

Microsoft (MSFT US)

Results inline; AI demand remains strong and unmet

Microsoft reported (31 Jul HKT) inline 4QFY24 (June year-end) results: revenue was US\$64.7bn, up 15% YoY (3QFY24: +17% YoY; 4QFY23: +8% YoY), in line with Bloomberg consensus, thanks to better-than-expected revenue generation from more personal computing (MPC) segment, which offsets the slightly lower-than-expected intelligent cloud (IC) revenue due to slightly slower-than-expected growth in a few European regions on non-AI consumption; quarterly net income was up 9.7% YoY to US\$22.0bn, also in line with consensus estimates. For the full year, total revenue reached US\$245.1bn, up 16% YoY, and net income was RMB88.1bn, up 22% YoY. Management highlighted that AI-related cloud services demand remained higher than Microsoft's capacity, and it expects an increase in capex for FY25 compared to that in FY24. Also, management guided for double-digit revenue and operating income growth for FY25. We roll forward valuation to FY25E, and the DCF-based new target price of US\$491.3 (was US\$471.9; WACC of 7.9%, terminal growth of 3%) translates into 36x FY25E PE. We remain upbeat on MSFT's monetization potential in the Gen-AI era. Maintain BUY.

- Strong AI-related cloud demand remained unmet.** Intelligent Cloud (IC) segment recorded quarterly revenue growth of 18.8% YoY to US\$28.5bn, representing 44% of total revenue, while the revenue was 0.7% lower than consensus estimates. Within the segment, server products and cloud services revenue grew 21% to US\$26.6bn, among which Azure and other cloud services revenue grew 29% YoY (4QFY23: 26%; 3QFY24: 31%), and AI services contributed 8ppt of the growth (2QFY24: 6ppt; 3QFY24: 7ppt).
- Productivity and business process (PBP) business delivered inline revenue growth.** PBP revenue was US\$20.3bn in 4QFY24, up 11% YoY, and was 31% of total revenue, in line with consensus expectation. Within the segment, Office 365 commercial revenue increased by 13% YoY, driven by healthy seat growth, and ARPU growth through E5 and Copilot for Microsoft 365. Paid Office 365 commercial seats grew 7% YoY with installed base expansion across all customer segments.
- Continue scaling up infrastructure to fulfil the unmet AI-related demand.** Overall operating profit was US\$27.9bn in 4QFY24, up 15% YoY, translating into 43.1% OPM, as compared to 43.2% in 4QFY23, thanks to efficient cost control, although offset by 0.5ppt YoY decline in gross margin. Management noted that gross margin would have increased slightly if excluding the impact of the change in accounting estimates. On capex, including finance leases, the number came in at US\$19bn for 4QFY24 (3QFY24: US\$14bn; 4QFY23: US\$10.7bn), and management noted that nearly all the capex has been spent towards cloud and AI. Roughly half of 4QFY24 capex is for infrastructure needs where Microsoft continued to build and lease datacentres to fulfil the unmet demand, and management believes that this spending will support monetization over the next 15 years and beyond.
- Guidance for FY25.** Management expects: 1) double-digit revenue and OP growth; 2) higher capex than that in FY24; 3) single-digit Opex growth given disciplined expense management; and 4) 1ppt YoY decline in OPM due to investment in infrastructure, to be buffered by efficient cost control.

BUY (Maintain)

Target Price **US\$491.30**
 (Previous TP) US\$471.90
Up/Downside **16.2%**
Current Price **US\$422.92**

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Stock Data

Mkt Cap (US\$ mn)	3,158,789.5
Avg 3 mths t/o (US\$ mn)	2,066.3
52w High/Low (US\$)	467.56/312.14
Total Issued Shares (mn)	7469.0

