Meta Platforms Inc.

Ticker: META

Equity Valuation Report

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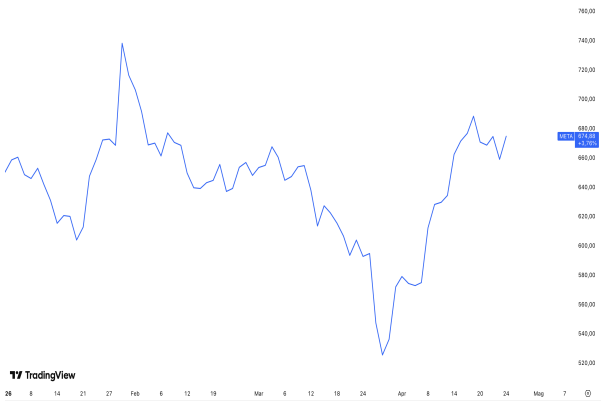
Recommendation: BUY **Target Price: US$ 650**

Stock Data

Price (US$)	675
Mkt Cap (US$ bn)	1,670
Shares Out. (mn)	2,530
β (3Y adj.)	1.28
EPS FY25 (US$)	23.49
P/E FY1	28.10x
EV/EBITDA	16.42x
ROIC (%)	22.81
Div. Yield (%)	0.32
CEO	Mark Zuckerberg
Employees	~78,865

Stock YTD



Source: TradingView

1 Price Action & Market Sentiment

Meta's five-year trajectory is a textbook case of regime shifts, characterized by a brutal compression and subsequent historic re-rating. From US$ 205 at year-end 2019 to US$ 660 at year-end 2025, the stock delivered a cumulative return above 220%, but the path was violently cyclical. Three distinct phases define the chart:

- **2020–2021 (Pandemic Tailwind)**: Digital advertising accelerated globally. The stock peaked near US$ 378 in September 2021 on record engagement and cheap capital.
- **2022 (Peak Fear & Capitulation)**: A perfect storm of macroeconomic and idiosyncratic shocks. Apple's App Tracking Transparency (ATT) framework severely impaired direct-response measurement, Reality Labs operating losses ballooned, and aggressive rate repricing compressed

long-duration multiples. The stock collapsed to US$ 88 – a devastating −76% drawdown. The prevailing market narrative was terminally bearish: "Meta is a value trap lost in the Metaverse."

- **2023–2025 (Execution & Re-rating)**: The "Year of Efficiency" restored margin discipline and credibility. More importantly, the AI narrative pivoted from a conceptual buzzword to tangible product enhancements (Llama, improved ranking, predictive ads targeting), re-igniting structural growth. Revenues compounded at +20% YoY, EPS at +22% CAGR. The market rewarded this execution, re-rating the stock from a distressed 10x P/E to the current 28x.

