

At half-price, Facebook still faces doubts

August 4 2012, by Rob Lever

Facebook shares have lost nearly half their value since a highly-touted public offering in May, but it's still not a bargain for some.

[Facebook](#) in the past week dropped below \$20 a share for the first time since its \$38 [offering price](#) in May. On Friday, the stock rebounded five percent to \$21.09 but remains down a hefty 44.5 percent.

There is some fear that shares could take another hit in mid-August after the expiration of a "lockup," a 90-day period after the [IPO](#) during which [insiders](#) are barred from selling.

Michael Comeau of the financial website Minyanville says 268 million shares could come onto the market, in addition to the 460 million that are already floated. And more will become available later this year.

"I'm fixated on the 268 million shares that hit in two weeks," he said. "Will there be enough buyers to satisfy the new supply?"

Comeau said analyst full-year earnings estimates on Facebook "are actually coming down" from 51 cents per share to 49 cents.

"Declining earnings estimates are usually a negative indicator for momentum stocks," he added.

Facebook underwhelmed the market in July when it reported its first earnings as a public company, barely meeting estimates for earnings per share and delivering disappointing revenue growth.

The results showed growth for Facebook in overall revenue, operating profits and the number of users -- which increased to 955 million by the end of the quarter.

But the company indicated in a regulatory filing that as many as 83 million accounts may come from dubious sources -- duplicate accounts, pages for pets and those designed to send spam.

Trip Chowdhry at Global Equities Research, who has consistently said Facebook was overpriced, said the company may be a victim of its own success.

"Everybody's on Facebook. Your parents are on Facebook. Your [neighbors](#) are on Facebook," he said.

"So what do people do? They create fake IDs or they go hang out somewhere else. People are reducing their engagement on Facebook."

Chowdhry said it remains unclear if Facebook can "transcend" the current generation of users, or will be replaced by something else.

Additionally, he said there is "a lot of uncertainty" about the expiration allowing insiders to sell, adding the stock is still not a [bargain](#).

"The stock is reflecting that the company can grow 80 to 90 percent year-over-year, which is impossible," he said.

Larry Chiagouris, a professor of marketing at Pace University, said Facebook has yet to define its strategy for long-term growth and profits.

Chiagouris said founder Mark Zuckerberg's mantra that he wants to "help every person stay connected" and "be a great social experience" is too fuzzy.

"That is not focused enough," he told AFP.

"They probably expanded too quickly without articulating their mission. From a [profit](#)-making perspective, Facebook has kind of lost its way."

Chiagouris said most important for him is that marketers are cool to expanding the use of the Facebook platform.

"The large marketers know exactly how many people are clicking on the ads and to what degree that is helping marketing," he said.

"Facebook has yet to prove it is a good return on investment."

Lou Kerner of the Social Internet Fund remains upbeat on Facebook, saying it will rebound similar to Amazon after the dot-com bubble burst over a decade ago.

"The lesson I learned from the last bubble is you have to separate what the market is doing from the fundamentals of the business," Kerner said. "And the fundamentals at Facebook continue to be positive."

One of Facebook's problems, he said, is that it has "too many customers" especially on the mobile Internet, but that the company will find a way to leverage that massive user base."

"I think it's turned into a 'show me' stock," he said. "As soon as Facebook shows it can meaningfully monetize its mobile users I think you'll see the shorts (short-sellers) cover and people lining up to buy."

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