Source: FactSet

Shareholding Structure

Vanguard Group	8.7%
Blackrock	7.2%

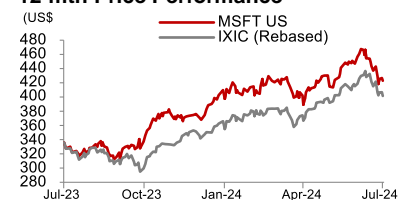
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-5.4%	-2.1%
3-mth	8.6%	-0.8%
6-mth	6.4%	-5.9%

Source: FactSet

12-month Price Performance



Earnings Summary

(YE 30 Jun)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	211,915	245,122	283,148	321,179	360,856
YoY growth (%)	6.9	15.7	15.5	13.4	12.4
Net profit (US\$ mn)	72,361.0	88,136.0	101,947.2	118,470.1	135,248.1
YoY growth (%)	(0.5)	21.8	15.7	16.2	14.2
EPS (Reported) (US\$)	9.72	11.86	13.75	16.01	18.31
Consensus EPS (US\$)	na	11.81	13.34	15.66	18.48
P/E (x)	43.5	35.7	30.8	26.4	23.1

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Microsoft: quarterly financial results

(USD bn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Consensus	Diff (%)
1. Productivity and Business Processes revenue	16.5	17.0	17.5	18.3	18.6	19.2	19.6	20.3	20.2	0.5%
Growth (yoy%)	9.5%	6.7%	10.9%	10.2%	12.9%	13.2%	11.7%	11.1%		
As % of total revenue (%)	32.8%	32.2%	33.1%	32.6%	32.9%	31.0%	31.6%	31.4%		
2. Intelligent Cloud revenue	20.3	21.5	22.1	24.0	24.3	25.9	26.7	28.5	28.7	-0.7%
Growth (yoy%)	20.2%	17.8%	16.3%	15.3%	19.4%	20.3%	21.0%	18.8%		
As % of total revenue (%)	40.6%	40.8%	41.8%	42.7%	42.9%	41.7%	43.2%	44.1%		
3. More Personal Computing revenue	13.3	14.2	13.3	13.9	13.7	16.9	15.6	15.9	15.5	2.3%
Growth (yoy%)	-0.3%	-18.8%	-9.1%	-3.8%	2.5%	18.6%	17.5%	14.3%		
As % of total revenue (%)	26.6%	27.0%	25.1%	24.7%	24.2%	27.2%	25.2%	24.6%		
Total revenue	50.1	52.7	52.9	56.2	56.5	62.0	61.9	64.7	64.5	0.3%
Growth (yoy%)	10.6%	2.0%	7.1%	8.3%	12.8%	17.6%	17.0%	15.2%		
Gross profit	34.7	35.3	36.7	39.4	40.2	42.4	43.4	45.0	44.8	0.6%
Growth (yoy%)	9.5%	1.4%	8.8%	11.2%	16.0%	20.2%	18.0%	14.3%		
Operating income	21.5	20.4	22.4	24.3	26.9	27.0	27.6	27.9	27.6	1.1%
Growth (yoy%)	23.3%	32.0%	19.3%	6.2%	23.6%	15.0%	15.2%	14.2%		
- PBP	8.3	8.2	8.6	9.1	10.0	10.3	10.1	10.1	10.0	1.2%
- IC	9.0	8.9	9.5	10.5	11.8	12.5	12.5	12.9	12.7	1.2%
- MPC	4.2	3.3	4.2	4.7	5.2	4.3	4.9	4.9	4.8	2.5%
Net income	17.6	16.4	18.3	20.1	22.3	21.9	21.9	22.0	22.1	-0.1%
Growth (yoy%)	-14.4%	-12.5%	9.4%	20.0%	27.0%	33.2%	19.9%	9.7%		
GPM	69.2%	66.8%	69.5%	70.1%	71.2%	68.4%	70.1%	69.6%	69.4%	0.2 ppt
OPM	42.9%	38.7%	42.3%	43.2%	47.6%	43.6%	44.6%	43.1%	42.8%	0.3 ppt
- PBP	50.5%	48.1%	49.3%	49.5%	53.6%	53.4%	51.8%	49.9%	49.6%	0.3 ppt
- IC	44.2%	41.4%	42.9%	43.9%	48.4%	48.1%	46.9%	45.1%	44.3%	0.8 ppt
- MPC	31.6%	23.3%	32.0%	33.6%	37.9%	25.4%	31.6%	31.0%	30.9%	0.0 ppt
NPM	35.0%	31.1%	34.6%	35.7%	39.4%	35.3%	35.5%	34.0%	34.2%	-0.1 ppt

