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Facebook: hard luck, Zuck

More than $100bn gone simply by reducing its revenue growth trajectory

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The citizens of the world may appreciate the humbling of Facebook. Its shareholders less so. The social network seems to be constantly apologising for some mishap. On Wednesday afternoon, the group announced a strong quarter with users up 11 per cent and ad revenues 42 per cent higher year on year, respectively. Shares nevertheless dropped almost a fifth when shares started trading on Thursday.

The reason is a deceleration in revenue growth from the first quarter by seven percentage points. Worse yet, Mark Zuckerberg's behemoth said that the slowdown would continue at the same clip for the rest of 2018. Facebook has never been afraid to say it was investing heavily in employees, R&D or security and that profits would suffer commensurately. However, its indestructible shield has thus far been eye-popping revenue and user growth. The dent comes with a loss of more than $100bn in stock market value.

The company admitted that part of the upcoming slowdown would result from giving users more choices on privacy features. In Europe, the GDPR standards cost Facebook 1m users (it now has about 280m users there). The social network also said that newer, high-growth products such as video-based Facebook Stories are, for now, less lucrative. It said expenses would grow at 50-60 per cent, well ahead of revenue growth. As a result, an operating profit margin that used to touch above 50 per cent will drift down into the high 30s.

The shift from hyper-growth mode to mere high growth is never painless if it happens suddenly and without warning. As Facebook approaches the limits of the digital advertising market, it also faces headline risks of stricter regulation, scandal and user fatigue. For months there was an awkward juxtaposition: embarrassing news such as the Cambridge Analytica scandal overlaid by buoyant financial results. Humility all round now may not be such a bad thing.

Facebook's stock is still up 355 per cent from its listing price six years ago. The fallout from privacy breaches, fake news and harassment is far from over. Even so, investors should contemplate buying this unusually sharp dip. Facebook trades at 30 times forward earnings. Those earnings are forecast to grow 25 per cent annually. The one thing that has been consistently humble about Facebook is its valuation.

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