

Facebook, Inc

Global & US Conviction Lists Member

| | |
|---------------------|--|
| Isin / FactSet Code | US30303M1027 / FB-US |
| Sector | Information Technology |
| Industry | Internet Software & Services |
| Benchmark | MSCI AC World / Information Technology -SEC |

| | |
|--------------------------------|----------------|
| Market cap (in EUR mn) | 445 126 |
| Market cap (in local curr. mn) | 519 618 |
| Local currency | USD |
| Free-float | 99% |

| | |
|------------------|---------------|
| 52-week high | 182.90 |
| 52-week low | 113.55 |
| YTD return% | 55.51 |
| 12-month return% | 40.69 |

| | |
|-----------------------|---------------|
| Rating | BUY |
| 12-month target price | 205.00 |
| Last price (02/11/17) | 178.92 |
| Potential upside | 15% |

Investment Case:

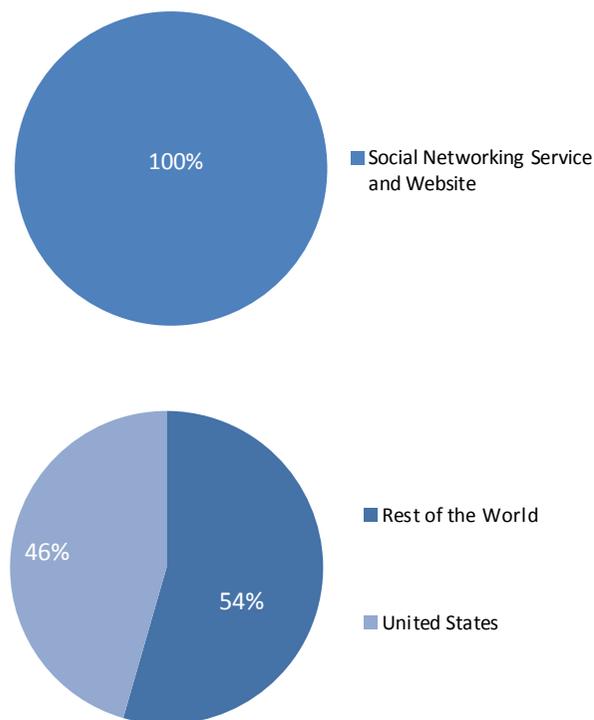
- Facebook is one of the biggest beneficiaries of the shift towards internet advertising. The company's platform enables advertisers to target specific audiences, assess the impact of their ad campaign in real time and generate higher return on investment, as compared to traditional advertising.
- Facebook has successfully capitalised the shift to mobile usage, with mobile ad revenues accounting for 88% of its advertising revenues. We believe that this would be its future revenue growth driver. In addition, the growing use of video streaming is increasing user traction and generating better returns for the advertisers.
- In our view, Facebook's investment in mobile and other applications such as Instagram is now yielding returns. We believe this would enhance platform monetisation and boost revenue growth in the long run.
- Our increased target price of USD 205.00 (from USD 197.00) values the stock at 31x its FY18E earnings.

Company Description:

Facebook is the world's leading social media platform with more than 2 bn monthly active users. Apart from socialising and sharing information, Facebook is used for playing games, publicising events and conducting surveys. The company offers advertisers an opportunity to reach users based on their preferences.

Revenue by Key Segments & Geographies: FY16

(FY ending December)



Sources: Company reports, SGPB, FactSet

Recent Developments Analysis:

