

Company Update Report

Meta Platforms

Communications

Analyst thesis

Our recommendation is based on:

As at: 29 May 2026

- **Unmatched scale:** Meta's Family of Apps and Reality Labs provide consumer scale with 3.5 billion daily active users, giving Meta unmatched advertiser reach and diversified revenue streams across digital advertising and emerging augmented reality/virtual reality (AR/VR) platforms, supporting its network effect moat.
- **Securing structural leadership in the modern artificial intelligence (AI) shift:** Strategic focus on AI-driven advertising and immersive computing positions it for an evolving digital landscape. A globally scaled advertising platform, combined with advanced AI targeting capabilities and first-party data assets, supports margin and revenue optimisation. At the same time, disciplined investment in Reality Labs builds a complementary, longer-horizon earnings stream.
- **Preferred modern marketing:** Meta is projected to surpass Alphabet Inc. in global digital ad revenue for the first time in 2026, capturing 26.8% of worldwide ad spend versus Alphabet's 26.4%. Meta's growth rate is expected to accelerate to 24.1% in 2026 from 22.1% in 2025. This acceleration suggests that businesses now favour Meta's social and video formats for customer acquisition, allowing Meta to capture a larger share of new digital ad spend.
- **Strong cash generation and capital discipline:** Meta Platforms delivers strong cash generation and capital discipline, supported by lean operating leverage on its advertising business and a high-quality user base across its Family of Apps. This underpins consistent shareholder returns through buybacks, while maintaining a robust balance sheet and funding capacity for both core advertising growth and AI/metaverse investments.
- **Elevated capital expenditure (capex) and AI monetisation risk:** Driven by intensive investment in AI infrastructure and data centres, Meta has guided to an aggressive FY2026 capex range of \$125 billion to \$145 billion, compared to \$72.2 billion in 2025. Although management has historically demonstrated excellent capital discipline and the core business remains highly cash-generative, the magnitude of capital currently being deployed lifts operational risk. The rate of this spending increases capital intensity and near-term depreciation hurdles, leaving little room for error. If advertising efficiency gains and direct AI monetisation are delayed, free cash flow (FCF) generation and margins could come under pressure, triggering a structural de-rating risk from current levels.

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Key highlights

In this report, we review the 1Q26 results released in April 2026:

Financial results at a glance:

- **Revenue and earnings:** Total revenue increased by 33% year-on-year (YoY) from \$42.3 billion in 1Q25 to \$56.3 billion. Growth was driven by strong advertising revenue across the Family of Apps, continued momentum in Reels monetisation, and expanding contributions from AI-powered ad targeting. Ad impressions grew 19% YoY and the average price per ad increased 12% YoY.
- **Costs and profitability:** Total costs and expenses rose 35% from \$24.8 billion to \$33.4 billion YoY, reflecting higher data centre operating costs, AI technician hiring, and third-party cloud spend. Research and development expense advanced to \$17.7 billion.
- **Segment performance:** Operating income increased 30% from \$17.6 billion in 1Q25 to \$22.9 billion, driven by the Family of Apps segment at \$26.9 billion operating income. Reality Labs reported an operating loss of \$4 billion (1Q25: \$4.2 billion loss), showing marginal improvement, but remains a segment under pressure.
- **Net income rose by 61% from \$16.6 billion in 1Q25 to \$26.8 billion.** Reported diluted EPS strengthened by 62% from \$6.43 to \$10.44 per share, boosted by an \$8.03 billion one-time income tax benefit. Adjusted diluted EPS, excluding this tax benefit, was \$7.31 per share, a 14% increase YoY, reflecting underlying operating leverage across the core advertising business.
- **Cash flow and investment:** Cash flow from operations improved by 34% to \$32.2 billion. Capital expenditure increased 44.5% to \$19.8 billion, reflecting accelerated investment in AI data centres and infrastructure in support of the company's long-term AI and metaverse roadmap. FY26 Capex is guided to be between \$125 billion to \$145 billion.



Sector outlook

The global digital advertising sector remains highly cash generative, supported by structural growth in digital media spend and the ongoing shift of brand budgets online, though macroeconomic conditions and advertiser sentiment increasingly drive earnings. AI-powered targeting and measurement are expanding advertiser return on investment (ROI) across platforms. Short-form video and AI-generated content are key drivers of engagement and monetisation, while commerce and payments are emerging as incremental revenue streams.

