Microsoft (MSFT)

USA | NASDAQ | Mega Cap | Tech

2026-02-17

Rating: **Buy**

12 M Target price:	496,96 USD
Current price:	399,17 USD
Upside:	24,49%

Executive summary

Microsoft is a leading global technology company with a strong position in enterprise software and cloud services. The recent decline in the stock reflects market concerns around elevated AI related capital expenditures, slightly slower Azure growth than expected, and uncertainty regarding the near term monetization of AI investments. Despite these short term headwinds, Microsoft's long term fundamentals remain solid, supported by recurring revenues, strong cash flow generation, and its integrated AI and cloud ecosystem.

Based on our 5Y DCF analysis , we derive a target price of USD 496,96 per share, which represents an upside of 24,49% from the current share price of USD 399,17. We therefore issue a BUY recommendation with a 12 month investment horizon.

Key insights

Azure growth re-acceleration supported by contracted AI demand

Azure Growth Re-acceleration: The market negatively interpreted Azure missing ~40% growth expectations as slowing momentum, but the miss stems from supply constraints, not weak demand. Microsoft prioritized limited GPUs for internal AI and large contracts; growth is expected to re-accelerate as new data center capacity meets the substantial contracted backlog.

AI monetization upside outweighs near-term cost pressure: Short term margin pressure from elevated capital expenditures reflects a strategic decision to invest ahead of demand. Microsoft has historically sustained high returns on infrastructure investments, suggesting this cycle is necessary for long-term value creation rather than a sign of undisciplined spending or structural risk.

Valuation at Historical Floor Despite Intact Fundamentals: Microsoft currently trades at a ~25x LTM P/E, a historical valuation floor typically seen during broader market stress (See Figure 3). Unlike previous lows, the company shows no operational deterioration; strong fundamentals suggest the current compression is sentiment-driven, offering asymmetric upside.

Analyst

Alexander Gardos Ek	Fund Analyst
Gor Grigoryan	Fund Analyst

Market Data

Exchange	Nasdaq
Trading Currency	USD
Share Class	Common stock
Shares OS	7430 M
Market Cap	2 980 053 MUSD
EV	2 944 179 MUSD

Metrics & Drivers	2025	2026E	2027E
EV/EBITDA	22,9	15,3	513,1
EV/EBIT	28,59	19,4	16,94
EBIT Margin	45,62	46,33	45,98
P/E	36,46	24,35	21,16
EPS	13,64	16,48	18,96

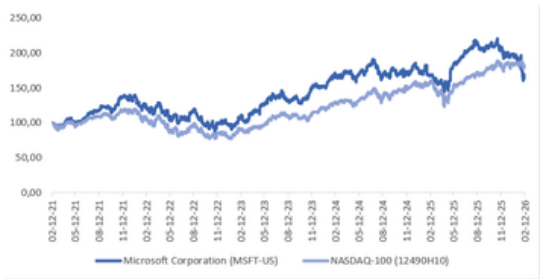
Management

Satya Nadella, MBA, Chairman & CEO
Bradford L. Smith, President & Vice Chairman
Carolina Dybeck-Happe, COO & Executive Vice President
Amy E. Hood, MBA, CFO & Executive Vice President
David Rhew, MD, Global CMO & VP

Major Shareholders

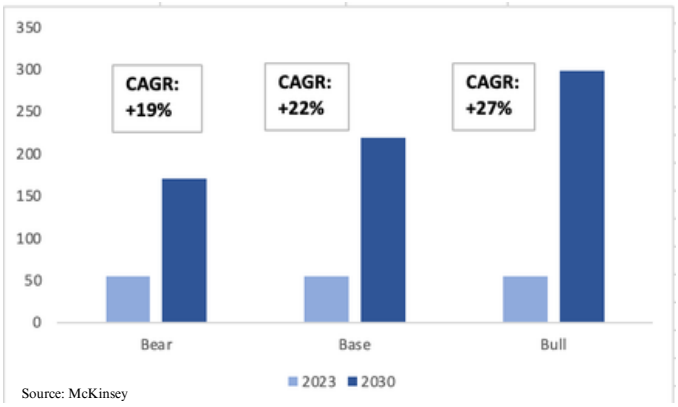
The Vanguard Group, Inc.	8,67%
BlackRock Fund Advisors	5,10%
SSgA Funds Management, Inc.	4,12%
Geode Capital Management LLC	2,46%
Fidelity Management & Research Co. LLC	2,30%

