31 Jul 2026

CMB International Global Markets | Equity Research | Company Update

Microsoft (MSFT US)

Tangible ROI increasingly evident

Microsoft reported upbeat 4QFY26 (June year-end) results on 30 June BJT. Revenue rose 18% YoY to US$90.0bn (3QFY26: +18% YoY), 3% above both our forecast and Visible Alpha (VA) consensus, driven by better-than-expected revenue across all three business segments. OP grew 18% YoY to US$40.6bn, 4% ahead of our forecast and consensus, supported by beats in the Productivity and Business Processes (PBP) and Intelligent Cloud (IC) segments. In our view, the tangible ROI on capex investment is becoming increasingly evident in both the cloud business and first-party apps, as evidenced by: 1) an acceleration in Azure and other cloud services revenue growth to 43% in 4QFY26 (vs guidance of 39-40%), which mgmt. expects to accelerate further to 45% in 1QFY27; and 2) 30mn paid Microsoft 365 Copilot seats, with net seat adds more than doubling QoQ on improved product shape and more integrated AI offerings. Mgmt. kept its CY26 capex investment expectation unchanged and guided for further efficiency gains across its CPU and GPU fleet to better address unfulfilled demand, against a backdrop that demand continues to exceed available capacity. Mgmt. also guided for positive FCF in FY27. We roll over valuation to FY27E and lift DCF-based TP by 3% to US$634.2, implying 32x FY27E PE. BUY.

- **Azure revenue growth acceleration beat expectations.** Azure and other cloud services within the IC segment delivered 43% YoY revenue growth (3QFY26: 40%). Mgmt. attributed the beat to: 1) efficiency gains across the CPU and GPU fleet; 2) process improvements that enabled earlier delivery of new capacity; and 3) stronger-than-expected GitHub Copilot consumption following the June business model change that aligned pricing with usage and value. Capex (including finance leases) rose 69% YoY to US$41.0bn in 4QFY26, of which roughly two-thirds was still spent on short-lived assets to fulfil demand, such as GPUs and CPUs. Reflecting changes in the estimated useful lives of datacenters and office buildings, and a shift of more future datacenter leases from finance leases to operating leases, mgmt. updated its CY26 capex guidance to US$175bn, while emphasizing that its underlying investment expectations on a comparable basis remain unchanged. Mgmt. expects capex of more than US$50bn in 1QFY27 and guided for positive FCF in FY27. We are estimating a FY27E capex of US$200bn, which is in line with consensus if including the lease reclassification impact.
- **Rapid growth in Microsoft 365 Copilot paid seats.** PBP revenue was US$37.8bn in 4QFY26, up 14% YoY (4QFY25: +15.7%; 3QFY26: +16.9%). Microsoft 365 commercial/consumer cloud revenue grew 14%/22% YoY on a constant currency basis (3QFY26: 15%/29%), aided by 6%/7% YoY growth in paid Microsoft 365 commercial seats/consumer subscribers and by ARPU expansion. Mgmt. highlighted that paid Microsoft 365 Copilot seats reached 30mn in 4QFY26 (3QFY26: 20mn), with net seat adds more than doubling QoQ.
- **Overall OPM expansion also better than expected.** OPM came in at 45.1% in 4QFY26, up 0.2ppts YoY and ahead of consensus at 44.6%, with PBP/IC OPM 0.3/1.8ppts better than consensus respectively. Post results, we lifted our FY27-28E revenue/OP forecasts by 3-5%/4-6% to reflect stronger-than-expected revenue growth across the business segments and better-than-expected operating efficiency gains. We now forecast revenue/OP growth of 18.4%/17.6% YoY in FY27E. Trading at 22.7x FY27E PE on our forecasts (vs a five-year average one-year-forward PE of 30x), Microsoft now offers attractive risk-reward, in our view.