AI infrastructure investment is a growing capital commitment, with returns driven largely by advertising efficiency gains and future platform capabilities. Rising regulatory scrutiny, data privacy legislation, and platform competition are increasing complexity across the sector.

Table 1: Qualitative summary

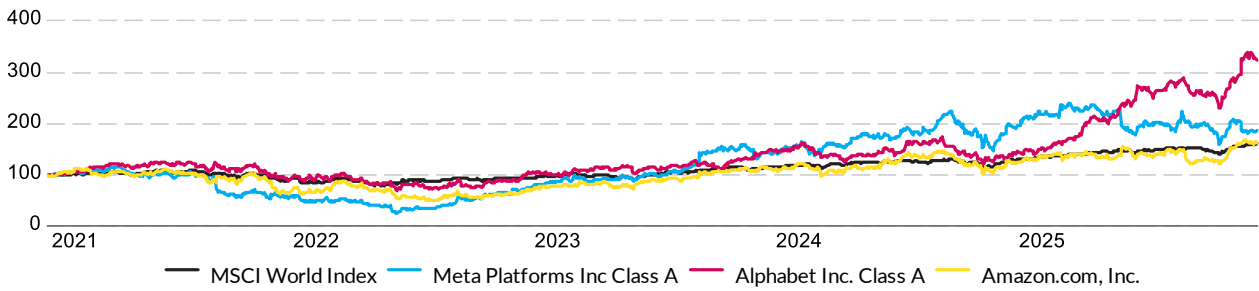
Factor	Rating	Description
Growth	★★★★☆	Expected three-year revenue CAGR is 20.5%, and expected three-year EPS CAGR is 19.5%. Revenue growth reflects the dominant scale of Meta's advertising franchise and AI-driven monetisation gains, while near-term uncertainty around macro advertising spend and Reality Labs losses may constrain near-term EPS upside.
Valuation	★★★★☆	The share price is trading at a 16% discount to the intrinsic value (IV). Current NTM P:E of 18.1x is trading at a 10% discount to the five-year average P:E of 20.1x.
Dividend	★★★★☆	LTM dividend yield 0.34%. NTM dividend yield 0.30%.
Issuance	★★★★☆	Shares issued have decreased by 10% in the past five years.
Catalyst		AI market monetisation and advertising efficiency: Rapidly improving AI-driven ad targeting and measurement tools, combined with strong Reels engagement, support pricing power and higher advertiser ROI, benefiting Meta's dominant social and messaging platforms. Regulatory normalisation: Clearer data privacy and platform regulation in the United States (US) and the European Union (EU) could reduce compliance uncertainty and operating costs, providing an upside catalyst for platforms with strong first-party data ecosystems, such as Meta. Commerce and payments expansion: Growth in social commerce, in-app payments, and business messaging, backed by WhatsApp Business and Instagram Shopping, provides an expanding revenue stream that enhances diversification beyond core display advertising.
Quality of earnings	★★★★☆	Five-year average ROE 29.0%. Five-year average net profit margin 30.1%. The group has recorded positive earnings growth in seven of the past 10 years. Returns are largely driven by advertising market conditions and user engagement trends, which affect margins and the ROE. While partially cyclical, Meta's scale and AI tools provide some pricing power.
Moat	★★★★☆	Economies of scale: Billions of daily users create embedded behaviour that is difficult to displace; AI trained on years of behavioural data makes ads more effective, creating a self-reinforcing loop: more users lead to more data, which leads to better targeting, resulting in more ad spend. Also, businesses can run a single campaign across Facebook, Instagram, Messenger, and WhatsApp with unified targeting and analytics, thereby increasing cross-platform stickiness. Network effects: Meta's interconnected Family of Apps creates value with scale across identity, social connections, content, and commerce, enabling cross-platform targeting and engagement that fragmented competitors cannot replicate. Intangible assets: Proprietary AI models, first-party social data, brand recognition, and deep advertiser relationships built over two decades provide durable competitive advantages in targeting, measurement, and platform trust.
Management and governance	★★★★☆	Mark Zuckerberg co-founded Facebook in 2004 and has served as CEO since its inception. He has led the company through its IPO, multiple platform transitions from desktop to mobile, the strategic acquisitions of Instagram and WhatsApp, and the pivot to AI and the metaverse. His long-term vision and founder-level conviction remain central to the company's strategic direction. Zuckerberg also owns nearly 100% of outstanding Class B shares, giving him approximately 61% of total voting power while holding roughly 14% of economic interest, posing significant governance risk.
Balance sheet	★★★★☆	*Net debt-to-EBITDA ratio of -0.2x, which remains in line with the five-year average of -0.63x. Debt-to-assets ratio of 23%.
Risks		Macro slowdown or reduced advertiser budgets could pressure advertising revenue and margins, particularly given Meta's high reliance on digital ad spend across its Family of Apps. Regulatory risk: Stricter data privacy rules, antitrust actions (including potential forced divestiture of Instagram or WhatsApp), and content moderation requirements could raise costs and constrain the business model. Competition risk: Intensifying competition from TikTok, YouTube Shorts, and emerging AI-native platforms could erode time-on-platform and advertising share. AI infrastructure and capex risk: Meta's accelerated investment in AI and data centres materially increases capital intensity and depreciation expense. Any miss on payback expectations may pose a structural de-rating risk.