Source: Company data, CMBIGM

Changes in forecast and valuation

Figure 2: Microsoft forecast revision

USD bn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	283.1	321.2	360.9	279.4	314.4	-	1.3%	2.2%	-
Gross Profit	192.5	219.0	246.1	194.2	218.8	-	-0.9%	0.1%	-
Operating Profit	125.9	145.0	165.5	128.6	147.2	-	-2.1%	-1.5%	-
Net profit	101.9	118.5	135.2	105.1	120.3	-	-3.0%	-1.5%	-
GPM	68.0%	68.2%	68.2%	69.5%	69.6%	-	-1.5 ppt	-1.4 ppt	-
OPM	44.5%	45.1%	45.9%	46.0%	46.8%	-	-1.6 ppt	-1.7 ppt	-
NPM	36.0%	36.9%	37.5%	37.6%	38.3%	-	-1.6 ppt	-1.4 ppt	-

Source: CMBIGM estimates

Figure 3: Microsoft: CMBI forecast vs consensus

USD bn	Current			Consensus			Difference (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	283.1	321.2	360.9	280.6	322.0	371.5	0.9%	-0.3%	-2.9%
Gross Profit	192.5	219.0	246.1	193.6	223.0	259.2	-0.5%	-1.8%	-5.1%
Operating Profit	125.9	145.0	165.5	122.9	143.2	167.4	2.4%	1.2%	-1.1%
Net profit	101.9	118.5	135.2	99.8	116.7	137.0	2.2%	1.5%	-1.3%
GPM	68.0%	68.2%	68.2%	69.0%	69.2%	69.8%	-1.0 ppt	-1.0 ppt	-1.6 ppt
OPM	44.5%	45.1%	45.9%	43.8%	44.5%	45.1%	0.7 ppt	0.7 ppt	0.8 ppt
NPM	36.0%	36.9%	37.5%	35.6%	36.3%	36.9%	0.4 ppt	0.6 ppt	0.6 ppt

