

Microsoft (MSFT US)

Expanding from per-user model into user-plus-usage model

Microsoft reported (30 Apr BJT) 3QFY26 (June year-end) results: revenue was US\$82.9bn, up 18.3% YoY (2QFY26: +16.7% YoY), 2% above both our forecast and Bloomberg consensus estimates, driven by better-than-expected revenue generation across all three business segments. During the period, operating income rose 20% YoY to US\$38.4bn, 3%/4% ahead of our forecast/consensus, supported by beats in the Productivity and Business Processes (PBP) and More Personal Computing (MPC) segments. Azure and other cloud services revenue rose 40% (or 39% on a constant-currency basis), which exceeded previous guidance of 37-38%, and management guided for 39-40% growth in 4QFY26. Management highlighted a shift to a usage-based pricing model for GitHub Copilot, as it aligns pricing with actual usage and costs, and expects all of the current per-user business to gradually transition to a per-user-plus-usage model over time. In our view, this could better unlock monetization potential and alleviate market concerns in the future. We maintain our FY26-28E revenue and OP forecasts largely unchanged, and fine-tune our DCF-based target price to US\$616.4 (from US\$614.6), translating into 31.5x FY27E PE. Maintain BUY.

- Solid cloud revenue growth trajectory likely to sustain.** Intelligent Cloud (IC) segment revenue grew 29.6% YoY in 3QFY26 to US\$34.7bn (42% of total revenue), while Azure and other cloud services within the segment delivered 40% YoY revenue growth (2QFY26: 39%). Capex (including finance leases) came in at US\$31.9bn for 3QFY26 (consensus: US\$26.8bn), up 49% YoY, of which roughly two-thirds were spent on short-lived assets (such as GPUs and CPUs) to fulfil demand. Management stressed that supply constraints still persist, and expects the situation to continue at least through 2026 based on current visibility. Management guided for over US\$40bn/c.US\$190bn of Capex for 4QFY26 / CY2026, after taking into account c.US\$5bn/US\$25bn impact from higher component pricing, as well as additional impact from finance leases.
- Microsoft 365 Copilot paid seats reached the 20mn milestone.** Productivity and Business Processes (PBP) revenue was US\$35.0bn in 3QFY26, up 16.9% YoY (3QFY25: 10.4%; 2QFY26: 15.9%), accounting for 42% of total revenue. Microsoft 365 commercial / consumer cloud revenue increased by 15%/29% YoY on a constant-currency basis (2QFY26: 14%/27%), aided by 6%/7% YoY growth in paid Microsoft 365 commercial seats/subscribers and ARPU expansion. Management highlighted paid seats for Microsoft 365 Copilot reached 20mn in 3QFY26.
- Overall OPM expansion better than expected.** In 3QFY26, overall GPM declined 1.1ppts YoY to 67.6%, owing to continued investments in AI infrastructure and AI product usage. However, OPM came in at 46.3%, up 0.8ppts YoY and ahead of consensus at 45.3%, driven by 1.9ppts/1.5ppts margin expansion in PBP/ MPC, aided by improved operating leverage. This was partly offset by a 1.8ppt YoY decline in IC segment OPM to 39.7% (consensus: 40.8%). Management continues to expect double-digit revenue and operating income growth in FY27, and we forecast 15.8% / 14.5% YoY growth in revenue/ OP for FY27.

BUY (Maintain)

Target Price US\$616.40
 (Previous TP) US\$614.60
Up/Downside 51.2%
Current Price US\$407.78

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Stock Data

Mkt Cap (US\$ mn)	3,040,881.4
Avg 3 mths t/o (US\$ mn)	8,974.9
52w High/Low (US\$)	542.07/356.77
Total Issued Shares (mn)	7457.2

Source: FactSet

Shareholding Structure

Vanguard Group	9.4%
Blackrock	8.0%

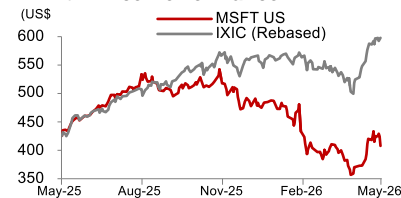
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	10.4%	-3.1%
3-mth	-5.2%	-10.7%
6-mth	-21.2%	-24.9%

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	329,334	381,504	436,994
YoY growth (%)	15.7	14.9	16.9	15.8	14.5
Net profit (US\$ mn)	88,136.0	101,832.0	129,397.0	146,079.1	165,849.3
YoY growth (%)	21.8	15.5	27.1	12.9	13.5
EPS (Reported) (US\$)	11.86	13.70	17.40	19.64	22.29
Consensus EPS (US\$)	na	13.64	16.74	18.96	22.26
P/E (x)	34.4	29.8	23.4	20.8	18.3

