

Microsoft (MSFT US)

Results beat; long-term structural growth story remains unchanged

Microsoft reported (29 Jan HKT) 2QFY26 (June year-end) results: revenue was US\$81.3bn, up 16.7% YoY (1QFY26: +18.4% YoY), 1.5%/1.2% better than both our forecast/Bloomberg consensus estimates, driven by better-than-expected revenue generation in Productivity and Business Processes (PBP) and Intelligent Cloud (IC) segment. Operating income was up 20.9% YoY to US\$38.3bn, 3.8%/4.8% ahead of our forecast/consensus, also driven by the beat in PBP and IC segments. Azure and other cloud services revenue growth of 38% on a constant currency basis was inline with consensus, while the capex including financial leases of US\$37.5bn was 3% higher. We maintain our FY26-28E OP forecast largely unchanged, while lower our DCF-based target price by 3% to US\$614.6 (was US\$636.3) on the increase of capex forecast, translating into 35x/31x FY26E/27E PE. We reiterate our BUY rating as we believe Microsoft's long-term structural growth story remains unchanged, and we see support from the robust growing commercial RPO balance (110% YoY; or 28% YoY if excluding OpenAI contribution) and expanding ARPU in PBP.

■ **Cloud revenue growth remains solid.** Intelligent Cloud (IC) segment recorded revenue growth of 28.8% YoY in 2QFY26 to US\$32.9bn (40.5% of total revenue), and Azure and other cloud services within the segment saw revenue growth of 39% YoY (1QFY26: 40%), ahead of previous guidance of 37%, and management guided for 37-38% YoY growth in 3QFY26. Capex (incl. finance leases) came in at US\$37.5bn for 2QFY26 (consensus: US\$36.3bn), up 66% YoY, among which roughly 2/3 of the spending was on short-lived assets (such as GPUs and CPUs) to fulfil demand. Management stressed that supply constraints still persist, and they have prioritized GPU allocations and capacity for first-party apps over Azure. Management stated that Azure's revenue growth expectations would exceed 40% if all GPUs newly commissioned in 1HFY26 were allocated to Azure. On outlook, management expects capital expenditures in 3QFY26 to decrease on a sequential basis due to the normal variability from cloud infrastructure buildouts and the timing of delivery of finance leases.

■ **ARPU expansion trend continued in PBP business.** Productivity and Business Processes (PBP) revenue was US\$34.1bn in 2Q, up 15.9% YoY (2QFY25: 13.9%; 1QFY26: 16.6%), and accounted for 42.0% of total revenue. M365 commercial/consumer cloud revenue increased by 14%/27% YoY on a constant currency basis (1QFY26: 15.0%/25.0%), aided by 6%/6% YoY growth in paid M365 commercial seats/subscribers and ARPU expansion. Management highlighted that DAUs of Microsoft 365 Copilot has increased by 10 times YoY, and the number of paid Microsoft 365 Copilot seats has reached 15mn in 2QFY26.

■ **OPM expansion was again better than consensus expectation.** In 2QFY26, overall GPM shrank 0.7ppts YoY to 68.0% owing to continued investment in AI infrastructure and AI product usage. During the period, overall OPM came in at 47.1%, up 1.6ppts YoY and was better than consensus at 45.5%, driven by 3.0ppts margin expansion in PBP aided by improved operating leverage, although this was partly offset by 0.3ppts YoY decline in OPM of IC to 42.2% (consensus: 41.9%).