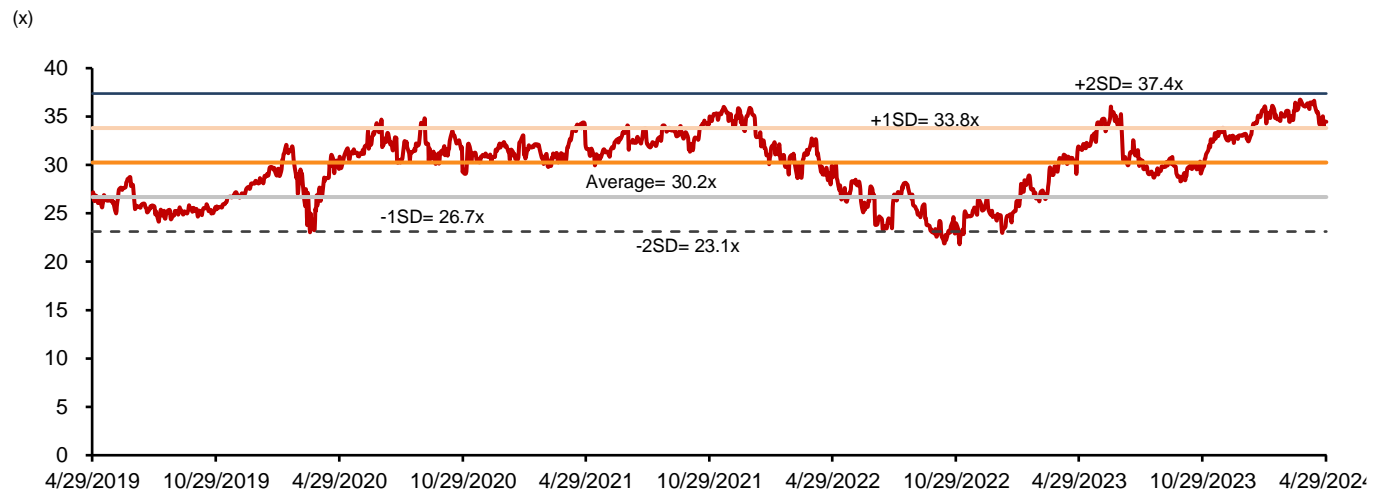
Source: Bloomberg, CMBIGM estimates

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

(USDbn)	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E
Total revenue	283	321	361	400	438	474	509	545	581	617	653	687
NPV of FCF	1,206	1,231										
Discounted terminal value	2,380	2,569										
Total equity valuation	3,638	3,884										
No. of shares (diluted, mn)	7,447	7,424										
Valuation per share (USD)	488.6	523.1										
TP per share (USD)	491.3											

Source: CMBIGM estimates

Note: our target price is based on weighted average of 11-month TP in FY25E and 1-month TP in FY26E

Figure 5: Microsoft: one-year forward PE band

Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 30 Jun (US\$ mn)						
Revenue	198,270	211,915	245,122	283,148	321,179	360,856
Cost of goods sold	(62,650)	(65,863)	(74,114)	(90,607)	(102,135)	(114,752)
Gross profit	135,620	146,052	171,008	192,541	219,044	246,104
Operating expenses	(52,237)	(57,529)	(61,575)	(66,680)	(74,070)	(80,574)
Selling expense	(21,825)	(22,759)	(24,456)	(26,616)	(29,285)	(31,916)
SG&A expense	(5,900)	(7,575)	(7,609)	(7,785)	(9,268)	(9,952)
R&D expense	(24,512)	(27,195)	(29,510)	(32,279)	(35,516)	(38,706)
Others	0	0	0	0	0	0
Operating profit	83,383	88,523	109,433	125,861	144,975	165,530
Interest income	333	788	(1,646)	0	1,285	1,443
Others	(1)	0	0	0	0	0
Pre-tax profit	83,715	89,311	107,787	125,861	146,259	166,973
Income tax	(10,978)	(16,950)	(19,651)	(23,914)	(27,789)	(31,725)
Others	0	0	0	0	0	0
After tax profit	72,737	72,361	88,136	101,947	118,470	135,248
Net profit	72,737	72,361	88,136	101,947	118,470	135,248
Adjusted net profit	72,737	72,361	88,136	101,947	118,470	135,248

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 30 Jun (US\$ mn)						
Current assets	169,684	184,257	159,734	191,825	236,470	301,950
Cash & equivalents	13,931	34,704	18,315	43,631	76,081	134,316
Account receivables	44,261	48,688	56,924	58,972	65,918	67,384
Inventories	3,742	2,500	1,246	1,246	1,246	1,246
Other current assets	107,750	98,365	83,249	87,976	93,226	99,003
Non-current assets	195,156	227,719	352,429	393,884	434,654	472,480
PP&E	74,398	95,641	135,591	177,046	217,816	255,642
Right-of-use assets	13,148	14,346	18,961	18,961	18,961	18,961
Investment in JVs & assos	6,891	9,879	14,600	14,600	14,600	14,600
Intangibles	11,298	9,366	27,597	27,597	27,597	27,597
Goodwill	67,524	67,886	119,220	119,220	119,220	119,220
Other non-current assets	21,897	30,601	36,460	36,460	36,460	36,460
Total assets	364,840	411,976	512,163	585,709	671,124	774,430
Current liabilities	95,082	104,149	125,286	137,909	147,879	160,962
Short-term borrowings	2,749	5,247	2,249	2,249	2,249	2,249
Account payables	19,000	18,095	21,996	27,017	28,232	33,842
Other current liabilities	73,333	80,807	101,041	108,643	117,399	124,871
Non-current liabilities	103,216	101,604	118,400	118,400	118,400	118,400
Long-term borrowings	47,032	41,990	42,688	42,688	42,688	42,688
Obligations under finance leases	11,489	12,728	15,497	15,497	15,497	15,497
Other non-current liabilities	44,695	46,886	60,215	60,215	60,215	60,215
Total liabilities	198,298	205,753	243,686	256,309	266,279	279,362
Share capital	86,939	93,718	100,923	100,923	100,923	100,923
Retained earnings	84,281	118,848	173,144	234,066	309,511	399,734
Other reserves	(4,678)	(6,343)	(5,590)	(5,590)	(5,590)	(5,590)
Total shareholders equity	166,542	206,223	268,477	329,399	404,844	495,067
Total equity and liabilities	364,840	411,976	512,163	585,709	671,124	774,430