Stock Price Movement 5Y %



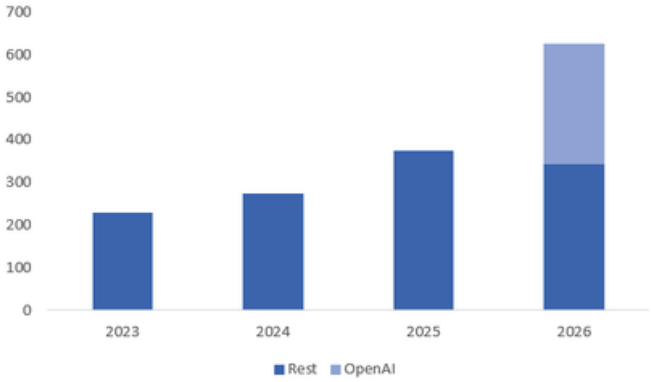
Investment Thesis Overlook

Global demand for data center capacity (Figure 1)



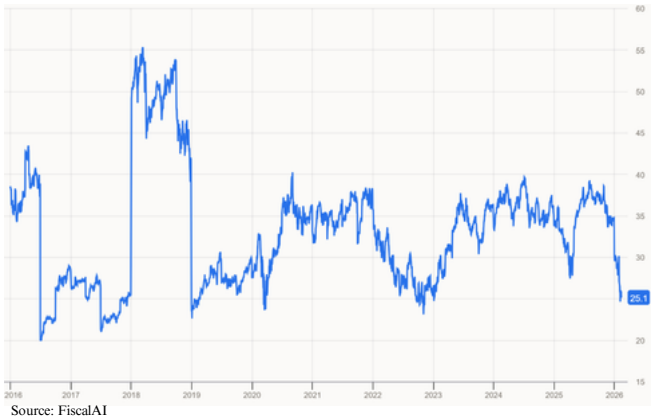
Source: McKinsey

RPO growth (Figure 2)



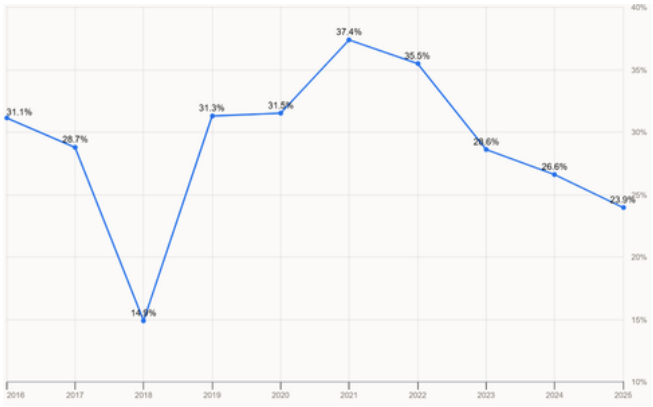
Source: Microsoft

P/E Historically (Figure 3)



Source: FiscalAI

Return on Invested Capital Historically (Figure 4)



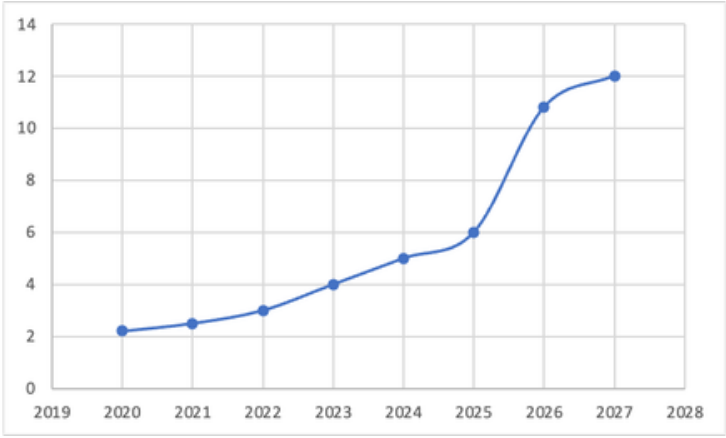
Source: FiscalAI

Major datacenters built and status

With over 400 operational datacenters in over 70 regions, Microsoft already has a large presence in the AI market race. Furthermore, the announcement of the Fairwater data center in southwestern Wisconsin is the world's most powerful data center with a 10x performance of the world's fastest supercomputer today.

