

Microsoft Microsoft (MSFT US)



**Microsoft Corp** is an American leading technology company best known for its widely used Windows operating system, office applications, Azure cloud services, social business network LinkedIn and Xbox gaming system. It also sells other hardware products such as PCs, tablets and smart devices. Microsoft’s revenue increased this quarter by 14.15% to \$51.865 bn QoQ with the ‘Intelligent Cloud’ segment making up 40.3% of the revenue. This is likely due to previous the acquisition of Nuance Communications in 1Q22 which has helped to develop their Azure cloud computing platform and AI related services.

Leading AI Technology OpenAI

Microsoft has also announced multibillion-dollar investment on OpenAI, one of the world’s leading AI software companies to further evolve ChatGPT and has begun implementation into Bing. ChatGPT, developed by OpenAI, is an automatic text generator based on few inputs that since its debut in November 2022 has exploded in popularity. Microsoft hopes this will help users better find their desired results by offering assistance in narrowing down searches through a chat like experience. Increasing AI use that collects data comes with risks regarding regulatory risks, security and privacy risks to the company and its users.

Windows 11 soon to replace Windows 10

As of 01 Feb 2023, Microsoft has terminated all sales of the Windows 10 operating system from their website marking the shift towards focusing on Windows 11 (though services will still be supported until 2025). To support this shift, Microsoft has promised to roll out 3 Windows updates in 2023 (compared to usual 1 update a year) called ‘Moments’ which will significantly revamp the current interface. This however resulted in Microsoft experiencing a decline of revenue in the Windows sub-segment by 9.5%.

Competition

Windows tablets face intense competition against tablets that predominantly run on Android OS and Apple iOS. This is mirrored in all of Windows segments, with Sony and Nintendo dominating the gaming market and Google increasingly growing in the cloud computing space. Alphabet Inc (GOOGL), has also announced competing AI, Bard ,which means that there is a chance that consumers will wait for/return to the more popular search engine once implemented.

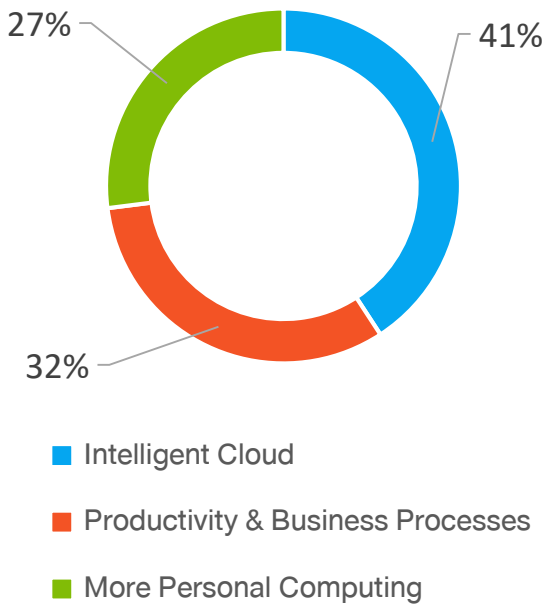
Microsoft Inc has a higher PE (28.78) compared to its direct competitors (Alphabet Inc and Apple Inc) but in comparison to the industry (40.84) as a whole, is under-valued. Windows, has a relatively small PE ratio compared to industry average of 40.98. Windows has a high PBV between Alphabet Inc and Apple Inc’s of 10.72.

Industry Software & Tech Services  
Last Price USD258.06  
Bloomberg TP USD289.91  
Upside/Downside 12.3%

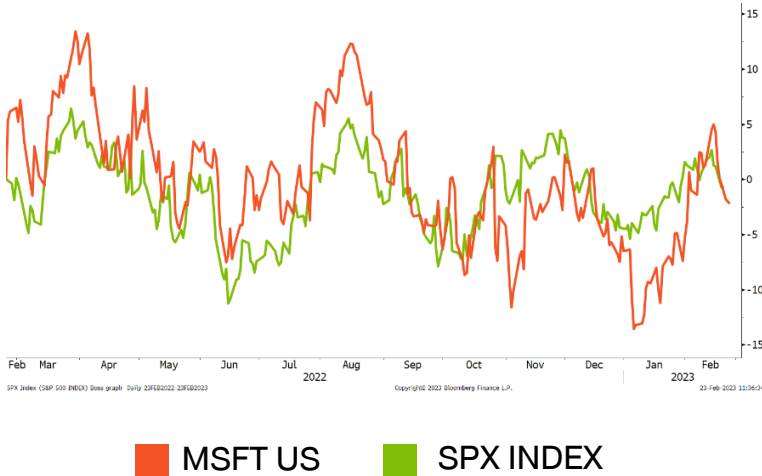
Financial (USD)	22A	23E	24E
Revenue (Millions)	198,270	209,825	233,053
Net Profit (Millions)	69,082	69,802	80,080
Profit Margin	34.8%	33.3%	34.4%
EBITDA Margin	17.22%	17.31%	18.97%
Earning Per Share	9.21	9.32	10.76

Valuation	22A	23E	24E
P/E (x)	28.02	27.70	23.99
P/B (x)	11.51	9.48	7.03

Revenue Breakdown



YTD Return VS S&P 500 Index



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Sources: Yahoo Finance, Goldman Sachs, Deutsche Bank, Zacks Company, Bloomberg as of 10/02/23

