

Microsoft (MSFT US)

Stronger cloud monetization supports capex returns

Microsoft delivered upbeat 1QFY27 (year-end June) results. Revenue rose 19% YoY to US\$92.3bn, 2.1%/1.8% above our forecast/Bloomberg consensus. OP rose 21% YoY to US\$45.9bn, 4.7%/4.6% above our estimates/consensus. Excluding the impact from the OpenAI investment, adjusted EPS rose 18% YoY to US\$4.89. Revenue growth of Azure came in at 48.2% YoY, ahead of previous company guidance at 44-45% on a constant currency basis, driven by Foundry and improved CPU monetization. Management noted that customer demand continues to exceed available supply for Azure, and guided for 49-50% revenue growth in constant currency in 2QFY27 despite facing delivery delays in some third-party GPU as a service contract. The mid-point of management guidance on 2QFY27 total revenue/OP was both 1% ahead of consensus. The strong cloud monetization and outlook support capex returns, in our view. We raise FY27-29E revenue/OP estimates by 1-7%/1-8% and lift our DCF-based TP by 1% to US\$641.8, translating into 32x/27x FY27/28E PE. Maintain BUY.

■ **Azure beat reflects efficiency and monetization gains.** Azure revenue rose 48.2% YoY to US\$33.2bn in 1QFY27, 2.9% above consensus. Foundry revenue more than tripled as GPU efficiencies freed capacity for customers and revenue per token exceeded expectations. Engineering improvements also enabled monetization of underutilized CPU capacity. This supported the revenue beat despite delayed third-party capacity deliveries. For 2QFY27, mgmt. guides Azure growth of 49-50% in constant currency, as further CPU/GPU efficiencies are expected to offset the impact of GPU-as-a-service deliveries deferred to 2HFY27.

■ **Capex deferred rather than demand reduced.** Capex was US\$45.2bn in 1QFY27, below prior guidance of over US\$50bn due to third-party delivery delays. About three quarters went to short-lived assets, mainly CPUs/GPUs, including higher memory and storage costs. Mgmt. expects over US\$50bn in 2QFY27 and c.US\$170bn in CY26 (previously US\$175bn), followed by acceleration in 2HFY27 as delayed capacity arrives. FY27 FCF is still expected to remain positive, with leasing and debt among potential funding options to fulfil the unfulfilled demand.

■ **M365 accelerated growth driven by ARPU.** M365 cloud revenue rose 17.2% YoY to US\$27.8bn in 1QFY27, 1.1% above consensus. Commercial cloud grew 17% reported and 18% in constant currency, or 18%/19% after adjusting the prior-year recognition benefit. With paid commercial seats up 5%, ARPU was the main driver, led by M365 Copilot, E5 and E7, plus usage-based GitHub Copilot. Stronger GitHub adoption and usage offset weaker E3 and standalone SKU sales execution. Daily users of Copilot rose nearly 50% QoQ and over 5x YoY, and user satisfaction improved nearly 20% QoQ. The number of customers with more than 50,000 Copilot seats increased over 8x YoY. For 2QFY27, management guided a further acceleration in commercial cloud revenue growth to c.19% in constant currency, primarily driven by ARPU expansion.

Earnings Summary

(YE 30 Jun)	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (US\$ mn)	281,724	331,839	395,660	478,696	572,428
YoY growth (%)	14.9	17.8	19.2	21.0	19.6
Net profit (US\$ mn)	101,832.0	133,749.0	148,067.1	178,868.8	213,220.2
YoY growth (%)	15.5	31.3	10.7	20.8	19.2
EPS (Reported) (US\$)	13.70	18.00	19.94	24.10	28.75
Consensus EPS (US\$)	13.64	17.28	19.74	23.51	28.80
P/E (x)	38.8	29.5	26.6	22.0	18.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$641.80**
 (Previous TP **US\$634.20**)
 Up/Downside **20.9%**
 Current Price **US\$531.01**

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Stock Data

Mkt Cap (US\$ mn)	3,945,744.7
Avg 3 mths t/o (US\$ mn)	3,942.6
52w High/Low (US\$)	543.45/352.83
Total Issued Shares (mn)	7430.6

