Written by

Victor Dergunov
Marketplace
Author of Albright Investment Group . Top performing growth strategies and deep value insight

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Watchlist ...
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Symbol	Price	% Chg
AAPL	133.11	-0.23%
ABNB	149.67	-0.70%
BCPC	131.80	0.14%
BKNG	2,281.66	1.58%
BRK.A	419,134.00	1.00%
CMG	1,518.75	1.98%
CNSWF	1,526.85	-0.47%
CTAS	378.26	0.12%

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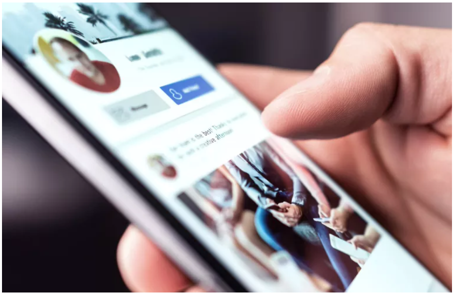
Long Ideas Tech

Facebook Gets A Like And A Strong Buy Rating

Jun. 25, 2021 3:37 PM ET | **Facebook, Inc. (FB)** | 14 Comments | 10 Likes

Summary

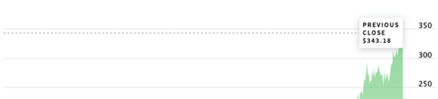
- Facebook has grown into one of the most profitable businesses on the planet.
- However, Facebook's substantial value is only one side of the coin, as the company remains a compelling growth story as well.
- The company trades at a relatively low forward P/E multiple and could deliver higher than expected EPS in future years.
- Facebook's stock price is likely to appreciate considerably going forward.
- This idea was discussed in more depth with members of my private investing community, Albright Investment Group . Learn More »



Tero Vesalainen/iStock via Getty Images

With nearly $95 billion in revenues in its last four quarters, Facebook (FB) is a revenue-generating machine. Moreover, the company is massively profitable, as Facebook generated an astounding $33.74 billion in net income in the same time frame. However, the company's strong value narrative is just one side of the equation, as Facebook is also a compelling growth story. Despite the company's massive size and influential market position, analysts expect Facebook's revenues to increase by about 20% this year. In addition, the company's growth path looks sustainable, as revenue coupled with income growth should continue to expand going forward. Facebook is trading at about 22 times "forward" (next year's) consensus analysts' EPS projections. This valuation is exceptionally cheap for a dominant market-leading company likely to generate substantial growth in future years.

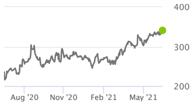
Facebook: Long-Term Chart



About This Article

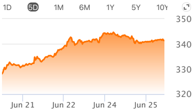
Ticker Covered	FB
Author's rating at publication	Bullish

Author's Rating History



About FB

Symbol	Last Price	% Chg
FB	341.37	-0.53%
Post	341.36	-0.00%



PE (FWD)	26.25
Yield (FWD)	-
Rev Growth (YoY)	28.68%
Short Interest	1.14%

Compare to Peers

FB Ratings

SA Author	Bullish	4.09
Wall Street	Very Bullish	4.50
Quant	Very Bullish	4.85

Quant Ranking

Sector	Communication Services
Industry	Interactive Media and Services
Ranked in Industry	3 out of 40
Ranked in Sector	7 out of 196
Ranked Overall	104 out of 3955

Quant ratings beat the market »

More on FB

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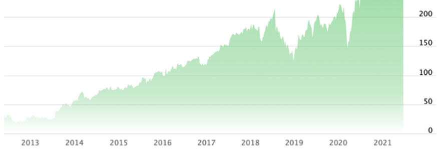
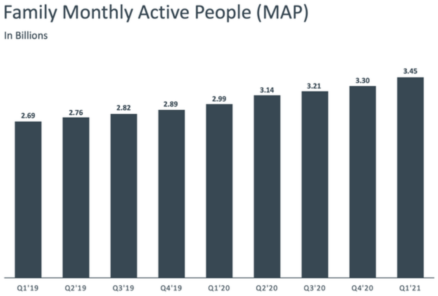
- Facebook: The PEG Ratio Surprise
- New FTC Chair Khan is said to appoint new antitrust chief, other staffers
- Facebook: The Best 'Fangma' Stock To Buy Right Now, Quantitatively Speaking



Source: [nasdaq.com]

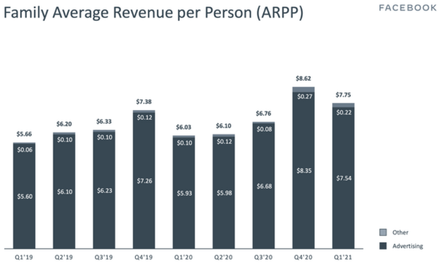
Facebook's stock has been a favorite of ours for years now. The company's shares have appreciated essentially 20-fold since Facebook's post-IPO lows. While some transitory declines over the years occurred, each downdraft turns into a compelling buying opportunity. The bottom line is that Facebook keeps growing.

