	12,297.0	15,949.0
Reserve	0.0	0.0	0.0	0.0
Retained/(Deficit)	1,606.0	1,659.0	3,159.0	5,398.0
Accumulated other comprehensive income	(6.0)	2.0	14.0	(109.0)
Total Shareholders' Equity	4,899.0	11,755.0	15,470.0	21,238.0
Non Controlling Interests	0.0	0.0	0.0	0.0
Total Liabilities & Shareholders' (Deficit)/Equity	6,331.0	15,103.0	17,895.0	24,188.0

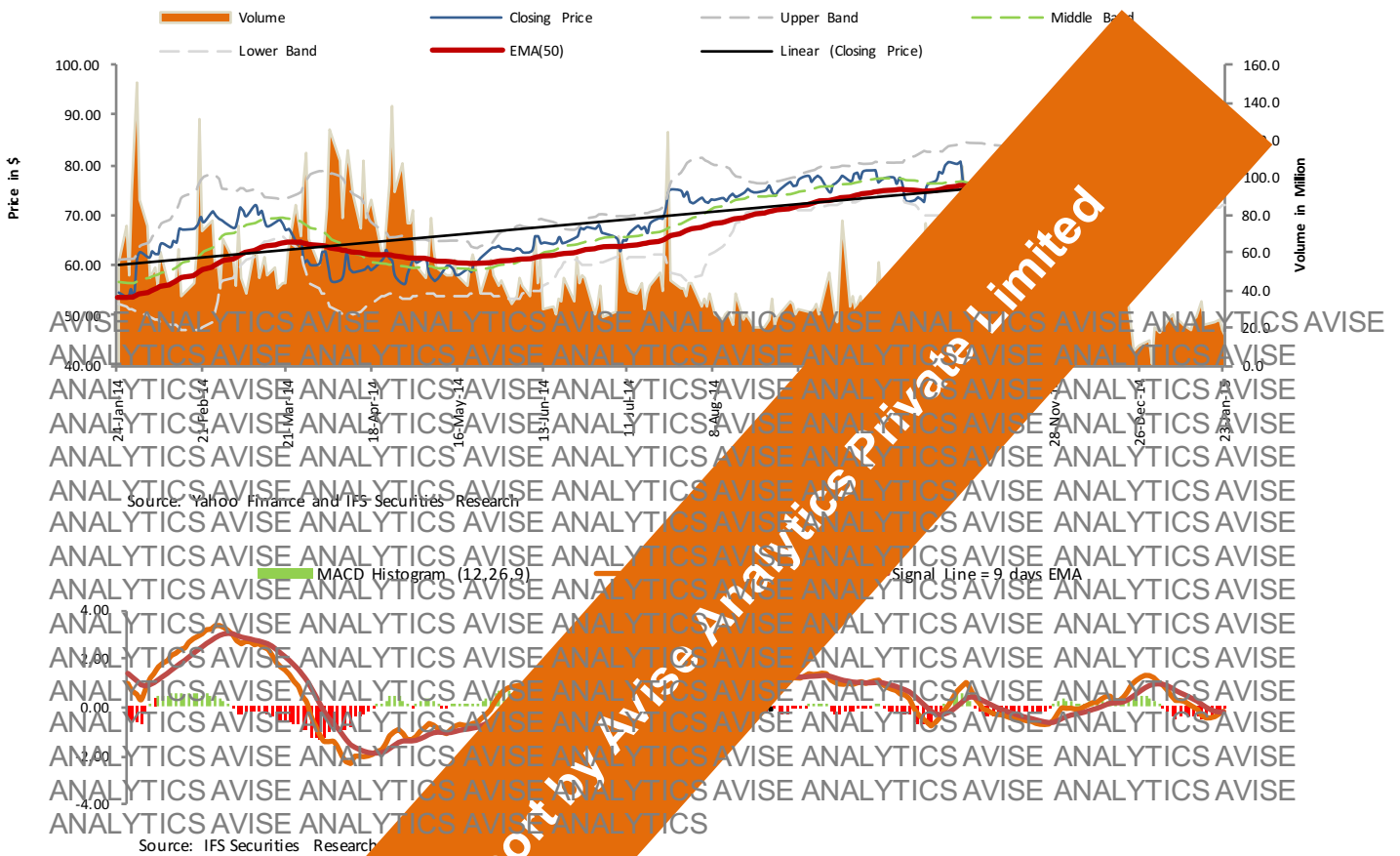
Sample Report by Avis Analytics Private Limited