Source: FactSet

*Negative numbers reflect a net cash position



Graph 1: Five-year price (Indexed to 100)



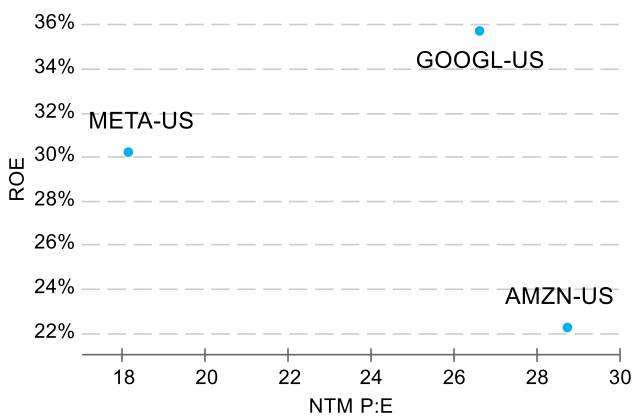
Source: FactSet

Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
META-US	-7.5%	-0.3%	-6.6%	-4.1%	-2.7%	27.6%	141.5%	86.2%	417.7%
GOOGL-US	22.4%	-0.5%	22.4%	18.4%	127.3%	118.9%	210.1%	224.2%	937.7%
*AMZN-US	15.4%	0.5%	26.4%	16.0%	32.5%	47.3%	131.6%	63.4%	651.9%
MSCI world	8.8%	3.6%	5.6%	10.7%	26.4%	36.9%	70.5%	68.3%	195.0%

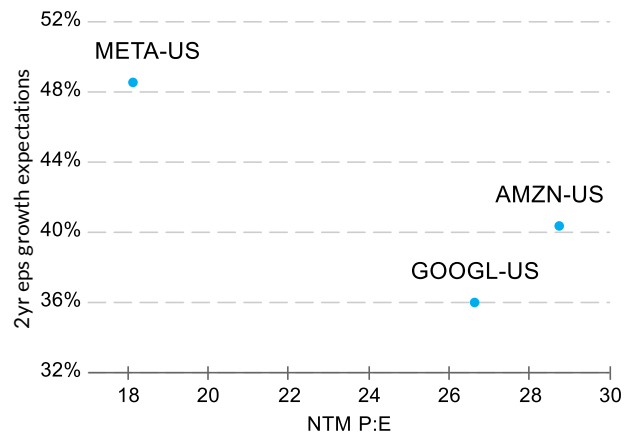
Source: FactSet

Graph 2: P:E vs 2Y average ROE



Source: FactSet

Graph 3: P:E vs EPS 2Y CAGR forecast



Source: FactSet

*Amazon is included as a large-scale AI-enabled consumer internet platform and digital advertising participant, rather than as a pure-play advertising peer.

Valuation

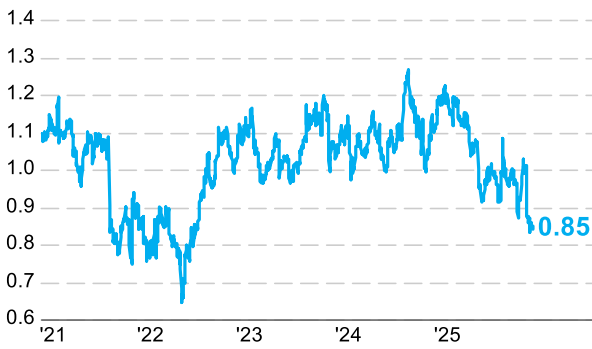
The valuation of Meta Platforms is based on a discounted cash flow (DCF) framework using a 2030E EV/EBITDA exit multiple to estimate terminal value. The output is expressed through probability-weighted bear, base, and bull scenarios. The scenarios are differentiated qualitatively by the strength and durability of AI-driven advertising growth, the trajectory of operating margins as elevated AI and Reality Labs spending normalise, and the level of ongoing capex required to support Meta's computing and infrastructure ambitions. The bear case assumes slower ad growth, sustained high investment intensity, and lower exit multiples; the bull case assumes stronger AI monetisation, faster margin expansion, and a higher multiple more in line with peak periods.