BUY (Maintain)

Target Price	**US$634.20**
(Previous TP	US$616.40)
Up/Downside	**40.6%**
Current Price	**US$451.10**

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Stock Data

Mkt Cap (US$ mn)	3,356,643.8
Avg 3 mths t/o (US$ mn)	7,178.3
52w High/Low (US$)	542.07/352.83
Total Issued Shares (mn)	7441.0

Source: FactSet

Shareholding Structure

Vanguard Group	9.8%
Blackrock	8.0%

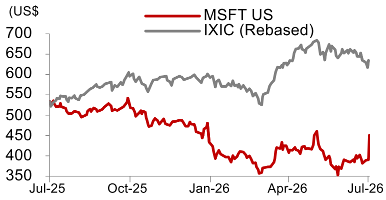
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	20.9%	26.2%
3-mth	10.6%	9.6%
6-mth	4.8%	-2.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 30 Jun)	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (US$ mn)	281,724	331,839	392,809	456,749	533,567
YoY growth (%)	14.9	17.8	18.4	16.3	16.8
Net profit (US$ mn)	101,832.0	133,749.0	147,668.2	170,788.8	198,927.1
YoY growth (%)	15.5	31.3	10.4	15.7	16.5
EPS (Reported) (US$)	13.70	18.00	19.89	23.01	26.82
Consensus EPS (US$)	13.64	17.09	19.50	22.89	27.18
P/E (x)	32.9	25.1	22.7	19.6	16.8

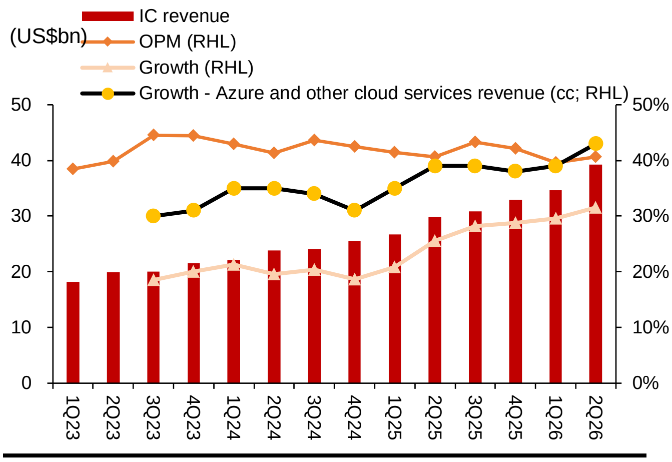
Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Microsoft: quarterly financial results

