

WEEKLY IDEA

ALPHABET INC-CL C

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BUY ALPHABET INC-CL C (GOOG US EQUITY) @351.28 WITH UPSIDE TARGET OF 23.40% @433.40 - POWERING THE AI ECONOMY

Alphabet Inc. is one of the world's largest technology companies, operating a diversified ecosystem spanning digital advertising, search, cloud computing, artificial intelligence, enterprise software, autonomous driving, and consumer platforms. Its core businesses include Google Search, YouTube, Android, Chrome, Google Cloud, and Workspace, serving billions of users globally while maintaining one of the largest digital advertising franchises.

Over the past two years, Alphabet has accelerated its transition into an AI-first company, embedding generative AI across nearly every product while making unprecedented investments in cloud infrastructure, proprietary Tensor Processing Units (TPUs), and next-generation AI models through Gemini. This positions the company to monetize artificial intelligence across consumer, enterprise, and infrastructure markets simultaneously.

Specification

Ticker	GOOG
Exchange	NASDAQ
Sector	Technology
Market Cap	\$4.30T
Target upside	23.40%
Free Float	57.22%
ISIN	US02079K1079

GOOG Price per share, USD - 1Y Chart



Investment Overview

Alphabet is undergoing one of the most significant strategic transformations in its history, evolving from a search and advertising leader into a vertically integrated AI platform. Rather than relying on a single AI product, the company is monetizing artificial intelligence across multiple layers of its ecosystem, including Search, Cloud, Gemini, TPUs, Workspace, YouTube, and Waymo. While investors remain focused on elevated capital expenditures and temporary pressure on free cash flow, recent financial results suggest these investments are being deployed against visible customer demand rather than speculative expectations.

Management highlighted that Google Cloud demand continues to exceed available compute capacity, with revenue that could have been even higher if sufficient infrastructure had been available. At the same time, Cloud backlog has reached approximately \$462 billion, providing exceptional revenue visibility while reinforcing the rationale behind Alphabet's accelerated infrastructure investments. Despite doubling capital expenditures, the company continues to deliver expanding operating margins, robust earnings growth, and improving profitability, demonstrating that AI monetization is already beginning to offset higher investment levels.

Following the recent share price pullback, we believe the market continues to underestimate Alphabet's ability to generate long-term earnings growth across multiple AI-driven revenue streams while simultaneously strengthening its core businesses.

Artificial Intelligence Is Strengthening Every Core Business

Unlike many AI companies that rely on a single product or platform, Alphabet is embedding artificial intelligence across its entire ecosystem. AI is enhancing Google Search through AI Overviews and AI Mode, improving advertising relevance and monetization, while simultaneously driving enterprise adoption through Gemini, Google Workspace, and Google Cloud. This integrated approach enables Alphabet to monetize AI across consumer applications, enterprise software, cloud infrastructure, and autonomous mobility rather than depending on a single source of revenue.

Beyond introducing new products, AI is making Alphabet's existing businesses more valuable by increasing user engagement, improving ad targeting, accelerating software adoption, and expanding cloud workloads. Management also noted that AI-powered search experiences are driving more complex commercial queries that are easier to monetize, while Gemini adoption continues to accelerate across both consumer and enterprise customers. Together, these developments position AI as a company-wide productivity and monetization engine rather than a standalone growth initiative.

Google Cloud Has Become a Second Growth Engine

Google Cloud continues to emerge as one of Alphabet's strongest long-term growth drivers. First-quarter Cloud revenue increased 63% year-over-year, while operating income nearly tripled, reflecting both accelerating enterprise AI adoption and expanding operating leverage. Management also disclosed that Cloud demand continues to exceed available capacity, highlighting that infrastructure—not customer demand—has become the primary constraint on future growth. With Cloud backlog reaching approximately \$462 billion, Alphabet enters the coming years with substantial contracted revenue visibility and a growing pipeline of enterprise AI workloads.

AI Infrastructure Has Become a Competitive Advantage

Alphabet is no longer simply building AI models—it is building the infrastructure required to power the AI economy. The company controls one of the industry's most comprehensive AI technology stacks, including proprietary TPUs, hyperscale data centers, global fiber networks, Gemini foundation models, and Google Cloud. Recent reports that Google has begun limiting AI capacity for certain enterprise customers due to exceptionally strong demand reinforce management's view that current investments are responding to real customer demand rather than speculative expansion.

Search Continues to Demonstrate Remarkable Resilience

Despite increasing competition from large language models, Google Search continues to deliver strong growth while benefiting directly from AI integration. Management reported record search activity, with AI-powered features driving higher engagement and more complex commercial queries that are easier to monetize. Rather than disrupting Search, artificial intelligence is enhancing user engagement, improving advertising efficiency, and expanding monetization opportunities across Google's largest business.

