1 Aug 2025

CMB International Global Markets | Equity Research | Company Update

招银国际 CMB INTERNATIONAL

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Microsoft (MSFT US)

Results a solid beat; cloud acceleration better than expectation driven by strong demand

Microsoft reported (31 Jul HKT) 4QFY25 (June year-end) results: revenue was US$76.4bn, up 18.1% YoY (3QFY25: +13% YoY), 3.6/3.5% better than our forecast/Bloomberg consensus estimates, driven by an all-round beat in all three business segments. Net profit was up 23.6% YoY to US$27.2bn, 9%/8% better than our forecast and consensus, fuelled by better-than-expected operating efficiency gains across business segments. For FY25, total revenue/net profit lifted by 14.9/15.5% YoY. Driven by accelerated growth in core infrastructure business primarily from the largest customers, Azure and other cloud services revenue growth came in at 39% YoY in 4Q, ahead of previous guidance of 34-35%. Management has highlighted the strong demand for cloud services, guiding for over US$30bn in capex (incl. finance leases) for 1QFY26, indicating a 50% YoY increase. Additionally, they are projecting 37% YoY revenue growth for Azure in 1QFY26. Although the incremental capex investment likely weighs on the gross margin, management is confident in driving the unleashing of operating leverage aided by solid revenue growth, while looking for a relatively stable OPM YoY for FY26. We lift FY26-27E revenue/OP forecasts by 2-4%/3% to account for better-than-expected revenue growth from cloud and Productivity and Business Processes (PBP). Our DCF-based TP was lifted by 18% to US$601.5 (was US$510.3) to factor in better-than-expected earnings growth potential and cash flow generation capability, translating into 38.8/33.6x FY26/27E PE. BUY.

- **Strong cloud revenue growth a solid beat and could sustain.** Intelligent Cloud (IC) segment recorded revenue growth of 26% YoY in 4QFY25 to US$29.9bn (39% of total revenue), and Azure and other cloud services within the segment saw revenue growth of 39% YoY (3QFY25: 33%), better than previous guidance of 34-35%. Management guided for 25-26% YoY revenue growth for IC in 1QFY26, among which it guided for 37% YoY revenue growth for Azure on a constant currency basis. Capex (incl. finance leases) came in at US$24.2bn for 4QFY25, up 27% YoY, and full fiscal year capex totalled US$88.2bn, up 58% YoY. Management noted that demand for cloud services is still improving, and guided for over US$30bn capex for 1QFY26 (1QFY25： US$20bn) to fulfil unmet demand. For FY26, management expects capex growth to moderate compared to FY25 with a greater mix of short-lived assets, and expects growth rates in 1HFY26 to be higher than that in 2H given the timing of delivery of additional capacity.
- **PBP saw solid ARPU expansion, and the trend likely to sustain in FY26.** PBP revenue was US$33.1bn in 4QFY25, up 15.7% YoY (4QFY24: 12.0%), and accounted for 43% of total revenue. Within the segment, M365 commercial/consumer cloud revenue increased by 18/20% YoY (3QFY25: 12/10%), driven by 6/8% YoY growth in paid M365 commercial seats/subscribers, which in our view demonstrated a solid ARPU expansion trend driven by the increase in adoption of E5 & M365 Copilot, and price increase. Microsoft's family of Copilot apps has surpassed 100mn MAU across commercial and consumer in 4QFY25, and the ARPU expansion could sustain in FY26, in our view.
- **Expecting a stable OPM despite incremental AI investment in FY26.** Although GPM came down 1ppt YoY to 68.6% in 4QFY25 due to the incremental infrastructure investment to support the growth of AI related business, overall OPM came in at 44.9% in 4QFY25, up 1.8ppts YoY. In our view, this indicated strong capability in unleashing operating leverage. Aided by solid revenue growth and ability to further unleash operating leverage, management is looking for a relatively stable OPM YoY for FY26 (FY25： 45.6%).

