

Internet

Implications from earnings beats by North American cloud majors

The latest 2Q26 results from major overseas cloud service providers (Amazon, Microsoft and Google) highlighted that ROI in AI-related investment showed continued improvement. Despite unchanged CapEx guidance, or only modest increases due to higher memory costs and earlier capacity delivery, cloud revenue and OP growth came in materially ahead of expectations and prompted upgrades to group-level earnings outlooks. Clear disclosure by mgmt. on cloud investment payback periods and backlog-implied demand, together with a stronger focus on cash flow and investment efficiency, was well received by the market. On enterprise software, we observe rising adoption in enterprise AI, although the pace of revenue conversion varies across subsectors. Looking into 2027-28, we expect cloud revenue growth at each vendor to outpace CapEx growth, making investment ROI increasingly visible. Against continued improvement in the price-performance of open-source models, major cloud service providers (CSPs) that can provide the right model for the right workload and whose underlying infrastructure assets are highly fungible should benefit further. Valuations of major CSPs remain attractive overall. We remain positive on CSPs as beneficiaries of the AI cycle. Among overseas names, we recommend Amazon (AMZN US), Microsoft (MSFT US) and Alphabet (GOOG US); among Chinese vendors, we recommend Alibaba (BABA US). We also suggest monitoring Datadog (DDOG US), a software platform spanning full-stack observability and cloud security that should benefit from explosive cloud demand growth.

- **Infrastructure supply constraints persist, while the sequential acceleration in YoY revenue growth is set to continue.** Aggregate cloud-related revenue of major US CSPs reached US\$106.3bn in 2Q26, with YoY growth accelerating to 43% (2Q25: 23%; 1Q26: 35%). Growth accelerated QoQ at all major vendors, driven mainly by: 1) new capacity coming online, allowing previously constrained demand to be fulfilled and recognized as revenue; 2) efficiency gains across CPU and GPU fleet; and 3) reacceleration in traditional enterprise cloud adoption and migration. Mgmt. at Microsoft and Amazon indicated that capacity remains insufficient and that previously announced expansion plans in capacity will continue. We believe the addition of new capacity and optimization of existing infrastructure resources should drive a further acceleration in CSPs' YoY revenue growth in 3Q26.
- **Cloud profitability: margins were stable to higher overall, translating revenue growth into profit growth.** Aggregate 2Q26 cloud OP of the major vendors reached US\$41.4bn, up 65% YoY (2Q25: 24%; 1Q26: 39%). Despite near-term OPM pressure from incremental CapEx, major vendors' OPM was at least broadly stable YoY or improved significantly. Google Cloud and AWS delivered particularly strong OPM expansion, driven by greater scale, infrastructure efficiency gains and capacity optimization. While Amazon's mgmt. guided that cloud OPM may be volatile in the near term, the OPM trajectory of its AI-related cloud business is consistent with, and in fact slightly ahead of, that of the core cloud computing business at a comparable scale. This implies resilient and attractive profitability for AI-related cloud workloads overall.
- **The market is increasingly focused on CapEx ROI, while balance sheets remain sound.** Driven by robust demand for AI compute, we expect major CSPs and internet companies (Microsoft, Google, Amazon, Meta and Oracle) to continue increasing CapEx, with aggregate spending of US\$800.8bn /US\$1,088.2bn/US\$1,214.6bn in 2026-28E. Although near-term cash flow will remain under pressure, their strong balance sheets and financing capacity

OUTPERFORM
(Maintain)

China Internet Sector

Saiyi HE, CFA
(852) 3916 1739
hesaiyi@cmbi.com.hk

Ye TAO, CFA
(852) 3850 5226
franktao@cmbi.com.hk

Wentao LU, CFA
luwentao@cmbi.com.hk

Shuyin GUO
(852) 3916 3716
guoshuyin@cmbi.com.hk

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provide ample support. We estimate aggregate FCF outflow in 2026/27E at only 1%/4% of revenue and 0.1%/0.7% of combined market cap. A relatively small equity or debt issuance could therefore cover the FCF shortfall. As commercialization of early-stage AI infrastructure investment accelerates, aggregate FCF should turn positive again in 2028E. We expect mgmt. initiatives to improve CapEx efficiency will remain well received by the market.

- **Valuations of Cloud vendors remain attractive overall, in our view.** As of 3 Aug 2026, the S&P 500 traded at c.19.8x forward PE, at the 57th percentile of its 10-year range, while the Nasdaq 100 traded at c.21.7x, at the 42nd percentile. Major CSPs currently trade at an average forward PE of c.22.3x, below the 10th percentile of the past decade. Although one-off investment gains have boosted earnings and lowered reported PE multiples, overall valuations remain attractive, in our view.

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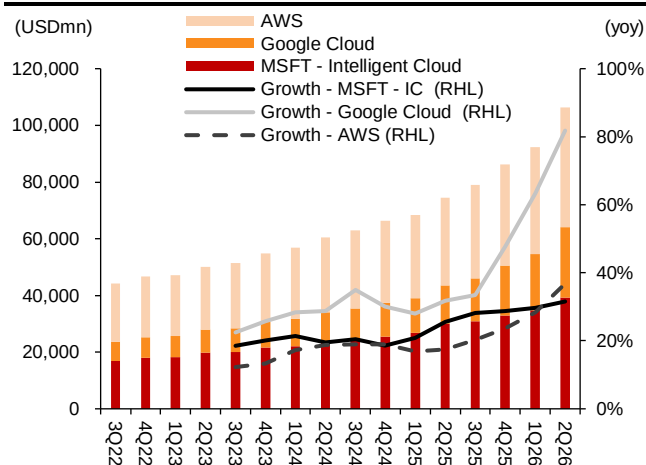
CSP: ROI improvement thesis playing out and set to continue

The latest 2Q26 results from major US cloud service providers (CSPs) (Amazon, Microsoft and Google) highlighted that ROI in AI-related investment showed continued improvement. Despite unchanged CapEx guidance, or only modest increases due to higher memory cost and earlier capacity delivery, cloud revenue and OP growth came in materially ahead of expectations. Clear disclosure by mgmt. on cloud investment payback periods and backlog-implied demand, together with a continued focus on investment efficiency, was well received by the market. Looking into 2027-28, we expect cloud revenue growth at each vendor to outpace CapEx growth, making investment ROI increasingly visible. Against continued improvement in the price-performance of open-source models, major CSPs that can provide the right model for the right workload and whose underlying infrastructure assets are highly fungible should benefit further. We remain positive on CSPs as beneficiaries of the AI cycle. Among US CSPs, we recommend Amazon (AMZN US), Microsoft (MSFT US) and Alphabet (GOOG US); among Chinese CSPs, we recommend Alibaba (BABA US). We also suggest monitoring Datadog (DDOG US), a software platform spanning full-stack observability and cloud security that should benefit from explosive cloud demand growth.

Cloud revenue: YoY growth accelerated further in 2Q26 and is set to continue in 3Q26

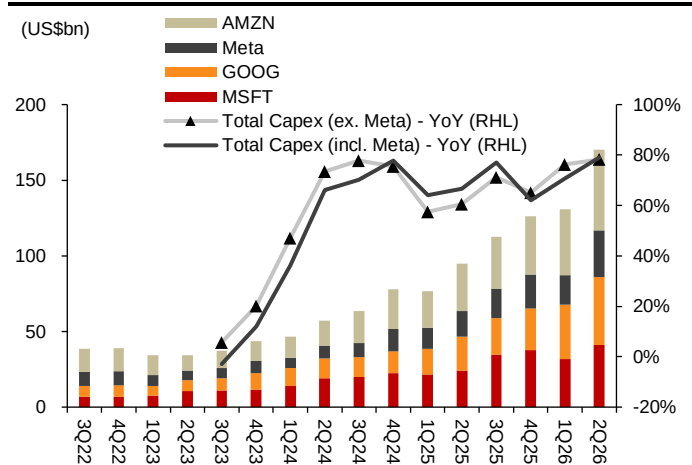
Aggregate cloud-related revenue of leading US CSPs reached US\$106.3bn in 2Q26, with YoY growth accelerating to 43% (2Q25: 23%; 1Q26: 35%). Growth accelerated sequentially at every vendor, driven mainly by: 1) new capacity coming online, enabling previously constrained demand to be fulfilled and recognized as revenue; 2) higher utilization of CPU and GPU fleet; and 3) acceleration in traditional enterprise cloud adoption and migration. Mgmt. at Microsoft and Amazon indicated that capacity remains insufficient and that previously announced expansion plans in capacity will continue. We believe the addition of new capacity and optimization of existing infrastructure resources should drive a further sequential acceleration in CSPs' YoY revenue growth in 3Q26.

Figure 1: US cloud revenue growth



Source: Company data, CMBIGM

Figure 2: US tech CapEx trends



Source: Company data, CMBIGM

All major CSPs delivered 2Q26 revenue materially ahead of market expectations: 1) Microsoft Azure and other cloud services revenue grew 43% YoY (prior guidance: 39-40% in constant currency), accelerating from 39% in both 1Q26 and 2Q25; 2) Amazon AWS revenue grew 37% YoY (Visible Alpha consensus: 31%); and 3) Google Cloud revenue grew 82% YoY (market consensus: 65%). We attribute the broad-based beats to new capacity coming online and enabling previously constrained demand to be fulfilled and recognized as revenue, efficiency gains across CPU and GPU resource pools, and renewed acceleration in traditional enterprise cloud adoption and migration.

Mgmt. commentary pointed to sustained demand strength in excess of supply. Microsoft reported commercial remaining performance obligations (RPO) up 84% YoY to US\$678bn. Amazon's AWS backlog rose to US\$496bn. Google Cloud backlog increased by more than US\$50bn QoQ to US\$514bn, with mgmt. expecting over half to convert into revenue within the next 24 months.

On the supply side, Microsoft and Amazon continue to expand capacity and improve the efficiency of existing infrastructure to better address unmet demand. Microsoft reiterated in 2Q26 its target, first discussed on the 3Q25 earnings call, to roughly double total data center scale over the next two years. Amazon also reiterated that its plan to double 2025 power capacity by end-2027 remains under way.

