

Company Update Report

Alphabet Inc

Communication Services

Analyst thesis

Our recommendation is based on:

- Alphabet is successfully defending its core advertising and search engine businesses by evolving keyword-based search into conversational intent. The integration of Gemini into Search not only protects the Group's competitive position; it expands it by surfacing higher-value, targeted ads within artificial intelligence (AI) overviews.
- YouTube is undergoing a long-term shift. Short videos (shorts) and connected TV (CTV) viewing help brands reach vast audiences and build awareness, while new shopping features allow viewers to purchase products directly from the videos. Together, this helps YouTube turn attention into sales and helps boost advertising revenue.
- Google Cloud remains the primary growth accelerator, fuelled by a \$240 billion backlog. The current surge in AI workload demand is expected to unwind into a mature, high-margin utility phase by 2028.
- Alphabet has raised its 2026 CAPEX guidance to \$185 billion, signalling a strong commitment to realising AI-driven gains. However, this raises concerns over the headwind to free cash flow and the time pressure to justify substantial spending and near-term returns on investment.

As at: 20 February 2026

Ticker	GOOGL-US
Share price	\$311
Intrinsic value	\$309
Upside/(Downside)	-1%
Recommendation	Hold

Latest company and market insights

Key highlights

In this report, we revisit Alphabet's (GOOGL) 4Q25 results, released in February 2026.

Financial results at a glance:

- The 4Q25 Group revenue increased 18% YoY to \$113.8 billion, supported by Google Cloud growth and Google Search resilience.
- Net income rose 30% to \$34.5 billion and EPS increased 31% to \$2.82, supported by the \$70 billion share repurchase program.
- Google Cloud: Revenue grew 48% YoY to \$17.7 billion, driven by demand for AI infrastructure and generative AI solutions. As part of the 2026 strategy, Alphabet will serve as the preferred cloud provider to Apple Inc and help power the next generation of Apple Intelligence features using Gemini technology.
- Google Search: Revenue grew 17% YoY to \$63.1 billion, accelerated by the launch of Gemini 3. The major rollout of new AI features in Search and launch of Gemini 3 in December 2025 have driven 'AI Mode' queries that are 3x longer than traditional search. These can lead to add-on services that translate to higher margin service revenue.
- Subscriptions: Paid subscriptions surpassed 325 million, with a 14% improvement YoY, led by Google One and YouTube Premium. YouTube is benefitting from the success of NFL Sunday.
- Waymo, Alphabet's autonomous driving unit, is delivering +400 000 weekly rides and attracting further investment.

Management's outlook:

Management's guidance for 2026 focuses on building capacity for AI innovation to meet the outpacing demand. The 2026 capex has risen between \$175 - \$185 billion, from an initial \$91 billion. The investment will allocate 60% to fund servers and 40% on data centres. Capex will be funded mainly from cash and up to \$35 billion in new debt (issued bonds). The build-out of the new data centres will accelerate depreciation and pressure margins. To mitigate this higher spend, Alphabet will continue optimising systems to reduce unit costs, targeting over 70% saving in line with the current year. Business unit targets include rolling out 'AI Mode' and Chrome Auto Browse in Search to drive deeper engagement and advertising inventory; achieving a \$100 billion annual run rate in Cloud, up 43% increase on the current year; scaling Waymo to 1 million paid rides per week across 20 more cities.

Sector outlook:

The broader sector outlook cements 2026 with a total commitment mindset, embracing the AI transition from experimental to structural, where physical scale of chips and data centres is the only limiting factor to growth. This signals increased capex spending across the board. The aggregate capex of the five largest US hyperscalers – Amazon, Alphabet, Microsoft, Meta, and Oracle – is projected to hit between \$690-\$700 billion in 2026. Innovation shifts towards Agentic AI that models on cost-per-action instead of cost-per-click, allowing hyperscalers, like Alphabet, to command higher pricing.



