Is Facebook worth the bet? Doubts amid the frenzy

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Everyone knows it is a giant of the Internet that will make money for a long while. But is Facebook worth investing in at its elevated initial public offering price?

Analysts have some doubts: the company has huge value, and could be very worthwhile over the long term. But there might be cheaper opportunities elsewhere on the market.

On the other hand, demand for Facebook shares is so strong that, fundamental valuations aside, an investor might score big in any case.

For one, there is last year's big social networking IPO, LinkedIn. Those who risked buying its shares at the seemingly expensive $45 issue price would have more than doubled their money by now.

Facebook is confident of the demand. On Tuesday pushed up the price of its IPO, expected to take place Friday, to $34-$38 a share, from the previously proposed $28-$35 range.

That is fairly high, by fundamental valuations, analysts say. At the current pace of growth, the company's price-earnings ratio would be more than 60 times this year's projected earnings and 40 times next year's.

That compares with an current Nasdaq average market p/e ratio of 19.7 times, and rival online ad giant Google's 18.5 times.

Moreover, the company's first quarter report showed slowing ad growth, rising costs, and the company was struggling to find ways to make money on customers who were using their smartphones more and more for their Facebook postings.

"It's really highly likely the company is overvalued... our fair value is $32," said Rick Summer of Morningstar.

The issue price has been driven by the sheer frenzy of demand, he said. "This is the one Internet company that people feel they have to get a piece of."

"Sometimes the expectations get ahead of the fundamentals," said the more bearish Trip Chowdhry of Global Equities Research.

"Revenue per user... is very low (and) Facebook doesn't have a strong mobile story," he said.

The issue, said Chowdhry, is whether one believes the huge long-term promise that Facebook will keep a lock on users and their personal data that advertisers so sorely want, to keep it shoulder to shoulder with better-established Google in the online ads business.

"Is it a fad or is it a trend?" Chowdhry asked. "The industry is not defined, the business model is not defined, the user behavior is not fixed."

Chowdhry says the company's financial performance might not justify the IPO price for several years. Revenues will grow quickly from online ads, but not earnings.

Facebook has to keep making huge investments -- in staff, technology, facilities, and strategic moves like the $1 billion takeover of photosharing service Instagram.

Yet longer term analysts are mostly bullish. They say Facebook's potential lies in its potential to increase its revenues very fast.

"If Facebook can actually have that reach into a billion users across the globe, that becomes an extremely valuable advertising platform," said Summer.

"Over the longer term we see Internet ad space is largely a two-headed monster": Google and Facebook.

The question for small investors, though, is whether Facebook's shares will perform. Against the example of LinkedIn are Zynga and Groupon, tech-industry IPOs of the past year which both are now trading well below their issue prices.

Virginie Lazes of Bryan Garnier & Co. says that even if the valuation is a little high, she expects the Facebook price will hold up.

Over one year, she said, "I think it could go up 5-10 percent. That is already good" for a company so large.

Given the choice, however, Summer said that Google looks like a better bet.

"The valuation differential is way too much" between Google and much younger Facebook.

Google's share price was at $611 Tuesday, and Morningstar has put a valuation on it of $780.