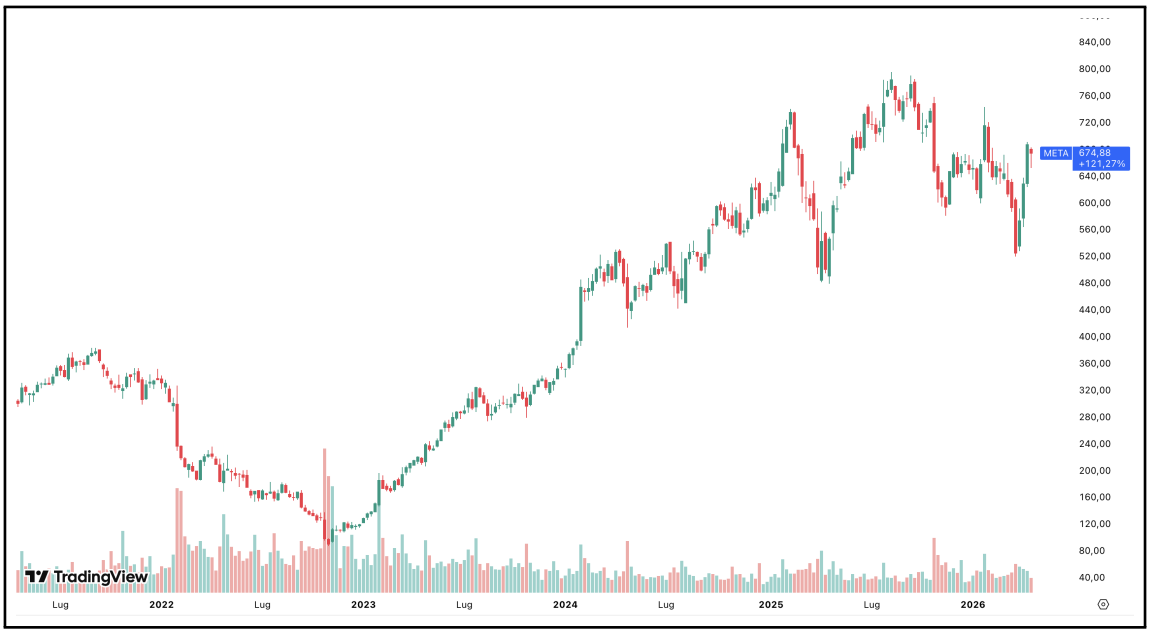


Figure 1: META – 5Y Price Action (Source: TradingView)

Current sentiment remains highly polarized, presenting an opportunity for objective capital allocation. Bulls point to the pristine 22.17% YoY revenue print in FY25 (US$ 200.97B), the structurally expanding operating margin (41.4%), and the accelerating monetization of Llama-powered ad tools. Bears, conversely, focus entirely on the capex shock: capital expenditures exploded from US$ 37.3B (FY24) to US$ 69.7B (FY25), an +87% jump that pushed the Capex/Sales ratio to a staggering 34.68%. Consequently, FY25 Free Cash Flow fell −14.7% YoY despite record EBITDA. **The market is currently pricing Meta as if this monumental wave of AI infrastructure investment will not translate into incremental cash generation** – a demonstrably pessimistic assumption that our DCF model explicitly challenges.

2 Fundamentals & Financials

Meta's income statement has no true peers in public markets. FY25 revenues of US$ 200.97B mark the first time a pure-play digital advertising franchise has crossed the US$ 200B threshold. However, analyzing consolidated figures masks the true economic engine of the business and leads to flawed valuation heuristics.

The Reality Labs Illusion. The Family of Apps (FoA) operates at an extraordinary, monopolistic underlying operating margin, effectively acting as a massive cash printer that subsidizes the chronic operating losses of Reality Labs. To evaluate Meta solely on consolidated operating margins is a

mistake. Rather than viewing Reality Labs merely as a capital sink, it must be treated strategically as a **perpetual, long-term call option**. It is an insurance policy financed entirely by free cash flow, designed to ensure Meta remains hedged against future shifts in human-computer interaction (e.g., spatial computing) and insulates the company against future platform monopolies (like Apple's iOS ecosystem).

Table 1: Financial Snapshot FY21–FY25 (US$ bn)

Metric	FY21	FY22	FY23	FY24	FY25	YoY
Revenues	117.93	116.61	134.90	164.50	200.97	+22.17%
EBITDA	54.72	42.24	61.38	85.27	101.89	+19.50%
EBIT	46.75	33.56	50.20	69.77	83.28	+19.36%
Net Income	39.37	23.20	39.10	62.36	60.46	-3.05%
Free Cash Flow	39.12	19.04	43.85	54.07	46.11	-14.72%
Capex	18.57	31.43	27.27	37.26	69.69	+87.05%

Structural Moat & Existential Risks. Meta's dominance is mathematically anchored by absolute **Network Effects**, boasting over 3 billion active users across its ecosystem. The continuous aggregation of behavioral data cross-platform (Facebook, Instagram, WhatsApp) feeds a deterministic targeting algorithm that systematically lowers the marginal cost of customer acquisition for advertisers. However, structural risks are palpable and must be priced in. TikTok remains an existential threat for 'attention time' share, particularly within the under-35 demographic. Concurrently, regulatory headwinds (EU privacy laws, Apple's ATT) persistently erode Meta's proprietary data advantage. Finally, the rapid proliferation of Generative AI carries the risk of commoditizing parts of the technological moat, lowering barriers to entry for digital advertising ecosystems.