- Facebook's 3Q17 revenues grew 47.3% YoY to USD 10.3 bn vs. consensus of USD 9.8 bn. Advertising revenues grew 48.8% to USD 10.1 bn. Mobile advertising revenues rose 57% and accounted for 88% of advertising revenues vs. 84% in 3Q16.
- GAAP operating income rose 64.4% to USD 5.1 bn, while operating margin rose 510 bps to 49.6%, 240 bps ahead of consensus. EPS of USD 1.59 was up 76.7% and 24.2% ahead of consensus.
- Total advertising impressions (volumes) increased 10% and average pricing increased 35%.
- Facebook guided for FY18E expenses to increase 45-60% YoY as the company increases its investment in 1) security 2) video and 3) new initiatives like virtual reality.
- We are not particularly worried about the guidance as Facebook has historically guided cautiously on revenue growth and aggressively on expenses growth, but has been able to perform better on both fronts. Historically the company has always lowered its expense guidance as the year progresses. In addition the user engagement remains healthy with 16% increase in daily active users, which supports our positive stance on the stock.

Four-year Performance vs. Benchmark (rebased to 100)



Sources: SGPB, FactSet

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Facebook, Inc

Global & US Conviction Lists Member

| DESCRIPTION | | | VALUATION | | | | | GROWTH | | | | PROFITABILITY | | | BALANCE SHEET | | |
|-----------------|---------------------------------|-----------|---------------|-------------|-------------|-------------|------------|--------------|-------------|-------------|-------------|---------------|-------------|-------------|-----------------|--------------|-----------------|
| FactSet Code | Company | Cap (mn€) | EV/EBITDA (e) | | P/E (e) | | Div. Yield | Sales Growth | | EPS Growth | | EBITDA Margin | Net Margin | ROE | Net Debt/EBITDA | | Net Debt/Equity |
| | | | FY1x | FY2x | FY1x | FY2x | FY1% | FY1% | FY2% | FY1% | FY2% | FY1% | FY1% | FY1% | FY0x | FY1x | FY0x |
| GOOGL-US | Alphabet Inc. Class A | 618 327 | 14.5 | 11.7 | 32.4 | 25.2 | 0.0 | 20.8 | 18.4 | -7.1 | 27.1 | 49.7 | 25.7 | 14.6 | -2.7 | -1.7 | -0.59 |
| 700-HK | Tencent Holdings Ltd. | 374 348 | 32.1 | 24.7 | 46.1 | 36.6 | 0.2 | 60.6 | 34.4 | 57.7 | 26.7 | 38.7 | 27.0 | 27.3 | -0.2 | -0.8 | -0.09 |
| AABA-US | Altaba Inc. | 57 873 | 368.7 | na | 130.6 | 133.0 | 0.0 | -76.3 | nm | -12.9 | -1.9 | 19.4 | na | 1.0 | nm | -48.9 | -0.18 |
| BIDU-US | Baidu, Inc. Sponsored ADR Class | 57 075 | 23.5 | 18.3 | 29.0 | 25.7 | 0.0 | 24.4 | 23.5 | 63.8 | 2.3 | 24.9 | 19.7 | 17.1 | -1.5 | -2.8 | -0.42 |
| Average: | | | 109.7 | 18.2 | 59.5 | 55.1 | 0.1 | 7.4 | 25.4 | 25.4 | 13.5 | 33.2 | 24.1 | 15.0 | -1.5 | -13.5 | -0.32 |
| FB-US | Facebook, Inc. Class A | 445 126 | 18.2 | 14.7 | 30.9 | 27.1 | 0.0 | 45.4 | 32.8 | 38.5 | 13.2 | 65.4 | 42.9 | 22.5 | -2.0 | -1.6 | -0.50 |

na=Not available, nm=Not meaningful

Financial terms detailed in glossary

Sources: SGPB, FactSet

Risks To Our Investment Case:

- The company generates most of its revenues from advertising. A slowdown in the global economy could result in weaker-than-expected ad spending, which could affect earnings growth.
- Changes to the data privacy issues at a government level, could significantly impact the company's earnings profile.
- As the business is highly dependent on user engagements, inability to maintain this could lead to a drop in advertiser interest in the platform.
- Facebook is working on developing new technologies that require huge investments and could pressurise its margins.