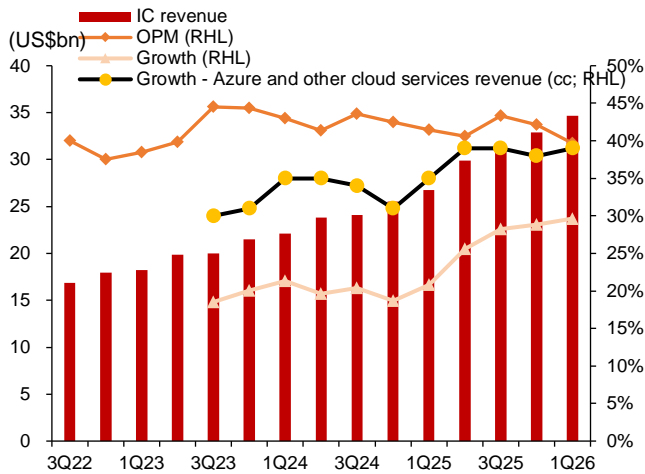
Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Microsoft: quarterly financial results

(USDbn)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	BBG consensus	Diff (%)
1. Productivity and Business									
Processes revenue	28.3	29.4	29.9	33.1	33.0	34.1	35.0	34.5	1.5%
<i>Growth - yoy</i>	12.3%	13.9%	10.4%	15.7%	16.6%	15.9%	16.9%		
As % of total revenue (%)	43.2%	42.3%	42.7%	43.3%	42.5%	42.0%	42.2%		
2. Intelligent Cloud revenue	24.1	25.5	26.8	29.9	30.9	32.9	34.7	34.3	1.1%
<i>Growth - yoy</i>	20.4%	18.7%	20.8%	25.6%	28.2%	28.8%	29.6%		
As % of total revenue (%)	36.7%	36.7%	38.2%	39.1%	39.8%	40.5%	41.8%		
3. More Personal Computing revenue	13.2	14.7	13.4	13.5	13.8	14.3	13.2	12.6	4.3%
<i>Growth - yoy</i>	16.8%	0.1%	6.1%	9.2%	4.4%	-2.7%	-1.3%		
As % of total revenue (%)	20.1%	21.0%	19.1%	17.6%	17.7%	17.5%	15.9%		
Total revenue	65.6	69.6	70.1	76.4	77.7	81.3	82.9	81.5	1.7%
<i>Growth - yoy</i>	16.0%	12.3%	13.3%	18.1%	18.4%	16.7%	18.3%		
Gross profit	45.5	47.8	48.1	52.4	53.6	55.3	56.1	54.7	2.4%
<i>Growth - yoy</i>	13.1%	12.8%	11.1%	16.4%	17.9%	15.6%	16.4%		
Research and development expenses	7.5	7.9	8.2	8.8	8.1	8.5	8.9	9.1	-1.6%
<i>Growth - yoy</i>	13.3%	10.9%	7.1%	9.6%	8.0%	7.4%	8.7%		
R&D expense ratio (%)	11.5%	11.4%	11.7%	11.6%	10.5%	10.5%	10.8%	11.1%	-0.4 ppt
Sales and marketing expenses	5.7	6.4	6.2	7.3	5.7	6.6	6.8	6.8	0.1%
<i>Growth - yoy</i>	10.2%	3.1%	0.1%	6.9%	0.0%	2.2%	9.7%		
S&M expense ratio (%)	8.7%	9.2%	8.9%	9.5%	7.4%	8.1%	8.2%	8.4%	-0.1 ppt
General and administrative expenses	1.7	1.8	1.7	2.0	1.8	1.9	1.9	1.9	-0.3%
<i>Growth - yoy</i>	13.5%	-7.8%	-9.2%	-11.4%	7.9%	6.0%	11.2%		
G&A expense ratio (%)	2.6%	2.6%	2.5%	2.6%	2.3%	2.4%	2.3%	2.4%	0.0 ppt
Operating income	30.6	31.7	32.0	34.3	38.0	38.3	38.4	36.9	4.1%
<i>Growth - yoy</i>	13.6%	17.1%	16.0%	22.9%	24.3%	20.9%	20.0%		
- PBP	16.5	16.9	17.4	19.0	20.4	20.6	21.0	19.5	7.6%
- IC	10.5	10.9	11.1	12.1	13.4	13.9	13.8	14.0	-1.8%
- MPC	3.5	3.9	3.5	3.2	4.2	3.8	3.7	3.1	18.8%
Net income	24.7	24.1	25.8	27.2	27.7	38.5	31.8	30.1	5.7%
<i>Growth - yoy</i>	10.7%	10.2%	17.7%	23.6%	12.5%	59.5%	23.1%		
GPM	69.4%	68.7%	68.7%	68.6%	69.0%	68.0%	67.6%	67.2%	0.5 ppt
OPM	46.6%	45.5%	45.7%	44.9%	48.9%	47.1%	46.3%	45.3%	1.0 ppt
- PBP	58.3%	57.4%	58.0%	57.4%	61.8%	60.4%	59.9%	56.6%	3.3 ppt
- IC	43.6%	42.5%	41.5%	40.6%	43.3%	42.2%	39.7%	40.8%	-1.1 ppt
- MPC	26.8%	26.7%	26.4%	23.7%	30.3%	26.7%	27.8%	24.4%	3.4 ppt
NPM	37.6%	34.6%	36.9%	35.6%	35.7%	47.3%	38.3%	36.9%	1.4 ppt

