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Investors warm to Facebook after IPO flop

July 1 2012, by Rob Lever

Facebook co-founder Mark Zuckerberg is seen on a screen getting ready to ring the NASDAQ stock exchange opening bell in Times Square in New York in May 2012. After a dire stock market debut, Facebook has clawed back a large chunk of its losses as investors look past the flubbed initial public offering and gradually warm to the leading social network.

After a dire stock market debut, Facebook has clawed back a large chunk of its losses as investors look past the flubbed initial public offering and gradually warm to the leading social network.

Facebook shares were offered in May at $38, and after an opening hours jump slid over the next two weeks to as low as $25.52 on June 6. But since then the stock has risen more than 20 percent to Friday's close at $31.09.

Analyst views are mixed, but investors now seem focused on the potential for growth of the world's biggest social network, which is to announce its first quarterly results as a public company on July 26.

Herman Leung of Susquehanna International Group said he sees shares rising to $48 over the next 12 months as Facebook develops more ways to boost advertising and other revenues.

"I think Facebook is still a company that has a lot of opportunity for the business to expand, and the expansion opportunities have not been fully optimized," Leung told AFP.

"They have 900 million users, all are highly engaged, they all love the product, they all use the product."

The stock may have been hurt by an IPO which put too many shares on the market, Leung said, but that will eventually be absorbed.

Lou Kerner of the Social Internet Fund said he sees the stock heading to $44 within the next 12 months "based on my expectation of revenue growth and margin expansion."

Kerner said sentiment was hurt by missteps in the IPO process, and that the investment banks "misread interest in buying to flip with interest in buying to own, which was greatly magnified by Nasdaq's massive mishandling of the opening and early trade flows."

"All that said, over time, those mistakes will become increasingly irrelevant to the share price, as it will increasingly reflect Facebook's execution," Kerner told AFP.

Investment banks involved in the IPO were permitted to issue their own research notes after a 40-day quiet period, and many were, not surprisingly, positive.

Morgan Stanley's Scott Devitt set a $38 price target and wrote Facebook "is uniquely positioned to leverage its large and highly engaged user base to monetize the mobile Internet."

Devitt dismissed concerns that Facebook's revenue base would be eroded as more users shift to mobile devices, where advertising models are untested.

"Facebook is the most downloaded app on every major mobile platform, and we view mobile as a significant long-term opportunity," he added.

Less enthusiastic, Citi offered a "neutral" rating with a price outlook of $35.

Citi analysts said Facebook will likely become the largest Internet firm in terms of revenue and profits one day, but that "much of this potential has been priced in."

By Wall Street metrics, using the price to earnings ratio, Facebook shares are expensive, at 40 to 50 times projected profits, compared with around 15 times earnings for the broad market.

Anthony DiClemente of Barclays said that despite all of Facebook's positives, it has a "lofty valuation," and "mobile monetization uncertainty."

RBC Capital Markets analyst Andre Sequin sees a $40 price target because of how Facebook is transforming the way people interact online.

"As Facebook represents a shift in how people interact with one another and information on the Web, we believe the company deserves a premium to our peer Internet coverage universe," he writes.

"In our view, the company is currently in a transformational phase in which it is taking steps to more fully and effectively monetize the unparalleled user base and user engagement it has already built."

In a view worthy of Facebook itself, the finance analytics firm Trefis sees the company worth $33.19 a share. Its "community price" from "friends and experts" is $32.62, with 67 percent bullish and 33 percent bearish.

Analyst Trip Chowdhry at Global Equities Research remains unconvinced. He says Facebook is "a great company" but that the stock is grossly overpriced.

"Facebook is a good company but the valuation of the company is totally off," Chowdhry said.

"I think $10 to $15 would fairly reflect the value of the company. They cannot discount 10 years of forward earnings."

While Facebook still has tremendous potential, Chowdhry tells investors: "Don't get carried away by emotions, look at the fundamental picture. The world doesn't start with Facebook and doesn't end with Facebook."

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