Figure 3: 2Q26 cloud revenue growth and outlook for major overseas CSPs

Company	Microsoft	Amazon	Alphabet
2Q26 cloud revenue growth vs market expectations	Azure and other cloud services revenue grew 43% YoY (prior guidance: 39-40% in constant currency), accelerating from 39% in both 1Q26 and 2Q25.	2Q26 AWS revenue rose 37% YoY to US\$42.2bn (VA consensus: 31%).	Google Cloud revenue grew 82% YoY (consensus: 65%).
3Q26 cloud revenue growth outlook	Mgmt. guided Azure and other cloud services revenue to grow 45% YoY in 3Q26, with growth in 1H FY27 (2H26) accelerating further from 2Q26 (source: mgmt. earnings-call outlook).	The company provided no official near-term growth guidance but said demand remains strong. On the earnings call, mgmt. stated that the cloud business could at least double from its current scale and, over time, reach US\$1tn in annual revenue while generating highly attractive FCF and returns on invested capital.	We forecast Google Cloud revenue growth of 82% YoY in 3Q26, sustaining rapid growth.
Key drivers of the beat	1) Improved efficiency of CPU and GPU resource pools; 2) Process optimization enabled new capacity to come online earlier; 3) GitHub Copilot usage was stronger than expected, as pricing became better aligned with usage and customer value following the adjustment of business model in June.	1) AI is driving the non-AI core cloud business, with a stronger-than-expected multiplier effect; 2) Traditional enterprise cloud adoption and migration are reaccelerating; 3) New capacity enabled previously constrained demand to be recognized as revenue.	1) Strong demand for AI compute, with solid performance across core GCP, AI solutions and AI infrastructure services; 2) TPU sales to external customers were recognized for the first time.
Mgmt. commentary on supply and demand	Demand: 1) Customer demand continues to exceed supply; mgmt. remains focused on efficiency gains to narrow the supply-demand gap. 2) Commercial RPO rose 84% YoY to US\$678bn. All sequential growth in commercial RPO came from customer commitments outside frontier-model companies; excluding OpenAI, RPO grew 25% YoY. Supply: The target discussed on the 3Q25 earnings call to roughly double total data center scale over the following two years was reaffirmed on the 2Q26 call as remaining on track.	Demand: 1) Current capacity remains insufficient to meet the demand mgmt. sees in 2026, a situation expected to persist into 2027; secured demand for 2028 is also notable; 2) AWS backlog increased to US\$496bn, representing triple-digit YoY growth; Supply: Capacity expansion is proceeding according to the plan discussed several quarters ago, and power capacity is still expected to reach roughly twice the 2025 level by end-2027.	Demand: 1) Customer demand continues to exceed supply. From 3Q26, the company will lease third-party compute capacity as a bridge until more owned capacity is completed; 2) Google Cloud backlog increased by more than US\$50bn QoQ to US\$514bn in 2Q26; mgmt. expects over half to convert into revenue within the next 24 months.

Source: Company data, Visible Alpha, CMBIGM

Note: Microsoft data in the table have been converted to calendar-year periods; 2Q26 corresponds to 4QFY26 (same below).

Cloud margin: Stable-to-higher margins convert revenue growth into profit growth

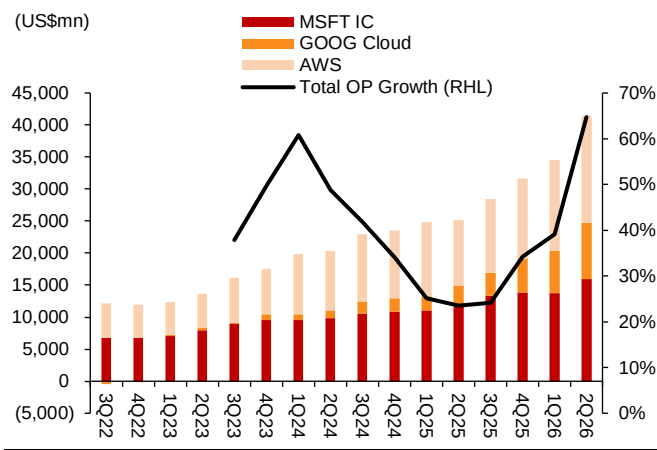
Aggregate 2Q26 OP of the leading CSPs reached US\$41.4bn, up 65% YoY (2Q25: 24%; 1Q26: 39%). Despite near-term OPM pressure from incremental CapEx, major vendors' OPM was at least broadly stable YoY or improved significantly. Google Cloud and AWS delivered particularly strong OPM expansion, driven mainly by infrastructure efficiency gains and capacity optimization.

Microsoft: Intelligent Cloud OP rose 31.4% YoY to US\$16.0bn in 2Q26. OPM was 40.6%, flat YoY and 1.9ppts ahead of market consensus. Although CapEx investment to support long-term cloud growth weighed on near-term OPM, mgmt.'s strong focus on efficiency and investment returns drove a better-than-expected margin outcome.

Amazon: AWS OPM reached 39.4%, up 6.5ppts YoY, driven by efficiency gains, capacity optimization and tight fixed-cost control. Excluding a US\$0.6bn gain from fair-value remeasurement of energy contracts under derivative accounting, OPM was still 37.9%, 4.2ppts ahead of consensus.

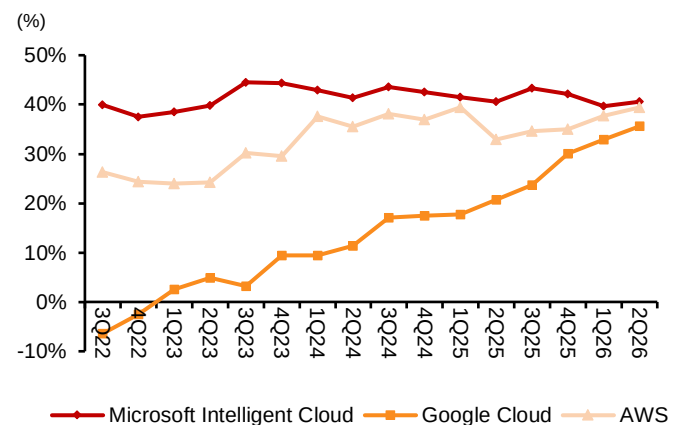
Alphabet: Google Cloud OPM rose 15ppts YoY to 35.6% in 2Q26, driven mainly by greater scale. However, the company plans to add third-party cloud compute capacity in 3Q26, which could put some pressure on cloud OPM.

Figure 4: US CSP: cloud OP growth



Source: Company data, CMBIGM

Figure 5: US CSP: cloud margin



Source: Company data, CMBIGM

Figure 6: 2Q26 Cloud OPM vs market expectations for major overseas CSPs

Company	Microsoft	Amazon	Alphabet
2Q26 cloud OPM vs market expectations	Intelligent Cloud OPM was 40.6%, flat YoY and 1.9ppts above VA consensus.	AWS OPM was 39.4% (37.9% excluding a US\$0.6bn gain from fair-value remeasurement of energy contracts under derivative accounting), up 6.5ppts YoY and 4.2ppts above VA consensus.	Google Cloud OPM was 35.6% (consensus: 31.0%).
Key drivers of the beat	Strong focus on efficiency and investment returns	1) Efficiency gains; 2) Capacity optimization; 3) Tight fixed-cost control.	1) Strong demand supported favorable pricing, while rapid revenue growth created operating leverage; 2) Improved Google Cloud operating efficiency.
Outlook	The company will continue improving the operating efficiency of its GPU and CPU fleet.	1) Mgmt. reiterated that margins will fluctuate with investment levels, product mix and the mix of AI and non-AI workloads; 2) However, margins and returns in AI-related cloud services are broadly consistent with, and in fact slightly ahead of, those of the core business at a comparable stage of development.	From 3Q26, the company plans to lease third-party compute capacity to meet customer demand, which could pressure Google Cloud margins.

Source: Company data, Visible Alpha, CMBIGM

CapEx: Greater focus on ROI well received by the market

CSPs placed greater emphasis on ROI, while the faster-than-expected growth in cloud revenue and OP was well received by the market. Looking into 2027-28, we expect cloud revenue growth at each vendor to outpace CapEx growth, making investment ROI increasingly visible. Against continued improvement in the price-performance of open-

source models, major CSPs that can provide the right model for the right workload and whose underlying infrastructure assets are highly fungible should benefit further.

Supported by strong AI compute demand, we expect leading CSPs and internet companies (Microsoft, Google, Amazon, Meta and Oracle) to continue increasing CapEx, with aggregate spending of US\$800.8bn/US\$1,088.2bn/US\$1,214.6bn in 2026-28E. Near-term FCF at these companies will face some pressure, with aggregate outflows of US\$10.5bn/US\$89.1bn in 2026/27E. However, strong balance sheets and financing capacity make these outflows manageable: they represent only 1%/4% of revenue and 0.1%/0.7% of combined market cap. A relatively small equity or debt issuance could therefore cover the shortfall. As commercialization of prior AI infrastructure investment accelerates, aggregate FCF should turn positive again to US\$45.5bn in 2028E.

Company outlook:

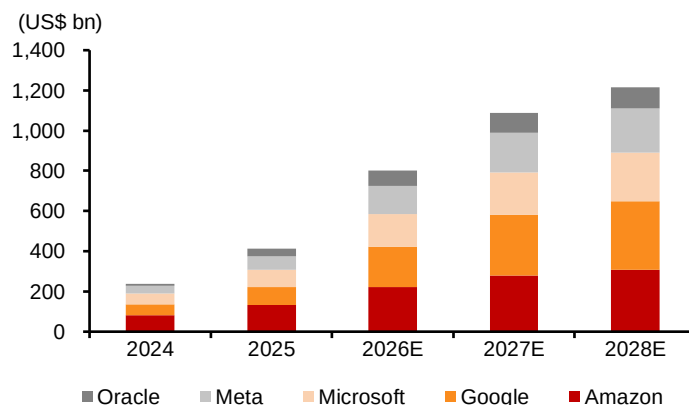
1) Microsoft: Reflecting changes in the estimated useful lives of data centers and office buildings, and an expected shift in more data center leases from finance leases to operating leases, mgmt. updated CY26 CapEx guidance to US\$175bn. Mgmt. stressed that expected investment is unchanged on a comparable basis (previous guidance: US\$190bn). Mgmt. expected 1QFY27 CapEx to exceed US\$50bn and guided to positive FY27 FCF. Under the new accounting treatment, we forecast FY27E CapEx of US\$200bn; on the prior basis, CapEx would be in line with pre-results market expectations.