Business Quality Review:

- Facebook revenues grew to USD 27.6 bn in 2016 from USD 1.9 bn in 2010. It is expected to continue on a strong growth trajectory and post 2016–19E annualised revenue growth of ~34%.
- The company is investing in developing new products/technologies, which is expected to help it grow its revenues in the coming years. Due to this, the EBIT margins are expected to remain at ~45% levels in the coming years.
- The company has a strong cash position (net cash of USD 38.2 bn as of 3Q17).

Dividend Policy:

- Facebook does not pay a dividend currently, and given its high growth profile, we do not expect it to initiate dividend payment in the near future.

Financial Terms And Acronyms

BV (Book Value): is the total value of net assets of a company.

BV/S (Book Value Per Share): is the total value of the net assets of a company divided by the total number of outstanding shares.

C/I (Cost Income Ratio): is used for valuing banks. It shows a company's costs in relation to its income.

CAGR (Compound Annual Growth Rate): is a term used for the geometric progression ratio that provides a constant rate of return over a specific time period.

CAPEX (Capital Expenditure): is the fund used by the company to acquire or upgrade the physical assets such as property, industrial buildings or equipment. The most capital intensive industries include oil, telecom and utilities.

CAR (Capital Adequacy Ratio): is a measure of a bank's capital. It is expressed as a percentage of a bank's risk-weighted credit exposures.

CET I (Common Equity Tier I Ratio) : is a measure of the bank's common equity capital as a percentage of risk-weighted assets. It is generally compared to a defined benchmark stipulated by the regulatory authority to determine whether a bank is sufficiently capitalised.

COMBINED RATIO: It represents the total of acquisition and administrative expenses, and claims and insurance benefits incurred, divided by net premiums earned.

DIVIDEND PER SHARE (DPS): Dividend per share or DPS (total dividend paid out divided by the total number of shares) expressed as a percentage of current stock price.

EBIT (Earnings Before Interest and Taxes): profit before taking into account interest payments and income taxes.

EBIT Margin: Ratio that expresses EBIT as a percentage of total sales (EBIT/Sales*100)

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): profit before taking into account interest payments, income taxes and non-cash operating expenses (depreciation and amortisation).

EPS (Earnings Per Share): is the division of total net profit by the number of shares.

EQUITY is the difference between the value of the assets and the cost of the liabilities.

EV (Enterprise Value) is a measure of a company's value, often used as an alternative to straightforward market capitalisation. It is calculated as (market cap + debt + minority interest + preferred shares) – total cash – cash equivalents.

FCF (Free Cash Flow): represents the difference between operating cash flow and capital expenditures.

FFO (Funds from Operations): measures a REIT's operating performance. It is net income plus gains (minus losses) from property sale and purchase. FFO per share is often used in place of earnings per share when analysing REITs.

FY0: Realised year, **FY1:** Current unrealised year, **FY2:** next year, **FY17E:** Fiscal year 2017 estimation

GOODWILL: is an intangible asset that arises as a result of the acquisition of one company by another company for a premium value.

GROSS INCOME: gross profit calculated as a company's total sales minus its cost of goods sold (COGS) that corresponds to labour and production costs.

GROSS MARGIN: expresses gross income as a percentage of total sales.

LIKE FOR LIKE (LFL) GROWTH: is a measure of growth in sales, adjusted for new or divested businesses.

Loan-to-deposit (L/D) ratio: Loans/Deposits. This helps in assessing a bank's liquidity, lending capacity and balance sheet quality.

LTV (Loan-To-Value Ratio): is a financial term used to express the ratio of a loan to the value of an asset purchased.

NAV (Net Asset Value): is similar to book value and is also called per investment unit. NAV is the marked-to-market value of the company's property investments less liabilities.

ND (Net Debt): is calculated as a company's total debt minus cash and other similar liquid assets.

NET MARGIN: is a financial ratio which measures the profitability of the net income of a company.