BUY (Maintain)

Target Price US\$614.60
 (Previous TP) US\$636.30
Up/Downside 27.6%
Current Price US\$481.63

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Stock Data

Mkt Cap (US\$ mn)	3,591,592.8
Avg 3 mths t/o (US\$ mn)	12,078.0
52w High/Low (US\$)	542.07/354.56
Total Issued Shares (mn)	7457.2

Source: FactSet

Shareholding Structure

Vanguard Group	9.4%
Blackrock	8.0%

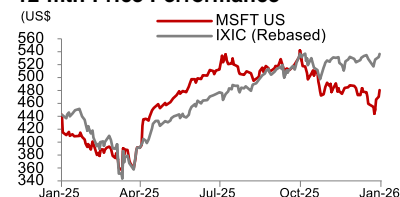
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-1.1%	-2.7%
3-mth	-11.1%	-10.7%
6-mth	-6.0%	-16.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 30 Jun)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US\$ mn)	245,122	281,724	327,739	377,642	431,847
YoY growth (%)	15.7	14.9	16.3	15.2	14.4
Net profit (US\$ mn)	88,136.0	101,832.0	129,450.9	147,905.2	167,767.8
YoY growth (%)	21.8	15.5	27.1	14.3	13.4
EPS (Reported) (US\$)	11.86	13.70	17.41	19.89	22.55
Consensus EPS (US\$)	na	13.64	15.99	18.78	22.14
P/E (x)	40.6	35.2	27.7	24.2	21.4

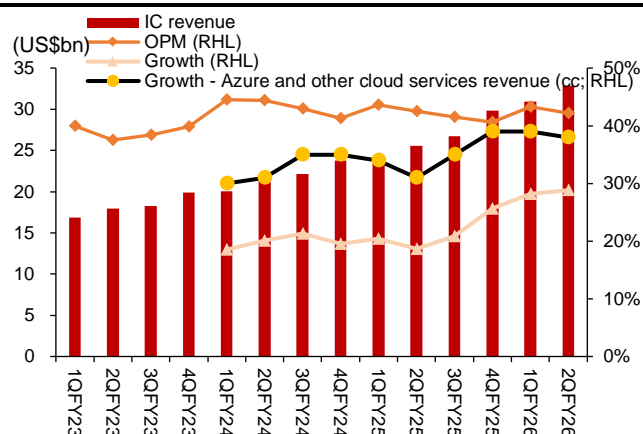
Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Microsoft: quarterly financial results

(USDbn)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	BBG consensus	Diff (%)
1. Productivity and Business Processes revenue	28.3	29.4	29.9	33.1	33.0	34.1	33.5	2.0%
Growth - yoy	12.3%	13.9%	10.4%	15.7%	16.6%	15.9%		
As % of total revenue (%)	43.2%	42.3%	42.7%	43.3%	42.5%	42.0%		
2. Intelligent Cloud revenue	24.1	25.5	26.8	29.9	30.9	32.9	32.4	1.6%
Growth - yoy	20.4%	18.7%	20.8%	25.6%	28.2%	28.8%		
As % of total revenue (%)	36.7%	36.7%	38.2%	39.1%	39.8%	40.5%		
3. More Personal Computing revenue	13.2	14.7	13.4	13.5	13.8	14.3	14.3	-0.6%
Growth - yoy	16.8%	0.1%	6.1%	9.2%	4.4%	-2.7%		
As % of total revenue (%)	20.1%	21.0%	19.1%	17.6%	17.7%	17.5%		
Total revenue	65.6	69.6	70.1	76.4	77.7	81.3	80.3	1.2%
Growth - yoy	16.0%	12.3%	13.3%	18.1%	18.4%	16.7%		
Gross profit	45.5	47.8	48.1	52.4	53.6	55.3	54.0	2.4%
Growth - yoy	13.1%	12.8%	11.1%	16.4%	17.9%	15.6%		
Research and development expenses	7.5	7.9	8.2	8.8	8.1	8.5	8.7	-2.2%
Growth - yoy	13.3%	10.9%	7.1%	9.6%	8.0%	7.4%		
R&D expense ratio (%)	11.5%	11.4%	11.7%	11.6%	10.5%	10.5%	10.8%	-0.4 ppt
Sales and marketing expenses	5.7	6.4	6.2	7.3	5.7	6.6	6.9	-3.9%
Growth - yoy	10.2%	3.1%	0.1%	6.9%	0.0%	2.2%		
S&M expense ratio (%)	8.7%	9.2%	8.9%	9.5%	7.4%	8.1%	8.5%	-0.4 ppt
General and administrative expenses	1.7	1.8	1.7	2.0	1.8	1.9	1.9	1.3%
Growth - yoy	13.5%	-7.8%	-9.2%	-11.4%	7.9%	6.0%		
G&A expense ratio (%)	2.6%	2.6%	2.5%	2.6%	2.3%	2.4%	2.4%	0.0 ppt
Operating income	30.6	31.7	32.0	34.3	38.0	38.3	36.5	4.8%
Growth - yoy	13.6%	17.1%	16.0%	22.9%	24.3%	20.9%		
- PBP	16.5	16.9	17.4	19.0	20.4	20.6	19.1	7.7%
- IC	10.5	10.9	11.1	12.1	13.4	13.9	13.6	2.3%
- MPC	3.5	3.9	3.5	3.2	4.2	3.8	3.8	-1.1%
Net income	24.7	24.1	25.8	27.2	27.7	38.5	29.1	32.3%
Growth - yoy	10.7%	10.2%	17.7%	23.6%	12.5%	59.5%		
GPM	69.4%	68.7%	68.7%	68.6%	69.0%	68.0%	67.2%	0.8 ppt
OPM	46.6%	45.5%	45.7%	44.9%	48.9%	47.1%	45.5%	1.6 ppt
- PBP	58.3%	57.4%	58.0%	57.4%	61.8%	60.4%	57.2%	3.2 ppt
- IC	43.6%	42.5%	41.5%	40.6%	43.3%	42.2%	41.9%	0.3 ppt
- MPC	26.8%	26.7%	26.4%	23.7%	30.3%	26.7%	26.8%	-0.1 ppt
NPM	37.6%	34.6%	36.9%	35.6%	35.7%	47.3%	36.2%	11.1 ppt

