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Meta Platforms Inc (META.O)

1st Impression: AI Tailwinds as Muse Usage Ramps, Core Ad Revenue Momentum Continues, and Compute Capacity Improves

CITI'S TAKE

Meta reported better-than-expected 3Q26 revenues and 4Q26 revenue guide and, key here, management noted capacity flexibility going forward. Meta maintained its 2026 Expenses (ex-$9.9B legal charge) and raised the lower-end of its CapEx guidance range. Total revenue of $64.6B (+26.3% Y/Y ex-FX) came in ~2% above FactSet consensus led by 26% Y/Y ad revenue growth ex-FX with ad impressions +10% Y/Y and pricing +14% Y/Y. Diluted EPS of $7.40 (ex-legal charge) compared to consensus at $6.53. **On guidance**, 4Q revenue guidance of $73-$76B came above expectations (~1% above consensus at the midpoint), and Meta maintained its '26 Expense guidance of $175-$179B (after incorporating the $9.9B legal charge) while also raising the lower end of its '26 CapEx guidance to $135B-$145B (from $130-$145B) and compares to our $144B projection. Meta also announced new non-voting Class C common stock effective January 2027 and a 1x Class C stock dividend for existing shareholders.

Buy	
Catalyst Watch: Upside, expires 15-DEC-26	
Price (21 Oct 26 16:00)	US$697.52
Target price	US$895.00
Expected share price return	28.3%
Expected dividend yield	0.3%
Expected total return	28.6%
Market Cap	US$1,776,937M

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- **On the call, we'll be focused on: 1)** The Muse Moment: adoption, usage, and vision; **2)** Product vision with Muse, Wonder Models, and Enterprise; **3)** Meta's compute outlook & priorities; **4)** R&R benefits from Meta's LLMs; and **5)** View into 2027 OpEx & CapEx.
- **Overall Results—Revenue & OI Above:** Revenue of $64.6 billion (+26.1% Y/Y, +26.3% Y/Y ex-FX) came in ~2% above consensus. Operating income of $13.0 billion (20.1% margin) would have been $22.8B excluding the legal charge, ~13% above consensus and Diluted EPS of $7.40 (ex-legal) compares to consensus of $6.53. Reported GAAP EPS came in at $3.83, inclusive of the $9.9B legal charge.
- **Family of Apps: Revenue Above & Profitability Above:** Family of Apps DAPs of 3.64 billion (+2.8% Y/Y, +1.1% Q/Q) came in line with our projection, revenue of $64.2 billion (+26.4% Y/Y) was ~2% above our projection, led by +26.1% Y/Y advertising ex-FX growth, while Family of Apps OI of $17.1 billion (26.7% margin) compares to our $16.2 billion projection (25.6% margin).
- **Reality Labs: Operating Losses Better than Expected:** Reality Labs revenue of $443 million (-5.7% Y/Y) came in ~17% below our projection, though RL Operating Losses of ~$(4.1) billion compares to our $(5.1) billion projection.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

- **Guidance: 4Q Revenue Guide Above Expectations:** Meta's 4Q revenue guidance range of $73-$76B (+21.9%-26.9% Y/Y, +22.9%-27.9% Y/Y ex-FX) was ~1% above consensus at the midpoint on continued R&R model benefits and assumes a ~1pt FX headwind.
- **2026 CapEx Guide Narrowed & Expense Guide Maintained (Including Legal Charge):** Meta narrowed 2026 CapEx guidance to a range of $135-$145B (from $130B-$145B), ~2.5% below our projection at the midpoint. Meta maintained 2026 Expense guidance of $175-$179B (when including the $9.9B legal charge from 08/26), +50% Y/Y at the midpoint and ~1% above our projections at the midpoint.
- **2027 Guidance:** Meta guided to expected 'strong overall revenue growth throughout 2027' and expects Reality Labs losses to narrow to ~$15 billion by reallocating investment toward priority areas (primarily AI).

Figure 1. META 3Q26 Results vs. Projections

			Citi		Y/Y % Change		
	3Q25A	2Q26A	3Q26E	3Q26A	3Q26E	3Q26A	vs. Estimate
Family of Apps Ad Revenue	$50,082	$59,363	$61,924	$63,061	23.6%	25.9%	1.8%
Family of Apps Other Revenue	$690	$1,007	$1,159	$1,097	68.0%	59.0%	-5.4%
Family of Apps Revenue	**$50,772**	**$60,370**	**$63,083**	**$64,158**	**24.2%**	**26.4%**	**1.7%**
Reality Labs Revenue	$470	$431	$536	$443	14.0%	-5.7%	-17.3%
Total Revenue	**$51,242**	**$60,801**	**$63,619**	**$64,601**	**24.2%**	**26.1%**	**1.5%**
Family of Apps							
Family of Apps Revenue	$50,772	$60,370	$63,083	$64,158	24.2%	26.4%	1.7%
Family of Apps Operating Income	$24,967	$23,394	$16,179	$17,117	-35.2%	-31.4%	5.8%
FoA Margin	49.2%	38.8%	25.6%	26.7%			
Reality Labs							
Reality Labs Revenue	$470	$431	$536	$443	14.0%	-5.7%	-17.3%
Reality Labs Operating Loss	-$4,432	-$4,619	-$5,090	-$4,129	14.8%	-6.8%	-18.9%
Reality Labs Margin	-943.0%	-1071.7%	-950.0%	-932.1%			
Gross Profit	$42,325	$49,810	$52,040	$51,558	23.0%	21.8%	-0.9%
Operating Income	**$20,535**	**$18,775**	**$11,089**	**$12,988**	**-46.0%**	**-36.8%**	**17.1%**
PF Operating Income	$26,090	$30,013	$28,724	$30,241	10.1%	15.9%	5.3%
GAAP EPS	**$1.05**	**$6.18**	**$3.44**	**$3.83**	**226.4%**	**263.8%**	**11.5%**
EBITDA	$31,053	$36,369	$37,072	$37,395	19.4%	20.4%	0.9%
FCF	$10,625	$784	-$13,621	-$2,120	-228.2%	-120.0%	-84.4%
% of Revenue							
Gross Margin	82.6%	81.9%	81.8%	79.8%			
Operating Margin	40.1%	30.9%	17.4%	20.1%			
PF Operating Margin	50.9%	49.4%	45.1%	46.8%			
EBITDA	60.6%	59.8%	58.3%	57.9%			
FCF Margin	20.7%	1.3%	-21.4%	-3.3%			

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Source: Citi Research, Company Reports



Meta Platforms Inc

Valuation

Our target price of $895 is based on ~27x our 2027E GAAP EPS of $32.86 and implies ~13x our 2027E EV/EBITDA. We justify our valuation methodology based on Meta's user scale, growing engagement, product super cycle and AI opportunity, ads innovation, and revenue growth, and we're watching investments and overall profitability. Our multiple reflects greater visibility into Meta's multiple levers for compute monetization (including Muse & Meta Enterprise Platform), even as we raise expenses to reflect growing compute needs.

Risks

Risks to our target price include: 1) Impacts from changes to ATT and IDFA could prove more difficult to overcome and structurally impact Meta's advertising business; 2) Online advertising spend could decelerate faster than we anticipate; 3) Competition could prove to be more impactful than we anticipate; 4) Meta may not be able to achieve meaningful contributions from its investments in non-advertising businesses (metaverse). 5) Adverse economic and/or consumer spending trends could hinder advertising spend; and 6) Regulatory pressures on anti-trust, data, and privacy practices could adversely impact on performance.