2) Amazon: Mgmt. raised 2026E CapEx guidance from US\$200bn to US\$220bn due to higher storage costs. It reiterated that current capacity remains insufficient to meet the demand in 2026, which is expected to persist into 2027, and that secured demand for 2028 is also notable.

3) Alphabet: Mgmt. expects FY26 CapEx of US\$195-205bn. As of end-June 2026, the company signed future spending commitments totaling US\$811bn as it stepped up compute investment to meet growing demand. Despite near-term cash-flow pressure, accelerating cloud growth and margin expansion should allow FCF to turn positive from FY28E.

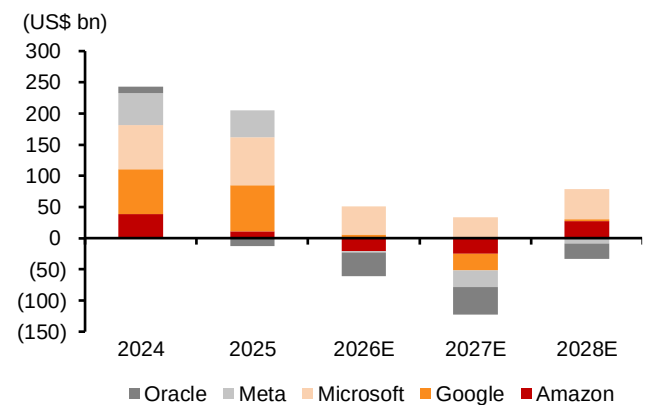
4) Meta: Mgmt. guided to FY26 CapEx of US\$130-145bn (up 80-101% YoY). Given strong demand across businesses, the company will continue maximizing AI compute reserves in FY26/27E while retaining some flexibility for FY28E. As Meta still monetizes AI infrastructure mainly through improvements to its advertising business, its payback period is relatively long and near-term FCF faces more pronounced pressure (FCF margin declining from 22% in 2025 to -9% in 2027E).

Figure 7: CapEx of major CSPs and internet companies



Source: Visible Alpha, CMBIGM

Figure 8: FCF of major CSPs and internet companies



Source: Visible Alpha, CMBIGM

Figure 9: CapEx trends of major cloud and internet vendors

CapEx (US\$bn)	2024	2025	2026E	2027E	2028E	YoY%	2025	2026E	2027E	2028E
Amazon	83.0	131.8	222.1	280.1	309.1	Amazon	59%	68%	26%	10%
Alphabet	52.5	91.4	201.7	302.2	340.9	Alphabet	74%	121%	50%	13%
Microsoft	55.6	83.1	160.1	210.3	240.7	Microsoft	50%	93%	31%	14%
Meta	37.3	69.7	139.5	196.8	220.6	Meta	87%	100%	41%	12%
Oracle	10.7	35.5	77.3	98.8	103.4	Oracle	230%	118%	28%	5%
Total	239.1	411.5	800.8	1088.2	1214.6	Total	72%	95%	36%	12%

Source: Visible Alpha, CMBIGM

Note: Data as of 3 August 2026; Microsoft and Oracle fiscal-year data have been converted to calendar-year data.

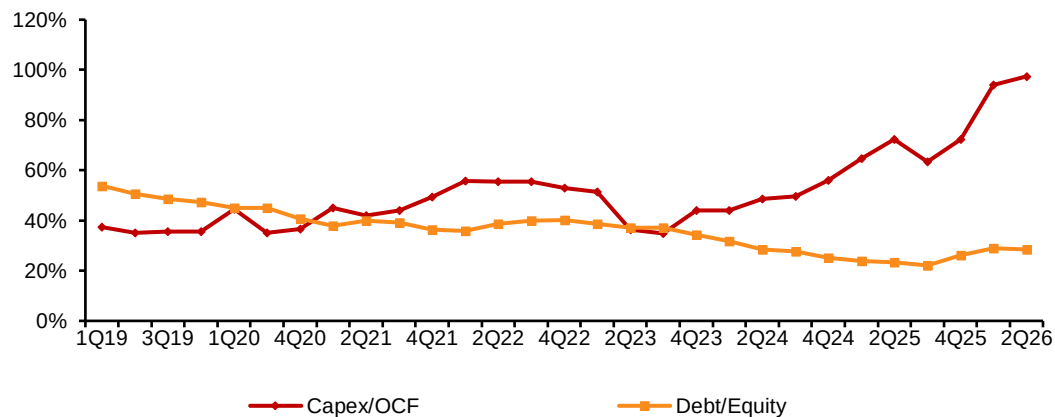
Although CapEx intensity at leading cloud and internet vendors is gradually exceeding internally generated operating cash flow (2Q26/2026E CapEx/OCF: 97%/102%), these companies still have ample cash and external financing capacity to sustain current investment. Their average debt-to-equity ratio was only 28% in 2Q26, well below historical peaks.

Figure 10: OCF trends of major CSPs and internet companies

Operating Cash Flow (US\$bn)	2024	2025	2026	2027	2028	CapEx/OCF	2025	2026E	2027E	2028E
Amazon	115.9	139.5	201.1	250.8	318.9	Amazon	94%	110%	114%	99%
Alphabet	125.3	164.7	205.2	273.7	343.8	Alphabet	56%	98%	110%	99%
Microsoft	125.6	160.5	203.9	240.2	286.3	Microsoft	52%	79%	88%	84%
Meta	91.3	115.8	137.4	172.6	213.3	Meta	60%	102%	114%	102%
Oracle	20.3	22.3	39.4	56.2	80.3	Oracle	159%	196%	176%	129%
Total	478.4	602.8	787.0	993.5	1242.7	Total	68%	102%	110%	98%

Source: Visible Alpha, CMBIGM

Note: Data as of 3 August 2026; Microsoft and Oracle fiscal-year data have been converted to calendar-year data.

Figure 11: Major CSPs and internet - CapEx/OCF and debt-to-equity trends

Source: Visible Alpha, CMBIGM

Addressing market concerns over CapEx efficiency, 2Q26 results from major US CSPs (Amazon, Microsoft and Google) highlighted continued improvement in ROI on AI-related investment. Despite unchanged CapEx guidance, or only modest increases due to higher storage prices and earlier capacity delivery, cloud revenue and OP growth came in materially ahead of expectations. Clear disclosure by mgmt. on investment payback periods and backlog-implied demand, together with a continued focus on investment efficiency, was well received by the market. Examples include:

- 1) Microsoft: Results showed that tangible returns on CapEx are becoming increasingly evident in both the cloud business and first-party apps. Azure and other cloud services revenue growth accelerated QoQ and beat expectations, while quarterly net adds to paid Microsoft 365 Copilot seats more than doubled QoQ, also ahead of expectations, supported by improved product shape and deeper AI integration. Although mgmt. expects FY27 CapEx to continue growing YoY, it still guided for positive FY27 FCF, demonstrating its ability and commitment to balance incremental investment to fulfil demand with operating efficiency;
- 2) Amazon: While AWS revenue growth and OPM beat expectations significantly, mgmt. quantified the returns on AWS expansion: 1) server and networking-equipment investments reach breakeven in slightly under three years on average; and 2) servers currently have useful lives of at least five to six years, while most AI capacity contracts run for five years or longer. Mgmt. reiterated that current capacity remains insufficient for the demand in 2026, that this will persist into 2027, and that secured demand for 2028 is also notable. In our view, mgmt. clearly conveyed that CapEx is backed by committed demand and should generate predictable returns with a high degree of confidence.
- 3) Alphabet: Google Cloud continued to deliver better-than-expected revenue and profit growth. Backlog increased by more than US\$50bn QoQ to US\$514bn in 2Q26, with over 50% expected to convert into revenue within the next 24 months. AI investment is also driving growth in core search volume and advertising monetization efficiency. AI Mode monthly active users exceeded 1bn, and AI search features generate billions of clicks per week. Gemini's reasoning capabilities have deepened Google's understanding of search intent, improving shopping-ad relevance by 20%.

Figure 12: FCF trends of major CSPs and internet companies

Free Cash Flow (US\$bn)	2024	2025	2026	2027	2028	FCF/Revenue	2025	2026E	2027E	2028E
Amazon	38.2	11.2	-21.0	-25.5	27.6	Amazon	2%	-3%	-3%	3%
Alphabet	72.8	73.3	6.0	-26.1	3.0	Alphabet	18%	1%	-4%	0%
Microsoft	70.0	77.4	44.5	33.0	48.5	Microsoft	25%	12%	8%	9%
Meta	52.1	43.6	-2.2	-26.4	-8.2	Meta	22%	-1%	-9%	-2%
Oracle	9.5	-13.2	-37.9	-44.0	-25.4	Oracle	-22%	-49%	-41%	-16%
Total	242.7	192.3	-10.5	-89.1	45.5	Total	11%	-1%	-4%	2%

Source: Visible Alpha, CMBIGM

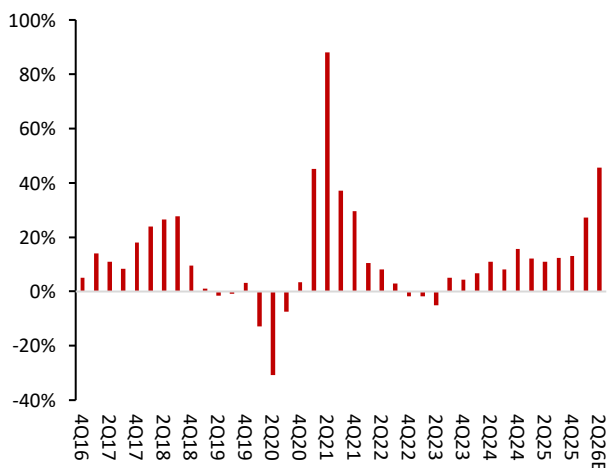
Note: Data as of 3 August 2026; Microsoft and Oracle fiscal-year data have been converted to calendar-year data.