Ratios

PARTICULARS	FY11	FY12	FY13	FY14e
Diluted Earnings Per Share (\$)	0.81	0.53	0.87	1.22
Book Value Per Share (\$)	3.26	4.74	6.15	8.12
Dividend Per Share (\$)	0.00	0.00	0.00	0.00
Payout (%)	0.00%	0.00%	0.00%	0.00%
LIQUIDITY RATIOS				
Debt/Equity Ratio (x)	0.00	0.13	0.00	0.00
Current Ratio (x)	5.12	10.71	13.06	13.06
TURNOVER RATIOS				
Debtors Turnover Ratio (x)	6.78	18.61	15.54	15.54
Debtors Day	54	23	23	23
Net Fixed Assets Turnover Ratio (x)	2.52	2.62	2.62	2.62
PROFITABILITY RATIOS				
Adj. EBIT Margin	53.17%	61.15%	61.15%	57.89%
Adj. EBITDA Margin	61.87%	61.15%	61.15%	65.65%
Return on Capital Employed	36.32%	24.66%	24.66%	25.09%
Return on Networth [RONW]	24.84%	16.18%	16.18%	17.40%
VALUATION RATIOS				
P/E (x)	0.00	62.47	62.47	0.00
P/BV (x)	0.00	8.89	8.89	0.00
EV/Sales (x)	17.99	17.05	17.05	10.04
EV/Adj. EBITDA (x)	22.87	27.88	27.88	1.59
Dividend Yield	-	-	-	-
CAPEX / D&A	1.99	1.35	1.35	1.96
CAPEX / Sales	24.27%	17.30%	17.30%	15.25%
No. of Shares Outstanding =	2,479.00	2,517.00	2,517.00	2,616.00
Year-end Adj. Closing Share Price (in \$) =	26.62	54.65	54.65	77.83
Add: Debt =	1,500.00	0.00	0.00	0.00
Minority Interest (in \$) =	0.00	0.00	0.00	0.00
Preferred Shares =	0.00	0.00	0.00	0.00
Less: Cash & Cash Equivalents (in \$)	2,384.00	3,323.00	3,323.00	8,999.00
Enterprise Value (\$ in M) =	65,106.98	134,231.05	134,231.05	(8,999.00)
DU-Point ANALYSIS				
PAT/PBT	63.65%	59.40%	58.67%	64.89%
PBT/EBIT	96.91%	98.05%	98.69%	98.70%
EBIT/Revenue	53.17%	44.43%	48.31%	57.89%
Revenue/Total Assets	0.59	0.34	0.44	0.36
Total Assets	1.29	1.28	1.16	1.14
Return on Equity	24.84%	11.20%	14.23%	15.04%

Technical Analysis

Closing Price - \$77.8 (23 Jan 2015)



MOVING AVERAGES

EMA(20)	77.04	EMA(50)	75.86	EMA(100)	75.53	Summary	BUY
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MOMENTUM

RSI(7)	61.17	William %R(7)	75.74	MACD(12,26,9)	40.17	Summary	NEUTRAL
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VOLOCITY

ATR(14)	0.02	Summary	Less Volatile	VOLUME ANALYSIS	Current	16,322,600
				7-days Average		23,525,871
				14-days Average		23,556,171

SHORT TERM (7-DAYS) PIVOT TABLE

Classic	51	52	Pivot Point	76.52	R1	79.50	R2	81.17
Fibonacci Levels	73.85	74.85		76.52		78.50		79.59