

Equity Trading Strategy

For Accredited Investors (AI) and/or Professional Investors (PI) ONLY.

Thursday, 30 June 2016

Facebook Inc (FB US): Looks Oversold; Tactical Longs

Fundamental/Long-term Rating: Morningstar 3-stars (HOLD)

Risk Rating: P4

Technical/Short-term Recommendation: DBS Chief Investment Office (CIO) BUY

Price	Tactical Call	Exit Level (Profit Target)	Stop Loss Level	Expected Return	Risk
USD114.16	Buy	USD124.00	USD108.00	8.6%	5.4%

Technical Comments



Source: Bloomberg Finance LP

- Consider a tactical long opportunity in Facebook shares: the stock's rebound from an important support indicates that it may have found a floor for the time being.
- Facebook was last at USD114.16. It could rise toward USD123.00-124.00. Stop at USD108.00, implying an indicative return of 8.6% against a risk of 5.4%.
- Facebook has rebounded from a strong converged support: the April low and the lower edge of a rising channel from late 2015. The stock is potentially headed for a bullish reversal on weekly charts. Furthermore, its momentum on weekly charts continues to be supportive. In the near term, the stock could retest the May high of USD121.08, possibly USD122.75 (the 100% extension of the April-May swing), with subsequent resistance at USD126.20 (the 123.6% extension).

Valuation

Social media heavyweight Facebook Inc trades at 31.9x forward P/E, slightly below its global social media peers, according to Bloomberg estimates. Morningstar has a 3-stars (Hold) rating on this stock.

Rationale & Risks

Rationale

- In the near term, Facebook's stock should find support as global markets calm down in the wake of the UK's Brexit decision. Further, the company's innovative products and lead position among social media network providers support its growth trajectory.
- Facebook is the largest social media network in the world. With more than 1.6 billion active users per month, and constant additions to bolster the network, Facebook is an attractive partner for advertisers. Morningstar believes Facebook will continue to benefit from growing marketing budgets for online advertising. This will also be supported by the use of its mobile apps, including Instagram, Messenger and WhatsApp.

- Facebook's 1Q-16 results showed a robust 52% growth in total sales to USD5.4 billion, driven by the North America and Asia Pacific region. The number of active users also grew, outpacing rivals. While growth in active users could slow over the next few years, the company may be able to sustain revenue growth by adjusting its advertising load and pricing.

Key Risks

- Worse-than-expected effects from Brexit and other uncertainties in global markets, which could weigh on the stock.
- Stiff competition for online advertising dollars, affecting revenue growth trends.

Source: Bloomberg Finance LP, Facebook Inc, Media Reports, Morningstar

Worst Case Scenario: The value of shares invested may turn to zero; clients may lose all of their investment capital.

Note: The trade idea would be deemed closed once the price hits the target or stop loss. Updates may or may not be sent when the target or stop loss is hit.

For more information on this stock, please contact your Relationship Manager.

Analyst: Manish Jaradi, Chief Investment Office.

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General Product Risk Rating

- A 5-point scale, 1-5, indicates the relative rating of potential loss; “1” being the lowest and “5” being the highest.

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