Waymo Provides Significant Long-Term Optionality

Beyond Search and Cloud, Waymo continues to strengthen Alphabet's long-term growth profile. The autonomous driving business remains the industry leader in commercial robotaxi deployments and continues expanding across major U.S. cities through both direct operations and strategic partnerships. While Waymo currently represents only a small portion of Alphabet's valuation, its continued operational progress provides meaningful upside optionality beyond the company's core businesses.

Financial Overview

Alphabet delivered another exceptionally strong quarter despite accelerating investments in AI infrastructure. First-quarter revenue increased 22% year-over-year, supported by broad-based growth across Google Services and Google Cloud. Operating income grew 30%, driving operating margins higher to 36.1%, while operating cash flow increased approximately 27% compared to the prior year.

Google Cloud remained the standout performer, with revenue increasing 63% year-over-year and operating income nearly tripling as enterprise AI demand accelerated. Management indicated Cloud revenue would have been even higher with additional compute capacity, highlighting the strength of underlying demand.

Capital expenditures increased significantly as Alphabet accelerated investments in data centers, TPUs, and AI infrastructure. However, these investments continue to be supported by robust operating cash generation and one of the strongest balance sheets within the technology sector. Management reiterated that capital allocation decisions remain guided by expected returns on invested capital (ROIC), reinforcing confidence that infrastructure spending is being deployed against visible customer demand.

Alphabet maintains one of the strongest balance sheets in the technology sector, supported by robust operating cash flow, ample liquidity, and disciplined capital allocation. While long-term debt has increased to support accelerated AI infrastructure investments, leverage remains conservative relative to the company's earnings power and cash generation, providing substantial financial flexibility to fund future growth while preserving balance sheet strength.

Key Financials Stats – Q1 2026

In Millions, USD	2025 Q1	2026 Q1
Revenue	90,234	109,896
Gross Profit	53,873	68,625
EBITDA	35,883	47,070
Net Income	26,721	33,455
EPS	2.17	2.73
Cash From Operations	36,150	45,790
Capex	-17,197	-35,674
Free Cash Flow	18,953	10,116

Key Ratios

Ratio	2022	2023	2024	2025	Current - Q1 26
ROE	23.62%	27.36%	32.91%	35.70%	38.88%
ROA	16.55%	19.23%	23.48%	25.28%	27.17%
ROC	21.29%	24.75%	30.27%	31.96%	34.11%
Gross Margin	55.38%	56.63%	58.20%	59.65%	62.45%
EBITDA Margin	33.12%	32.40%	37.43%	38.11%	42.83%
Operating Margin	26.46%	27.42%	32.11%	32.03%	36.12%
Net Income Margin	21.20%	24.01%	28.60%	32.81%	30.44%

Valuation Overview

Following the recent pullback, Alphabet's valuation has become increasingly attractive relative to both its historical trading range and large-cap technology peers. While investor concerns remain centered on elevated AI infrastructure spending and near-term free cash flow pressure, current multiples appear to understate the company's long-term earnings potential and expanding AI monetization opportunities.

Key Multiples

Multiple	2022	2023	2024	2025	Current - Q1 26
P/E	18.14	22.83	23.92	33.95	26.79
P/B	4.43	6.14	7.11	9.20	8.95
P/Sales	4.07	5.74	6.66	9.41	10.12
EV/EBITDA	11.21	16.65	17.11	24.49	25.87

Alphabet continues to trade below several large-cap AI peers despite delivering strong profitability, accelerating Cloud growth, and expanding AI monetization across Search, Cloud, enterprise software, subscriptions, and infrastructure. In our view, the current valuation does not fully reflect the breadth of these earnings drivers or the long-term value of its AI infrastructure investments.

GOOG 12-Month Forward P/E vs Peers showing it lower by ~38%



GOOG 12-Month Forward EV/EBITDA vs Peers showing it lower by ~28%



Key Risks & Takeaway

While Alphabet's long-term outlook remains compelling, several factors warrant continued monitoring. Elevated capital expenditures are expected to pressure free cash flow over the near term, making successful monetization of AI infrastructure increasingly important. Regulatory scrutiny surrounding Search, digital advertising, and artificial intelligence remains an ongoing risk, while intense competition for AI talent could influence future innovation. In addition, sustained execution will be required to convert Google's record Cloud backlog into realized revenue while maintaining attractive returns on invested capital.

Alphabet is evolving into a vertically integrated AI platform, with AI strengthening Search, accelerating Google Cloud, and expanding across enterprise software and infrastructure. A record \$462 billion Cloud backlog and management's comments that demand exceeds available compute capacity support the company's elevated AI investments, while continued margin expansion and strong cash generation demonstrate that its long-term growth strategy is already translating into improving financial performance.

Target price of \$433.40 implies ~23.40% upside from current levels.

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