

Microsoft (MSFT US)

AI related demand remained strong

Microsoft reported (26 Apr BJT) better-than-expected 3QFY24 (June year-end) results: revenue was US\$61.9bn, up 17% YoY (2QFY24: +18% YoY; 3QFY23: +7% YoY), 2% better than Bloomberg consensus driven by better-than-expected revenue growth in Intelligent Cloud (IC) and More Personal Computing (MPC) business; net income was up 20% YoY to US\$21.9bn, 4% ahead of consensus estimates, thanks to stringent cost control and improvement in operating leverage. Management highlighted that AI related demand remained strong, and guided to further increase investments in capex to fulfil the unmet demand. Although the incremental investments and consolidation of Blizzard are likely to weigh on margin, management still expects at least 2pp YoY OPM expansion for FY24, aided by operating efficiency improvement. We fine-tune DCF-based target price to US\$471.9 (was US\$473.6), translating into 33.3x FY25E PE. Maintain BUY.

- AI related cloud demand remained strong and unmet.** IC segment recorded quarterly revenue growth of 21% YoY to US\$26.7bn, representing 43% of total revenue. Within the segment, server products and cloud services revenue grew 24% to US\$24.8bn, among which Azure and other cloud services revenue grew 31% YoY, and AI services contributed to 7pp of the growth (1QFY24: 3pp; 2QFY24: 6pp). Management highlighted that AI related demand still exceeds the company's supply at the current stage, and will continue to increase capital investment to fulfil the demand. Apart from AI related revenue, management also highlighted an acceleration trend in the number of large Azure deals: the number of 100mn dollar-plus Azure deals increased by over 80% YoY, while the number of 10mn dollar-plus deals more than doubled.
- Productivity and business process (PBP) business delivered inline revenue growth.** PBP revenue was US\$19.6bn in 3QFY24, up 12% YoY, and was 32% of total revenue, in line with consensus expectation. Within the segment, Office 365 commercial revenue increased by 15% YoY, driven by healthy renewal execution, ARPU growth from continued E5 momentum, and early Copilot for Microsoft 365 progress. Paid Office 365 commercial seats grew 8% YoY with installed base expansion across all customer segments.
- Steady margin expansion driven by cost control and unleash of operating leverage.** Overall operating profit was US\$27.6bn in 3QFY24, up 23% YoY, translating into 44.6% OPM (up 2.3pp YoY), aided by 0.6pp improvement in gross margin and efficient cost control. Total headcount at the end of March was 1% lower YoY. Management guided for US\$63.5bn-64.5bn total revenue for 4QFY24, and at least 2pp YoY OPM expansion driven by the continuous operating efficiency improvement for FY24.

Earnings Summary

(YE 30 Jun)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	198,270	211,915	244,873	279,417	314,359
YoY growth (%)	18.0	6.9	15.6	14.1	12.5
Net profit (US\$ mn)	72,737.0	72,361.0	89,979.5	105,066.3	120,256.2
YoY growth (%)	18.7	(0.5)	24.3	16.8	14.5
EPS (Reported) (US\$)	9.73	9.73	12.14	14.21	16.31
Consensus EPS (US\$)	na	na	11.69	13.35	15.66
P/E (x)	41.8	41.7	33.5	28.6	24.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$471.90
(Previous TP)	US\$473.60
Up/Downside	16.1%
Current Price	US\$406.32

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Stock Data

Mkt Cap (US\$ mn)	3,025,865.0
Avg 3 mths t/o (US\$ mn)	6,745.4
52w High/Low (US\$)	429.37/304.40
Total Issued Shares (mn)	7447.0

Source: FactSet

Shareholding Structure

Vanguard Group	8.7%
Blackrock	7.2%

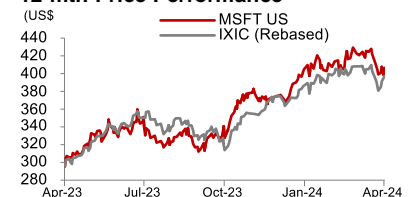
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-3.6%	-1.3%
3-mth	0.6%	-2.4%
6-mth	23.9%	-2.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Microsoft: quarterly financial results

