



Facebook Inc

More ads and e-commerce opportunities



StocksBnB.com

U.S. | TECHNOLOGY | TRADING NOTE

Description

Facebook, Inc. operates a social networking website. The Company website allows people to communicate with their family, friends, and co-workers. Facebook develops technologies that facilitate the sharing of information, photographs, website links, and videos. Facebook users can share and restrict information based on their own specific criteria.¹

Latest Update

The shift towards family-oriented content for News Feed on the FB app will improve the machine-learning algorithm for FB and increase its strength of engagement. Instagram Stories remain the largest growth story as advertisers embrace the new video ads. Meanwhile, advertisers for Stories continue to grow (3Mn in Q1 19 vs 2Mn Q4 18). We think that Instagram Checkout will be a long-term growth story which may add US\$5bn of revenue for FB in 2021 in our bull scenario.

Investment Rationale

Social commerce will increase monetisation opportunities for Instagram. FB announced that they are adding an Instagram Checkout function, which allows users to make direct purchases on the app. Instagram will charge retailers a selling fee when the item is checked out. We believe that the new Checkout function is targeted towards small-medium businesses (SMBs), but will also catch the attention of large brands. Based on our estimates, eCommerce on Instagram will add US\$3bn (2.9%) to FB's North America ad revenue base case by 2021. A bull case with more commercial volume and growth of MAU may yield as much as US\$5.3bn revenue.

Instagram Stories ads continue to have strong adoption rates. Although FB mentioned that Stories command lower ad prices than a traditional news feed, we are bullish about its high growth opportunity. The number of advertisers using Stories Ads increased from 2mn in Q4 2018 to 3mn in Q1 2019. During the Q1 2019 results, FB asserted that impression growth continues to be primarily driven by ads on Instagram Stories, and the YoY decline in average price per ad reflects an ongoing shift towards Stories Ads.

FB would be able to maintain its share of digital ad spend with an overhaul of the FB app. Although FB guided that the change in focus of the FB app (from the public news feed to family and groups) will be a headwind for advertising revenue in the short term, we think that the new design will translate into higher ad spending. Firstly, ad-targeting will likely be improved as it is based on groups and events that users join/express interest to join. This will ensure ads are more relevant to users and potentially drive higher ROI for advertisers and marketers. The new pivot towards "Stories feed" for the FB app is consistent with the current consumer preference for the video feed. As social video ad spending in the U.S. is estimated to grow at 44% through 2021, we think FB is well positioned to maintain its market dominance for social video ads.

Facebook Inc	POSITIVE
ENTRY PRICE	USD 182.80
STOP LOSS	USD 180.00
TARGET PRICE	USD 207.70
CLOSING PRICE	USD 197.20

COMPANY DATA	
Bloomberg Code	FB US
O/S SHARES /Mn :	2,402.54
MARKET CAP /USD Mn :	562,947
52 - WK HI/LO (USD) :	218.62

MAJOR SHAREHOLDERS (%)	
VANGUARD GROUP	7.38%
CAPITAL GROUP COMPAN	6.44%
BLACKROCK	6.14%

PRICE PERFORMANCE (%)			
	1MTH	3MTH	1YR
Facebook Inc	17.7%	12.0%	50.4%
S&P500	6.9%	4.0%	19.5%

PRICE VS. SPX



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	Q2 18	Q3 18	Q4 18	Q1 19
Revenue /Bn	13.2	13.7	16.9	15.1
EBITDA /Bn	6.9	6.9	9.0	4.9
Net Profit /Bn	5.1	5.1	6.9	2.4
EPS (adj.)	1.7	1.8	2.4	1.9
PE Ratio (adj.)	26.9	22.2	17.3	21.4
P/BV	7.1	5.9	4.4	5.5
ROE, %	26.1	25.7	27.9	23.8

Source: Company Data, PSR

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¹ Source: Bloomberg

RECOMMENDATION

We maintain our **POSITIVE** rating for **FB**. In our view, FB has yet to unlock the full earnings potential from Instagram. The new focus on video ads for the FB app would stabilise MAU growth, while the addition of social commerce on Instagram will be a meaningful driver in the long term. FB is currently trading at 25.4x earnings, which is below the historical average P/E ratio of 43.0x. We think the valuation is attractive given its strong earnings potential and the continued monetisation of Instagram.

Facebook (US\$197.20) - Technical BUY

Buy limit: 182.80 Stop loss: 180.00 Take profit: 207.70



Support 1: 159.67

Resistance 1: 198.12

Support 2: 122.83

Resistance 2: 218.62

Facebook Inc has saddled investors with losses in 2H 2018 and the recovery in January 2019 was lacklustre. The stock fell short of reaching the 200.00 psychological price level in May and had a correction towards the 160.00 support.

Following the rebound in prices, technical factors continue to point towards a rally because of the ascending triangle formation and the hammer rejection of both the 22 and 50 simple moving average. Traders should be cautious about chasing the stock and the best move is to buy after the fulfilment of the novice gap.

Although the ascending triangle is a strong signal for a bullish rally, we believe it might be short-lived. The stock price may experience a correction once it reached the 88.6% Fibonacci level, which is traditionally a strong signal for price reversal.

CHART LEGENDS

----- 200 periods MA

----- 50 periods MA

----- 22 periods MA

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