

Dong Capital Research - Closed Investment Memo (LONG)
Alphabet Inc. Class A (GOOGL)

12 February 2025

Initial Entry: \$161.55

Position Closed: 5 August 2025

Exit Price: \$195.48

Position sizing: 15% AUM

EXECUTIVE SUMMARY

Alphabet is one of the highest quality businesses in public markets, yet the stock currently trades as though artificial intelligence represents a major threat to its long-term earnings power. I believe the market's concerns are legitimate but increasingly overstated.

Alphabet remains one of the most dominant technology companies in the world through its ownership of: Google search, YouTube, Android, Chrome, Google Cloud, and Gemini.

The market appears focused on three primary concerns: AI disruption to search, regulatory pressure, and rising capital expenditures. While these risks deserve attention, I believe investors are underestimating Alphabet's ability to adapt its products, monetize AI, and leverage its existing ecosystem. Q4 2024 results demonstrate that the core business remains exceptionally strong.

| Metric | Q4 2024 / FY2024 |
|-------------------------|-----------------------------|
| Q4 Revenue | \$96.469B |
| FY2024 Revenue | \$350.018B |
| Q4 Operating Income | \$30.972B |
| FY2024 Operating Income | \$112.390B |
| Q4 Diluted EPS | \$2.15 |
| FY2024 Diluted EPS | \$8.04 |
| Google Cloud Revenue | \$11.955B |

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| Google Cloud Operating Income | \$2.093B |
| Cash, Cash Equivalents & Marketable Securities | \$95.657B |
| FY2024 Free Cash Flow | ~\$72.8B |
| Expected 2025 Capex | ~\$75B |

At approximately \$161.55 per share, I believe Alphabet offers an attractive combination of quality, growth, profitability and valuation.

I recommend a LONG position with a target price of \$195/share over the next several months.

INVESTMENT THESIS

1) The Market is Overestimating AI Disruption Risk

The primary bear case against Alphabet centers around intelligence. The argument is simple: generative AI may reduce the importance of traditional search, weakening Google's most valuable business.

This risk is real. However, I believe the market is acting as though Alphabet is merely reacting to AI rather than helping define it. Alphabet possesses several structural advantages: billions of users, search data, android+chrome distribution, YouTube, Gemini... etc.

The company is actively integrating AI into search and other products. AI Overviews, Gemini, and other initiatives suggest Alphabet intends to evolve Search rather than defend it. The market appears focused on what AI may take away from Google.

I believe investors are underestimating what AI may add.

2) Search Remains One of the Strongest Businesses in the World

Despite concerns surrounding AI, Search continues to deliver strong growth. Google Search & Other generated approximately \$54B of revenue during Q4 2024, representing double digit year over year growth. This is important because the current financial results do not support the most extreme disruption narratives.

However, I believe the market is discounting years of potential disruption while ignoring current operating performance. This disconnect creates opportunity.

3) The Market Undervalues YouTube and Google Cloud

Alphabet is often viewed primarily as a Search business. I believe this understates the value of several major assets. Youtube remains one of the most valuable media properties globally. At the same time, Google Cloud continues establishing itself as a major enterprise platform.

Q4 2024 Cloud revenue reached approximately \$12B, growing more than 30% year over year. More importantly, Cloud generated approximately \$2.1B in operating income. The significance is not just growth, but profitability. Google Cloud is increasingly becoming a meaningful contributor to Alphabet's overall earnings power. I believe the market frequently Alphabet as a Search business while underappreciating the value of YouTube and Cloud.

4) Alphabet's Financial Strength Creates Strategic Flexibility

Alphabet possesses one of the strongest balance sheets in corporate America. The company ended 2024 with approximately \$95.7B of cash, cash equivalents, and marketable securities; along with \$72.8B of annual free cash flow.

Many competitors require outside financing to support AI infrastructure spending. Alphabet can largely self-fund these investments.

5) Valuation remains Reasonable Relative to Quality

Alphabet is not a deep value investment. My thesis is not that the stock is dramatically mispriced. The thesis is that Alphabet remains one of the strongest businesses in the world while trading at a valuation that already reflects considerable pessimism.

RISKS

1. AI Disrupts Search Faster Than Expected

If generative AI materially reduces Search usage or monetization, Alphabet's earning power could be negatively affected.

2. Regulatory Risk

Alphabet faces ongoing antitrust investigations and regulatory scrutiny globally.

3. Capital Allocation Risk

Expected 2025 capital expenditures of approximately \$75B are significant. If returns on these investments disappoint, margins may come under pressure.

4. Cloud competition

Google Cloud competes directly against: Amazon AWS, and Microsoft Azure. Failure to maintain growth could weaken part of the thesis.

VALUATION

The primary valuation framework is Forward Earnings power (P/E).

Unlike early stage technology companies, Alphabet is ultimately valued on its ability to generate earnings and free cash flow at scale.

Alphabet generated FY2024 diluted EPS of \$8.04 and continues to benefit from: Search dominance, YouTube monetization, Google Cloud growth, share repurchases, and AI infrastructure leadership.

A reasonable valuation framework is based on expected 2025 earnings power.

| Metric | Estimate |
|------------------------------|-----------------------------|
| FY2025 EPS Estimate | ~\$10.00 |
| Historical Forward P/E Range | ~20x–30x |
| Current Market View | Low end of historical range |
| My Fair Value Range | 20x–22x Forward EPS |

The thesis is not that Alphabet is deeply undervalued. The thesis is that the market is temporarily applying an excessive discount due to AI fears.

SCENARIO ANALYSIS

Based on FY2025 Earnings Power

| Scenario | FY2025 EPS | Forward P/E | Implied Price | Return vs \$161.55 |
|----------|------------|-------------|---------------|--------------------|
| Bear | \$9.50 | 18x | \$171 | +6% |
| Base | \$9.75 | 20x | \$195 | +21% |
| Target | \$10.00 | 22x | \$220 | +36% |
| Bull | \$10.50 | 24x | \$252 | +56% |

POSITION MANAGEMENT (RETROSPECTIVE)

The position was initiated on 21 March 2025 at approximately \$161.55 per share. Following the initial purchase, Alphabet experienced volatility and traded lower. Rather than exiting, additional shares were accumulated throughout the decline, including purchases in the low \$150s range. I believed that the core thesis remained intact.

The objective was not to hold Alphabet indefinitely. As shares approached intrinsic value estimates, partial profit taking was implemented. The remaining position was fully exited on 5 August, 2025 with a final exit price of \$195.48.