Margin Quality & The Efficiency Engine. The "Year of Efficiency" was not a cyclical, one-off cost-cutting exercise; it was a permanent cultural reset toward strict operational discipline. By optimizing SG&A and rationalizing bloat in R&D, Meta structurally expanded its EBIT margins from 39.64% in FY21 to 41.44% in FY25. However, a cynical and accurate view of cash generation requires assessing Free Cash Flow net of Stock-Based Compensation (SBC). While nominal margins are pristine, SBC remains a real, dilutive cost to shareholders that cannot be ignored when assessing true yield.

AI-Driven Monetization (Multipliers, Not Features). Revenue growth is fundamentally governed by volume (ad impressions) and pricing (average price per ad). Crucially, AI at Meta is an efficiency multiplier, not just a capital drain. Products like **Reels** and **Advantage+** are not mere features; they are **structural margin levers**. As advertisers increasingly rely on Advantage+ for automated campaign management, Meta effectively increases its take rate (revenue per impression) without incurring additional marginal costs. Furthermore, the deployment of Meta's proprietary **MTIA** (Meta Training and Inference Accelerator) custom silicon protects these gross margins from external GPU pricing monopolies, cementing operational leverage.

Data	2021	2022	2023	2024	2025	CAGR_5Y
Revenues	**$ 117.929,00**	**$116.609,00**	**$134.902,00**	**$164.501,00**	**$200.966,00**	*11,3%*
% growth	-	*-1,1%*	*15,7%*	*21,9%*	*22,2%*	
COGS	$ 22.649,00	$ 25.249,00	$ 25.959,00	$ 30.161,00	$ 36.175,00	
% revenues	*19,2%*	*21,7%*	*19,2%*	*18,3%*	*18,0%*	*19,3%*
Gross profit	**$ 95.280,00**	**$ 91.360,00**	**$108.943,00**	**$134.340,00**	**$164.791,00**	*11,6%*
% margin	80,8%	78,3%	*80,8%*	*81,7%*	*82,0%*	
Operating expenses	$ 48.527,00	$ 62.416,00	$ 62.192,00	$ 64.960,00	$ 81.515,00	
% revenues	*41%*	*53,5%*	*46,1%*	*39,5%*	*40,6%*	
EBITDA	**$ 54.720,00**	**$ 37.630,00**	**$ 57.929,00**	**$ 84.878,00**	**$101.892,00**	*13,2%*
% margin	*46,4%*	*32,3%*	*42,9%*	*51,6%*	*50,7%*	*44,8%*
D&A	$ 7.967,00	*$ 8.686,00*	$ 11.178,00	$ 15.498,00	$ 18.616,00	
% revenues	*6,8%*	*7,4%*	*8,3%*	*9,4%*	*9,3%*	*8,2%*
EBIT	**$ 46.753,00**	**$ 28.944,00**	**$ 46.751,00**	**$ 69.380,00**	**$ 83.276,00**	*12,2%*
% margin	*39,6%*	*24,8%*	*34,7%*	*42,2%*	*41,4%*	36,5%