BUY (Maintain)

Target Price	**US$601.50**
(Previous TP	US$510.30)
Up/Downside	**17.2%**
Current Price	**US$513.24**

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Stock Data

Mkt Cap (US$ mn)	3,810,423.7
Avg 3 mths t/o (US$ mn)	3,856.7
52w High/Low (US$)	513.71/354.56
Total Issued Shares (mn)	7424.3

Source: FactSet

Shareholding Structure

Vanguard Group	9.0%
Blackrock	7.3%

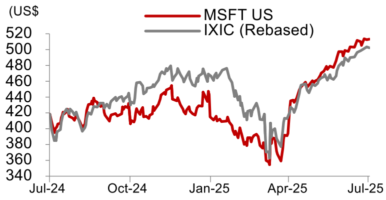
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	3.2%	-0.5%
3-mth	29.8%	7.2%
6-mth	23.7%	14.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 30 Jun)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US$ mn)	245,122	283,148	321,179	360,856	400,345
YoY growth (%)	15.7	15.5	13.4	12.4	10.9
Net profit (US$ mn)	88,136.0	101,947.2	118,470.1	135,248.1	152,362.8
YoY growth (%)	21.8	15.7	16.2	14.2	12.7
EPS (Reported) (US$)	11.86	13.75	16.01	18.31	20.67
Consensus EPS (US$)	na	13.40	15.20	17.81	21.17
P/E (x)	43.3	37.3	32.1	28.0	24.8

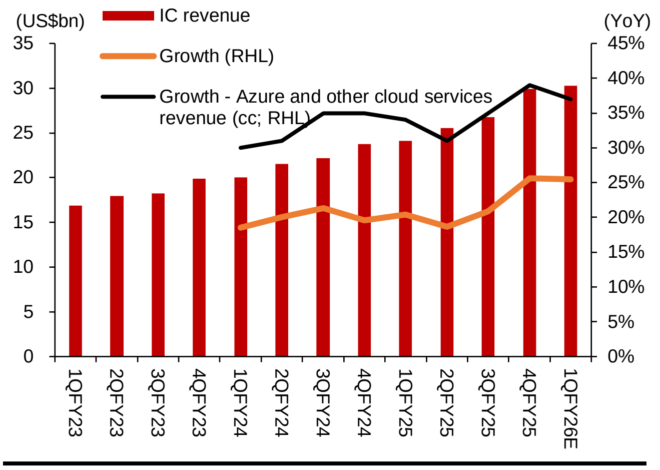
Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Microsoft: quarterly financial results