With plans to double the data center footprint to 800 operational datacenters in two years and increase the capacity by 80% this year shows why CapEx still is at higher rates compared to revenue.

Microsoft data center capacity (Figure 5)



Source: Microsoft, synergy research group

Investment Thesis - Azure

Azure growth supported by enterprise cloud migration and AI workloads:
Azure represents the single most important driver of Microsoft's long term revenue growth and equity value. Enterprise cloud migration remains structurally supported as large organizations continue to modernize legacy IT systems, reduce on premise infrastructure, and consolidate vendors. Microsoft benefits from long-standing enterprise relationships, deep integration with existing Microsoft software, and high switching costs, which together provide strong demand visibility. In addition, AI workloads materially increase compute intensity, storage needs, and networking usage per customer, lifting Azure consumption beyond traditional cloud use cases. While recent growth has faced short term constraints related to capacity and elevated expectations, underlying demand remains intact. As data center expansion progresses and infrastructure utilization improves, Azure growth is expected to stabilize at levels above the broader cloud market, reinforcing Microsoft's scale advantages and long-term revenue durability.

Azure Growth Temporarily Capacity Constrained
Azure growth has recently come in below market expectations, but management commentary suggests the weakness is supply driven rather than demand driven. CFO Amy Hood indicated that if the GPUs brought online during the first half of the year had been fully allocated to Azure IaaS, the segment's growth rate would have exceeded 40%. Instead, Microsoft deliberately prioritized compute capacity toward first party AI applications, internal model development, and management of its large contracted backlog. This allocation reflects a strategic decision to maximize long term ecosystem value rather than short term reported revenue.

We therefore view current Azure growth as capacity-constrained. Demand for AI workloads exceeds available compute, and additional datacenter capacity coming online, including new large scale AI optimized facilities such as the Fairwater datacenter and continued expansion in Wisconsin, should allow more workloads to be served through Azure over time. As supply catches up with demand, we expect reported Azure growth to re accelerate in the coming quarters, converting existing backlog and AI adoption into recognized revenue.

Record RPO Indicates Visible Future Demand and Revenue
Microsoft's future revenue visibility is best captured by its Commercial Remaining Performance Obligations (RPO), which reached $625 billion, up 110% year over year (See Figure 2). While roughly $281 billion (≈45%) relates to multi year OpenAI agreements and other large AI commitments, the remaining backlog still grew 28%, indicating broad-based enterprise demand across industries and geographies rather than reliance on a single customer. The RPO therefore reflects contracted, not speculative, demand and suggests that a significant portion of Microsoft's future cloud revenue is already committed but not yet recognized.

We believe the market is overemphasizing counterparty risk related to OpenAI's ability to fulfill these commitments. OpenAI's monetization is expanding through enterprise adoption, a potential IPO, and the introduction of advertising on free ChatGPT tiers, while its revenue growth has tracked closely with increases in compute usage. Consequently, the backlog should convert into realized Azure revenue over time as capacity becomes available, making RPO a leading indicator of sustained cloud growth rather than a risk factor.

Investment Thesis - Microsoft

CapEx Is Capacity Build out, not Value Destruction

Microsoft's recent surge in capital expenditures has been widely interpreted by the market as margin dilutive overspending. We believe this reaction mischaracterizes the nature of the investment cycle. The company's ~$65 billion in capital investments (+45% YoY) is not primarily funding speculative growth initiatives, but rather expanding supply capacity to meet already-visible demand for cloud and AI compute. Management has indicated that the computing components being installed in AI optimized datacenters are effectively tied to customer commitments. In other words, Azure CapEx is not supporting current sales but enabling Microsoft to fulfill future contracted demand, as demand for AI workloads presently exceeds available capacity. The near term margin pressure therefore reflects a timing mismatch: depreciation and lease expenses are recognized immediately, while the associated revenue is realized gradually as customers consume compute.