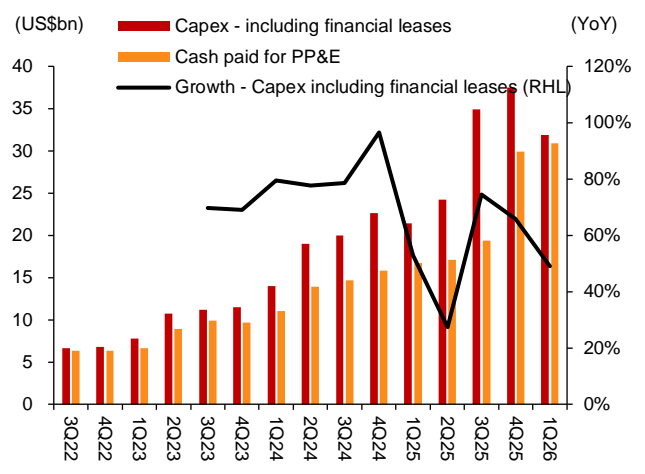
Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Microsoft: IC revenue and growth



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

Figure 3: Microsoft: quarterly capex trend



Source: Company data, CMBIGM

Changes in forecast and valuation

Figure 4: Microsoft forecast revision

USD bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	329.3	381.5	437.0	327.7	377.6	431.8	0.5%	1.0%	1.2%
Gross profit	223.0	255.2	290.2	222.2	254.2	288.5	0.3%	0.4%	0.6%
Operating profit	153.5	175.7	199.9	152.9	175.6	199.6	0.4%	0.1%	0.2%
Net profit	129.4	146.1	165.8	129.5	147.9	167.8	0.0%	-1.2%	-1.1%
GPM	67.7%	66.9%	66.4%	67.8%	67.3%	66.8%	-0.1 ppt	-0.4 ppt	-0.4 ppt
OPM	46.6%	46.1%	45.7%	46.7%	46.5%	46.2%	0.0 ppt	-0.4 ppt	-0.5 ppt
NPM	39.3%	38.3%	38.0%	39.5%	39.2%	38.8%	-0.2 ppt	-0.9 ppt	-0.9 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	329.3	381.5	437.0	328.1	378.9	440.6	0.4%	0.7%	-0.8%
Gross profit	223.0	255.2	290.2	222.7	254.6	293.7	0.1%	0.2%	-1.2%
Operating profit	153.5	175.7	199.9	152.0	174.9	204.4	1.0%	0.5%	-2.2%
Net profit	129.4	146.1	165.8	127.6	141.0	164.7	1.4%	3.6%	0.7%
GPM	67.7%	66.9%	66.4%	67.9%	67.2%	66.6%	-0.2 ppt	-0.3 ppt	-0.2 ppt
OPM	46.6%	46.1%	45.7%	46.3%	46.2%	46.4%	0.3 ppt	-0.1 ppt	-0.6 ppt
NPM	39.3%	38.3%	38.0%	38.9%	37.2%	37.4%	0.4 ppt	1.1 ppt	0.6 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	329.3	381.5	437.0	493.7	556.2	614.8	673.2	729.7	781.7	834.6	885.5
NPV of FCF	1,145										
Discounted terminal value	3,423										
Total equity valuation	4,596										
No. of shares (diluted, mn)	7,457										
Valuation per share (USD)	616.4										
TP per share (USD)	616.4										