US 2Q26 earnings watch: S&P 500 EPS growth accelerated QoQ; US tech remained strong

According to FactSet, 61% of S&P 500 constituents reported 2Q26 results as of 31 July 2026. Our key observations are: 1) Bloomberg consensus blended index EPS grew 46% YoY in 2Q26, the fastest quarterly growth since 2Q21 and 19% above the estimate one month earlier; Energy (+128%) and Communication Services (+105%) showed the largest growth, while Information Technology (+68%) also accelerated from 1Q26; 2) earnings expectations for Information Technology were revised upward steadily, while the sharp increase for Communication Services was driven mainly by one-off items such as mark-to-market gains on Alphabet's equity investments; 3) gains in Information Technology and Communication Services over the past three months were largely earnings-driven; 4) overall US technology valuations have fallen back to the mid-to-low portion of their 10-year ranges, while the average forward PE of the leading CSPs is near a historical trough, suggesting some leaders may retain a margin of safety even after strong rallies.

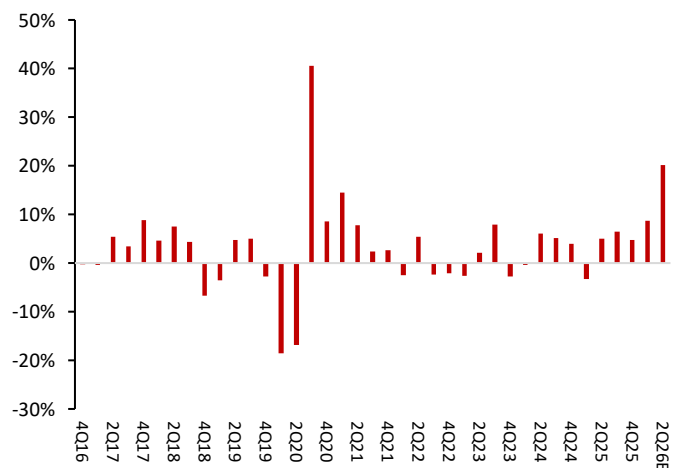
We remain positive on the allocation value of major overseas technology companies. With valuation compression largely absorbed, earnings growth should drive further index upside. We prefer technology leaders with potential upward revision on earnings estimates, supportive valuations, and the ability to convert AI CapEx efficiently into revenue and OP growth.

Figure 13: S&P 500 EPS growth (YoY)



Source: Bloomberg, CMBIGM
 Note: Data as of 3 August 2026.

Figure 14: S&P 500 EPS growth (QoQ)



Source: Bloomberg, CMBIGM
 Note: Data as of 3 August 2026.

Sector performance: Tech gains remained earnings-driven despite multiple contraction

Over the past three months, both Information Technology and Communication Services delivered positive returns, driven mainly by earnings. EPS upgrades in Information Technology substantially exceeded the index gain as valuations contracted noticeably; the rise in Communication Services was also mainly earnings-driven. Compared with the prior quarter, when Communication Services was powered by multiple re-rating, market pricing has shifted from valuation expansion toward earnings delivery.

Information Technology: Valuation has likely returned to a reasonable range, and earnings growth should support an index recovery. The S&P 500 Information Technology Index rose 8.6% over the past three months. EPS upgrades contributed about 16.1ppts, while multiple contraction detracted about 7.5ppts. Forward PE fell from about 23.8x last quarter to about 21.1x, at the 39th percentile of its 10-year range. With sector earnings momentum still improving at the margin, we believe valuation compression has been largely absorbed and earnings growth should drive an index recovery.

Communication Services: Earnings growth being the main driver of index gains. The S&P 500 Communication Services Index rose 9.4% over the past three months, with about 8.0ppts from EPS upgrades and only 1.4ppts from valuation, in sharp contrast to the prior quarter, when roughly 27ppts of a 32% gain came from multiple expansion. Forward PE also fell from about 30.0x to 28.7x. This suggests that earnings delivery is absorbing the valuation previously priced in. However, this quarter's upgrades to rolling forward EPS include non-operating items such as mark-to-market gains on Alphabet's equity investments; underlying operating-earnings upgrades were smaller than the headline figures.

Figure 15: 3M sector returns decomposition (EPS vs forward PE)

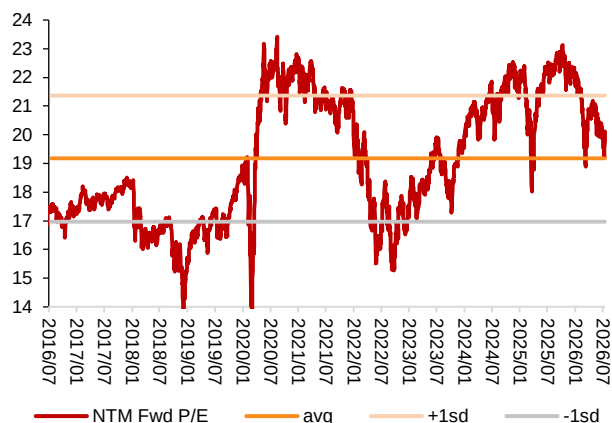
Sector	Index Performance				Rolling Forward EPS				Forward P/E	3M Index Return Decomposition	
	Latest Price	1M	3M	YTD	Latest	1M Revision	3M Revision	YTD Revision	Latest	EPS Contribution (ppt)	Valuation Contribution (ppt)
S&P 500	7,600.5	1.6%	5.6%	11.0%	384.3	3.7%	9.7%	23.7%	19.8	9.5%	-4.0%
IT	6,660.0	1.4%	8.6%	17.2%	315.0	4.0%	16.7%	46.0%	21.1	16.1%	-7.5%
Comm. Services	1,365.3	4.9%	9.4%	42.4%	47.5	1.8%	7.9%	6.9%	28.7	8.0%	1.4%
Cons. Disc.	1,973.8	3.5%	0.8%	2.4%	85.8	8.5%	11.7%	17.1%	23.0	11.1%	-10.4%
Financials	953.7	3.0%	11.2%	4.6%	60.9	3.2%	5.9%	10.8%	15.7	6.1%	5.2%
Industrials	1,549.1	-0.5%	7.1%	18.0%	61.0	1.5%	6.4%	10.9%	25.4	6.5%	0.6%
Health Care	1,890.4	-1.1%	12.1%	4.7%	102.3	1.3%	2.0%	5.2%	18.5	2.1%	10.0%
Energy	901.4	10.8%	-0.5%	31.1%	65.0	0.9%	7.2%	51.9%	13.9	6.9%	-7.4%
Materials	635.0	-2.8%	0.4%	10.6%	36.8	-0.2%	3.1%	23.1%	17.3	3.0%	-2.6%
Utilities	450.5	-3.1%	-4.4%	3.8%	26.0	0.7%	2.0%	5.4%	17.3	2.0%	-6.3%
Real Estate	287.3	1.2%	2.6%	12.7%	7.9	1.5%	4.8%	6.3%	36.3	4.8%	-2.2%
Cons. Stap.	938.1	-0.4%	-0.7%	8.5%	43.0	0.3%	1.1%	3.2%	21.8	1.1%	-1.8%

Source: Bloomberg, CMBIGM

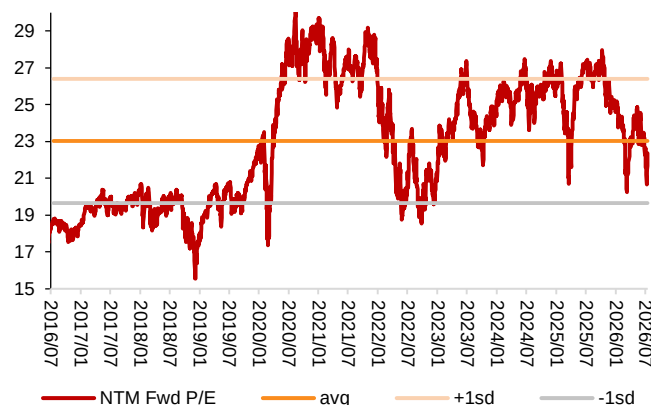
Note: Data as of 3 August 2026. Return decomposition is derived from $\text{Price} = \text{EPS} \times \text{PE}$: $\ln(1+P) = \ln(1+\text{EPS}) + \ln(1+M)$.

Valuation: US tech multiples back to mid-to-low deciles; CSPs near trough levels

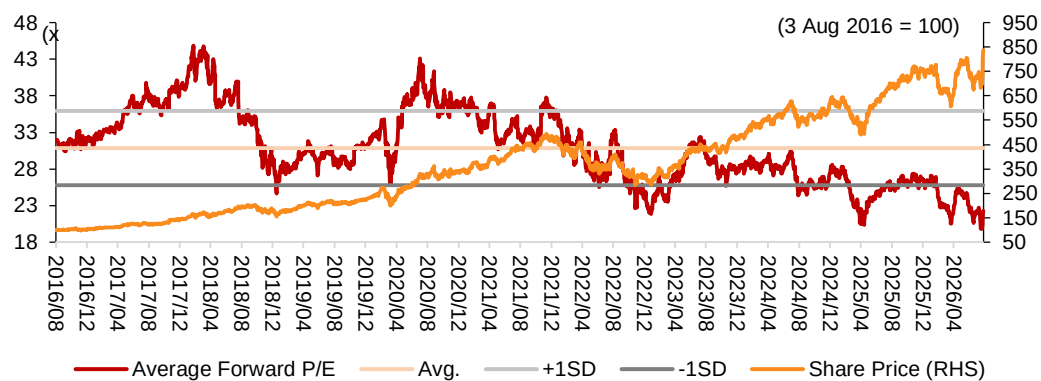
Based on Bloomberg data, overall US technology valuations have compressed to the mid-to-low portion of their 10-year ranges, while major CSPs are near historical troughs, giving some leaders a meaningful margin of safety. As of 3 Aug 2026, the S&P 500 traded at c.19.8x forward PE, at the 57th percentile of its 10-year range, while the Nasdaq 100 traded at c.21.7x, at the 42nd percentile. Microsoft, Amazon and Alphabet traded at an average forward PE of c.22.3x, near a 10-year low (although investment gains positively affected earnings and reduced PE). Valuation dispersion remains: Microsoft's and Amazon's next-12-month forward PE multiples are at the 31st/1st percentiles of their respective 10-year ranges, while Alphabet's next-12-month forward EV/EBIT (excluding investment gains) is at the 79th percentile.

Figure 16: S&P 500 12M forward PE

Source: Bloomberg, CMBIGM
 Note: Data as of 3 August 2026.

Figure 17: Nasdaq 100 12M forward PE

Source: Bloomberg, CMBIGM
 Note: Data as of 3 August 2026.