Source: Company data, Bloomberg, CMBIGM estimates

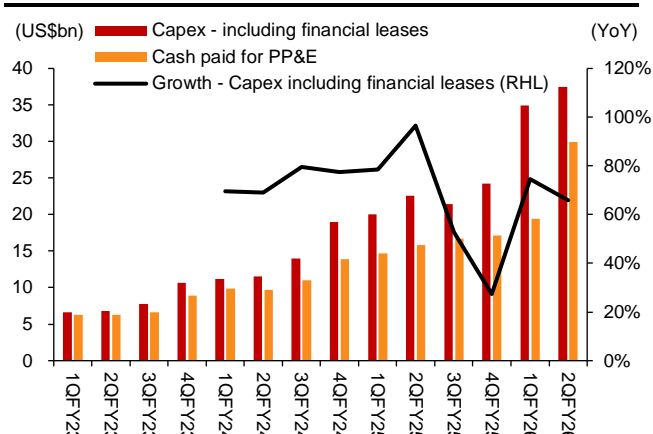
Figure 2: Microsoft: IC revenue and growth



Source: Company data, CMBIGM

Note: cc: constant currency

Figure 3: Microsoft: quarterly capex trend



Source: Company data, CMBIGM

Changes in forecast and valuation

Figure 4: Microsoft forecast revision

USD bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	327.7	377.6	431.8	328.0	379.0	433.6	-0.1%	-0.3%	-0.4%
Gross profit	222.2	254.2	288.5	222.7	255.4	290.1	-0.2%	-0.5%	-0.5%
Operating profit	152.9	175.6	199.6	153.3	176.2	200.1	-0.3%	-0.3%	-0.3%
Net profit	129.5	147.9	167.8	115.5	136.5	160.2	12.1%	8.4%	4.7%
GPM	67.8%	67.3%	66.8%	67.9%	67.4%	66.9%	-0.1 ppt	-0.1 ppt	-0.1 ppt
OPM	46.7%	46.5%	46.2%	46.7%	46.5%	46.2%	-0.1 ppt	0.0 ppt	0.0 ppt
NPM	39.5%	39.2%	38.8%	35.2%	36.0%	36.9%	4.3 ppt	3.2 ppt	1.9 ppt