Table 3: Valuation summary

	Valuation Probabilities		
	Bear	Base	Bull
EV: EBITDA multiple	10x	14x	18x
Probability	10%	60%	30%
Implied share price	\$482	\$694	\$906
Weighted intrinsic value	\$736		
Upside/(Downside)	16%		

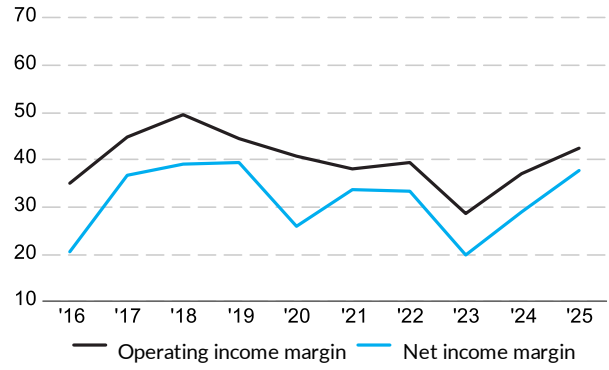


Graph 4: NTM P:E relative to benchmark



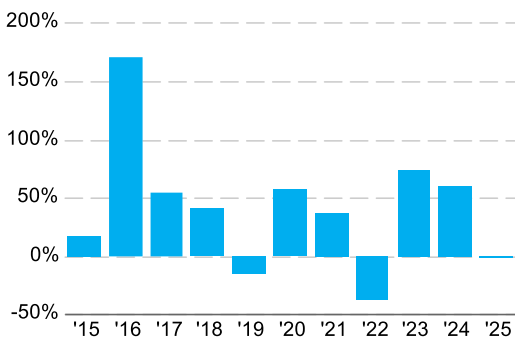
Source: FactSet

Graph 5: Profit margins (%)



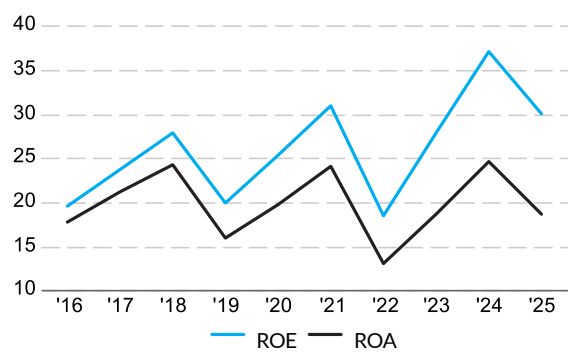
Source: FactSet

Graph 6: 10Y EPS year-on-year change



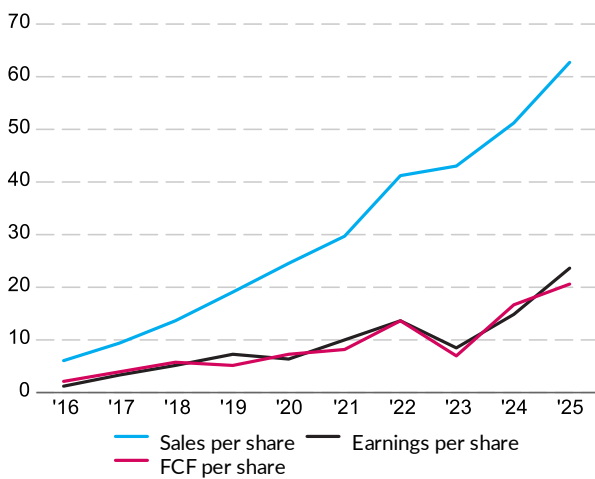
Source: FactSet

Graph 7: ROE and ROA (%)