Figure 18: Forward PE vs share price for the three major US CSPs

Source: Bloomberg, CMBIGM
 Note: Data as of 3 August 2026. The three leading US CSPs are Microsoft, Amazon and Alphabet.

AI monetization and enterprise adoption: Commercialization progresses as enterprise AI moves from PoC to production

Reviewing this quarter's results from CSPs and software companies, we see AI commercialization extending from infrastructure demand into applications and enterprise workflows, although monetization varies significantly across the value chain. In applications and in-house chips: 1) Microsoft Copilot has begun to establish a flywheel of paid-seat growth, deeper usage and usage-based monetization, giving it relatively strong commercialization visibility among CSPs; 2) Google is forming a diversified monetization mix of improved search advertising and AI subscriptions, while TPU has begun to contribute revenue; and 3) Amazon's in-house chips have reached meaningful revenue scale, while Alexa is monetized mainly through indirect channels such as e-commerce, advertising and Prime membership. At the enterprise level, paid seats, model calls, production customers and AI workflow executions are all rising, and some large customers have moved from proof of concept (PoC) to organization-wide deployment. Willingness to pay is increasing due mainly to quantifiable productivity returns, integration with existing data and workflows, and improving security and governance. We expect rising enterprise AI adoption to translate increasingly into cloud consumption and software revenue. At present, however, revenue remains concentrated among platform companies with advantages in data, workflows and distribution; it does not yet constitute a broad inflection for enterprise software, and some traditional software vendors still face longer procurement cycles and budget displacement by AI infrastructure.

AI apps and in-house chips: Monetization is accelerating

■ Microsoft: Copilot seats and usage grew in tandem; monetization extends to seats plus consumption

Paid seats: Microsoft 365 Copilot paid seats exceeded 30mn in 2Q26, with quarterly net additions more than doubling QoQ. The number of customers purchasing over 50,000 seats increased more than sevenfold YoY, while the number of enterprise customers deploying Copilot to most information workers rose about 75% QoQ. NHS England, EY, KPMG and HSBC have each deployed 200,000-500,000 seats. The time required for monthly active usage to exceed 80% after licensing has shortened from months to days.

Usage and monetization: Two months after launch, E7 had reached hundreds of enterprise customers and millions of seats; thousands of customers are paying for Copilot; and Dynamics customer-service credit consumption rose fourfold QoQ. GitHub Copilot reached 50mn users, and consumption revenue rose more than 60% QoQ after the shift to usage-based pricing. Agents now participate in about one-third of GitHub pull requests. Conversations per Copilot user nearly doubled YoY, while average weekly usage intensity approached that of Outlook and Teams. Mgmt. expects Copilot, E7 and consumption-priced products to drive a gradual acceleration in Microsoft 365 Commercial cloud growth during FY27.

■ Alphabet: Gemini user base expands; TPU systems begin shipping to customer data centers

Users and advertising: Gemini App monthly active users reached 950mn and daily active users tripled YoY. AI Mode exceeded 1bn monthly active users and generated incremental search queries. More than 500,000 advertisers have adopted AI Max; advertisers using AI Max or Performance Max achieved, on average, over 15% higher conversions or value at similar ROAS. Subscriptions, Platforms and Devices revenue rose 15% YoY to US\$12.9bn, partly supported by demand for Google One and AI plans.

TPU: The company recognized sales revenue for TPU systems delivered to customer data centers for the first time this quarter, extending TPU from internal compute and Google Cloud instances into private customer data centers. Mgmt. said related revenue recognized in 2026 would remain small but accelerate from late 2026; the vast majority of revenue in existing contracts will be recognized in 2027. TPU system contracts are included in Google Cloud backlog.

■ Amazon: In-house chip monetization scales; consumer AI mainly improves e-commerce and ad conversion

In-house chips: The business has exceeded a US\$25bn annualized revenue run rate and maintained triple-digit YoY growth. Revenue comes mainly from compute and instances generated as customers use Trainium and Graviton through AWS. Trainium has secured multi-year, multi-GW compute commitments from Anthropic and OpenAI. Graviton is used by 98% of the top 1,000 EC2 customers, related revenue commitments nearly tripled QoQ, and Graviton 5 is ramping at about twice the pace of Graviton 4 at the same stage. Mgmt. said some customers are interested in buying Trainium directly and that the company is exploring off-cloud sales.

Alexa: More than 350mn consumers used Alexa for Shopping over the past 12 months. Active users nearly doubled this quarter, while interactions increased more than fivefold YoY. Consumers who clicked an AI Sponsored Prompt had a 48% higher purchase-conversion rate and spent 21% more on average. Alexa for Shopping users had average order values over 40% higher, while Alexa+ customers were nearly 25% more likely to subscribe to Prime.

AI enters core workflows; quantifiable ROI supports enterprise willingness to pay

Reviewing enterprise software results this quarter, we observe rising enterprise AI adoption, with simultaneous improvements in breadth of adoption, depth of usage, deployment quality, security and governance, and monetization models. However, the conversion of adoption into revenue varies, and some companies face delayed procurement as AI infrastructure investment crowds out traditional software budgets.

Figure 19: Enterprise AI adoption and commercialization progress

Company		AI Progress
Large enterprises are moving from testing individual features and limited seats toward cross-department, multi-product and production deployment. Adoption metrics are likewise shifting from seats purchased to model calls, workflow executions and user engagement.		
Microsoft		1) NHS England, EY, KPMG and HSBC have each deployed 200,000-500,000 seats; some customers have extended Copilot to most IT employees; 2) Conversations per Copilot user nearly doubled YoY and average weekly usage intensity approached that of Outlook and Teams, indicating that the product is entering daily workflows.
Alphabet		1) Nearly 90% of Fortune 100 companies are using Gemini Enterprise. Google Cloud new-customer acquisition more than doubled YoY, while usage by existing customers and consumption above contracted commitments rose over 50%; 2) Model API throughput increased from 16bn tokens per minute last quarter to 22bn. Over the past 12 months, nearly 500 Cloud customers processed over 1tn tokens each and more than 2,000 enterprises used over 100bn tokens each.
ServiceNow		1) The number of AI production customers increased ninefold in nine months; 2) Transactions involving five or more AI products increased 5.5x YoY, while AI transactions worth over US\$1mn were about three times the year-earlier level, indicating a shift from single-product trials to multi-product deployment.
Salesforce		1) AI token volume rose 152% QoQ to 28.6tn this quarter, generating 3.8bn Agentic Work Units; 2) The ten customers with the highest AWU usage increased their total Salesforce spending to about 1.5x the prior-year level, indicating that deeper AI usage can expand platform spending.
Amazon		1) Kiro usage tripled QoQ; 2) Amazon Q has been adopted by several large enterprises, although the company has not quantified related customer counts or revenue contribution.
Enterprise willingness to pay is driven mainly by shorter processing times, lower labor costs and integration with existing workflows. Data permissions, security and compliance governance are prerequisites for moving AI from experimentation into production.		
CCC Intelligent Solutions		A large repair chain uses Jumpstart to generate about 98% of repair estimates. AI has moved from an assistive feature into core claims and repair workflows, reducing manual review and improving estimate-processing efficiency.
SAP		1) Customer cases achieved over 90% touchless processing and 98% automatic matching; 2) AI shortened some 35-minute tasks to five minutes and reduced ERP migration costs by up to about 30%, demonstrating clear efficiency and cost benefits.

PTC	ServiceMax AI customer tests showed a 50% reduction in technician preparation time and an approximately 4% increase in overall service-team productivity. Quantifiable efficiency gains support broader customer deployment.
Procore	1) Approximately 20 AI agents have been launched for the construction industry; 2) Following successful early trials, some customers expanded Procore AI to 50 projects for use cases including submittal review, RFI drafting and material verification.
Cadence	Agentic AI can broaden chip-design exploration, increase calls to underlying EDA tools and improve design efficiency, potentially driving usage of both agent products and core EDA tools.
Tenable	1) Over 80% of Hexa users proactively submit prompts, and nearly half go on to use agents to execute actions; 2) Hexa users call about six Tenable One tools on average, indicating that agents can increase multi-product usage within the platform.
Varonis	A healthcare customer uses the Varonis platform to manage over 100 AI projects and automatically remediate exposed HIPAA and PII data, showing that data discovery, access mgmt. and compliance governance are essential to scaling enterprise AI deployment.
F5	1) The cumulative number of customers directly serving AI applications increased 50% QoQ; 2) The number of AI-security customers doubled QoQ, reflecting simultaneous growth in AI inference traffic and model-security demand.
Some platform and vertical-software companies have disclosed AI ARR, ACV or revenue contributions. Others mainly show increased cloud consumption, installed-product usage and bookings, with monetization progress still uneven.	
Salesforce	Agentforce ARR exceeded US\$1bn, while combined Agentforce and Data 360 ARR reached US\$3.4bn, providing relatively clear recurring AI-revenue metrics.
ServiceNow	AI ACV exceeded US\$1bn, and quarterly net new AI ACV rose over 40% QoQ. AI product purchases and production deployment are beginning to translate into contract value.
CCC Intelligent Solutions	Annualized AI-solution revenue exceeded US\$120mn, up nearly 50% YoY and representing about 11% of company revenue and approximately 4ppts of revenue growth, making this a vertical-software company with relatively clear AI revenue contribution.
Microsoft	GitHub Copilot revenue rose over 60% QoQ. AI usage and revenue growth are increasingly visible, although the company has not separately disclosed total Microsoft 365 Copilot revenue.
Alphabet	Enterprise AI demand has translated into paid token usage, customer overages and Google Cloud backlog, although the company has not separately quantified enterprise AI's contribution to Cloud revenue growth.
F5	The company previously disclosed AI-related revenue above US\$50mn but did not update the figure this quarter. AI revenue spans traffic mgmt., data delivery, security and other products.
Check Point	Combined ARR from Email Security, CTEM and AI Security grew over 40%, but this measure includes non-AI products and does not isolate pure AI-security revenue.
Cadence	Agentic AI has begun to increase calls to underlying EDA tools and drive customer purchases of agent licenses. The business remains at an early stage, and mgmt. has not assumed a material AI growth step-up in guidance.
PTC	The company signed a ServiceMax AI order worth nearly US\$1mn. It views standalone AI monetization as a medium-to-long-term economic opportunity; current validation is primarily through customer cases and orders.
Tyler Technologies	Direct AI business currently represents only a small share of new ACV. The company expects AI revenue contribution to become more visible only after the next 12-18 months.
Commvault	Enterprise AI adoption remains mostly at an early experimental stage, and the company has not quantified AI-related revenue contribution.
Procore	AI agents have begun entering customer projects, but the company has not disclosed standalone AI revenue. The current contribution is mainly better product capability, customer retention and potential expansion opportunities.
AI adoption is not linear. Uncertainty around technology architecture, token costs and monetization models can lengthen procurement cycles, while a higher priority for infrastructure purchases may temporarily affect traditional software transactions.	
Pegasystems	Customer uncertainty over token costs, AI architecture and build-versus-buy decisions caused some to pause software purchases, leaving overall ACV growth below expectations. This shows that an unclear AI technology path can lengthen enterprise decision cycles.
IBM	1) To address constrained infrastructure supply and anticipated price increases, some customers prioritized spending on servers, storage and memory, delaying dozens of large software transactions; 2) Transaction-processing software revenue fell 9% YoY, and the company lowered full-year software revenue growth guidance to 6-8%, showing that infrastructure procurement priorities can temporarily weigh on traditional software spending.