(USD bn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
1. Productivity and Business Processes	15.8	16.6	16.5	17.0	17.5	18.3	18.6	19.2	19.6
Growth (yoy%)	16.5%	13.0%	9.5%	6.7%	10.9%	10.2%	12.9%	13.2%	11.7%
As % of total revenue (%)	32.0%	32.0%	32.8%	32.2%	33.1%	32.6%	32.9%	31.0%	31.6%
2. Intelligent Cloud	19.0	20.8	20.3	21.5	22.1	24.0	24.3	25.9	26.7
Growth (yoy%)	25.6%	19.7%	20.2%	17.8%	16.3%	15.3%	19.4%	20.3%	21.0%
As % of total revenue (%)	38.5%	40.1%	40.6%	40.8%	41.8%	42.7%	42.9%	41.7%	43.2%
3. More Personal Computing	14.6	14.5	13.3	14.2	13.3	13.9	13.7	16.9	15.6
Growth (yoy%)	11.9%	2.7%	-0.3%	-18.8%	-9.1%	-3.8%	2.5%	18.6%	17.5%
As % of total revenue (%)	29.5%	27.9%	26.6%	27.0%	25.1%	24.7%	24.2%	27.2%	25.2%
Total revenue	49.4	51.9	50.1	52.7	52.9	56.2	56.5	62.0	61.9
Growth (yoy%)	18.4%	12.4%	10.6%	2.0%	7.1%	8.3%	12.8%	17.6%	17.0%
Gross profit	33.7	35.4	34.7	35.3	36.7	39.4	40.2	42.4	43.4
Growth (yoy%)	17.7%	10.2%	9.5%	1.4%	8.8%	11.2%	16.0%	20.2%	18.0%
Operating income	20.4	20.5	21.5	20.4	22.4	24.3	26.9	27.0	27.6
Growth (yoy%)		22.5%	23.3%	32.0%	19.3%	6.2%	25.3%	15.9%	14.5%
- PBP	7.2	7.2	8.3	8.2	8.6	9.1	10.0	10.3	10.1
- IC	8.4	8.8	9.0	8.9	9.5	10.5	11.8	12.5	12.5
- MPC	4.8	4.5	4.2	3.3	4.2	4.7	5.2	4.3	4.9
Net income	16.7	16.7	17.6	16.4	18.3	20.1	22.3	21.9	21.9
Growth (yoy%)	8.2%	1.7%	-14.4%	-12.5%	9.4%	20.0%	27.0%	33.2%	19.9%
GPM	68.4%	68.3%	69.2%	66.8%	69.5%	70.1%	71.2%	68.4%	70.1%
OPM	41.3%	39.6%	42.9%	38.7%	42.3%	43.2%	47.6%	43.6%	44.6%
- PBP	45.5%	43.6%	50.5%	48.1%	49.3%	49.5%	53.6%	53.4%	51.8%
- IC	44.2%	42.3%	44.2%	41.4%	42.9%	43.9%	48.4%	48.1%	46.9%
- MPC	32.8%	31.0%	31.6%	23.3%	32.0%	33.6%	37.9%	25.4%	31.6%
NPM	33.9%	32.3%	35.0%	31.1%	34.6%	35.7%	39.4%	35.3%	35.5%

Source: Company data, CMBIGM

Changes in forecast and valuation

Figure 2: Microsoft forecast revision

USD bn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	244.9	279.4	314.4	248.0	290.0	329.3	-1.3%	-3.7%	-4.5%
Gross Profit	171.4	194.2	218.8	172.1	201.6	229.2	-0.4%	-3.7%	-4.5%
Operating Profit	111.0	128.6	147.2	108.3	129.2	149.5	2.5%	-0.4%	-1.5%
Net profit	90.0	105.1	120.3	88.5	105.6	122.1	1.7%	-0.5%	-1.5%
GPM	70.0%	69.5%	69.6%	69.4%	69.5%	69.6%	0.6 ppt	0.0 ppt	0.0 ppt
OPM	45.3%	46.0%	46.8%	43.7%	44.5%	45.4%	1.7 ppt	1.5 ppt	1.4 ppt
NPM	36.7%	37.6%	38.3%	35.7%	36.4%	37.1%	1.1 ppt	1.2 ppt	1.2 ppt