Source: CMBIGM estimates

Figure 5: Microsoft: CMBI forecast vs consensus

USD bn	Current			Consensus			Difference (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	327.7	377.6	431.8	326.5	375.7	435.2	0.4%	0.5%	-0.8%
Gross profit	222.2	254.2	288.5	221.6	253.4	293.5	0.3%	0.3%	-1.7%
Operating profit	152.9	175.6	199.6	150.5	173.5	202.6	1.7%	1.2%	-1.5%
Net profit	129.5	147.9	167.8	119.5	140.2	165.6	8.3%	5.5%	1.3%
GPM	67.8%	67.3%	66.8%	67.9%	67.4%	67.4%	-0.1 ppt	-0.1 ppt	-0.6 ppt
OPM	46.7%	46.5%	46.2%	46.1%	46.2%	46.6%	0.6 ppt	0.3 ppt	-0.3 ppt
NPM	39.5%	39.2%	38.8%	36.6%	37.3%	38.1%	2.9 ppt	1.8 ppt	0.8 ppt

Source: Bloomberg, CMBIGM estimates

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

(USDbn)	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E
Total revenue	327.7	377.6	431.8	487.1	548.2	605.4	662.3	717.5	768.2	819.8	869.5
NPV of FCF	1,185										
Discounted terminal value	3,363										
Total equity valuation	4,583										
No. of shares (diluted, mn)	7,457										
Valuation per share (USD)	614.6										

Source: CMBIGM estimates

Note: our target price is based on FY26E 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	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun (US\$ mn)						
Revenue	211,915	245,122	281,724	327,739	377,642	431,847
Cost of goods sold	(65,863)	(74,114)	(87,831)	(105,532)	(123,489)	(143,373)
Gross profit	146,052	171,008	193,893	222,207	254,153	288,474
Operating expenses	(57,529)	(61,575)	(65,365)	(69,258)	(78,537)	(88,917)
Selling expense	(22,759)	(24,456)	(25,654)	(26,219)	(29,834)	(33,684)
SG&A expense	(7,575)	(7,609)	(7,223)	(7,971)	(8,296)	(9,025)
R&D expense	(27,195)	(29,510)	(32,488)	(35,068)	(40,408)	(46,208)
Others	0	0	0	0	0	0
Operating profit	88,523	109,433	128,528	152,949	175,616	199,557
Other income/expense	788	(1,646)	(4,901)	7,700	8,117	8,850
Others	0	0	0	0	0	0
Pre-tax profit	89,311	107,787	123,627	160,649	183,733	208,407
Income tax	(16,950)	(19,651)	(21,795)	(31,198)	(35,828)	(40,639)
Others	0	0	0	0	0	0
After tax profit	72,361	88,136	101,832	129,451	147,905	167,768
Net profit	72,361	88,136	101,832	129,451	147,905	167,768

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun (US\$ mn)						
Current assets	184,257	159,734	191,131	171,916	167,347	175,275
Cash & equivalents	34,704	18,315	30,242	10,670	25,353	32,940
Account receivables	48,688	56,924	69,905	70,262	83,172	83,512
Inventories	2,500	1,246	938	938	938	938
Other current assets	98,365	83,249	90,046	90,046	57,885	57,885
Non-current assets	227,719	352,429	427,872	548,872	672,421	798,774
PP&E	95,641	135,591	204,966	325,966	449,515	575,868
Right-of-use assets	14,346	18,961	24,823	24,823	24,823	24,823
Investment in JVs & assos	9,879	14,600	15,405	15,405	15,405	15,405
Intangibles	9,366	27,597	22,604	22,604	22,604	22,604
Goodwill	67,886	119,220	119,509	119,509	119,509	119,509
Other non-current assets	30,601	36,460	40,565	40,565	40,565	40,565
Total assets	411,976	512,163	619,003	720,788	839,769	974,049
Current liabilities	104,149	125,286	141,218	156,054	171,632	184,646
Short-term borrowings	5,247	8,942	2,999	2,999	2,999	2,999
Account payables	18,095	21,996	27,724	32,016	37,889	40,671
Other current liabilities	80,807	94,348	110,495	121,039	130,743	140,976
Non-current liabilities	101,604	118,400	134,306	134,306	134,306	134,306
Long-term borrowings	41,990	42,688	40,152	40,152	40,152	40,152
Obligations under finance leases	12,728	15,497	17,437	17,437	17,437	17,437
Other non-current liabilities	46,886	60,215	76,717	76,717	76,717	76,717
Total liabilities	205,753	243,686	275,524	290,360	305,938	318,952
Share capital	93,718	100,923	109,095	109,095	109,095	109,095
Retained earnings	118,848	173,144	237,731	324,680	428,083	549,349
Other reserves	(6,343)	(5,590)	(3,347)	(3,347)	(3,347)	(3,347)
Total shareholders equity	206,223	268,477	343,479	430,428	533,831	655,097
Total equity and liabilities	411,976	512,163	619,003	720,788	839,769	974,049