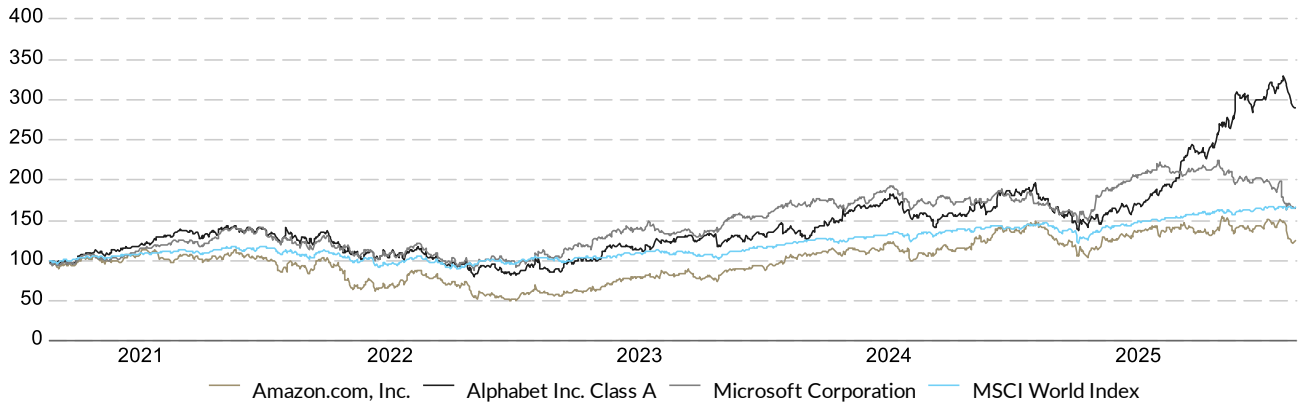
Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★★★☆	Expected three-year revenue CAGR is 11.9% and expected three-year EPS CAGR is 10.6%. We expect earnings growth over the next three years to be driven by: Integration of Gemini into Search, which would better target and surface new advertising in this AI search. Google Cloud, which is currently Alphabet's fastest-growing segment, expects future growth to be driven by strong AI workload. YouTube to benefit from secular shifts in brand and performance advertising budgets to online video, shorts, CTV, and shoppable formats. Waymo is online and expanding its geographic footprint, with an additional \$16 billion raised and plans to enter more than 20 new cities in 2026.
Valuation	★★★★☆	The share price is trading at a 3% discount to the IV. Current NTM P:E of 26.9x is trading at a 24% premium to the five-year average P:E of 21.7x. Peer company, Microsoft (MSFT), with a current NTM P:E of 22x and a five-year average P:E of 29.4x, trading at a 25% discount to its average.
Dividend	★★★★☆	LTM dividend yield 0.27%. NTM dividend yield 0.30%.
Issuance	★★★★☆	Shares issued have decreased by 9% in the past five years.
Catalyst		Integration of AI into Search requires investment in infrastructure to meet demand and enhance user experience. Gemini monetisation will leverage API usage, Workspace upsells, and distribution deals. Google One AI bundling, which pairs Cloud with Gemini Advanced is a catalyst for high-margin, recurring revenue streams. Cloud backlog is valued at approximately \$240 billion, of which at least 50% is expected to translate to earnings as early as 2026/2027. YouTube can recapture monetisation through better advertising products, shopping integrations and subscriptions.
Quality of earnings	★★★★☆	Five-year average ROE 30.3%. Five-year average ROA 25.3%. Five-year average operating margin 29.9%. Eight of the past 10 years had both positive earnings growth. Supported by its resilient growth in revenue driven by Google Services, underpinned by growth in advertising and Cloud services.
Moat	★★★★☆	Intangible assets: Alphabet's custom AI chips allow the Group to run AI inference at a significantly lower cost than firms renting NVIDIA chips from a third party. Its data library, maps, Gmail and YouTube are intangible assets that cannot be bought, easily replaced, or scraped. This high-intent data is the primary reason Gemini benchmarks so high in real-world tasks compared to models trained solely on public web text. Network effect: Every search query refined by Gemini 3 improves the algorithm for the next user. A shift to AI Mode search has led to complex queries that provide more data points for the model to learn from, making Google's search results harder for smaller competitors to replicate. YouTube, with over 2.7 billion users, deepens the impact and reach of its ecosystem, which is supported by AI innovation in compressing videos into Shorts and translating through AI-dubbing.
Management and governance	★★★★☆	There are concerns around Alphabet's executive management, focusing on leadership style, morale after layoffs, and the aggressive AI capex pivot. Alphabet is already absorbing a \$3.5 billion EU fine for ad-tech self-preferencing. CEO, Sundar Pichai, may seem risk-averse before AI began dominating big tech. However, his measured stewardship of Google and the Group over the years has delivered frugal execution, tripling Alphabet's enterprise value to date. There is concern over whether this leadership style remains optimal amid the highly competitive race for AI innovation.
Balance sheet	★★★★☆	Net debt/EBITDA ratio -0.5x, interest coverage ratio 112.1x. The Net debt/EBITDA reflects a net cash position (negative ratio), demonstrating strong financial flexibility and the company's ability to comfortably meet its debt obligations without leverage concern.
Risks		Alphabet must defend a large, profitable search and advertising base. At the same time, AI-native interfaces that directly compete with Gemini can focus purely on user utility without concern over cannibalising existing products. Generative AI can improve user experience, produce faster and more comprehensive answers, but reduce advertising impressions and click-throughs, shrinking traditional search ad inventory even as engagement stays high. Aggressive capex spend could pressure free cash flow, which is estimated to fall 58% in 2026 and as much as 80% in 2027. Incumbent hyperscalers (Microsoft, and Amazon) are simultaneously ramping AI cloud, models, and tooling, raising the risk that Alphabet's share of AI workloads and associated platform economics undershoots forecasts. Regulation: Recent EU probes into search advertising pricing allege that Google may be artificially inflating clearing prices, potentially constraining how it conducts auctions, leverages data, or bundles AI-enhanced advertising products. Antitrust, default-status restrictions, and data use limits can erode distribution and data advantages over time.

