

Microsoft Corp

Intelligent Cloud + Gaming led growth

11 May 2026

Company Overview

Microsoft Corp (MSFT) develops, manufactures, licenses, & supports a wide range of software products. It has transformed from a component driven (PC, server) to one driven by the need for cloud capacity. Its Azure platform is thriving & is placed 2nd in public cloud in terms of market share. MSFT has three businesses - Productivity & Business Processes (Office, LinkedIn, Dynamics), Intelligent Cloud (Server Products & Cloud Services, Azure, and Enterprise Services) & More Personal Computing (Windows, Devices, Gaming, Search).

Investment Overview

Microsoft remains the global leader in productivity software. As of 3Q26, growth is increasingly driven by AI monetisation, with Copilot embedded across Microsoft 365 driving higher ARPU and seat expansion. The cloud-based productivity software market continues to expand at a mid-teens pace, and consensus expect Microsoft's Productivity and Business Processes segment to sustain ~11% CAGR over FY26F-28F, supported by E5 upgrades and Copilot attach rates.

Azure remains the primary growth driver, with Intelligent Cloud revenue tracking 30% y/y growth in 3Q26 despite capacity constraints. AI workloads continue to contribute a meaningful portion of Azure growth, with demand outstripping supply in certain regions. Microsoft maintained a ~22% cloud market share as of end of 2025 according to Omdia, supported by scale and mix shift toward higher-value AI services. Copilot adoption has expanded further (well beyond 100m MAUs across products), while Azure AI Foundry and OpenAI services continue to scale rapidly across a growing enterprise customer base, reinforcing long-term growth visibility.

The Activision acquisition continues to strengthen Microsoft's gaming ecosystem. While the PC market remains soft, 3Q26 trends show resilience driven by first-party content, Call of Duty engagement, and continued Game Pass growth. Higher-margin services such as subscriptions and cloud gaming are gaining share, supporting mix improvement, although near-term margin expansion is partially offset by integration costs and ongoing content investment.

BUY MSFT, TP USD573 (prev USD678), based on 30x 12m forward PE on blended earnings of USD143bn. Our target PE multiple is at a 40% premium (previous 30%) to peers' 21x due to (i) lower peer average PE multiple of 21x (previous 29x), (ii) superior earnings growth (20% CAGR vs peers at 16%), driven by accelerating Copilot monetization, deeper AI integration across the enterprise stack, and sustained Azure-led cloud growth.

Risks

Enterprise application spending is cyclical and discretionary, making Microsoft exposed to IT budget cuts during economic slowdowns as application upgrades and migrations are often deferred. Key downside risks include weaker-than-expected cloud growth and spend, FX headwinds, macro deterioration, hiring constraints, intensifying competition, and sharper-than-expected declines in the PC and server markets.

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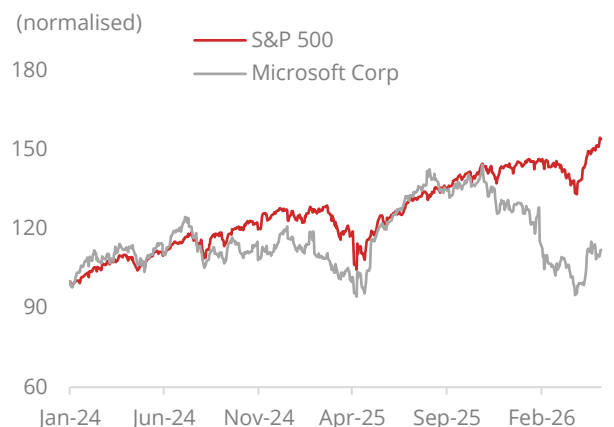
Key Financial Data

Bloomberg Ticker	MSFT US
Sector	Information Technology
Share Price (USD)	420.77
DBS Rating	BUY
12-mth Target Price (USD)	573.0
Market Cap (USD\$b)	3,125.7
Volume (m shares)	34.9
Free float (%)	100.0
Dividend yield (%)	0.8
Net Debt to Equity (%)	5.1
Fwd. P/E (x)	24.8
P/Book (x)	7.5
ROE (%)	34.0

Closing Price as of 7 May 2026

Source: Bloomberg, DBS

Indexed Share price vs Composite Index Performance



Source: Bloomberg

Financial Summary (USDmn)

FY Mar	FY2023(A)	FY2024(A)	FY2025(A)	FY2026(F)	FY2027(F)
Sales	211,915	245,122	281,724	329,551	384,930
% y/y	6.9	15.7	14.9	17.0	16.8
Gross Profit	146,052	171,008	193,893	223,407	255,946
% y/y	7.7	17.1	13.4	15.2	14.6
EBITDA	103,555	131,720	162,681	196,773	237,437
% y/y	5.8	27.2	23.5	21.7	20.8
Net Profit	73,307	88,136	103,877	126,466	145,629
% y/y	5.6	20.2	17.9	20.7	15.5
FCF	59,475	74,071	71,611	58,432	36,168
% y/y	(8.7)	24.5	(3.3)	(18.4)	(46.6)
CAPEX	28,107	44,477	64,551	117,407	189,114
% y/y	17.7	58.2	45.1	81.9	61.8
EBITDA Margin (%)	48.9	53.7	57.7	59.7	61.7
Net Margin (%)	34.6	36.0	36.9	38.4	37.8
ROA (%)	18.9	19.1	18.4	18.7	18.3
ROE (%)	39.3	37.1	33.9	32.4	30.1
Tax Rate (%)	19.0	18.2	17.8	19.4	18.9

Source: Company, DBS

Valuation Metrics

FY Mar	FY2023(A)	FY2024(A)	FY2025(A)	FY2026(F)	FY2027(F)
P/E (x)	42.2	35.0	29.7	24.4	21.0
P/B (x)	15.0	11.5	9.0	7.1	5.7
Dividend Yield (%)	0.7	0.7	0.8	0.9	0.9
EV/EBITDA (x)	29.9	23.2	18.8	15.6	12.9
FCF Yield (%)	1.9	2.4	2.3	1.9	1.2
Dividend Per Share (DPS)	2.7	3.0	3.3	3.6	3.9

Source: Company, DBS

Credit & Cashflow Metrics

FY Mar	FY2023(A)	FY2024(A)	FY2025(A)	FY2026(F)	FY2027(F)
Debt / Equity (%)	29.1	25.0	17.6	13.4	11.4
Net Debt / Equity (x)	(0.2)	(0.0)	(0.1)	(0.1)	(0.1)
Debt / Assets (%)	14.6	13.1	9.8	7.9	6.7
Net Debt / Assets (x)	(0.1)	(0.0)	(0.1)	(0.0)	(0.0)
EBITDA / Int Exp (%)	52.6	44.9	68.2	72.7	99.7
ST Debt / Total Debt (x)	0.1	0.1	0.0	0.1	0.1
Debt / EBITDA (x)	0.6	0.5	0.4	0.3	0.3
[Cash + CFO] / ST Debt (%)	37.9	21.7	76.9	29.8	36.8
Receivables Days	83.9	84.8	90.6	80.5	81.1
Days Payable	31.2	32.8	35.9	38.2	37.7
Inventory Days	4.3	1.9	1.2	1.6	1.5

Source: Company, DBS

Target Price & Ratings History



Source: DBS

Analyst: Sachin Mittal

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

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*Share price appreciation + dividends

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