(USDbn)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	VA consensus	Diff (%)
1. Productivity and Business Processes revenue	**28.3**	**29.4**	**29.9**	**33.1**	**33.0**	**34.1**	**35.0**	**37.8**	**37.3**	1.5%
Growth - yoy	*12.3%*	*13.9%*	*10.4%*	*15.7%*	*16.6%*	*15.9%*	*16.9%*	*14.3%*		
As % of total revenue (%)	43.2%	42.3%	42.7%	43.3%	42.5%	42.0%	42.2%	42.0%		
2. Intelligent Cloud revenue	**24.1**	**25.5**	**26.8**	**29.9**	**30.9**	**32.9**	**34.7**	**39.3**	**38.2**	2.8%
Growth - yoy	*20.4%*	*18.7%*	*20.8%*	*25.6%*	*28.2%*	*28.8%*	*29.6%*	*31.6%*		
As % of total revenue (%)	36.7%	36.7%	38.2%	39.1%	39.8%	40.5%	41.8%	43.7%		
3. More Personal Computing revenue	**13.2**	**14.7**	**13.4**	**13.5**	**13.8**	**14.3**	**13.2**	**12.9**	**12.2**	5.5%
Growth - yoy	*16.8%*	*0.1%*	*6.1%*	*9.2%*	*4.4%*	*-2.7%*	*-1.3%*	*-4.4%*		
As % of total revenue (%)	20.1%	21.0%	19.1%	17.6%	17.7%	17.5%	15.9%	14.3%		
Total revenue	**65.6**	**69.6**	**70.1**	**76.4**	**77.7**	**81.3**	**82.9**	**90.0**	**87.7**	**2.6%**
Growth - yoy	*16.0%*	*12.3%*	*13.3%*	*18.1%*	*18.4%*	*16.7%*	*18.3%*	*17.7%*		
Gross profit	**45.5**	**47.8**	**48.1**	**52.4**	**53.6**	**55.3**	**56.1**	**60.5**	**58.5**	**3.4%**
Growth - yoy	*13.1%*	*12.8%*	*11.1%*	*16.4%*	*17.9%*	*15.6%*	*16.4%*	*15.4%*		
Research and development expenses	**7.5**	**7.9**	**8.2**	**8.8**	**8.1**	**8.5**	**8.9**	**10.0**	**9.6**	**3.6%**
Growth - yoy	*13.3%*	*10.9%*	*7.1%*	*9.6%*	*8.0%*	*7.4%*	*8.7%*	*13.2%*		
R&D expense ratio (%)	11.5%	11.4%	11.7%	11.6%	10.5%	10.5%	10.8%	11.1%	11.0%	0.1 ppt
Sales and marketing expenses	**5.7**	**6.4**	**6.2**	**7.3**	**5.7**	**6.6**	**6.8**	**7.6**	**7.6**	**-0.4%**
Growth - yoy	*10.2%*	*3.1%*	*0.1%*	*6.9%*	*0.0%*	*2.2%*	*9.7%*	*4.3%*		
S&M expense ratio (%)	8.7%	9.2%	8.9%	9.5%	7.4%	8.1%	8.2%	8.4%	8.7%	-0.3 ppt
General and administrative expenses	**1.7**	**1.8**	**1.7**	**2.0**	**1.8**	**1.9**	**1.9**	**2.3**	**2.1**	**11.5%**
Growth - yoy	*13.5%*	*-7.8%*	*-9.2%*	*-11.4%*	*7.9%*	*6.0%*	*11.2%*	*14.9%*		
G&A expense ratio (%)	2.6%	2.6%	2.5%	2.6%	2.3%	2.4%	2.3%	2.5%	2.3%	0.2 ppt
Operating income	**30.6**	**31.7**	**32.0**	**34.3**	**38.0**	**38.3**	**38.4**	**40.6**	**39.1**	**3.8%**
Growth - yoy	*13.6%*	*17.1%*	*16.0%*	*22.9%*	*24.3%*	*20.9%*	*20.0%*	*18.3%*		
- PBP	16.5	16.9	17.4	19.0	20.4	20.6	21.0	21.9	21.5	2.1%
- IC	10.5	10.9	11.1	12.1	13.4	13.9	13.8	16.0	14.8	7.7%
- MPC	3.5	3.9	3.5	3.2	4.2	3.8	3.7	2.7	2.8	-1.7%
Net income	**24.7**	**24.1**	**25.8**	**27.2**	**27.7**	**38.5**	**31.8**	**35.8**	**31.6**	**13.2%**
Growth - yoy	*10.7%*	*10.2%*	*17.7%*	*23.6%*	*12.5%*	*59.5%*	*23.1%*	*31.3%*		
GPM	**69.4%**	**68.7%**	**68.7%**	**68.6%**	**69.0%**	**68.0%**	**67.6%**	**67.2%**	**66.7%**	**0.5 ppt**
OPM	**46.6%**	**45.5%**	**45.7%**	**44.9%**	**48.9%**	**47.1%**	**46.3%**	**45.1%**	**44.6%**	**0.5 ppt**
- PBP	58.3%	57.4%	58.0%	57.4%	61.8%	60.4%	59.9%	57.9%	57.5%	0.3 ppt
- IC	43.6%	42.5%	41.5%	40.6%	43.3%	42.2%	39.7%	40.6%	38.7%	1.8 ppt
- MPC	26.8%	26.7%	26.4%	23.7%	30.3%	26.7%	27.8%	21.4%	22.9%	-1.6 ppt
NPM	37.6%	34.6%	36.9%	35.6%	35.7%	47.3%	38.3%	39.7%	36.0%	3.7 ppt

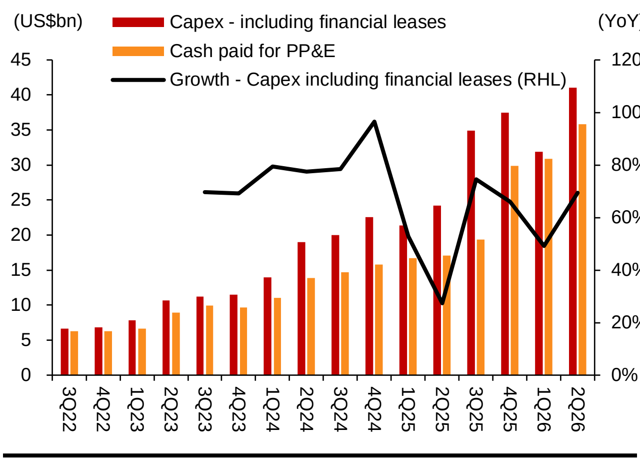
Source: Company data, Visible Alpha, CMBIGM estimates