Source: FactSet



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



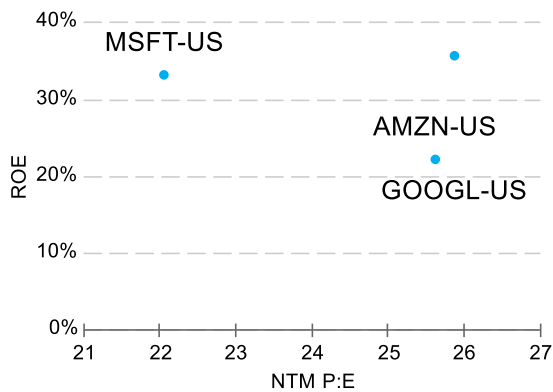
Source: FactSet

Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
GOOGL-US	-3.2%	-10.4%	3.4%	50.2%	63.5%	115.5%	221.0%	190.0%	738.8%
AMZN-US	-11.2%	-14.4%	-8.0%	-10.2%	-9.6%	20.9%	110.8%	26.1%	666.0%
MSFT-US	-17.6%	-7.4%	-18.2%	-21.8%	-3.9%	-1.4%	54.4%	65.4%	668.9%
MSCI world	1.9%	-0.2%	5.5%	8.8%	13.5%	35.7%	61.0%	66.7%	197.9%