(USDbn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	BBG consensus	Diff (%)
1. Productivity and Business Processes revenue	**25.2**	**25.9**	**27.1**	**28.6**	**28.3**	**29.4**	**29.9**	**33.1**	**32.1**	3.0%
Growth - yoy	*14.3%*	*14.4%*	*13.3%*	*12.0%*	*12.3%*	*13.9%*	*10.4%*	*15.7%*		
As % of total revenue (%)	44.6%	41.7%	43.8%	44.2%	43.2%	42.3%	42.7%	43.3%		
2. Intelligent Cloud revenue	**20.0**	**21.5**	**22.1**	**23.8**	**24.1**	**25.5**	**26.8**	**29.9**	**29.1**	2.7%
Growth - yoy	*18.5%*	*20.1%*	*21.4%*	*19.6%*	*20.4%*	*18.7%*	*20.8%*	*25.6%*		
As % of total revenue (%)	35.4%	34.7%	35.8%	36.7%	36.7%	36.7%	38.2%	39.1%		
3. More Personal Computing revenue	**11.3**	**14.6**	**12.6**	**12.3**	**13.2**	**14.7**	**13.4**	**13.5**	**12.7**	6.2%
Growth - yoy	*1.0%*	*19.8%*	*17.9%*	*14.5%*	*16.8%*	*0.1%*	*6.1%*	*9.2%*		
As % of total revenue (%)	20.0%	23.6%	20.4%	19.0%	20.1%	21.0%	19.1%	17.6%		
Total revenue	**56.5**	**62.0**	**61.9**	**64.7**	**65.6**	**69.6**	**70.1**	**76.4**	**73.9**	**3.5%**
Growth - yoy	*12.8%*	*17.6%*	*17.0%*	*15.2%*	*16.0%*	*12.3%*	*13.3%*	*18.1%*		
Gross profit	**40.2**	**42.4**	**43.4**	**45.0**	**45.5**	**47.8**	**48.1**	**52.4**	**50.4**	**4.1%**
Growth - yoy	*16.0%*	*20.2%*	*18.0%*	*14.3%*	*13.1%*	*12.8%*	*11.1%*	*16.4%*		
Research and development expenses	**6.7**	**7.1**	**7.7**	**8.1**	**7.5**	**7.9**	**8.2**	**8.8**	**8.7**	1.8%
Growth - yoy	*0.5%*	*4.4%*	*9.6%*	*19.5%*	*13.3%*	*10.9%*	*7.1%*	*9.6%*		
R&D expense ratio (%)	11.8%	11.5%	12.4%	12.4%	11.5%	11.4%	11.7%	11.6%	11.7%	-0.2 ppt
Sales and marketing expenses	**5.2**	**6.2**	**6.2**	**6.8**	**5.7**	**6.4**	**6.2**	**7.3**	**7.2**	1.3%
Growth - yoy	*1.2%*	*10.0%*	*7.9%*	*9.9%*	*10.2%*	*3.1%*	*0.1%*	*6.9%*		
S&M expense ratio (%)	9.2%	10.1%	10.0%	10.5%	8.7%	9.2%	8.9%	9.5%	9.7%	-0.2 ppt
General and administrative expenses	**1.5**	**2.0**	**1.9**	**2.2**	**1.7**	**1.8**	**1.7**	**2.0**	**2.2**	-8.8%
Growth - yoy	*5.4%*	*-15.4%*	*16.4%*	*2.2%*	*13.5%*	*-7.8%*	*-9.2%*	*-11.4%*		
G&A expense ratio (%)	2.6%	3.2%	3.1%	3.5%	2.6%	2.6%	2.5%	2.6%	3.0%	-0.4 ppt
Operating income	**26.9**	**27.0**	**27.6**	**27.9**	**30.6**	**31.7**	**32.0**	**34.3**	**32.1**	**6.8%**
Growth - yoy	*23.6%*	*15.0%*	*15.2%*	*14.2%*	*13.6%*	*17.1%*	*16.0%*	*22.9%*		
- PBP	14.3	14.5	15.1	15.7	16.5	16.9	17.4	19.0	17.4	8.9%
- IC	8.9	9.6	9.5	9.8	10.5	10.9	11.1	12.1	11.9	2.2%
- MPC	3.7	3.0	2.9	2.4	3.5	3.9	3.5	3.2	2.8	13.4%
Net income	**22.3**	**21.9**	**21.9**	**22.0**	**24.7**	**24.1**	**25.8**	**27.2**	**25.3**	**7.8%**
Growth - yoy	*27.0%*	*33.2%*	*19.9%*	*9.7%*	*10.7%*	*10.2%*	*17.7%*	*23.6%*		
GPM	**71.2%**	**68.4%**	**70.1%**	**69.6%**	**69.4%**	**68.7%**	**68.7%**	**68.6%**	**68.2%**	**0.4 ppt**
OPM	**47.6%**	**43.6%**	**44.6%**	**43.1%**	**46.6%**	**45.5%**	**45.7%**	**44.9%**	**43.5%**	**1.4 ppt**
- PBP	56.7%	56.1%	55.9%	54.9%	58.3%	57.4%	58.0%	57.4%	54.3%	3.1 ppt
- IC	44.5%	44.4%	43.0%	41.3%	43.6%	42.5%	41.5%	40.6%	40.8%	-0.2 ppt
- MPC	32.7%	20.2%	23.2%	19.4%	26.8%	26.7%	26.4%	23.7%	22.2%	1.5 ppt
NPM	39.4%	35.3%	35.5%	34.0%	37.6%	34.6%	36.9%	35.6%	34.2%	1.4 ppt

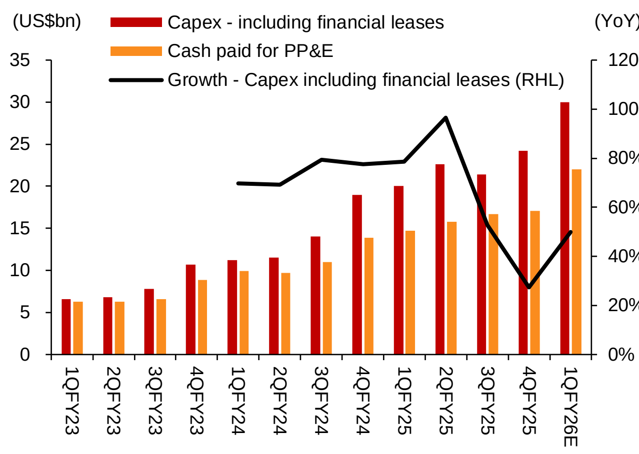
Source: Company data, Bloomberg, CMBIGM

Figure 2: Microsoft: IC revenue and growth



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

Figure 3: Microsoft: quarterly capex trend



Source: Company data, CMBIGM estimates

Changes in forecast and valuation

Figure 4: Microsoft forecast revision

	Current			Previous			Change (%)		
USD bn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	326.5	377.2	424.9	319.9	363.9	-	2.1%	3.6%	-
Gross profit	222.0	254.6	285.1	218.6	249.0	-	1.6%	2.2%	-
Operating profit	148.9	171.5	192.5	144.9	166.0	-	2.8%	3.3%	-
Net profit	115.7	133.5	151.5	118.1	136.7	-	-2.0%	-2.4%	-
GPM	68.0%	67.5%	67.1%	68.3%	68.4%	-	-0.3 ppt	-0.9 ppt	-
OPM	45.6%	45.5%	45.3%	45.3%	45.6%	-	0.3 ppt	-0.1 ppt	-
NPM	35.4%	35.4%	35.7%	36.9%	37.6%	-	-1.5 ppt	-2.2 ppt	-

