

# How low can Facebook go?

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During trade on Monday the shares hit \$26.44, more than 30 percent below the [initial public offering](#) price of \$38, before rebounding slightly to \$26.90.

"It is difficult to argue for owning the stock today," said Bernstein [Research analyst](#) Carlos Kirjner in a research note Monday that added to the selling momentum.

Kirjner forecast a price of \$25 over the next 12 months, but added that a

real possible slowdown in Facebook revenue growth "will likely drive additional downside pressure on the stock beyond what is already reflected in our price target."

Other critics echoed that.

"There are some real signs that Facebook may be in real trouble and could turn out to be a disastrous investment," said Oliver Pursche, President of Gary Goldberg Financial Services, a New York money manager.

"We told people to stay away because we didn't and still don't know how it was valued," he told AFP.

By far the Internet's dominant social network, Facebook went public on May 18 in a \$16 billion share sale, the second largest IPO in the United States ever.

The runup to the sale was marked by bubbly enthusiasm reminiscent of the dot-com era, to the extent that lead underwriter Morgan Stanley agreed to raise the offering price and increase the number of shares issued.

But the shares barely held above the \$38 level on the opening day and have fallen ever since, delivering real and paper losses of some \$4.6 billion to the new investors.

Price forecasts are all over the place, from \$10 to the upper \$40s, as more questions are being raised about the company's real potential to turn an audience of nearly one billion users into an advertising bonanza.

[Bernstein](#) Research's \$25 estimate takes note of the company's great potential but also its still-unproven ability to fully tap that potential --

whether it can make social network-based advertising as effective as, for instance, Google's search-based ads, and if it can do so as fast as many investors expect.

"We do not think it is likely that the issues associated with the effectiveness of social advertising will be addressed, or that upside from new opportunities will become materially clearer in a few quarters," Kirjner said.

"To the contrary, we believe that Facebook's revenue growth over the next twelve months will at best stabilize, and probably further decelerate."

Pursche said the selloff has nothing to do with the darkening clouds over the economic landscape or anything new learned by investors since the IPO.

Nor does it have much to do with the revelation that the underwriters quietly revised downward their forecasts of Facebook's earnings just days before the IPO.

Instead, institutional investors bought expecting an opening day price surge "because it is an exciting company. When that didn't happen, they have been dumping the shares, he said.

"The sentiment is very negative, the technicals are broken," he said.

"Real structural issues" over Facebook's earnings potential aside, Pursche said, fund managers are likely now looking to how their performance and portfolios will look the end of the second quarter, and are selling to minimize the damage.

"If you are a well-known fund manager, you probably don't want

Facebook in your top 10 holdings" in the half-year report.

"I wouldn't be shocked if on June 30 it could be trading below \$20."

Trip Chowdhry of Global Equities Research called the IPO "totally mispriced."

Valuations are "anywhere from \$8 to \$50. The price is all over the place," he said. "I think the IPO should have been priced from \$10 to \$15."

There are optimistic analysts out there, and more are recommending the stock as it falls.

But Pursche and Chowdhry both said the selloff could continue until the company convincingly clears up longstanding questions about its sources of revenue and its business direction.

"There is one thing that [Facebook](#) needs to answer," Chowdhry said.

"I think an investor will want to know what percent of current revenues are coming through their current shareholders," which include Microsoft and game-maker Zynga.

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