Data	2021	2022	2023	2024	2025	CAGR_5Y
Total Current Assets	*$ 58.622,93*	*$ 55.796,67*	*$ 77.277,87*	*$ 96.615,16*	*$ 92.572,69*	*9,6%*
% growth		*-4,8%*	*38,5%*	*25,0%*	*-4,2%*	
Operating Current Assets	**$ 16.284,73**	**$ 17.350,20**	**$ 17.981,26**	**$ 21.126,99**	**$ 22.387,50**	
Total Current Liabilities	**$ 18.585,12**	**$ 25.323,03**	**$ 28.932,24**	**$ 32.444,23**	**$ 35.621,78**	*13,9%*
% growth		*36,3%*	*14,3%*	*12,1%*	*9,8%*	
NWC	**$ -2.300,39**	**$ -7.972,83**	**$ -10.950,98**	**$ -11.317,24**	**$ -13.234,28**	
% growth		*446,6%*	*37,4%*	*3,3%*	*16,9%*	
% revenues		*-6,8%*	*-8,1%*	*-6,9%*	*-6,6%*	*-7,1%*
ΔNWC		*$ -5.672,44*	$ -2.978,15	$ -366,26	$ -1.917,04	
CAPEX	**$ 18.690,00**	**$ 31.431,00**	**$ 27.266,00**	**$ 37.256,00**	**$ 69.691,00**	
% growth		*68,2%*	*-13,3%*	*36,6%*	*87,1%*	

Figure 2: Meta – Key Fundamentals Dashboard

The Working Capital Anomaly: A Category-of-One Business. Meta's Cash Conversion Cycle (CCC) is **negative at -50.3 days**:

$$\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO} = 0 + 33.4 - 83.7 = -50.3 \text{ days}$$

Operating with effectively zero inventory (digital services), Meta maintains Days Sales Outstanding at 33.4 days against Days Payables Outstanding of 83.7 days. The consequence is a **structurally negative Net Working Capital of −US$13.23B at year-end FY25**. Translated into plain English: *Meta collects cash from advertisers roughly 50 days before paying its suppliers.* This 50-day float is **free financing from counterparties**, growing mechanically with revenue. For a DCF practitioner, this dictates that ΔNWC is consistently *negative* in the projection, acting as a perpetual, non-dilutive source of operating cash flow.

3 WACC Assumptions

The discount rate is constructed bottom-up using the Capital Asset Pricing Model (CAPM) for the cost of equity and the yield-to-maturity on Meta's 2035 senior unsecured notes for the cost of debt. As detailed in Figure 3, the inputs are explicitly anchored to observable market data at the time of valuation.

Rather than merely restating the inputs, it is critical to contextualize them. We apply a 4.00% Risk-Free Rate and a 4.46% Equity Risk Premium. Combined with a 3-year adjusted Beta of 1.28, this

yields a Cost of Equity of 9.71%. Because Meta operates a capital-light model backed by a fortress balance sheet, the capital structure is heavily equity-weighted ($D/(D+E) = 7.41\%$). Consequently, the WACC is overwhelmingly driven by the equity premium rather than the cost of debt (5.22%).

$$\text{WACC} = \frac{E}{D+E} \cdot K_e + \frac{D}{D+E} \cdot K_d \cdot (1-t) = \mathbf{9.32\%}$$

1	Discount Rate - WACC	
	Risk-free rate - T-Bond 10yrs	4,0%
	Equity Risk Premium	4,5%
	Beta	1,28
A	Ke - Cost of Equity	9,7%
	Bond Rate	0,05
	Clean Bond Price	98,39
	Bond Expiration	15/11/35
	Settlment Date	26/04/26
	Bond Nominal	100,00
	Frequency	2
	Day Count Basis	0
	Bond YTM	5,22%
B	Kd - Cost of Debt	5,2%
	Average D/E	0,08
	D/(D+E)	7,4%
	E/(D+E)	92,6%
	Corporate Tax Rate	15,0%
C	WACC	9,3%

Figure 3: WACC Calculation – Meta Platforms Inc.

The resulting 9.32% WACC is intentionally conservative: it does not apply an arbitrary size premium discount and utilizes a marginal tax rate (15.0%) rather than a blended effective one. Furthermore, it assumes Meta's Beta remains elevated. Any normalization of the Beta towards 1.0 (as the capex cycle peaks and operational leverage stabilizes) would structurally compress the discount rate towards the 8.8%–9.0% range, immediately unlocking significant further upside in our fair value derivation.