Let's Look at Some Numbers



Source: investor.fb.com

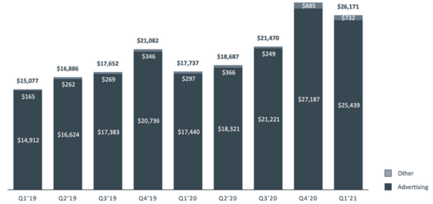
Yes, that is 3.45 billion active monthly users or monthly active people ("MAP"), as Facebook likes to call them. What's the family? It's any registered and logged-in user of Facebook, Instagram, Messenger, or WhatsApp. Aside from the sheer number of users, what's remarkable is the continuous, steady growth. YoY Facebook's family MAP growth increased by about 15.4%, eclipsing the prior 12-month's growth of 11.2%.



Source: investor.fb.com

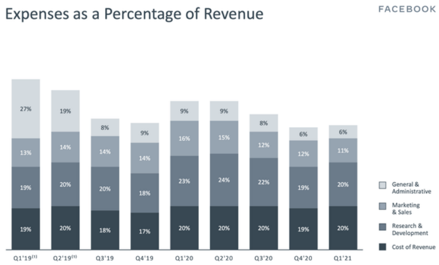
In addition to user growth, "family" average revenue per person ("ARPP") continues to expand also. Last quarter's ARPP came in at $7.75, a whopping 28.5% increase on a YoY basis.

SA Connect



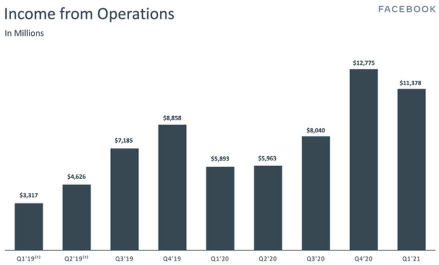
Source: investor.fb.com

User growth coupled with revenues per user increases translates into massive revenues for Facebook. The company put up 48% YoY revenue growth last quarter. Yes, the coronavirus effect may have caused some disruption in Q1 2020. However, if we look back to Q1 2019, Facebook's revenues came in around 75% higher last quarter. This remarkable growth illustrates the company's unique position as the undisputed social media juggernaut. Facebook is a highly monopolistic style company with an incredible tenacity to effectively monetize its platforms.



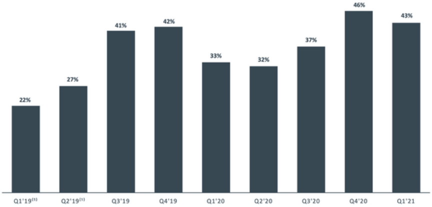
Source: investor.fb.com

One could make an argument that Facebook is remarkably efficient. While the company's revenues surge, Facebook's costs of doing business remain relatively subdued. While the company's R&D costs and cost of revenues remained roughly constant, Facebook's general & administrative, and marketing & sales costs declined as a percentage of revenues from prior quarters.



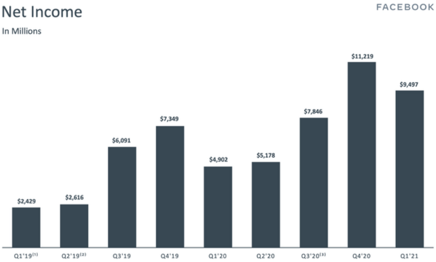
Source: investor.fb.com

Facebook's way of doing business translates into massive income generation. Last quarter the company delivered nearly $11.4 billion in operating income. This immense number represents a 93% YoY increase for the company. Moreover, if we look back at the prior year, the company's operating income increased by a massive 245% from Q1 2019.