Source: CMBIGM estimates

Figure 3: Microsoft: CMBI forecast vs consensus

USD bn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	244.9	279.4	314.4	244.3	279.5	320.3	0.2%	0.0%	-1.8%
Gross Profit	171.4	194.2	218.8	169.2	192.7	221.9	1.3%	0.8%	-1.4%
Operating Profit	111.0	128.6	147.2	107.1	122.7	142.3	3.6%	4.8%	3.5%
Net profit	90.0	105.1	120.3	86.7	99.1	115.9	3.8%	6.0%	3.7%
GPM	70.0%	69.5%	69.6%	69.4%	69.5%	69.6%	0.6 ppt	0.0 ppt	0.0 ppt
OPM	45.3%	46.0%	46.8%	43.7%	44.5%	45.4%	1.7 ppt	1.5 ppt	1.4 ppt
NPM	36.7%	37.6%	38.3%	35.7%	36.4%	37.1%	1.1 ppt	1.2 ppt	1.2 ppt

Source: CMBIGM estimates

Figure 4: Microsoft: DCF valuation (WACC of 7.9%; terminal growth of 3%; both unchanged)

(USDbn)	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E
Total revenue	245	279	314	351	389	425	460	495	529	565
NPV of FCF	925	927								
Discounted terminal value	2,303	2,485								
Total equity valuation	3,320	3,541								
No. of shares (diluted, mn)	7,447	7,425								
Valuation per share (USD)	445.8	476.9								
TP per share (USD)	471.9									

Source: CMBIGM estimates

Note: our target price is based on weighted average of 2-month TP in FY24E and 10-month TP in FY25E

Figure 5: Microsoft: one-year forward PE band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Jun (US\$ mn)						
Revenue	168,088	198,270	211,915	244,873	279,417	314,359
Cost of goods sold	(52,232)	(62,650)	(65,863)	(73,462)	(85,222)	(95,565)
Gross profit	115,856	135,620	146,052	171,411	194,195	218,794
Operating expenses	(45,940)	(52,237)	(57,529)	(60,455)	(65,601)	(71,587)
Selling expense	(20,117)	(21,825)	(22,759)	(24,365)	(27,246)	(30,040)
SG&A expense	(5,107)	(5,900)	(7,575)	(7,196)	(6,043)	(5,921)
R&D expense	(20,716)	(24,512)	(27,195)	(28,895)	(32,312)	(35,625)
Others	0	0	0	0	0	0
Operating profit	69,916	83,383	88,523	110,956	128,594	147,207
Interest income	1,186	333	788	(1,224)	1,118	1,257
Others	0	(1)	0	0	0	0
Pre-tax profit	71,102	83,715	89,311	109,731	129,711	148,464
Income tax	(9,831)	(10,978)	(16,950)	(19,752)	(24,645)	(28,208)
Others	0	0	0	0	0	0
After tax profit	61,271	72,737	72,361	89,980	105,066	120,256
Net profit	61,271	72,737	72,361	89,980	105,066	120,256
Adjusted net profit	61,271	72,737	72,361	89,980	105,066	120,256
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Jun (US\$ mn)						
Current assets	184,406	169,684	184,257	217,636	265,800	331,228
Cash & equivalents	14,224	13,931	34,704	57,510	94,693	148,088
Account receivables	38,043	44,261	48,688	53,346	57,261	60,956
Inventories	2,636	3,742	2,500	2,500	2,500	2,500
Other current assets	129,503	107,750	98,365	104,279	111,347	119,684
Non-current assets	149,373	195,156	227,719	252,958	275,716	297,987
PP&E	59,715	74,398	95,641	120,880	143,638	165,909
Right-of-use assets	11,088	13,148	14,346	14,346	14,346	14,346
Investment in JVs & assos	5,984	6,891	9,879	9,879	9,879	9,879
Intangibles	7,800	11,298	9,366	9,366	9,366	9,366
Goodwill	49,711	67,524	67,886	67,886	67,886	67,886
Other non-current assets	15,075	21,897	30,601	30,601	30,601	30,601
Total assets	333,779	364,840	411,976	470,594	541,516	629,214
Current liabilities	88,657	95,082	104,149	114,832	122,733	132,220
Short-term borrowings	8,072	2,749	5,247	5,247	5,247	5,247
Account payables	15,163	19,000	18,095	22,038	23,123	26,000
Other current liabilities	65,422	73,333	80,807	87,547	94,363	100,973
Non-current liabilities	103,134	103,216	101,604	101,604	101,604	101,604
Long-term borrowings	50,074	47,032	41,990	41,990	41,990	41,990
Obligations under finance leases	9,629	11,489	12,728	12,728	12,728	12,728
Other non-current liabilities	43,431	44,695	46,886	46,886	46,886	46,886
Total liabilities	191,791	198,298	205,753	216,436	224,337	233,824
Share capital	83,111	86,939	93,718	93,718	93,718	93,718
Retained earnings	57,055	84,281	118,848	166,783	229,804	308,015
Other reserves	1,822	(4,678)	(6,343)	(6,343)	(6,343)	(6,343)
Total shareholders equity	141,988	166,542	206,223	254,158	317,179	395,390
Total equity and liabilities	333,779	364,840	411,976	470,594	541,516	629,214