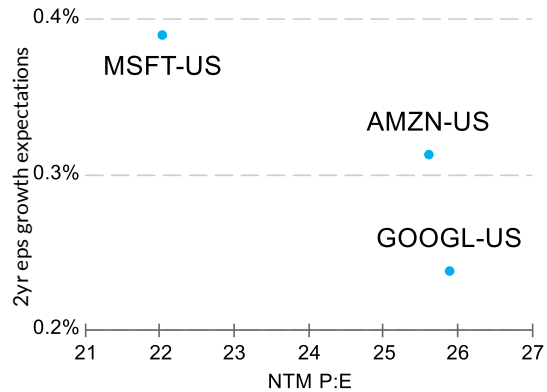
Source: FactSet

Graph 2: P:E vs 2Y average ROE



Source: FactSet

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



Source: FactSet

Valuation

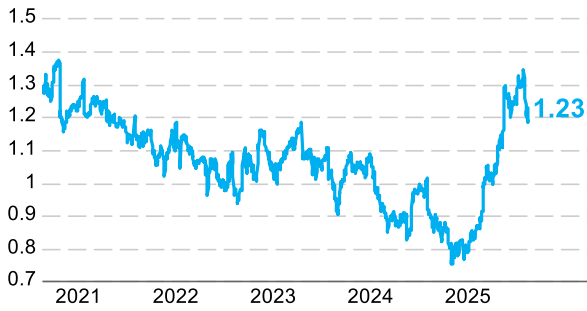
Alphabet was valued using a DCF model with a weighted-average cost of capital (WACC) of 8% and varying exit EV/EBITDA multiples, with probability weights for bear, bull and base-case scenarios. The bear case assumes some AI disruption and competition that may disrupt core business units, while the high capex spend does not provide the intended ROI, using a 5x exit multiple. The base case employs a 13x multiple, projecting steady recurring revenue, resilient advertising revenue and unwind of Cloud backlog that adds back to cash flow growth. It anticipates a balanced equilibrium between demand and supply for AI services in a balanced macro environment. The bull case uses a 16x multiple, characterised by earlier-than-anticipated green shoots from AI investment and higher monetisation of special projects like Waymo.

Table 3: Valuation summary

Valuation Probabilities			
	Bear	Base	Bull
EV/EBITDA multiple	5x	13x	16x
Probability	10%	60%	30%
Share price	\$122	\$307	\$376
Weighted intrinsic value	\$309		
Upside/(Downside)	-1%		

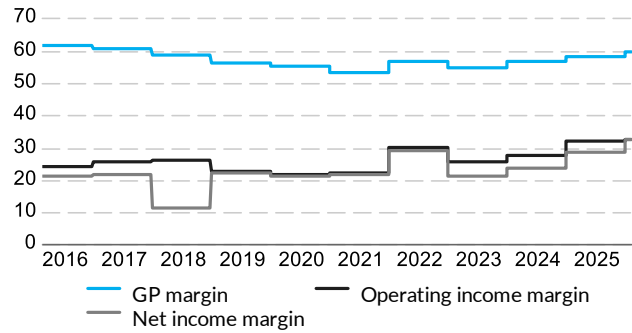


Graph 4: NTM P:E relative to benchmark



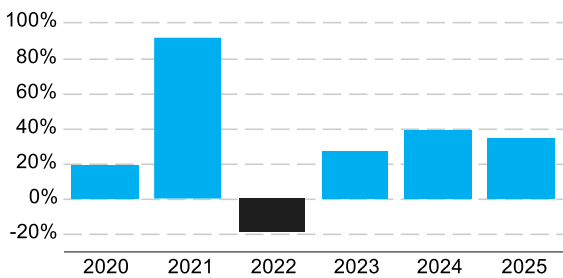
Source: FactSet

Graph 5: Profit margins (%)



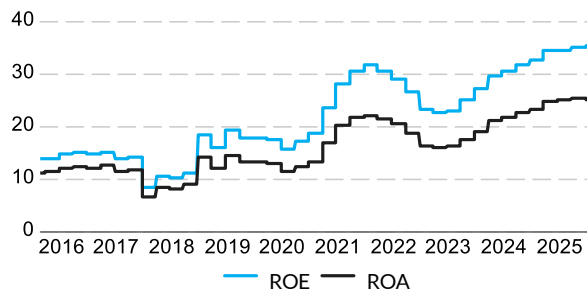
Source: FactSet

Graph 6: 5Y EPS y/y growth (USD)