Figure 2: Microsoft: IC revenue and growth



Source: Company data, CMBIGM
Note: cc means constant currency

Figure 3: Microsoft: quarterly capex trend



Source: Company data, CMBIGM

Changes in forecast and valuation

Figure 4: Microsoft forecast revision

	Current			Previous			Change (%)		
USD bn	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	392.8	456.7	533.6	381.5	437.0	-	3.0%	4.5%	-
Gross profit	261.2	301.5	349.5	255.2	290.2	-	2.3%	3.9%	-
Operating profit	182.6	211.7	247.1	175.7	199.9	-	3.9%	5.9%	-
Net profit	147.7	170.8	198.9	146.1	165.8	-	1.1%	3.0%	-
GPM	66.5%	66.0%	65.5%	66.9%	66.4%	-	-0.4 ppt	-0.4 ppt	-
OPM	46.5%	46.3%	46.3%	46.1%	45.7%	-	0.4 ppt	0.6 ppt	-
NPM	37.6%	37.4%	37.3%	38.3%	38.0%	-	-0.7 ppt	-0.6 ppt	-

Source: CMBIGM estimates

Figure 5: Microsoft: CMBI forecast vs consensus

	Current			Consensus			Diff (%)		
USD bn	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	392.8	456.7	533.6	385.3	455.8	551.2	1.9%	0.2%	-3.2%
Gross profit	261.2	301.5	349.5	256.2	297.4	351.1	1.9%	1.4%	-0.5%
Operating profit	182.6	211.7	247.1	179.1	210.0	251.2	2.0%	0.8%	-1.6%
Net profit	147.7	170.8	198.9	145.0	169.5	202.2	1.9%	0.8%	-1.6%
GPM	66.5%	66.0%	65.5%	66.5%	65.2%	63.7%	0.0 ppt	0.8 ppt	1.8 ppt
OPM	46.5%	46.3%	46.3%	46.5%	46.1%	45.6%	0.0 ppt	0.3 ppt	0.7 ppt
NPM	37.6%	37.4%	37.3%	37.6%	37.2%	36.7%	0.0 ppt	0.2 ppt	0.6 ppt

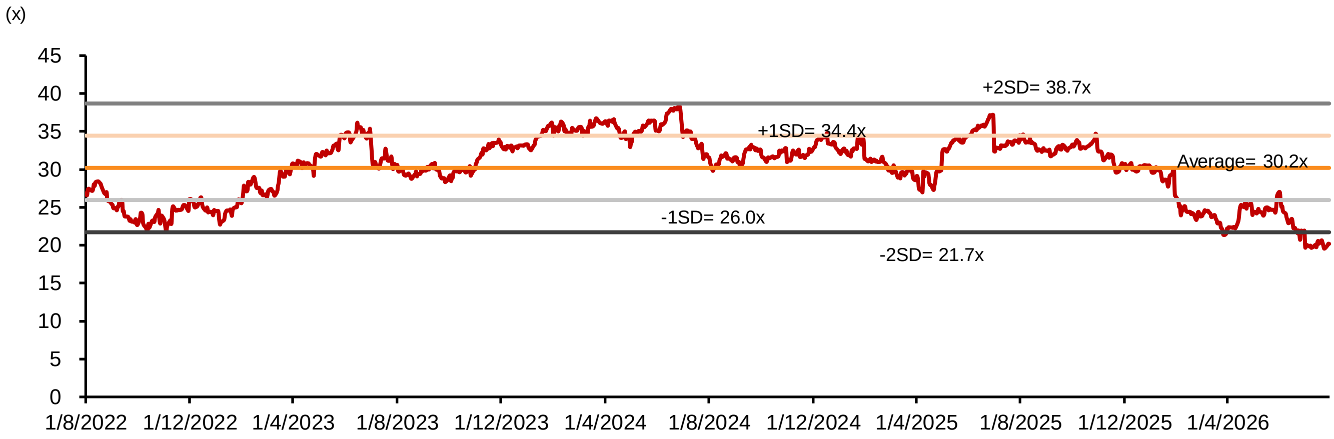
Source: VA, CMBIGM estimates

Figure 6: Microsoft: DCF valuation (WACC of 7.9%; terminal growth of 3%; both unchanged)