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	329,334	381,504	436,994
Cost of goods sold	(65,863)	(74,114)	(87,831)	(106,375)	(126,278)	(146,830)
Gross profit	146,052	171,008	193,893	222,959	255,226	290,164
Operating expenses	(57,529)	(61,575)	(65,365)	(69,427)	(79,484)	(90,258)
Selling expense	(22,759)	(24,456)	(25,654)	(27,005)	(30,902)	(34,960)
SG&A expense	(7,575)	(7,609)	(7,223)	(7,183)	(7,762)	(8,540)
R&D expense	(27,195)	(29,510)	(32,488)	(35,239)	(40,821)	(46,758)
Others	0	0	0	0	0	0
Operating profit	88,523	109,433	128,528	153,532	175,742	199,906
Other income/expense	788	(1,646)	(4,901)	7,150	5,723	6,118
Others	0	0	0	0	0	0
Pre-tax profit	89,311	107,787	123,627	160,682	181,465	206,024
Income tax	(16,950)	(19,651)	(21,795)	(31,285)	(35,386)	(40,175)
Others	0	0	0	0	0	0
After tax profit	72,361	88,136	101,832	129,397	146,079	165,849
Net profit	72,361	88,136	101,832	129,397	146,079	165,849
BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun (US\$ mn)						
Current assets	184,257	159,734	191,131	166,399	141,336	151,141
Cash & equivalents	34,704	18,315	30,242	4,471	(1,545)	7,707
Account receivables	48,688	56,924	69,905	70,944	84,059	84,612
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	555,178	748,521	871,035
PP&E	95,641	135,591	204,966	332,272	525,615	648,129
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	721,577	889,858	1,022,176
Current liabilities	104,149	125,286	141,218	156,897	173,600	186,572
Short-term borrowings	5,247	8,942	2,999	2,999	2,999	2,999
Account payables	18,095	21,996	27,724	32,493	38,991	41,464
Other current liabilities	80,807	94,348	110,495	121,404	131,611	142,109
Non-current liabilities	101,604	118,400	134,306	134,306	184,306	184,306
Long-term borrowings	41,990	42,688	40,152	40,152	90,152	90,152
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	291,203	357,906	370,878
Share capital	93,718	100,923	109,095	109,095	109,095	109,095
Retained earnings	118,848	173,144	237,731	324,626	426,203	545,550
Other reserves	(6,343)	(5,590)	(3,347)	(3,347)	(3,347)	(3,347)
Total shareholders equity	206,223	268,477	343,479	430,374	531,951	651,298
Total equity and liabilities	411,976	512,163	619,003	721,577	889,858	1,022,176

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun (US\$ mn)						
Operating						
Profit before taxation	89,311	107,787	123,627	160,682	181,465	206,024
Depreciation & amortization	13,861	22,287	34,153	24,188	35,559	52,284
Tax paid	(16,950)	(19,651)	(21,795)	(31,285)	(35,386)	(40,175)
Change in working capital	(2,388)	1,824	(5,350)	14,640	3,589	12,418
Others	3,748	6,301	5,527	0	0	0
Net cash from operations	87,582	118,548	136,162	168,225	185,227	230,552
Investing						
Capital expenditure	(28,107)	(44,477)	(64,551)	(151,494)	(228,903)	(174,798)
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)	(151,494)	(196,741)	(174,798)
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	50,000	0
Net cash from financing	(43,935)	(37,757)	(51,699)	(42,502)	5,498	(46,502)
Net change in cash						
Cash at the beginning of the year	13,931	34,704	18,315	30,242	4,471	(1,545)
Exchange difference	(194)	(210)	63	0	0	0
Cash at the end of the year	34,704	18,315	30,242	4,471	(1,545)	7,707
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Revenue	6.9%	15.7%	14.9%	16.9%	15.8%	14.5%
Gross profit	7.7%	17.1%	13.4%	15.0%	14.5%	13.7%
Operating profit	6.2%	23.6%	17.4%	19.5%	14.5%	13.7%
Net profit	(0.5%)	21.8%	15.5%	27.1%	12.9%	13.5%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Gross profit margin	68.9%	69.8%	68.8%	67.7%	66.9%	66.4%
Operating margin	41.8%	44.6%	45.6%	46.6%	46.1%	45.7%
Return on equity (ROE)	38.8%	37.1%	33.3%	33.4%	30.4%	28.0%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Current ratio (x)	1.8	1.3	1.4	1.1	0.8	0.8
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	42.0	34.4	29.8	23.4	20.8	18.3
P/E (diluted)	42.1	34.6	29.9	23.5	20.8	18.3
P/B	14.8	11.3	8.9	7.1	5.7	4.7
P/CFPS	51.2	41.1	42.5	181.8	ns	54.4

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

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NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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