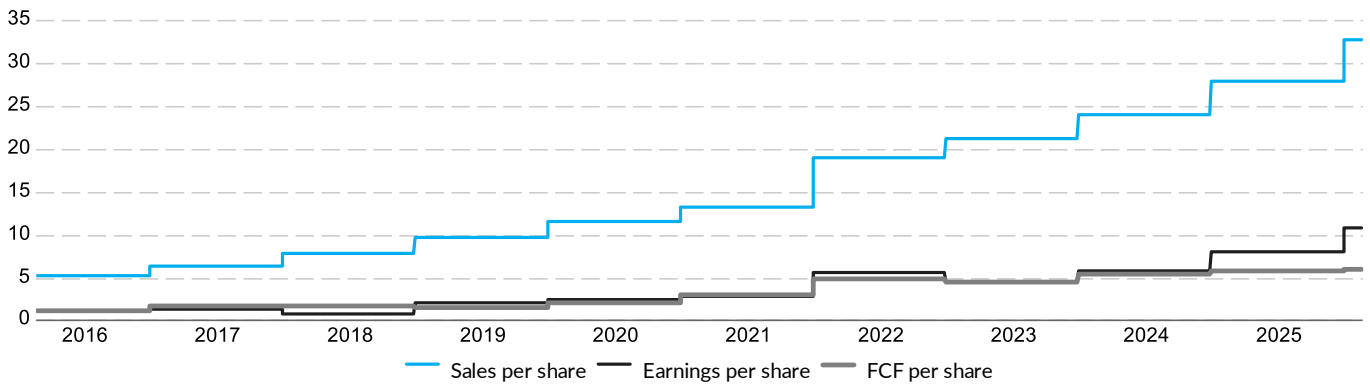
Source: FactSet

Graph 7: ROE and ROA (%)



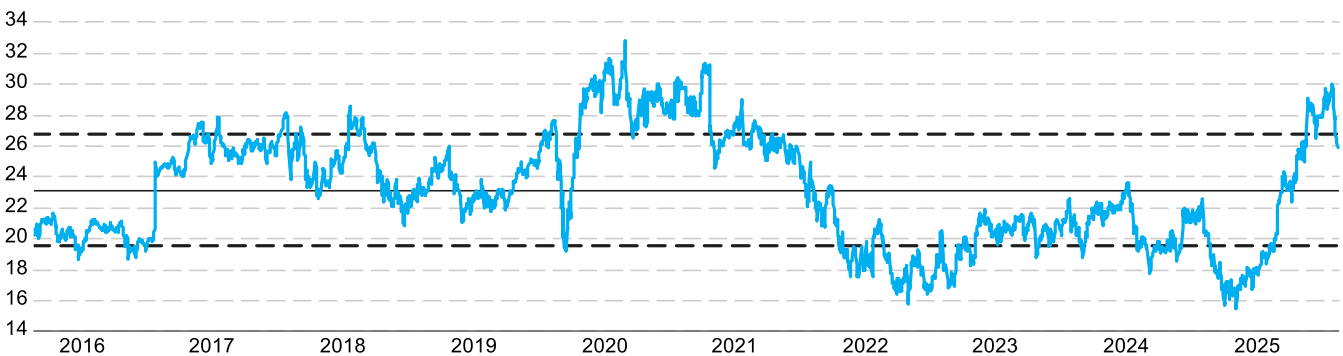
Source: FactSet

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



Source: FactSet

Graph 9: 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	257 488	280 875	307 157	349 807	402 962	15%	13%	17%
Cost of sales	110 939	126 203	132 853	146 306	162 535	11%	9%	14%
Gross income	146 549	154 672	174 304	203 501	240 427	18%	16%	20%
EBIT	78 565	72 881	86 144	112 179	132 665	18%	22%	26%
EBITDA	91 006	88 809	98 090	127 490	153 801	21%	20%	23%
Net income	76 033	59 972	73 795	100 118	132 170	32%	30%	27%
EPS (USD)	5.6	4.6	5.8	8.0	10.8	34%	33%	30%
Balance sheet (\$Mn)	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Total assets	359 268	365 264	402 392	450 256	595 281	32%	18%	13%
Total shareholders' equity	251 635	256 144	283 379	325 084	415 265	28%	17%	13%
Total liabilities	107 633	109 120	119 013	125 172	180 016	44%	18%	13%
Ratios	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	5Y Avg		
Net debt/EBITDA	-1.4	-1.1	-1.0	-0.6	-0.5	-0.9		
Interest coverage	154.4	150.3	176.2	242.8	112.1	167.1		
Debt/assets	7.9	8.2	7.4	6.2	11.3	8.2		