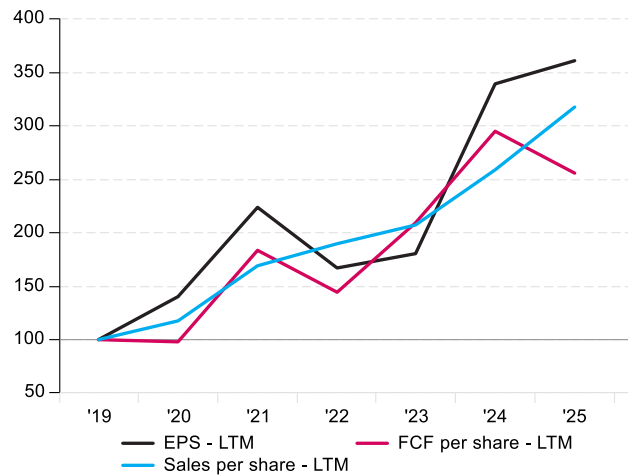
Source: FactSet

Graph 8: Sales, earnings and FCF per share (USD)



Source: FactSet

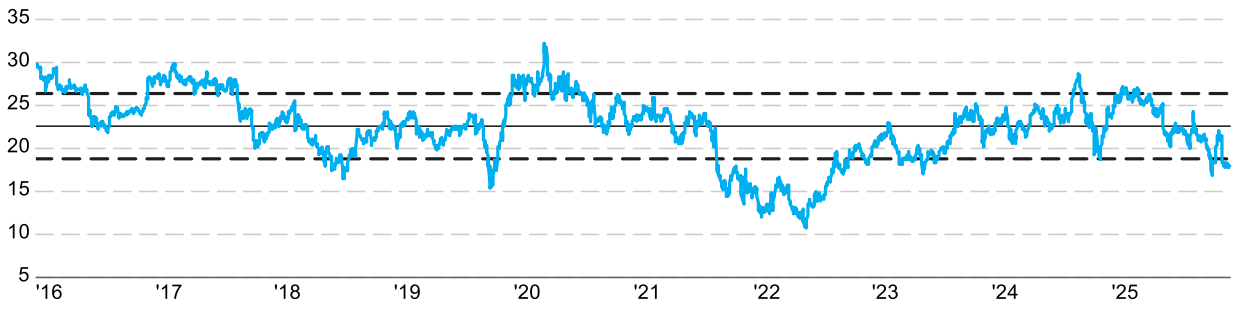
Graph 9: Sales, earnings, and FCF per share indexed



Source: FactSet



Graph 10: NTM P:E



Source: FactSet



Table 4: Financials and ratios

Income statement (\$Mn)	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Revenue	117 929	116 609	134 902	164 501	200 966	22%	20%	19%
Cost of sales	22 649	23 754	25 959	30 161	36 175	20%	15%	17%
Gross income	95 280	92 855	108 943	134 340	164 791	23%	21%	19%
EBIT	46 753	33 555	46 751	69 380	83 276	20%	35%	21%
EBITDA	54 720	42 241	61 381	85 267	101 892	19%	34%	21%
Net income	39 370	23 200	39 098	62 360	60 458	-3%	38%	16%
EPS (USD)	13.8	8.6	14.9	23.9	23.5	-2%	40%	18%
Balance sheet (\$Mn)	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Total assets	165 987	185 727	229 623	276 054	366 021	33%	25%	18%
Total shareholders' equity	124 879	125 713	153 168	182 637	217 243	19%	20%	11%
Total liabilities	41 108	60 014	76 455	93 417	148 778	59%	35%	37%
Ratios	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	5Y Avg		
*Net debt/EBITDA	-0.87	-0.72	-0.76	-0.57	-0.22	-0.63		
Interest coverage	-	209.7	112.6	97.6	71.5	122.8		
Debt/assets	8.7%	14.7%	16.5%	18.0%	23.2%	16.2%		

Source: FactSet

*Negative net debt-to-EBITDA ratio indicates net cash position.

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
\$	United States dollar
AI	Artificial intelligence
AMZN	Amazon.com Inc
AR/VR	Augmented reality/virtual reality
CAGR	Compounded annual growth rate
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FCF	Free cash flow
FY	Financial year
GOOGL	Alphabet Inc.
IPO	Initial public offering
LTM	Last twelve months (also known as trailing)
M	Month
META	Meta Platforms Inc
MTD	Month-to-date
NTM	Next twelve months (also known as forward)
P:E	Price to earnings
QoQ	Quarter-on-quarter
ROA	Return on assets
ROE	Return on equity
US	United States of America
YoY	Year-on-year
YTD	Year-to-date



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*Share price as at closing.

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