Market skepticism also appears inconsistent with Microsoft's historical capital allocation record. The company has sustained returns on invested capital above 20% (See figure 4), more than 10 percentage points above its estimated cost of capital, demonstrating a long track record of value-accretive investment. The current build out should thus be viewed as a continuation of disciplined capital deployment rather than a deterioration in efficiency. Moreover, large scale infrastructure investment is strategically necessary to remain competitive with hyperscale peers, and underinvestment would risk forfeiting technological leadership. We therefore view current CapEx as a medium-term earnings driver rather than a structural headwind, with utilization growth likely to convert today's investment cycle into future revenue and operating leverage.

Durable Pricing Power in Productivity and Business Processes

We expect Microsoft's Productivity and Business Processes segment to deliver steadily growing recurring revenue, supported by the company's near monopoly position in office productivity software. Microsoft 365 remains the industry gold standard, with most enterprises already standardized on Word, Excel, Outlook, and Teams, and employees trained on these applications from the start of their careers. This creates extremely high switching costs and makes alternative solutions, primarily Google Workspace, difficult to adopt at scale. As a result, companies do not treat Microsoft 365 as discretionary IT spending but as essential operating infrastructure, leading to highly stable annual renewals.

This entrenched position provides Microsoft with meaningful pricing power. The company has consistently raised subscription prices, particularly when introducing new functionality such as Copilot, allowing it to increase average revenue per customer over time without requiring meaningful user growth. The segment therefore benefits from both contractual recurring revenue and expanding ARPU, while maintaining high margins typical of mature enterprise software. Additionally, once a company operates its daily workflows within Excel, Teams, and SharePoint, adopting Azure becomes a natural extension of its existing IT environment, lowering customer acquisition friction and reinforcing Microsoft's broader cloud ecosystem.

Operating leverage and capital efficiency over the investment cycle:

Recent margin pressure reflects front loaded investments in AI infrastructure rather than deterioration in Microsoft's underlying profitability. These investments are aimed at building long-lived assets that support future revenue growth across cloud and software products. As infrastructure capacity scales and utilization rates rise, incremental revenue is expected to carry higher contribution margins. Microsoft's strong free cash flow generation and balance sheet strength provide financial flexibility throughout this investment cycle. This allows continued investment in growth while sustaining shareholder returns through dividends and share repurchases. As capital expenditure growth normalizes and revenue continues to expand, operating leverage is expected to improve, supporting margin recovery and long term equity value creation.

Company Overview

Microsoft is a global technology company focused on enterprise software, cloud infrastructure, and productivity solutions. The company operates through three main segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing. Its core products include Microsoft 365, Azure, Windows, and enterprise security and business applications, all built around a recurring revenue model with strong customer retention.

Microsoft's business model is centered on long-term enterprise relationships, subscription-based pricing, and deep integration across products. Azure serves as the primary growth engine, benefiting from continued cloud migration and rising demand for data-intensive and AI-driven workloads. Productivity software provides stable, high-margin cash flows, while the consumer-oriented segment adds scale but plays a secondary role in value creation.

Strong free cash flow generation, a solid balance sheet, and high switching costs allow Microsoft to invest heavily in growth areas such as AI while maintaining financial stability. This combination of scale, diversification, and recurring revenue underpins Microsoft's position as one of the most resilient and strategically important companies in the global technology sector.

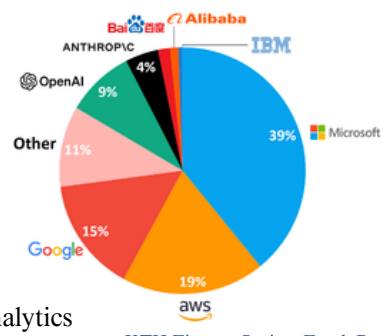
Market Overview

The global technology sector operates in an environment shaped by enterprise digitization, cloud adoption, and rising demand for data intensive computing. Companies continue to shift core IT infrastructure from on premise systems toward scalable cloud platforms to improve efficiency, security, and flexibility. This trend supports long term demand for cloud services despite near term macro uncertainty and tighter IT budgets in some regions.