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Jun (US\$ mn)						
Operating						
Profit before taxation	71,102	83,715	89,311	109,731	129,711	148,464
Tax paid	(9,831)	(10,978)	(16,950)	(19,752)	(24,645)	(28,208)
Change in working capital	(936)	446	(2,388)	111	(3,081)	(2,545)
Others	16,405	15,852	17,609	16,389	20,552	24,883
Net cash from operations	76,740	89,035	87,582	106,479	122,537	142,594
Investing						
Capital expenditure	(20,622)	(23,886)	(28,107)	(41,628)	(43,310)	(47,154)
Net proceeds from disposal of short-term investments	2,876	18,438	10,213	0	0	0
Others	(9,831)	(24,863)	(4,786)	0	0	0
Net cash from investing	(27,577)	(30,311)	(22,680)	(41,628)	(43,310)	(47,154)
Financing						
Dividend paid	(16,521)	(18,135)	(19,800)	(19,800)	(19,800)	(19,800)
Net borrowings	0	0	0	0	0	0
Share repurchases	(27,385)	(32,696)	(22,245)	(22,245)	(22,245)	(22,245)
Others	(4,580)	(8,045)	(1,890)	0	0	0
Net cash from financing	(48,486)	(58,876)	(43,935)	(42,045)	(42,045)	(42,045)
Net change in cash						
Cash at the beginning of the year	13,576	14,224	13,931	34,704	57,510	94,693
Exchange difference	(29)	(141)	(194)	0	0	0
Cash at the end of the year	14,224	13,931	34,704	57,510	94,693	148,088
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Jun						
Revenue	17.5%	18.0%	6.9%	15.6%	14.1%	12.5%
Gross profit	19.5%	17.1%	7.7%	17.4%	13.3%	12.7%
Operating profit	32.0%	19.3%	6.2%	25.3%	15.9%	14.5%
Net profit	38.4%	18.7%	(0.5%)	24.3%	16.8%	14.5%
Adj. net profit	38.4%	18.7%	(0.5%)	24.3%	16.8%	14.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Jun						
Gross profit margin	68.9%	68.4%	68.9%	70.0%	69.5%	69.6%
Operating margin	41.6%	42.1%	41.8%	45.3%	46.0%	46.8%
Adj. net profit margin	36.5%	36.7%	34.1%	36.7%	37.6%	38.3%
Return on equity (ROE)	47.1%	47.2%	38.8%	39.1%	36.8%	33.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Jun						
Current ratio (x)	2.1	1.8	1.8	1.9	2.2	2.5
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 30 Jun						
P/E	50.0	41.8	41.7	33.5	28.6	24.9
P/E (diluted)	50.5	41.9	41.9	33.6	28.7	25.0
P/B	21.8	18.3	14.7	11.9	9.5	7.6
P/CFPS	55.1	46.8	51.0	46.7	38.1	31.5

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

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