(USDbn)	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E
Total revenue	392.8	456.7	533.6	605.3	672.0	733.7	784.9	826.9	861.1	889.3
NPV of FCF	1,199									
Discounted terminal value	3,526									
Total equity valuation	4,719									
No. of shares (diluted, mn)	7,441									
Valuation per share (USD)	634.2									
TP per share (USD)	634.2									

Source: CMBIGM estimates
Note: our target price is based on FY27E target price.

Figure 7: Microsoft: one-year forward PE band over the past five years



Source: Bloomberg, CMBIGM estimates

Risks

1. Slower-than-expected margin expansion;
2. Slower-than-expected ramp-up in revenue contribution from AI related service.

Financial Summary

INCOME STATEMENT	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun (US$ mn)						
Revenue	**245,122**	**281,724**	**331,839**	**392,809**	**456,749**	**533,567**
Cost of goods sold	(74,114)	(87,831)	(106,374)	(131,591)	(155,295)	(184,081)
Gross profit	**171,008**	**193,893**	**225,465**	**261,218**	**301,455**	**349,487**
Operating expenses	**(61,575)**	**(65,365)**	**(70,228)**	**(78,597)**	**(89,796)**	**(102,428)**
Selling expense	(24,456)	(25,654)	(26,710)	(30,246)	(34,713)	(40,018)
SG&A expense	(7,609)	(7,223)	(7,956)	(9,070)	(9,408)	(9,054)
R&D expense	(29,510)	(32,488)	(35,562)	(39,281)	(45,675)	(53,357)
Others	0	0	0	0	0	0
Operating profit	**109,433**	**128,528**	**155,237**	**182,621**	**211,659**	**247,058**
Other income/expense	(1,646)	(4,901)	10,697	1,964	1,827	1,601
Others	0	0	0	0	0	0
Pre-tax profit	**107,787**	**123,627**	**165,934**	**184,585**	**213,486**	**248,659**
Income tax	(19,651)	(21,795)	(32,185)	(36,917)	(42,697)	(49,732)
Others	0	0	0	0	0	0
After tax profit	**88,136**	**101,832**	**133,749**	**147,668**	**170,789**	**198,927**
Net profit	**88,136**	**101,832**	**133,749**	**147,668**	**170,789**	**198,927**

BALANCE SHEET	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun (US$ mn)						
Current assets	**159,734**	**191,131**	**207,710**	**217,018**	**210,714**	**249,692**
Cash & equivalents	18,315	30,242	20,935	18,891	2,018	30,156
Account receivables	56,924	69,905	80,876	92,228	102,796	113,636
Inventories	1,246	938	1,397	1,397	1,397	1,397
Other current assets	83,249	90,046	104,502	104,502	104,502	104,502
Non-current assets	**352,429**	**427,872**	**550,666**	**705,663**	**856,065**	**983,170**
PP&E	135,591	204,966	313,076	468,073	618,475	745,580
Right-of-use assets	18,961	24,823	24,177	24,177	24,177	24,177
Investment in JVs & assos	14,600	15,405	36,348	36,348	36,348	36,348
Intangibles	27,597	22,604	18,609	18,609	18,609	18,609
Goodwill	119,220	119,509	119,651	119,651	119,651	119,651
Other non-current assets	36,460	40,565	38,805	38,805	38,805	38,805
Total assets	**512,163**	**619,003**	**758,376**	**922,681**	**1,066,779**	**1,232,862**
Current liabilities	**125,286**	**141,218**	**168,825**	**186,178**	**212,203**	**232,075**
Short-term borrowings	8,942	2,999	9,227	9,227	9,227	9,227
Account payables	21,996	27,724	42,416	44,351	58,046	63,332
Other current liabilities	94,348	110,495	117,182	132,599	144,930	159,516
Non-current liabilities	**118,400**	**134,306**	**147,164**	**197,164**	**197,164**	**197,164**
Long-term borrowings	42,688	40,152	31,067	81,067	81,067	81,067
Obligations under finance leases	15,497	17,437	16,532	16,532	16,532	16,532
Other non-current liabilities	60,215	76,717	99,565	99,565	99,565	99,565
Total liabilities	**243,686**	**275,524**	**315,989**	**383,342**	**409,367**	**429,239**
Share capital	100,923	109,095	117,406	117,406	117,406	117,406
Retained earnings	173,144	237,731	328,265	425,217	543,290	689,501
Other reserves	(5,590)	(3,347)	(3,284)	(3,284)	(3,284)	(3,284)
Total shareholders equity	**268,477**	**343,479**	**442,387**	**539,339**	**657,412**	**803,623**
Total equity and liabilities	**512,163**	**619,003**	**758,376**	**922,681**	**1,066,779**	**1,232,862**