Source: Company data, CMBIGM

Note: Data as of 3 August 2026.

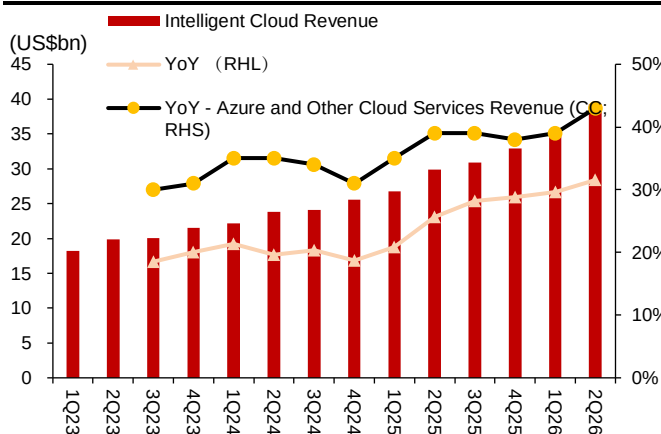
Stock recommendations

Microsoft (MSFT US; BUY; TP: US\$634.2): Tangible ROI increasingly evident

Microsoft reported 4QFY26 results (June year-end; corresponding to calendar 2Q26): revenue rose 18% YoY to US\$90.0bn (3QFY26: +18% YoY), while OP grew 18% YoY to US\$40.6bn. In our view, tangible returns on CapEx are 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 expectations unchanged on a comparable basis and guided for further efficiency gains across its CPU and GPU resource pools to better address unfulfilled demand, against a backdrop in which demand continues to exceed available capacity. Mgmt. also guided for positive FCF in FY27. Our DCF-based TP of US\$634.2 implies 32x FY27E PE. Continued acceleration in cloud revenue growth and deeper AI monetization in first-party consumer apps should provide upside to share price. Trading at 24.5x FY27E PE, Microsoft offers attractive risk-reward, in our view.

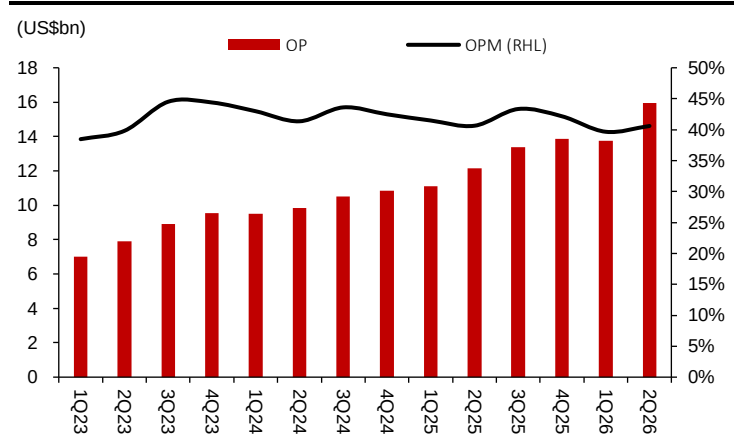
Azure revenue growth accelerated and beat expectations. Azure and other cloud services within the Intelligent Cloud segment delivered 43% YoY revenue growth (3QFY26: 40%). Mgmt. attributed the beat to: 1) efficiency gains across the CPU and GPU resource pools; 2) process improvements that enabled earlier delivery of new capacity; and 3) stronger-than-expected GitHub Copilot consumption following the June business-model change that aligned pricing with usage and customer value. CapEx (including finance leases) rose 69% YoY to US\$41bn in 4QFY26, of which roughly two-thirds was still spent on shorter-lived assets such as GPUs and CPUs to fulfil demand. Reflecting changes in the estimated useful lives of data centers and office buildings, and a shift of more future data-center leases from finance leases to operating leases, mgmt. updated its CY26 CapEx guidance to US\$175bn while emphasizing that 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. Under the new accounting treatment, we forecast FY27E CapEx of US\$200bn; on apple-to-apple basis, CapEx would be in line with pre-results market expectations.

Figure 20: Microsoft Intelligent Cloud: revenue & YoY



Source: Company data, CMBIGM

Figure 21: Microsoft Intelligent Cloud: OP & OPM



Source: Company data, CMBIGM

Rapid growth in Microsoft 365 Copilot paid seats. Productivity and Business Processes 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 in constant currency (3QFY26: 15%/29%), aided by 6%/7% YoY growth in Microsoft 365 Commercial paid seats/Consumer subscribers and ARPU expansion. Mgmt. highlighted that paid

Microsoft 365 Copilot seats reached 30mn in 4QFY26 (3QFY26: 20mn), with net seat adds more than doubling QoQ.

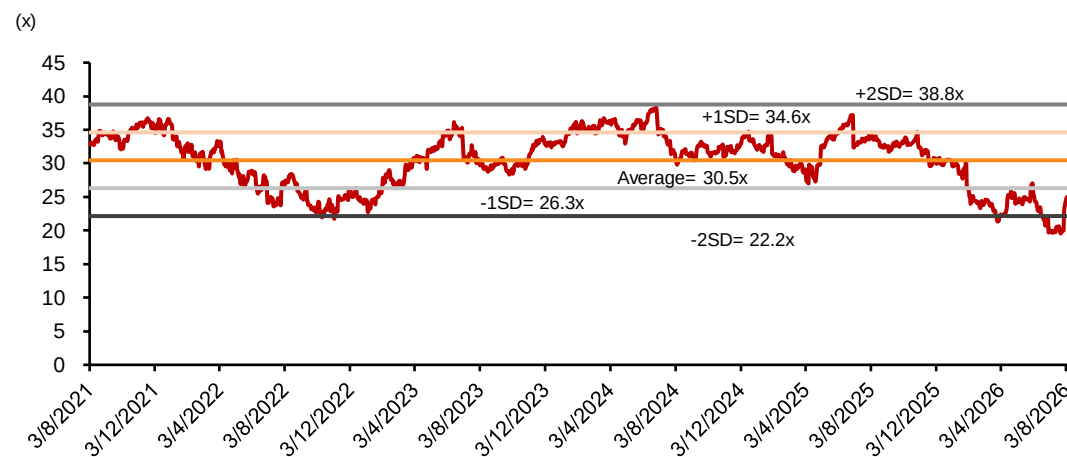
Figure 22: Microsoft: financial forecasts

(USDmn)	FY24	FY25	FY26	FY27E	FY28E
Productivity and business processes	77,728	120,810	139,996	159,026	178,207
YoY Growth	12.2%	55.4%	15.9%	13.6%	12.1%
% of Revenue	31.7%	42.9%	42.2%	40.5%	39.0%
Intelligent Cloud	105,362	106,265	137,791	183,279	229,758
YoY Growth	19.9%	0.9%	29.7%	33.0%	25.4%
% of Revenue	43.0%	37.7%	41.5%	46.7%	50.3%
More personal computing	62,032	54,649	54,052	50,504	48,784
YoY Growth	13.3%	-11.9%	-1.1%	-6.6%	-3.4%
% of Revenue	25.3%	19.4%	16.3%	12.9%	10.7%
Total revenue	245,122	281,724	331,839	392,809	456,749
YoY Growth	15.7%	14.9%	17.8%	18.4%	16.3%
Gross profit	171,008	193,893	225,465	261,218	301,455
Gross margin	69.8%	68.8%	67.9%	66.5%	66.0%
Operating profit	109,433	128,528	155,237	182,621	211,659
Operating margin	44.6%	45.6%	46.8%	46.5%	46.3%
YoY Growth	23.6%	17.4%	20.8%	17.6%	15.9%
Net profit	88,136	101,832	133,749	147,668	170,789
Net margin	36.0%	36.1%	40.3%	37.6%	37.4%
YoY Growth	21.8%	15.5%	31.3%	10.4%	15.7%

Source: Company data, CMBIGM estimates

We currently forecast FY27E revenue/OP growth of 18.4%/17.6% YoY. Based on our estimates, Microsoft trades at 24.8x FY27E PE, below its five-year average one-year-forward PE of 30.5x. Microsoft offers attractive risk-reward, in our view.

