



Will Slowing Google Ad Sales Drive Alphabet Stock Lower?

Description

In the first nine months of 2022, [tech stocks](#) experienced a massive selloff. The steep valuations of growth stocks coupled with macroeconomic challenges have driven multiples significantly lower.

For instance, digital ad companies, including **Alphabet** ([NASDAQ:GOOGL](#))([NASDAQ:GOOG](#)) are wrestling with lower enterprise ad sales. This has driven GOOGL stock lower by almost 35% in the last year.

So, let's see if the current environment will drive the stock price of the tech heavyweight lower in the near term.

Google is the largest digital ad company in the world

In the last decade, digital ad spending has gained pace and has been a key driver for Alphabet's revenue growth. In fact, digital ad spending accounted for almost 65% of total ad spending last year. Comparatively, Alphabet's ad sales surged to US\$209.5 billion in 2021 from a paltry US\$410 million in 2002.

In fact, Alphabet's ad sales surged by 43% year over year in 2021. But due to interest rate hikes and inflation, Google's ad sales in the first six months of 2022 rose by just 17% year over year to US\$111 billion. Additionally, ad sales in the second quarter (Q2) decelerated to 12% in the quarter that ended in June.

As the cost of debt rises and the economy experiences a slowdown, enterprise ad spending will continue to trend lower in the next year.

Alphabet stock is a top bet right now

Google enjoys a wide economic moat and is the undisputed leader in the digital ad space. It's the most popular search engine globally, driving 92% of search engine traffic. Google Search is Alphabet's

flagship product and a key driver of revenue growth.

Yes, Alphabet is facing challenges from new entrants such as TikTok. But YouTube's active users are almost three times higher compared to TikTok.

Alphabet continues to diversify its revenue base. While ad sales still account for the majority of the company's top line, its public cloud business increased sales by 36% year over year in Q2 of 2022. Google Cloud is now the third-largest cloud infrastructure company in the world and the fastest-growing business for Alphabet.

Right now, Google Cloud accounts for just 8% of the public cloud market, providing it with an opportunity to gain market share going forward.

Alphabet is also placing bets on game-changing technologies. Its self-driving car tech, also known as Waymo, may unlock another multi-billion-dollar revenue stream for the company by the end of this decade.

Alphabet has a highly engaged user base, which should allow it to monetize them further if required. It has nine products with more than a billion users that include YouTube, Google Maps, Play Store, Gmail, and Chrome.

It has created a robust ecosystem, so it's unlikely for users to switch over to competitors without any compelling reason.

The Foolish takeaway

Alphabet stock is valued at 4.4 times forward sales and 19 times [forward earnings](#), which is very reasonable given its estimated growth rates. Analysts expect the company to increase sales from US\$258 billion in 2021 to US\$323.4 billion in 2023. Further, its earnings are forecast to increase by more than 10% annually between 2022 and 2025.

Alphabet stock is also trading at a discount of 50% compared to average price target estimates.

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