Source: CMBIGM estimates

Figure 5: Microsoft: CMBI forecast vs consensus

	Current			Consensus			Difference （%）		
USD bn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	326.5	377.2	424.9	316.9	362.7	423.8	3.0%	4.0%	0.3%
Gross Profit	222.0	254.6	285.1	215.8	246.5	289.1	2.9%	3.3%	-1.4%
Operating Profit	148.9	171.5	192.5	142.0	163.4	188.5	4.8%	5.0%	2.1%
Net profit	115.7	133.5	151.5	113.5	132.6	156.9	1.9%	0.7%	-3.5%
GPM	68.0%	67.5%	67.1%	68.1%	68.0%	68.2%	-0.1 ppt	-0.5 ppt	-1.1 ppt
OPM	45.6%	45.5%	45.3%	44.8%	45.0%	44.5%	0.8 ppt	0.4 ppt	0.8 ppt
NPM	35.4%	35.4%	35.7%	35.8%	36.5%	37.0%	-0.4 ppt	-1.2 ppt	-1.4 ppt

Source: 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	321	361	400	438	474	509	545	581	617	653	687
NPV of FCF	1,252	1,310									
Discounted terminal value	3,193	3,446									
Total equity valuation	4,488	4,801									
No. of shares (diluted, mn)	7,461	7,457									
Valuation per share (USD)	601.5	643.9									
TP per share (USD)	601.5										