4 DCF Valuation

Model Architecture & Scenario Logic

Our DCF model architecture actively rejects the 'infinite growth' fallacy often applied to tech mega-caps. We employ a 5-year explicit forecast (FY26E-FY30E) plus a Gordon growth terminal value, discounted at WACC.

Crucially, our DCF **does not assume Meta maintains a 100% market share** of incremental digital ad spend. Instead, the model assumes Meta defends its dominant oligopoly position through brutal operational efficiency and entrenched network effects. Revenue growth (tapering from 19% to 15%) is not modeled on exponential user growth—which is mathematically approaching a saturation point—but rather on aggressive **ARPU (Average Revenue Per User) expansion**.

The central narrative of the valuation hinges on the Capex cycle. The US$ 69.7B peak in FY25 is modeled as a front-loaded infrastructure build. We assume Capex/Revenue normalizes downward from 30% in FY26 to 15% by FY30. This perfectly matches the lifecycle of hyperscaler AI investments: massive initial build-out followed by multi-year depreciation and harvesting.

Furthermore, our base case assigns a value of **zero** to two massive optionalities: 1) the commercial success of Reality Labs (AR/VR hardware), and 2) the potential for Meta to pivot its excess AI compute infrastructure into a high-margin Infrastructure-as-a-Service (IaaS) offering. Valuing these at zero ensures our target price is a conservative floor based purely on the core advertising cash generation.

Table 2: Equity Value Bridge – US$ mn

Item	**Value**
Sum of PV of FCFF (FY26E–FY30E)	294,535
Terminal Value at t_5 (g = 3%)	2,106,445
PV of Terminal Value	1,349,246
Enterprise Value	**1,643,781**
(-) Total Debt	(70,297)
(+) Cash & ST Investments	70,185
Equity Value	**1,643,669**
Diluted Shares Outstanding (mn)	2,530
Intrinsic Value per Share (US$)	**649.67**
Implied Output	**BUY**

Scenario & Sensitivity Analysis

Base case fair value lands at **US$ 650**, essentially flat to the current market price. This implies that the market is currently pricing in our base case scenario: it already assumes the Capex/Revenue ratio will mean-revert to 15% over five years. Therefore, any positive deviation—such as faster AI monetization, an earlier-than-expected Capex roll-over, or the successful monetization of the IaaS pivot—flows entirely and directly into upside.

The sensitivity analysis highlights an asymmetric risk/reward profile. The realistic intrinsic value range sits between US$ 580 (bear case: high WACC, low terminal growth) and US$ 800+ (bull case: WACC normalization and sustained pricing power). Downside from current levels is mathematically constrained to ∼10–15%, while upside optionality exceeds 25%.

Table 3: Sensitivity – Intrinsic Value per Share (US$) vs WACC and Terminal Growth

g \ WACC	8.50%	9.00%	9.32%	9.75%	10.00%
2.50%	700	645	608	568	547
2.75%	726	667	628	585	563
3.00%	**755**	**691**	**650**	**604**	**580**
3.25%	787	718	673	624	599
3.50%	822	747	698	646	619

Scenario	2026E	2027E	2028E	2029E	2030E
Revenues g %	19,0%	17,0%	16,0%	15,0%	15,0%
COGS/Revenues	19,0%	18,5%	18,0%	18,0%	17,5%
EBITDA margin %	49,5%	50,0%	50,0%	50,5%	51,0%
D&A/Revenue	10,5%	12,0%	13,5%	14,0%	14,0%
Tax Rate %	15,0%	15,5%	16,0%	16,5%	17,0%
CAPEX/Revenues	30,0%	25,0%	20,0%	17,0%	15,0%
NWC/Revenue	-6,3%	-6,0%	-5,7%	-5,3%	-5,0%
g	3,0%	0,3	0,3	0,3	0,3

Figure 4: DCF Scenario Analysis – Meta Platforms Inc.