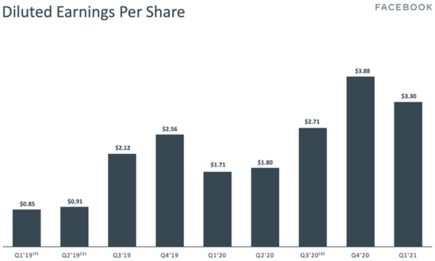
Source: investor.fb.com

As Facebook's revenues grow, the company's operating margin continues to expand. In Q1, the company reported a massive 43% operating margin, second only to the 2020 Q4 record of 46%.



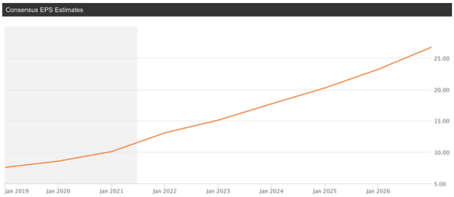
Source: investor.fb.com

Facebook delivers a combination of growing revenues and controlled costs. This dynamic leads to remarkably high profit margins, and the result is a great deal of net income for shareholders. The company delivered an enormous $33.74 billion in net income in its last four quarters of operations. This immense profit equates to a net income margin of approximately 35.5%. This incredible profitability makes Facebook one of the most prominent income-generating machines on the planet.



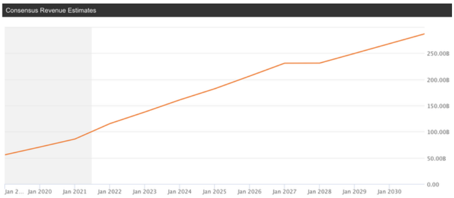
Source: investor.fb.com

On an EPS basis, Facebook delivered $11.69 in its last four quarters of operations. $11.69 in EPS puts Facebook's valuation at about 29 times trailing earnings. However, the company is likely to become increasingly more profitable in the future.



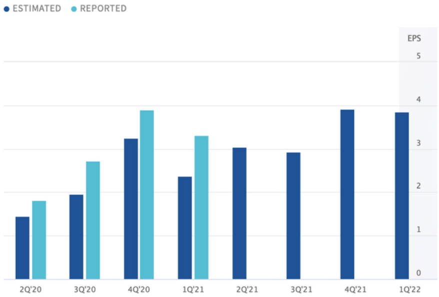
Source: seekingalpha.com

While consensus estimates call for $13.07 in EPS this year, analysts expect Facebook to deliver $15.09 in 2022. This number puts the company's forward valuation at about 22 times 2022's consensus expectations, which is relatively inexpensive for a company anticipated to increase revenues by around 20% this year.



Source: seekingalpha.com

Moreover, analysts project sustainable revenue and EPS growth for Facebook for some years as the company advances. Analysts expect Facebook to deliver around $206 billion in revenues and over $23 in EPS in 2025.



Source: nasdaq.com

In addition to Facebook's strong profitability and robust growth, the company has a voracity for crushing analysts' EPS forecasts. The company managed to top consensus EPS figures by an average of 31.25% in its last four quarters. Let's take a conservative approach and imagine that the company can surpass consensus analysts' figures by roughly 15% in upcoming years. A 15% EPS beat would result in an EPS of $17.35 in 2022. $17.35 in EPS translates to a forward valuation of only 19.6, remarkably cheap in my view. Moreover, a 15% EPS beat relative to 2025's $23.09 projections would amount to roughly $26.67 in EPS for the company and its shareholders.

The Bottom Line

We have been long Facebook for a long time, the stock has done very well for us over the years, and we continue to like it going forward. Facebook has enormous revenue and earnings growth potential. Consensus analysts' projections suggest that the company should generate over $23 in EPS in 2025. However, we see that Facebook has a distinct tenacity for surpassing analysts' estimates. Thus, the company could earn around $26.67 per share in 2025. Provided that the company's forward valuation remains at about 22 to 25 times EPS, Facebook's stock price should reach approximately $587-667 by mid-2023 to early-2024. This appreciation in share price represents a return of roughly 73-96% from current levels.

Want the big picture? If you would like full articles, daily market updates, comprehensive technical analysis, trade triggers, portfolio strategies, options insight, and much more, consider joining Albright Investment Group!