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 30 Jun (US\$ mn)						
Operating						
Profit before taxation	83,715	89,311	107,787	125,861	146,259	166,973
Tax paid	(10,978)	(16,950)	(19,651)	(23,914)	(27,789)	(31,725)
Change in working capital	446	(2,388)	1,824	5,849	(2,226)	5,838
Others	15,852	17,609	28,588	9,512	10,619	12,694
Net cash from operations	89,035	87,582	118,548	117,308	126,863	153,780
Investing						
Capital expenditure	(23,886)	(28,107)	(44,477)	(50,967)	(51,389)	(50,520)
Net proceeds from disposal of short-term investments	18,438	10,213	17,937	0	0	0
Others	(24,863)	(4,786)	(70,430)	0	0	0
Net cash from investing	(30,311)	(22,680)	(96,970)	(50,967)	(51,389)	(50,520)
Financing						
Dividend paid	(18,135)	(19,800)	(21,771)	(23,771)	(25,771)	(27,771)
Net borrowings	0	0	29,645	0	0	0
Share repurchases	(32,696)	(22,245)	(17,254)	(17,254)	(17,254)	(17,254)
Others	(8,045)	(1,890)	(28,377)	0	0	0
Net cash from financing	(58,876)	(43,935)	(37,757)	(41,025)	(43,025)	(45,025)
Net change in cash						
Cash at the beginning of the year	14,224	13,931	34,704	18,315	43,631	76,081
Exchange difference	(141)	(194)	(210)	0	0	0
Cash at the end of the year	13,931	34,704	18,315	43,631	76,081	134,316
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 30 Jun						
Revenue	18.0%	6.9%	15.7%	15.5%	13.4%	12.4%
Gross profit	17.1%	7.7%	17.1%	12.6%	13.8%	12.4%
Operating profit	19.3%	6.2%	23.6%	15.0%	15.2%	14.2%
Net profit	18.7%	(0.5%)	21.8%	15.7%	16.2%	14.2%
Adj. net profit	18.7%	(0.5%)	21.8%	15.7%	16.2%	14.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 30 Jun						
Gross profit margin	68.4%	68.9%	69.8%	68.0%	68.2%	68.2%
Operating margin	42.1%	41.8%	44.6%	44.5%	45.1%	45.9%
Adj. net profit margin	36.7%	34.1%	36.0%	36.0%	36.9%	37.5%
Return on equity (ROE)	47.2%	38.8%	37.1%	34.1%	32.3%	30.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 30 Jun						
Current ratio (x)	1.8	1.8	1.3	1.4	1.6	1.9
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 30 Jun						
P/E	43.5	43.5	35.7	30.8	26.4	23.1
P/E (diluted)	43.6	43.7	35.8	30.9	26.5	23.1
P/B	19.1	15.3	11.8	9.6	7.8	6.3
P/CFPS	48.7	53.1	42.6	47.5	41.6	30.3

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

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