Source: FactSet

Shareholding Structure

Vanguard Group	10.2%
Blackrock	8.2%

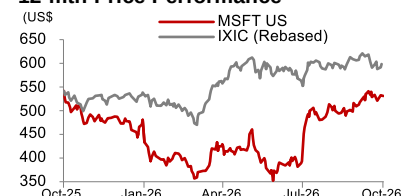
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	4.3%	5.3%
3-mth	36.0%	25.2%
6-mth	25.1%	16.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Microsoft: quarterly financial results

(USDbn)	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27	Bloomberg consensus	Diff (%)	CMBI estimates	Diff (%)
1. Agents and Infra revenue	61.7	64.4	67.4	74.6	76.8	75.6	1.6%		
Growth - yoy					24.5%				
As % of total revenue (%)	79.4%	79.3%	81.4%	82.9%	83.2%				
- Azure	22.4	24.1	26.0	29.4	33.2	32.2	2.9%		
Growth - yoy	39.7%	39.2%	40.3%	42.0%	48.2%				
- Microsoft 365 Cloud	23.7	24.5	25.4	26.7	27.8	27.5	1.1%		
Growth - yoy	18.4%	18.3%	21.2%	16.5%	17.2%				
2. Devices and Consumer revenue	16.0	16.8	15.4	15.4	15.5	15.0	3.0%		
Growth - yoy	5.9%	-0.2%	0.9%	-1.5%	-3.2%				
As % of total revenue (%)	20.6%	20.7%	18.6%	17.1%	16.8%				
Total revenue	77.7	81.3	82.9	90.0	92.3	90.6	1.8%	90.3	2.1%
Growth - yoy	18.4%	16.7%	18.3%	17.7%	18.8%				
Gross profit	53.6	55.3	56.1	60.5	62.6	60.9	2.7%	60.7	3.0%
Growth - yoy	17.9%	15.6%	16.4%	15.4%	16.6%				
Research and development expenses	8.1	8.5	8.9	10.0	9.0	8.9	1.2%		
Growth - yoy	8.0%	7.4%	8.7%	13.2%	11.1%				
R&D expense ratio (%)	10.5%	10.5%	10.8%	11.1%	9.8%	9.9%	0.0 ppt		
Sales and marketing expenses	5.7	6.6	6.8	7.6	5.7	6.2	-7.3%		
Growth - yoy	0.0%	2.2%	9.7%	4.3%	0.0%				
S&M expense ratio (%)	7.4%	8.1%	8.2%	8.4%	6.8%	6.8%	0.0 ppt		
General and administrative expenses	1.8	1.9	1.9	2.3	1.9	1.9	1.5%		
Growth - yoy	7.9%	6.0%	11.2%	14.9%	4.2%				
G&A expense ratio (%)	2.3%	2.4%	2.3%	2.5%	2.0%	2.0%	0.0 ppt		
Operating income	38.0	38.3	38.4	40.6	45.9	43.9	4.6%	43.8	4.7%
Growth - yoy	24.3%	20.9%	20.0%	18.3%	21.0%				
- Agents and Infra revenue	32.7	33.2	33.7	36.7	40.6				
- Devices and Consumer revenue	5.2	5.1	4.7	3.9	5.4				
Net income	27.7	38.5	31.8	35.8	36.6	35.2	4.2%	35.5	3.3%
Growth - yoy	12.5%	59.5%	23.1%	31.3%	32.0%				
GPM	69.0%	68.0%	67.6%	67.2%	67.8%	67.2%	0.6 ppt	67.2%	0.6 ppt
OPM	48.9%	47.1%	46.3%	45.1%	49.8%	48.5%	1.3 ppt	48.5%	1.2 ppt
- Agents and Infra	53.1%	51.5%	50.0%	49.3%	52.8%				
- Devices and Consumer	32.8%	30.3%	30.1%	25.1%	34.6%				
NPM	35.7%	47.3%	38.3%	39.7%	39.7%	38.8%	0.9 ppt	39.2%	0.4 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Changes in forecast and valuation