Reverse DCF: Unpacking Market Irrationality

At the current market price of ∼US$ 675, a reverse-engineered DCF reveals a profound disconnect between Meta's operational reality and the Street's implied expectations. To fundamentally break our model and justify a target price below US$ 550, one must assume that Meta's operating margins compress permanently by 400–500 basis points, or that the Terminal Growth Rate drops to an anemic 1.5%. The market is effectively treating the current AI infrastructure build-out not as a deferred asset that will generate future cash, but as a permanent structural impairment to the margin profile. This is the classic "capital intensity trap" mispricing. History shows that Meta's hyperscale investments (e.g., the painful transition to mobile, the aggressive shift to Reels) are historically followed by massive waves of free cash flow harvesting. The current price offers a free option on this historical pattern repeating.

Capital Allocation as a Valuation Floor

Beyond intrinsic cash flow generation, Meta's valuation is structurally supported by a ruthless capital return framework. The introduction of a dividend, paired with a relentless share repurchase program, fundamentally alters the downside mechanics. With an authorized buyback capacity that routinely absorbs billions of dollars of floating supply, Meta has engineered a synthetic "put option" on its own stock. Should the market irrationally discount the equity toward the US$ 550–600 range, the

buyback yield mechanically accelerates, aggressively shrinking the denominator (shares outstanding) and forcing EPS accretion. This dynamic ensures that downside volatility is heavily dampened, providing a highly asymmetric entry point for long-term capital.

Relative Valuation & The Hyperscaler Disconnect

While our primary conviction stems from the DCF, a relative valuation check against the "Magnificent 7" peers exposes a glaring anomaly. At approximately 28x Forward P/E, Meta trades at a steep discount to Microsoft, Apple, and Amazon, despite boasting superior operating margins (41.4%), a 22.8% ROIC that remains broadly in line with hyperscaler peers , and a significantly cleaner balance sheet (Net Cash). The market continues to apply a "social media penalty" to Meta, valuing it as a cyclical ad-network rather than the foundational consumer AI infrastructure layer it has become. As Llama-driven features blur the line between a social platform and an operating system for digital commerce, this multiple discount is structurally unsustainable. Multiple expansion toward the low-30x range, harmonizing with hyperscaler peers, provides a secondary, entirely independent engine for share price appreciation.

Final Recommendation

Meta Platforms remains the **highest-quality digital advertising franchise in public markets**. It is distinguished by three structural attributes: an ∼82% gross margin profile immune to broad macro shocks, a −50 day Cash Conversion Cycle providing free financing, and an operational efficiency culture that has transformed AI from a capital sink into a direct margin multiplier.
Our **BUY recommendation** with a 12-month target price of **US$ 650** is built on a highly testable thesis:

- **The Market Misprices the Capex Cycle.** The current US$ 650 market price reflects a baseline scenario. It assumes the current 35% Capex/Revenue ratio normalizes slowly. Our base case mechanically delivers US$ 650 without embedding any premium for unforeseen AI upside, IaaS pivots, or Reality Labs success.
- **Asymmetric Risk/Reward.** The downside is strictly limited by the fortress balance sheet, structural free cash flow generation, and aggressive share repurchases. Conversely, any WACC re-rating post-Capex peak expands fair value rapidly toward US$ 800.
- **Optionality is Free.** Reality Labs, on-device Llama, and excess compute leasing are currently valued at zero. At US$ 675, investors are acquiring the world's most profitable advertising monopoly at fair value, with free options on the next computing paradigm.

On this basis, **US$ 650 represents the floor, not the ceiling.**

Final Rating	**Target Price**
BUY	**US$ 650**

Investment Strategy: Accumulate at current levels; add aggressively on any broader market pullbacks below US$ 600. Position sizing should reflect mega-cap liquidity and a 12–18 month holding horizon to allow the hyperscaler Capex → FCF conversion thesis to fully materialize.

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