CASH FLOW	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun (US$ mn)						
Operating						
Profit before taxation	**107,787**	**123,627**	**165,934**	**184,585**	**213,486**	**248,659**
Depreciation & amortization	22,287	29,433	38,534	45,336	50,568	64,979
Tax paid	(19,651)	(21,795)	(32,185)	(36,917)	(42,697)	(49,732)
Change in working capital	1,824	(5,350)	(4,895)	6,001	15,457	9,032
Others	6,301	10,247	15,547	0	0	0
Net cash from operations	**118,548**	**136,162**	**182,935**	**199,005**	**236,813**	**272,938**
Investing						
Capital expenditure	(44,477)	(64,551)	(115,948)	(200,333)	(200,970)	(192,084)
Acquisition of subsidiaries/ investments	(17,732)	(29,775)	(58,351)	0	0	0
Net proceeds from disposal of short-term investments	24,775	16,079	34,605	0	0	0
Others	(59,536)	5,648	194	0	0	0
Net cash from investing	**(96,970)**	**(72,599)**	**(139,500)**	**(200,333)**	**(200,970)**	**(192,084)**
Financing						
Dividend paid	(21,771)	(24,082)	(26,445)	(28,445)	(30,445)	(30,445)
Net borrowings	24,395	0	0	0	0	0
Share repurchases	(17,254)	(18,420)	(22,271)	(22,271)	(22,271)	(22,271)
Others	(23,127)	(9,197)	(3,830)	50,000	0	0
Net cash from financing	**(37,757)**	**(51,699)**	**(52,546)**	**(716)**	**(52,716)**	**(52,716)**
Net change in cash						
Cash at the beginning of the year	34,704	18,315	30,242	20,935	18,891	2,018
Exchange difference	(210)	63	(196)	0	0	0
Cash at the end of the year	**18,315**	**30,242**	**20,935**	**18,891**	**2,018**	**30,156**

GROWTH	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						
Revenue	15.7%	14.9%	17.8%	18.4%	16.3%	16.8%
Gross profit	17.1%	13.4%	16.3%	15.9%	15.4%	15.9%
Operating profit	23.6%	17.4%	20.8%	17.6%	15.9%	16.7%
Net profit	21.8%	15.5%	31.3%	10.4%	15.7%	16.5%

PROFITABILITY	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						
Gross profit margin	69.8%	68.8%	67.9%	66.5%	66.0%	65.5%
Operating margin	44.6%	45.6%	46.8%	46.5%	46.3%	46.3%
Return on equity (ROE)	37.1%	33.3%	34.0%	30.1%	28.5%	27.2%

GEARING/LIQUIDITY/ACTIVITIES	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						
Current ratio (x)	1.3	1.4	1.2	1.2	1.0	1.1
Receivable turnover days	78.6	82.2	82.9	80.4	77.9	74.0
Inventory turnover days	0.0	0.0	0.0	0.0	0.0	0.0
Payable turnover days	98.7	103.3	120.3	120.3	120.3	120.3

VALUATION	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						
P/E	38.0	32.9	25.1	22.7	19.6	16.8
P/E (diluted)	38.2	33.1	25.1	22.7	19.6	16.8
P/B	12.5	9.8	7.6	6.2	5.1	4.2
P/CFPS	45.5	47.0	50.2	ns	93.5	41.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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