Figure 2: Microsoft forecast revision

USD bn	Current			Previous			Change (%)		
	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	395.7	478.7	572.4	392.8	456.7	533.6	0.7%	4.8%	7.3%
Gross profit	262.3	311.2	369.8	261.2	301.5	349.5	0.4%	3.2%	5.8%
Operating profit	184.8	222.6	266.0	182.6	211.7	247.1	1.2%	5.2%	7.6%
Net profit	148.1	178.9	213.2	147.7	170.8	198.9	0.3%	4.7%	7.2%
GPM	66.3%	65.0%	64.6%	66.5%	66.0%	65.5%	-0.2 ppt	-1.0 ppt	-0.9 ppt
OPM	46.7%	46.5%	46.5%	46.5%	46.3%	46.3%	0.2 ppt	0.2 ppt	0.2 ppt
NPM	37.4%	37.4%	37.2%	37.6%	37.4%	37.3%	-0.2 ppt	0.0 ppt	0.0 ppt

Source: CMBIGM estimates

Figure 3: Microsoft: CMBI forecast vs consensus

USD bn	Current			Consensus			Diff (%)		
	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	395.7	478.7	572.4	390.6	467.0	568.8	1.3%	2.5%	0.6%
Gross profit	262.3	311.2	369.8	258.5	303.5	364.4	1.5%	2.5%	1.5%
Operating profit	184.8	222.6	266.0	182.9	217.4	265.8	1.0%	2.4%	0.1%
Net profit	148.1	178.9	213.2	146.9	175.1	212.7	0.8%	2.2%	0.2%
GPM	66.3%	65.0%	64.6%	66.2%	65.0%	64.1%	0.1 ppt	0.0 ppt	0.5 ppt
OPM	46.7%	46.5%	46.5%	46.8%	46.5%	46.7%	-0.1 ppt	0.0 ppt	-0.3 ppt
NPM	37.4%	37.4%	37.2%	37.6%	37.5%	37.4%	-0.2 ppt	-0.1 ppt	-0.1 ppt

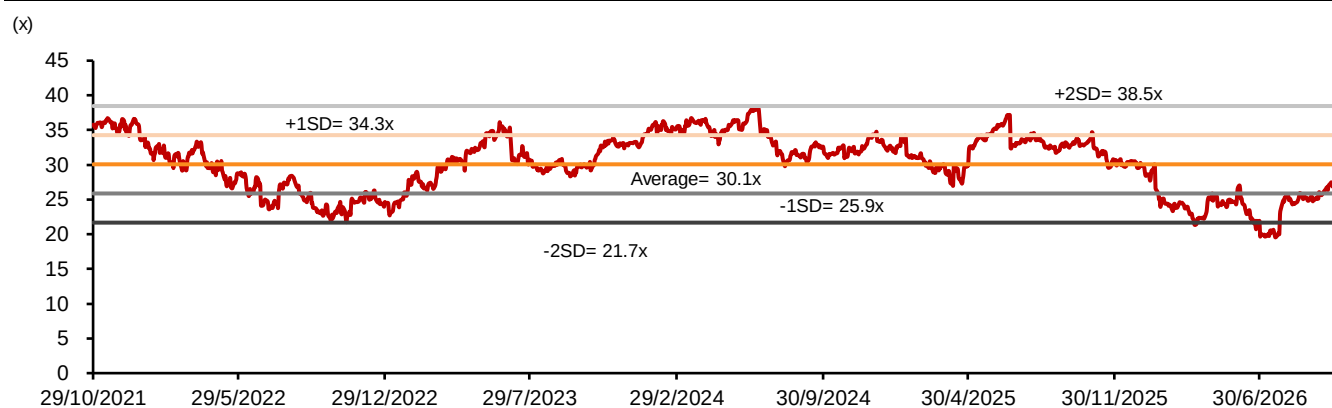
Source: CMBIGM estimates

Figure 4: 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	395.7	478.7	572.4	659.0	733.1	793.0	837.1	869.2	892.0	912.0
NPV of FCF	1,255									
Discounted terminal value	3,495									
Total equity valuation	4,769									
No. of shares (diluted, mn)	7,431									
Valuation per share (USD)	641.8									
TP per share (USD)	641.8									

Source: CMBIGM estimates

Note: our target price is based on FY27E target price.

Figure 5: Microsoft: one-year forward PE band over the past five years

Source: CMBIGM estimates

Note: our target price is based on FY27E target price.