Figure 23: Microsoft: 5Y avg. 1Y-forward PE

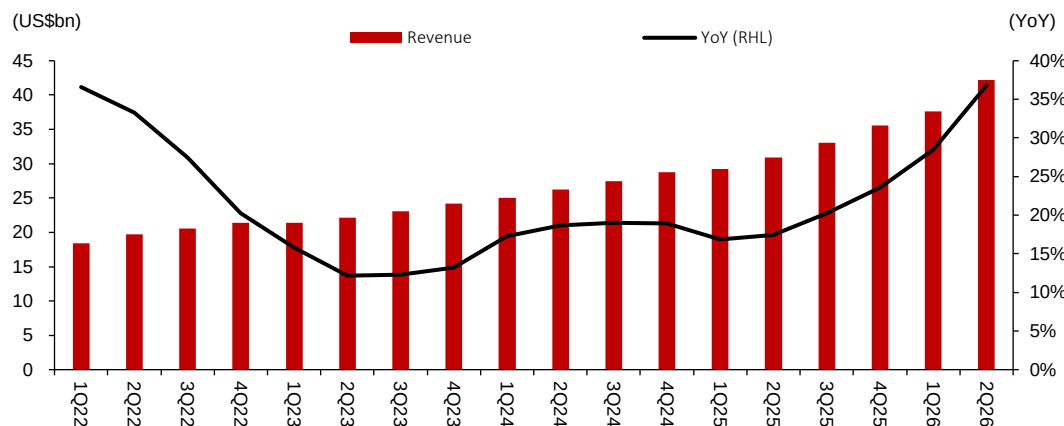


Source: Bloomberg, CMBIGM

Amazon (AMZN US; BUY; TP: US\$301.0): Solid AWS revenue growth and margin expansion

Amazon's 2Q26 revenue was US\$200.6bn (+19.6% YoY vs +13.3% in 2Q25), while OP rose 43% YoY to US\$27.5bn. Excluding two expense benefits totaling US\$1.2bn, OP was US\$26.3bn, up 37% YoY. AWS revenue growth accelerated to 37% YoY (1Q26: 28%; 2Q25: 18%). Mgmt. guided to 3Q26E revenue of US\$197-202bn (+9-12% YoY) and OP of US\$22.5-26.5bn (consensus: US\$25.4bn). Our TP of US\$301 is based on 17.2x EV/EBITDA, in line with the three-year average trading range. We remain positive on further sequential acceleration in AWS revenue growth and believe solid OP growth (CMBI estimates for 2026E: +35% YoY) should continue to support the share price.

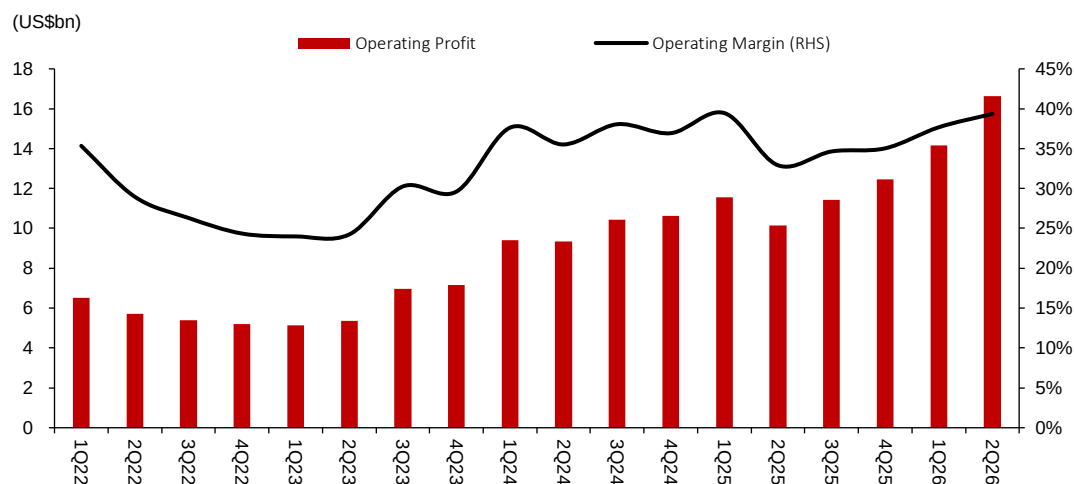
Figure 24: Amazon: AWS revenue and YoY growth



Source: Company data, CMBIGM

AWS revenue rose 37% YoY to US\$42.2bn, the fastest growth in 18 quarters and the fifth consecutive quarter of sequential YoY acceleration. Quarterly OPM reached 39.4%, up 6.5ppts YoY, driven by: 1) efficiency gains; 2) capacity optimization; and 3) tight fixed-cost control. Excluding a US\$0.6bn gain from fair-value remeasurement of energy contracts under derivative accounting, OPM was still 37.9%, 4.2ppts ahead of consensus.

Figure 25: Amazon: AWS OP and OPM



Source: Company data, CMBIGM

Cash CapEx reached US\$53.1bn (+69% YoY, +23% QoQ). Mgmt. raised 2026E CapEx guidance from US\$200bn to US\$220bn due to higher storage costs. Mgmt. quantified the returns on AWS expansion: 1) server and networking-equipment investments reach breakeven in slightly under three years on average; and 2) servers currently have useful lives of at least five to six years, while most AI capacity contracts run for five years or longer. AWS backlog reached US\$496bn, up 36% QoQ, which we believe will continue to support

cloud revenue growth. Mgmt. reiterated that capacity remains insufficient to meet the demand in 2026, and expects the same dynamic to persist into 2027, adding that the level of demand that Amazon already has for 2028 is also striking.

North America revenue rose 16.1% YoY to US\$116.2bn (2Q25: +11.1%; 1Q26: +12.1%), 2% ahead of consensus, while OPM increased 0.4ppts YoY to 7.9%. Excluding a US\$0.6bn tariff-related refund, North America segment OP was US\$8.5bn. International revenue rose 14.8% YoY to US\$42.2bn, with OPM flat YoY at 4.1%.

Figure 26: Amazon: financial forecasts

(US\$bn)	2023	2024	2025	2026E	2027E
Online Stores	231.9	247.0	269.3	292.9	309.9
YoY Growth	5.4%	6.5%	9.0%	8.8%	5.8%
Third-party Seller Services	140.1	156.1	172.2	192.0	205.1
YoY Growth	19.0%	11.5%	10.3%	11.5%	6.8%
AWS	90.8	106.2	128.7	175.9	251.1
YoY Growth	13.3%	18.5%	19.7%	36.6%	42.8%
Subscription Services	40.2	44.4	49.6	55.1	59.6
YoY Growth	14.2%	10.4%	11.8%	11.1%	8.1%
Advertising Services	46.9	56.2	68.6	85.0	101.2
YoY Growth	24.3%	19.8%	22.1%	23.8%	19.1%
Physical Stores	20.0	21.2	22.6	23.4	23.9
YoY Growth	5.6%	5.9%	6.3%	3.5%	2.5%
Other	5.0	5.4	5.9	7.3	7.6
YoY Growth	16.7%	9.4%	9.4%	22.8%	5.0%
Total Revenue	574.8	638.0	716.9	831.6	958.6
YoY Growth	11.8%	11.0%	12.4%	16.0%	15.3%
Gross Profit	270.0	311.7	360.5	425.9	495.9
Operating Profit	36.9	68.6	80.0	108.2	143.7
YoY Growth	200.9%	86.1%	16.6%	35.3%	32.8%
Net Profit	30.4	59.2	77.7	137.9	113.3
Margins (%)					
Gross Margin	47.0%	48.9%	50.3%	51.2%	51.7%
Operating Margin	6.4%	10.8%	11.2%	13.0%	15.0%
Net Margin	5.3%	9.3%	10.8%	16.6%	11.8%

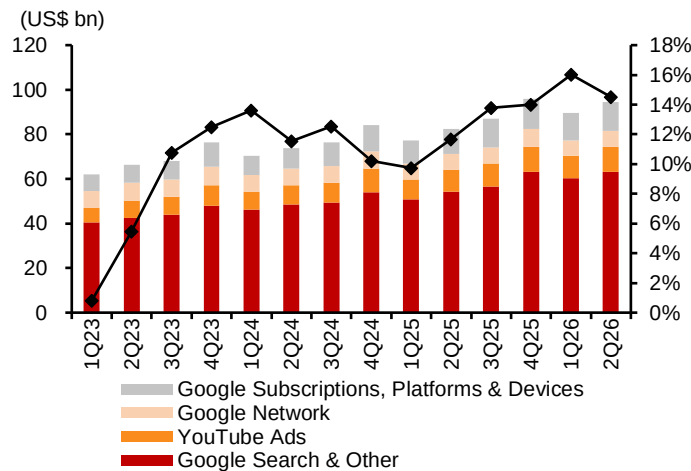
Source: Company data, CMBIGM estimates

Alphabet (GOOG US; BUY; TP: US\$428.0): AI demand continues to drive cloud acceleration

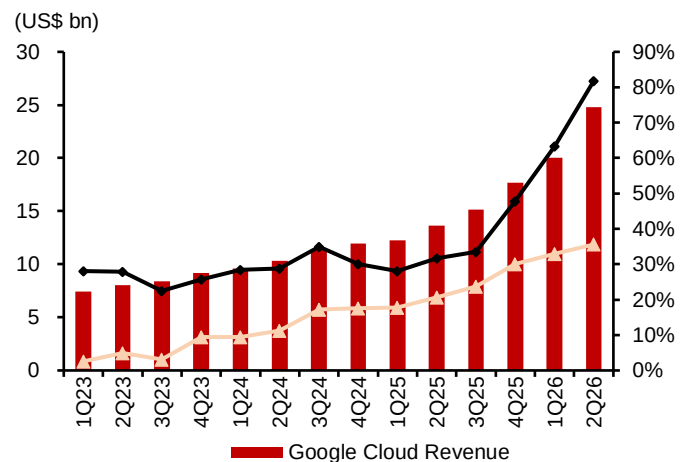
Alphabet's 2Q26 total revenue rose 24% YoY to US\$119.8bn, 2% ahead of VA consensus, while OP increased 30% YoY to US\$40.8bn, in line with VA consensus. CapEx doubled YoY to US\$44.9bn and pushed quarterly FCF negative to US\$5.9bn. Together with the recent delay to Gemini 3.5 Pro, this raised investor concerns over near-term cash flow and ROIC on AI investment. Looking ahead, we see two key catalysts supporting fundamentals and valuation: faster conversion of TPU orders driving cloud growth, and the launch of Gemini 4 potentially returning the company's model to industry SOTA.

Google Cloud revenue rose 82% YoY to US\$24.8bn in 2Q26 (1Q26: +63%; 4Q25: +48%), driven by rapid growth in GCP, AI solutions and AI infrastructure. The company began recognizing TPU sales revenue in 2Q26, although mgmt. expects most TPU sales revenue to be realized in 2027. Google Cloud backlog increased by over US\$50bn QoQ to US\$514bn, with more than half expected to convert into revenue within the next 24 months. Google Cloud OPM increased 15ppts YoY to 35.6%, although the planned addition of third-party cloud compute resources in 3Q26 could put some pressure on OPM.