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**	**283,148**	**321,179**	**360,856**	**400,345**
Cost of goods sold	(65,863)	(74,114)	(90,607)	(102,135)	(114,752)	(127,310)
Gross profit	**146,052**	**171,008**	**192,541**	**219,044**	**246,104**	**273,035**
Operating expenses	**(57,529)**	**(61,575)**	**(66,680)**	**(74,070)**	**(80,574)**	**(86,534)**
Selling expense	(22,759)	(24,456)	(26,616)	(29,285)	(31,916)	(34,346)
SG&A expense	(7,575)	(7,609)	(7,785)	(9,268)	(9,952)	(10,105)
R&D expense	(27,195)	(29,510)	(32,279)	(35,516)	(38,706)	(42,083)
Others	0	0	0	0	0	0
Operating profit	**88,523**	**109,433**	**125,861**	**144,975**	**165,530**	**186,501**
Interest income	788	(1,646)	0	1,285	1,443	1,601
Others	0	0	0	0	0	0
Pre-tax profit	**89,311**	**107,787**	**125,861**	**146,259**	**166,973**	**188,102**
Income tax	(16,950)	(19,651)	(23,914)	(27,789)	(31,725)	(35,739)
Others	0	0	0	0	0	0
After tax profit	**72,361**	**88,136**	**101,947**	**118,470**	**135,248**	**152,363**
Net profit	**72,361**	**88,136**	**101,947**	**118,470**	**135,248**	**152,363**
Adjusted net profit	**72,361**	**88,136**	**101,947**	**118,470**	**135,248**	**152,363**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun (US$ mn)						
Current assets	**184,257**	**159,734**	**191,825**	**236,470**	**301,950**	**382,263**
Cash & equivalents	34,704	18,315	43,631	76,081	134,316	202,601
Account receivables	48,688	56,924	58,972	65,918	67,384	73,110
Inventories	2,500	1,246	1,246	1,246	1,246	1,246
Other current assets	98,365	83,249	87,976	93,226	99,003	105,306
Non-current assets	**227,719**	**352,429**	**393,884**	**434,654**	**472,480**	**507,789**
PP&E	95,641	135,591	177,046	217,816	255,642	290,951
Right-of-use assets	14,346	18,961	18,961	18,961	18,961	18,961
Investment in JVs & assos	9,879	14,600	14,600	14,600	14,600	14,600
Intangibles	9,366	27,597	27,597	27,597	27,597	27,597
Goodwill	67,886	119,220	119,220	119,220	119,220	119,220
Other non-current assets	30,601	36,460	36,460	36,460	36,460	36,460
Total assets	**411,976**	**512,163**	**585,709**	**671,124**	**774,430**	**890,053**
Current liabilities	**104,149**	**125,286**	**137,909**	**147,879**	**160,962**	**169,247**
Short-term borrowings	5,247	2,249	2,249	2,249	2,249	2,249
Account payables	18,095	21,996	27,017	28,232	33,842	35,024
Other current liabilities	80,807	101,041	108,643	117,399	124,871	131,974
Non-current liabilities	**101,604**	**118,400**	**118,400**	**118,400**	**118,400**	**118,400**
Long-term borrowings	41,990	42,688	42,688	42,688	42,688	42,688
Obligations under finance leases	12,728	15,497	15,497	15,497	15,497	15,497
Other non-current liabilities	46,886	60,215	60,215	60,215	60,215	60,215
Total liabilities	**205,753**	**243,686**	**256,309**	**266,279**	**279,362**	**287,647**
Share capital	93,718	100,923	100,923	100,923	100,923	100,923
Retained earnings	118,848	173,144	234,066	309,511	399,734	507,072
Other reserves	(6,343)	(5,590)	(5,590)	(5,590)	(5,590)	(5,590)
Total shareholders equity	**206,223**	**268,477**	**329,399**	**404,844**	**495,067**	**602,405**
Total equity and liabilities	**411,976**	**512,163**	**585,709**	**671,124**	**774,430**	**890,053**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun (US$ mn)						
Operating						
Profit before taxation	**89,311**	**107,787**	**125,861**	**146,259**	**166,973**	**188,102**
Tax paid	(16,950)	(19,651)	(23,914)	(27,789)	(31,725)	(35,739)
Change in working capital	(2,388)	1,824	5,849	(2,226)	5,838	(3,744)
Others	17,609	28,588	9,512	10,619	12,694	14,734
Net cash from operations	**87,582**	**118,548**	**117,308**	**126,863**	**153,780**	**163,353**
Investing						
Capital expenditure	(28,107)	(44,477)	(50,967)	(51,389)	(50,520)	(50,043)
Net proceeds from disposal of short-term investments	10,213	17,937	0	0	0	0
Others	(4,786)	(70,430)	0	0	0	0
Net cash from investing	**(22,680)**	**(96,970)**	**(50,967)**	**(51,389)**	**(50,520)**	**(50,043)**
Financing						
Dividend paid	(19,800)	(21,771)	(23,771)	(25,771)	(27,771)	(27,771)
Net borrowings	0	29,645	0	0	0	0
Share repurchases	(22,245)	(17,254)	(17,254)	(17,254)	(17,254)	(17,254)
Others	(1,890)	(28,377)	0	0	0	0
Net cash from financing	**(43,935)**	**(37,757)**	**(41,025)**	**(43,025)**	**(45,025)**	**(45,025)**
Net change in cash						
Cash at the beginning of the year	13,931	34,704	18,315	43,631	76,081	134,316
Exchange difference	(194)	(210)	0	0	0	0
Cash at the end of the year	**34,704**	**18,315**	**43,631**	**76,081**	**134,316**	**202,601**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Revenue	6.9%	15.7%	15.5%	13.4%	12.4%	10.9%
Gross profit	7.7%	17.1%	12.6%	13.8%	12.4%	10.9%
Operating profit	6.2%	23.6%	15.0%	15.2%	14.2%	12.7%
Net profit	(0.5%)	21.8%	15.7%	16.2%	14.2%	12.7%
Adj. net profit	(0.5%)	21.8%	15.7%	16.2%	14.2%	12.7%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Gross profit margin	68.9%	69.8%	68.0%	68.2%	68.2%	68.2%
Operating margin	41.8%	44.6%	44.5%	45.1%	45.9%	46.6%
Adj. net profit margin	34.1%	36.0%	36.0%	36.9%	37.5%	38.1%
Return on equity (ROE)	38.8%	37.1%	34.1%	32.3%	30.1%	27.8%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Current ratio (x)	1.8	1.3	1.4	1.6	1.9	2.3

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
P/E	52.8	43.3	37.3	32.1	28.0	24.8
P/E (diluted)	53.0	43.5	37.5	32.2	28.1	24.9
P/B	18.6	14.3	11.6	9.4	7.7	6.3
P/CFPS	64.5	51.8	57.6	50.5	36.8	33.4

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

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