- Subscribe now and obtain the best of both worlds, deep value insight along with top-performing growth strategies.
- Receive access to our top-performing real-time portfolio which returned **roughly 87% in 2020**.
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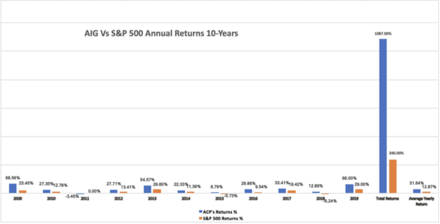

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Disclosure: I am/we are long FB. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

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Apple recently attacked Facebook on privacy issues with Apples' latest OS released.. Users are allowedt to choose whether to be exposed to advertisers or not.. and things like that.. This makes me pause about next quarter earnings for FB as advertisers might throttle a little back or being pushed out of the privacy minded users.. Recent polls seem to indicate a relatively high percentage of users are for privacy meaning less advertisers???
at least I have a hunch that FB will take a punch in the face on next quarter earnings.. I reduce my holdings by half and park money there.. in case FB stock do take a real skid down.after earning announcement.. I know that FB will find ways around Apple's garden and bring in advertisers back around or over the garden with eblimps or those VR googles,, just a wild imagination of mine! FB is resourcefull it is just that Apple just had a need to place a low speed bump ahead of FB to force FB to reduce speed, in a sense.. Is it a dirty trick of Apples' or a legitimate concern of Apple's.. what does privacy have to do with advertisers.. Who cares if advertisers know what you like to watch or what to wear or what to whatever.. If Apple can show how it can threaten users' security in whatever ways , I think Apple owes it to us with instances as on why apple is very concerned about privacy.. I am already fucked with privacy abusers outside FB , anyway.. like neighbor gossips. or discrimination abound everywhere.. Racists.. etc.. What is Apple trying to accomplish with its crusade for privacy?? Is Apple mostly concerend with the so called Apple fanboys' privacy?? What the fuck do I care .. if they are concerned about what advertisers know about their Applequew way of living.. this is their problem

Reply Like

Eric Groovenhoff Yesterday, 10:12 PM

Contributor Premium Comments (81) | + Follow

When FB utilizes WhatsApp it's over. Easy $2T cap

Reply Like (1)

vend2804 Yesterday, 9:16 PM

Comments (38) | + Follow

The stock is still cheap compare to having 3.5 Billion active users. Users mean Opportunities/revenue. Long $FB.

Reply Like (1)

aarondean Yesterday, 8:47 PM

Comments (3) | + Follow

Victor, pretty good comments in your article. I learned my lesson when I did not buy Google on the day of the IPO. I bought FB on the IPO day in 2012 and added to my position in 2013. I still hold all of my shares. FB has been strong and they still have a lot to monetize that will continue to support the increasing share price.

Reply Like (2)

realbobkins Yesterday, 7:37 PM

Comments (26) | + Follow

Like your article Victor. Been invested in FB since 2015. Have bought and sold it since its IPO in 2012. I wish I had held on to my shares that executed @$35 back then and could have bought more when it tanked early @ $17/Sh. I have learned my lesson since and became a true believer in Mark's genius leadership. I am long FB.

Reply Like (2)

> **Eric Groovenhoff** Yesterday, 10:11 PM
>
> Contributor Premium Comments (81) | + Follow
>
> @realbobkins buy so well that you never want to sell
>
> Reply Like

Jerlyn111 Yesterday, 5:11 PM

Comments (192) | + Follow

Djgarrett32 that's a good comment. It'll happen when pigs fly !

Reply Like (1)

Tony Montana Munich Yesterday, 4:24 PM

Comments (600)

Thanks for the article.

Reply Like (1)

djgarrett32

Yesterday, 4:05 PM

Premium Marketplace Comments (12) | + Follow

When Donald Trump releases his new social media site, millions of people are going to run from Facebook. What do you think will happen to FB's stock then?

Reply Like

ATLAtty

Yesterday, 4:24 PM

Premium Comments (551) | + Follow

@djgarrett32
Now that is good comedy. When do you perform next?

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Stephen Toth

Yesterday, 4:59 PM

Premium Comments (1) | + Follow

@djgarrett32 really?
You are kidding, right?

Reply Like (6)

initforthelonghaul

Yesterday, 10:44 PM

Comments (63) | + Follow

@djgarrett32 , oh, you mean like Parler??? LOL!!!!

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JosephCortes

Yesterday, 4:04 PM

Comments (2.95K) | + Follow

The true KING of Social Media. You can only expect $$$$$$$$$$$

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