

Alphabet Inc.
(GOOGL US) – A
Mispriced
Compounder Amid
Search Noise
Equity Insights
May2025

Alphabet Inc. (GOOGL US) – A Mispriced Compounder Amid Search Noise

Alphabet shares declined sharply following headlines suggesting that Apple may drop Google as the default search engine on Safari. We view this market reaction as overdone and disconnected from fundamentals, presenting a compelling opportunity to accumulate shares in a resilient, cash-generative compounder.

We believe that even if there is loss of market share in the overall search market, the financial impact should be more than offset by the cost savings likely to accrue from the termination of this deal (\$20 Billion) and the fact that the overall search and digital advertising market is growing at a resilient pace is another benefit.

The company generated \$121 Billion in operating earnings from its services segment in 2024 (search is the biggest contributor here), which means that the operating earnings would have to drop by more than 16.5% to create a negative delta when compared to the \$20 Billion in cost savings and based on the kind of market share loss seen over the past 2 years, this seems like a massive stretch.

1. Apple-Safari Headline: Misinterpreted Risk, Potential Financial Benefit

While the market fixated on the potential loss of default status on Apple's Safari browser, we believe this change may in fact **benefit Alphabet financially**:

- Google currently pays Apple an estimated **\$18–20 billion** per year to remain the default search engine — a direct cost to margins.
- Should this deal be dropped, **Google would retain its scale and user preference-driven traffic**, while **improving operating margins** due to the savings.
- Historical precedent shows that users overwhelmingly reset their default search to Google even when alternatives are offered.

2. Search Market Share: Persistent Dominance Despite AI Entrants

Narratives around Google's fading search dominance have persisted for over two years, particularly since the launch of ChatGPT and Microsoft's Bing GPT integration. Yet:

- **Google's market share in global search has remained stable**, with no meaningful erosion in the face of AI-native competitors.
- Despite numerous alternatives, Google continues to serve as the gateway to the internet for billions — benefiting from brand trust, infrastructure, and distribution scale.
- We believe that even **if there is loss of market share in the overall search market**, the financial impact should be more than offset by the cost savings highlighted above and the fact that the overall search and digital advertising market is growing at a resilient pace is another benefit. The company generated \$121 Billion in operating earnings from its services segment in 2024 (search is the biggest contributor here), which means that the operating earnings would have to drop by more than 16.5% to create a negative delta when compared to the \$20 Billion in cost savings and based on the kind of market share loss seen over the past 2 years, this seems like a massive stretch.

3. Underlying Business Strength Evident in Latest Earnings

Alphabet's Q1 earnings demonstrated **broad-based revenue growth** and operational discipline:

- **Search and YouTube** continue to deliver strong top-line contributions, aided by improving ad demand.
- **Google Cloud Platform (GCP)** remains in expansion mode, with improving profitability and strategic relevance in enterprise AI adoption.
- Operating margin expansion across the board was driven by ongoing cost controls and scale benefits.

4. Valuation: Attractive Entry Point with Margin Upside

At current levels, Alphabet trades at a forward free cash flow yield of over 5%, an attractive valuation for a high-margin, capital-light business with multiple growth levers.

- We believe management has multiple levers to expand margins and improve free-cashflow generation through opex discipline, reduced TAC payments (traffic acquisition costs), and efficient AI infrastructure investments.

Conclusion:

In our view, the recent correction in Alphabet's share price reflects **headline-driven sentiment** rather than any structural deterioration in the business. The Apple-Safari speculation is unlikely to materially impact search usage or revenue and may instead enhance profitability. Backed by consistent earnings growth, dominant market position, and compelling free cash flow economics, we see Alphabet as **mispriced relative to its quality and stability**. This presents a buying opportunity for long-term investors.

LIGHTHOUSE CANTON

Singapore

Lighthouse Canton Pte Ltd

16 Collyer Quay #11-02
Collyer Quay Centre
Singapore 049318

☎ +65 67130570

Dubai

Lighthouse Canton Capital DIFC Pte Ltd

The Exchange Gate Village 11,
Unit 204 Dubai International
Financial Centre
PO Box 507026
Dubai, UAE

☎ +971 45 861500

India

Lighthouse Canton India Private Limited

Unit No 104A, First Floor, Worldmark 2, Asset
Area No. 8
Hospitality District Aerocity, IGI Airport,
New Delhi 110037

☎ +91 9650473961

Unit 507 & 508, INS Tower,
Bandra Kurla Complex,
Bandra East,
Mumbai - 400051

☎ +91 9650473961

1st Floor, WeWork37, Cunningham Cross
Rd,
SRT Road, Vasant Nagar, Bengaluru-
560001

☎ +91 9900096873

✉ info@lighthouse-canton.com

✉ service@lighthouse-canton.com

in Lighthouse Canton

DISCLAIMER

The contents of this document are confidential and are meant for the intended recipient only. If you are not the intended recipient, please delete all copies of this document and notify the sender immediately.

This document, provided as a general commentary, is for informational purposes only and is not to be construed as an offer to sell or solicit an offer to buy any financial instruments in any jurisdiction. This does not constitute any form of regulated financial advice, and your independent financial advisor should be consulted prior to taking any investment decision(s).

This document is based on information from Sources which are reliable but has not been independently verified by Lighthouse Canton Pte Ltd and its affiliate companies ("LC"). LC has taken the reasonable steps to verify the contents of this document and accept no liability for any loss arising from the use of any information contained herein. Please also note that past performances are not indicative of future performance.

Information contained herein are those of the author(s) and does not represent the views held by other parties. LC is also under no obligation to update you on any changes made to this document.

This document is prepared by Lighthouse Canton Pte Ltd and its affiliate company, Lighthouse Canton Capital (DIFC) Pte Ltd, which are regulated by Monetary Authority of Singapore ("MAS") and Dubai Financial Services Authority ("DFSA") respectively. MAS and DFSA has no responsibility for reviewing, verifying and approving the contents of this document and/or other associated documents. The contents of this document may not be reproduced or referenced, either in part or in full, without prior written permission from LC.

This document is confidential and is only intended for Accredited Investors and/or Professional Clients, as defined by MAS and DFSA.