Figure 27: Google Services & Other: Revenue and YoY growth **Figure 28: Google Cloud: Revenue and YoY growth**



Source: Company data, CMBIGM



Source: Company data, CMBIGM

Google TPU sales could make a material contribution for revenue. We believe most current TPU orders may come from the AI XPV platform jointly funded by Broadcom, Apollo and Blackstone. The platform aims to provide XPU compute solutions, mainly TPU-based, to frontier AI labs including Anthropic and OpenAI, with plans to deploy more than 20GW of compute capacity by 2028. Assuming 2-4GW of TPU deployment in FY27 and TPU sales revenue of US\$16-20bn per GW, we estimate FY27 TPU sales revenue of US\$32-80bn, equivalent to about 16-41% of FY27E Google Cloud revenue.

Figure 29: Alphabet: FY27 TPU sales revenue sensitivity

FY27 TPU sales revenue (US\$bn)						
	Revenue/GW (US\$bn)					
		16	17	18	19	20
Total TPU sold (GW)	2.0	32.0	34.0	36.0	38.0	40.0
	2.5	40.0	42.5	45.0	47.5	50.0
	3.0	48.0	51.0	54.0	57.0	60.0
	3.5	56.0	59.5	63.0	66.5	70.0
	4.0	64.0	68.0	72.0	76.0	80.0
FY27 TPU sales revenue (US\$bn)						
	Revenue/GW (US\$bn)					
		16	17	18	19	20
Total TPU sold (GW)	2.0	16%	17%	19%	20%	21%
	2.5	21%	22%	23%	24%	26%
	3.0	25%	26%	28%	29%	31%
	3.5	29%	31%	32%	34%	36%
	4.0	33%	35%	37%	39%	41%

Source: Company data, CMBIGM estimates

Supported by strong cloud growth, we remain positive on solid revenue and earnings growth in FY26-27 and forecast OP growth of 32%/26% YoY in FY26/27E.

Figure 30: Alphabet: financial forecasts

(US\$bn)	2023	2024	2025	2026E	2027E
Total revenue	307	350	403	494	625
YoY	8.7%	13.9%	15.1%	22.6%	26.6%
Google Services	273	305	343	388	430
YoY	7.5%	11.9%	12.4%	13.1%	10.9%
Google Cloud	33	43	59	105	194
YoY	25.9%	30.6%	35.8%	79.0%	85.0%
Other Investments	2	2	2	2	2
YoY	43.0%	7.9%	-6.7%	-0.6%	-0.4%
Operating profit	84	112	129	170	213
YoY	12.6%	33.3%	14.8%	31.6%	25.6%
S&M / Revenue	9.1%	7.9%	7.1%	7.0%	6.5%
R&D / Revenue	14.8%	14.1%	15.2%	15.7%	16.5%
G&A / Revenue	5.3%	4.1%	5.3%	4.4%	3.9%
Operating margin	27.4%	32.1%	32.0%	34.4%	34.1%
Net margin	24.0%	28.6%	32.8%	51.5%	29.5%

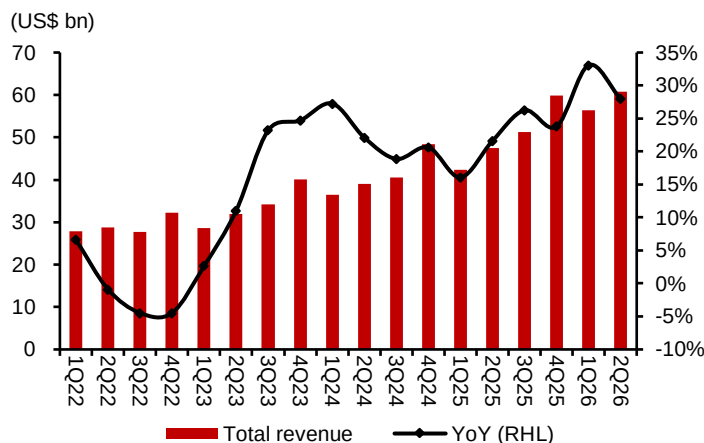
Source: Company data, CMBIGM estimates

Meta (META US; BUY; TP: US\$830): Continue to step up AI investment to drive long-term growth

Meta's 2Q26 results were in line, but its share price came under pressure. The company continues to step up AI investment, while the lack of a clear AI monetization path and ROI creates tremendous pressure on near-term earnings and cash flow. We believe valuation recovery depends on better evidence of returns on AI investment, including further acceleration in advertising revenue from AI, realization of enterprise AI opportunities such as enterprise agents, API services and AI compute rental, and in-house models reaching SOTA. In the near term, we suggest monitoring model upgrades and acceleration in enterprise AI monetization.

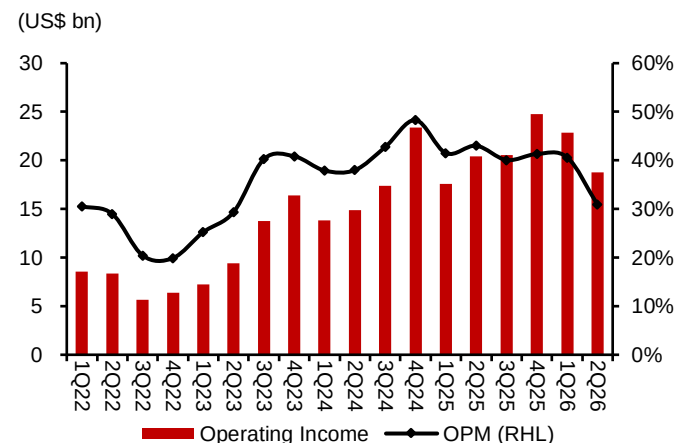
Family of Apps advertising revenue rose 27% YoY to US\$59.4bn in 2Q26, with ad impressions/pricing up 14%/12% YoY, respectively. AI continues to improve ad monetization efficiency: 1) Meta launched Generative Recommender in 2Q26, its first generative model in the ad recommendation system, to understand ad content and user preferences and predict the optimal ad. Early pilots increased conversion for app ads by 1%; 2) combining foundation-model content understanding with the GEM ad-ranking model increased Facebook ad clicks by 8% and conversions by 16%; and 3) Advantage+, an AI-powered end-to-end advertising solution, exceeded US\$75bn in ARR, with more than 9mn small businesses adopting at least one AI creative tool.

Figure 31: Meta's revenue and YoY growth



Source: Company data, CMBIGM

Figure 32: Meta's OP



Source: Company data, CMBIGM

Meta is accelerating enterprise AI monetization: 1) enterprise agents: Meta Business Agents have launched globally on WhatsApp and Messenger, with more than 1mn businesses per week using them to communicate with customers and complete sales; 2) APIs: Meta recently launched a model API and partnered with distribution channels such as OpenRouter to accelerate developer adoption; and 3) compute rental: the company is exploring compute-rental opportunities, although mgmt. noted that substantial capacity will still be used for model training. Compute rental offers a shorter payback period and more certain ROI and could begin contributing revenue in FY27-28E. Assuming 100-500MW of rented capacity, primarily H100/200, and revenue of US\$20-28bn per GW in FY27, we estimate compute-rental revenue of US\$2-14bn, or c.1-5% of Meta's FY27E revenue.

Figure 33: Meta: FY27 compute-rental revenue sensitivity

FY27 compute rental revenue (US\$bn)						
	Revenue/GW (US\$bn)					
		20.0	22.0	24.0	26.0	28.0
Total rental compute (GW)	0.1	2.0	2.2	2.4	2.6	2.8
	0.2	4.0	4.4	4.8	5.2	5.6
	0.3	6.0	6.6	7.2	7.8	8.4
	0.4	8.0	8.8	9.6	10.4	11.2
	0.5	10.0	11.0	12.0	13.0	14.0
FY27 compute rental revenue/Meta total revenue						
	Revenue/GW (US\$bn)					
		200	220	240	260	280
Total rental compute (GW)	0.1	0.7%	0.7%	0.8%	0.9%	0.9%
	0.2	1.3%	1.5%	1.6%	1.7%	1.9%
	0.3	2.0%	2.2%	2.4%	2.6%	2.8%
	0.4	2.6%	2.9%	3.2%	3.4%	3.7%
	0.5	3.3%	3.6%	4.0%	4.3%	4.6%

Source: Company data, CMBIGM estimates

AI-related infrastructure and talent investment will create significant pressure on near-term earnings. After 2Q26 results, the company raised the lower end of FY26 total-expense guidance to US\$165-169bn (+40-44% YoY; prior: US\$162-169bn). We forecast FY26 OP growth of 4% YoY.

Figure 34: Meta: financial forecasts

(US\$bn)	2023	2024	2025	2026E	2027E
Total revenue	134.9	164.5	201.0	252.3	302.0
YoY	15.7%	21.9%	22.2%	25.5%	19.7%
Family of Apps Revenue	133.0	162.4	198.8	250.0	299.6
YoY	16.2%	22.1%	22.4%	25.8%	19.9%
Reality Labs Revenue	1.9	2.1	2.2	2.3	2.4
YoY	-12.2%	13.2%	2.8%	5.6%	4.5%
Operating profit	46.8	69.4	83.3	86.8	102.7
YoY	61.5%	48.4%	20.0%	4.2%	18.3%
Net profit	39.1	62.4	60.5	80.8	90.6
YoY	68.5%	59.5%	-3.0%	33.7%	12.1%
S&M / Revenue	9.1%	6.9%	6.0%	5.3%	5.0%
R&D / Revenue	28.5%	26.7%	28.5%	35.4%	36.5%
G&A / Revenue	8.5%	5.9%	6.0%	6.3%	5.7%
Operating margin	34.7%	42.2%	41.4%	34.4%	34.0%
Net margin	29.0%	37.9%	30.1%	32.0%	30.0%

Source: Company data, CMBIGM estimates

Alibaba (BABA US; BUY; TP: US\$220.1)

We reiterate our positive view on Alibaba, driven by a strong cloud-revenue growth outlook supported by higher adoption of AI-related products and rising digitalization demand. We expect robust cloud growth to continue through 2026. In addition, a greater focus on efficiency in quick commerce should narrow losses and support group-level earnings recovery. Although the business will continue prioritizing market share, we expect full-year instant-retail losses to narrow sharply from RMB88bn in FY26E to RMB44bn in FY27E, helped by order-mix improvements, optimized user subsidies and operating efficiency, and to halve again in FY28E. Alibaba remains a key beneficiary of the AI theme, in our view. Our SOTP-based TP is US\$220.1. BUY.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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