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	395,660	478,696	572,428
Cost of goods sold	(74,114)	(87,831)	(106,374)	(133,337)	(167,543)	(202,640)
Gross profit	171,008	193,893	225,465	262,323	311,152	369,789
Operating expenses	(61,575)	(65,365)	(70,228)	(77,519)	(88,524)	(103,836)
Selling expense	(24,456)	(25,654)	(26,710)	(29,556)	(33,987)	(40,070)
SG&A expense	(7,609)	(7,223)	(7,956)	(8,199)	(9,539)	(10,530)
R&D expense	(29,510)	(32,488)	(35,562)	(39,764)	(44,997)	(53,236)
Others	0	0	0	0	0	0
Operating profit	109,433	128,528	155,237	184,804	222,629	265,953
Other income/expense	(1,646)	(4,901)	10,697	396	957	572
Others	0	0	0	0	0	0
Pre-tax profit	107,787	123,627	165,934	185,200	223,586	266,525
Income tax	(19,651)	(21,795)	(32,185)	(37,133)	(44,717)	(53,305)
Others	0	0	0	0	0	0
After tax profit	88,136	101,832	133,749	148,067	178,869	213,220
Net profit	88,136	101,832	133,749	148,067	178,869	213,220

BALANCE SHEET	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun (US\$ mn)						
Current assets	159,734	191,131	207,710	243,473	243,623	283,711
Cash & equivalents	18,315	30,242	20,935	44,090	26,814	56,526
Account receivables	56,924	69,905	80,876	93,484	110,911	121,285
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	681,399	843,398	985,633
PP&E	135,591	204,966	313,076	443,809	605,808	748,043
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	924,872	1,087,022	1,269,343
Current liabilities	125,286	141,218	168,825	187,970	223,967	245,784
Short-term borrowings	8,942	2,999	9,227	9,227	9,227	9,227
Account payables	21,996	27,724	42,416	45,503	64,971	68,644
Other current liabilities	94,348	110,495	117,182	133,240	149,769	167,913
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	385,134	421,131	442,948
Share capital	100,923	109,095	117,406	117,406	117,406	117,406
Retained earnings	173,144	237,731	328,265	425,616	551,769	712,273
Other reserves	(5,590)	(3,347)	(3,284)	(3,284)	(3,284)	(3,284)
Total shareholders equity	268,477	343,479	442,387	539,738	665,891	826,395
Total equity and liabilities	512,163	619,003	758,376	924,872	1,087,022	1,269,343

CASH FLOW	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun (US\$ mn)						
Operating						
Profit before taxation	107,787	123,627	165,934	185,200	223,586	266,525
Depreciation & amortization	22,287	29,433	38,534	45,336	48,627	63,840
Tax paid	(19,651)	(21,795)	(32,185)	(37,133)	(44,717)	(53,305)
Change in working capital	1,824	(5,350)	(4,895)	6,537	18,570	11,443
Others	6,301	10,247	15,547	0	0	0
Net cash from operations	118,548	136,162	182,935	199,940	246,065	288,503
Investing						
Capital expenditure	(44,477)	(64,551)	(115,948)	(176,069)	(210,626)	(206,074)
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)	(176,069)	(210,626)	(206,074)
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	44,090	26,814
Exchange difference	(210)	63	(196)	0	0	0
Cash at the end of the year	18,315	30,242	20,935	44,090	26,814	56,526
GROWTH	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						
Revenue	15.7%	14.9%	17.8%	19.2%	21.0%	19.6%
Gross profit	17.1%	13.4%	16.3%	16.3%	18.6%	18.8%
Operating profit	23.6%	17.4%	20.8%	19.0%	20.5%	19.5%
Net profit	21.8%	15.5%	31.3%	10.7%	20.8%	19.2%
PROFITABILITY	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						
Gross profit margin	69.8%	68.8%	67.9%	66.3%	65.0%	64.6%
Operating margin	44.6%	45.6%	46.8%	46.7%	46.5%	46.5%
Return on equity (ROE)	37.1%	33.3%	34.0%	30.2%	29.7%	28.6%
GEARING/LIQUIDITY/ACTIVITIES	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						
Current ratio (x)	1.3	1.4	1.2	1.3	1.1	1.2
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	44.8	38.8	29.5	26.6	22.0	18.5
P/E (diluted)	45.0	38.9	29.6	26.6	22.0	18.4
P/B	14.8	11.5	8.9	7.3	5.9	4.7
P/CFPS	53.5	55.4	59.1	165.3	111.0	47.6

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

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