Source: FactSet



Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
AI	Artificial Intelligence
AMZN	Amazon.com Inc
API	Application Programming Interface
APT	Advanced Persistent Threat
ARR	Annual Recurring Revenue
ASIC	Application-Specific Integrated Circuit
CAGR	Compounded annual growth rate
CTV	Connected TV
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
GP	Gross profit
IV	Intrinsic Value
LTM	Last 12 months
Mn	Million(s)
MSFT	Microsoft Corporation
NTM	Next 12 months
OT	Operational Technology
P:E	Price to earnings
R&D	Research & Development
ROA	Return on assets
ROE	Return on equity
USD or \$	United States Dollar
YoY	Year over Year
YTD	Year to date



Contact details

Qhama Macanda

Equity Analyst

+27 (11) 996 5200

Qhama.Macanda@psg.co.za

Pierre Muller, CA(SA), CFA

Head of Equity Solutions

+27 (11) 996 5200

Pierre.Muller@psg.co.za

The purpose of this document is to provide information and is not available for external distribution.

About PSG Wealth recommendations

PSG Wealth provides medium- to long-term recommendations based on the premium or discount that a company trades at, relative to our estimation of intrinsic value. We expect companies to rerate towards their intrinsic value over a one- to three-year period. The long-term valuation is a quantitative-based valuation based on the fundamental performance of each company in the past, as well as their future forecasts. The fundamental features used are based on profitability and includes EPS growth and return on equity (ROE).

House view guidance: House view guidance is indicative only. Each client's circumstances are different, and it remains critical that indicative guidance is discussed with your portfolio manager or financial adviser.

Date and share price: The date the report was reviewed and approved by the portfolio committee is likely to precede the release date and price on the report.

*Share price as at closing.

Disclaimer

PSG Wealth has issued this publication. It is confidential and released for the information of clients only. It shall not be reproduced in whole or in part without our permission. Any unauthorised use, duplication, redistribution or disclosure is prohibited by law. This publication is not to be construed as providing investment services in any jurisdiction where the provision of such services is not permitted. It is provided for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security, and we have no responsibility whatsoever arising here from or in consequence thereof. The user assumes the entire risk of any use made of this publication. Any decision to purchase securities mentioned in this publication must consider existing public information on such security or any registered prospectus. The information contained herein has been obtained from sources which and persons whom we believe to be reliable but is not guaranteed for accuracy, completeness or otherwise. Opinions and estimates constitute our judgement as of the date of this material and are subject to change without notice. This publication does not attempt to identify the nature of the specific market or other risks associated with an investment. Leveraged/Geared positions in securities can accentuate the profit/loss made on investments. Geared/Leveraged positions are not recommended based on the information contained in this publication. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors and investors must make their investment decisions using their own objective advisers as they believe necessary and based upon their specific financial situations and investment objectives. Certain investments/recommendations may have tax implications for private customers. Investors should seek advice from a tax adviser before acting on information contained in this publication. The securities described herein are subject to fluctuation in price and/or value and investors may get back less than originally invested. Past performance is not indicative of future results. The employees responsible for producing this report may from time-to-time own securities mentioned herein.

Analyst certification

The research analyst who prepared this report certifies that the view expressed herein accurately reflects the research analyst's personal views about the subject, security and issuer and that no part of their compensation was, is or will be directly or indirectly related to specific recommendations or opinions contained in this report.

FSP

PSG Investment Management (Pty) Ltd is an authorised financial services provider. FSP 44306

PSG Securities Limited is an authorised member of the JSE and authorised financial services provider. FSP: 42996