NI (Net Income or Bottom Line): represents a company's total earnings (or profit) which is calculated by adjusting revenues for the costs, depreciation, interest, taxes and other expenses.

NIM: Net Interest Margin

NON-PERFORMING LOANS (NPL) RATIO: NPLs/Loans. This indicates the percentage of the loans that are non-performing or are in stressed segments.

OPERATING MARGIN: See definition of EBIT Margin.

ORGANIC GROWTH: is the growth rate that a company can achieve by increasing its output and enhancing sales, excluding any profits or growth from takeovers or M&A activities.

P/E or PER (Price Earnings Ratio): reflects the trading price of a share in relation to the expected earnings.

P/BV (Price To Book Value): expresses the share price with regard to the accounting value of the company.

PAYOUT RATIO: is the proportion of earnings paid out as dividends to shareholders and typically expressed as a percentage.

PROFIT WARNING: is the announcement made by the company before its earnings release indicating the investors that its earnings would not meet the analysts' expectations.

RWA (Risk Weighted Assets): is a measure of the bank's assets, weighted according to their risk. It involves the risk weighting of both on and off-balance-sheet exposures.

REVENUE GROWTH: Illustrates the growth of sales over a given period.

ROA (Return on assets): a financial ratio that is calculated as net income divided by total assets and shows how profitable a company is relative to its total assets.

ROC (Return on invested capital): a profitability ratio which is calculated as net income minus dividends divided by total invested capital.

ROE (Return On Equity): The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by disclosing how much profit a company generates with the money shareholders have invested.

TBV (Tangible Book Value): is the book value excluding intangible assets.

TBV/S (Tangible Book Value Per Share): allows to estimate the accounting value of a company by measuring its stockholders' equity per share. Formula: Re-valued Net Assets/Total Shares of Company.

WACC (Weighted Average Cost of Capital): also referred to as the firm's cost of capital, it is the rate that a company is expected to pay on an average to all its security holders to finance its assets.

WORKING CAPITAL: is the difference between a company's current assets and current liabilities and shows whether the company has sufficient short-term assets to cover its short-term debts.

Appendix

Investment Rating Definitions:

- Buy** Stock that is expected to outperform its MSCI sector index over a 12-month investment horizon.
- Neutral** Stock that is expected to perform in line with its MSCI sector index over a 12-month investment horizon.
- Sell** Stock that is expected to underperform its MSCI sector index over a 12-month investment horizon.
- Restricted** Covered stock that is not rated or assigned a target price as the Societe Generale group has a capital market transaction with that company.
- Termination** Stock is subject to be deleted from the SGPB recommended universe and will no longer be followed. In this case, a coverage termination alert is issued.

Recommended Universe Principle:

The Recommended Universe is made of companies from the Investment Universe as defined by Societe Generale Private Banking guidelines. Members are chosen by Equity Solutions. There are no lower nor upper limits on the number of stocks in the Recommended Universe. There is no specific constraint in term of geographical or industry representation. A company from the recommended universe can be subject to a rating change, as decided by the Equity Solutions expert covering the company. When a stock is downgraded to a Sell rating, it is still followed for at least 3-month, after which Equity Solutions issues a coverage termination alert.

Product Risk Rating:

The product category of single equity, stock, share is rated at '4'.

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| Risk Levels | Losses |
|-------------------------|---|
| 0 - Lowest Risk | There is a 95% probability that the product will not depreciate in value in one year. |
| 1 - Low Risk | There is a 95% probability that the product will not lose more than 5% of its value in one year. |
| 2 - Medium Risk | There is a 95% probability that the product will not lose more than 15% of its value in one year. |
| 3 - High Risk | There is a 95% probability that the product will not lose more than 30% of its value in one year. |
| 4 - Highest Risk | There is a minimum of 5% probability that the product will lose more than 30% of its value in one year. |

1Y Target Price:



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R1: Low Risk
R2: Medium Risk
R3: High Risk
R4: Highest Risk

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