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun (US\$ mn)						
Operating						
Profit before taxation	89,311	107,787	123,627	160,649	183,733	208,407
Depreciation & amortization	13,861	22,287	34,153	24,188	35,061	46,386
Tax paid	(16,950)	(19,651)	(21,795)	(31,198)	(35,828)	(40,639)
Change in working capital	(2,388)	1,824	(5,350)	14,479	2,667	12,674
Others	3,748	6,301	5,527	0	0	0
Net cash from operations	87,582	118,548	136,162	168,118	185,633	226,828
Investing						
Capital expenditure	(28,107)	(44,477)	(64,551)	(145,188)	(158,610)	(172,739)
Acquisition of subsidiaries/ investments	(37,651)	(17,732)	(29,775)	0	0	0
Net proceeds from disposal of short-term investments	33,510	24,775	16,079	0	32,162	0
Others	9,568	(59,536)	5,648	0	0	0
Net cash from investing	(22,680)	(96,970)	(72,599)	(145,188)	(126,448)	(172,739)
Financing						
Dividend paid	(19,800)	(21,771)	(24,082)	(24,082)	(26,082)	(28,082)
Net borrowings	0	24,395	0	0	0	0
Share repurchases	(22,245)	(17,254)	(18,420)	(18,420)	(18,420)	(18,420)
Others	(1,890)	(23,127)	(9,197)	0	0	0
Net cash from financing	(43,935)	(37,757)	(51,699)	(42,502)	(44,502)	(46,502)
Net change in cash						
Cash at the beginning of the year	13,931	34,704	18,315	30,242	10,670	25,353
Exchange difference	(194)	(210)	63	0	0	0
Cash at the end of the year	34,704	18,315	30,242	10,670	25,353	32,940
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Revenue	6.9%	15.7%	14.9%	16.3%	15.2%	14.4%
Gross profit	7.7%	17.1%	13.4%	14.6%	14.4%	13.5%
Operating profit	6.2%	23.6%	17.4%	19.0%	14.8%	13.6%
Net profit	(0.5%)	21.8%	15.5%	27.1%	14.3%	13.4%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Gross profit margin	68.9%	69.8%	68.8%	67.8%	67.3%	66.8%
Operating margin	41.8%	44.6%	45.6%	46.7%	46.5%	46.2%
Return on equity (ROE)	38.8%	37.1%	33.3%	33.5%	30.7%	28.2%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Current ratio (x)	1.8	1.3	1.4	1.1	1.0	0.9
Receivable turnover days	na	78.6	82.2	78.1	74.1	70.4
Inventory turnover days	na	0.0	0.0	0.0	0.0	0.0
Payable turnover days	na	98.7	103.3	103.3	103.3	100.0
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
P/E	49.6	40.6	35.2	27.7	24.2	21.4
P/E (diluted)	49.7	40.8	35.3	27.7	24.3	21.4
P/B	17.5	13.4	10.5	8.3	6.7	5.5
P/CFPS	60.5	48.6	50.2	156.6	132.8	66.3

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

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