Artificial intelligence has become a central investment theme across the technology market. Large scale adoption of AI increases demand for compute power, storage, and networking, which benefits cloud infrastructure providers. At the same time, AI raises cost intensity due to higher capital requirements and energy usage, leading investors to focus more closely on profitability, capital discipline, and return on invested capital.

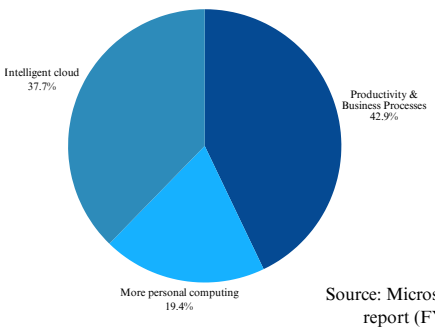
Competition within the cloud and AI markets remains intense, with leading players investing heavily to secure market share and technological leadership. As a result, market sentiment has shifted from growth at any price toward sustainable growth supported by margins and cash flow. In this environment, companies with strong balance sheets, recurring revenue models, and deep enterprise relationships are better positioned to manage volatility and maintain long term value creation.

AI model management platform market share 2024



Source: IoT Analytics

Microsoft Revenue Mix by Segment (FY2025)



Source: Microsoft Annual report (FY2025)

Valuation

Our valuation of Microsoft is based on a five-year discounted cash flow (DCF) model, applying a WACC of 8.34% and a terminal growth rate (TGR) of 3.0%. Revenue projections are primarily driven by continued expansion in Azure and stable monetization in the Productivity and Business Processes segment. We view the recent deceleration in Azure growth as capacity-constrained rather than demand-constrained. Management has prioritized compute allocation toward first-party AI workloads and contracted commitments, implying that current growth reflects supply limitations. As Microsoft completes its datacenter build-out and increases available computing capacity, we expect Azure revenue growth to re-accelerate as existing demand converts into recognized revenue.

Within Productivity and Business Processes, we model steady ARPU expansion supported by Microsoft's dominant position in enterprise productivity software. Microsoft 365 functions as the industry standard and exhibits high switching costs, allowing the company to implement periodic price increases and introduce premium functionality such as Copilot. This creates durable recurring revenue growth without requiring substantial user growth. However, we incorporate modest near-term margin pressure as operating expenses and depreciation increase due to large-scale datacenter investments supporting AI infrastructure.

In addition to our DCF analysis, we conducted a peer valuation for contextual purposes. Relative to large-cap technology peers, Microsoft demonstrates stronger underlying fundamentals, with higher EBITDA margin (60,49%) and EBIT margin (46,67%) as well as superior ROIC (28,06%) compared to the peer median. Despite this, the company trades at lower EV/EBITDA (16,38), EV/EBIT (21,23), and P/E (24,99) multiples than the peer median, suggesting the market does not fully price its profitability and long-term growth profile. We therefore believe Microsoft's current valuation does not adequately reflect the earnings power that should materialize as AI capacity utilization increases and Azure growth normalizes.

Peer Valuation

Company Name	Key KPI:s (LTM)				Trading Multiples (LTM)		
	Revenue Growth	EBITDA Margin	EBIT Margin	ROIC	EV/EBITDA	P/E	EV/EBIT
Microsoft Corporation	16,67%	60,49%	46,67%	28,06%	16,38	24,99	21,23
Alphabet Inc. Class A	15,22%	38,18%	32,94%	30,42%	25,27	29,88	29,29
Amazon.com, Inc.	12,38%	20,97%	11,80%	15,71%	15,43	29,32	27,43
Meta Platform Inc Class A	22,17%	50,70%	41,44%	29,71%	16,74	28,16	20,48
NVIDIA Corporation	65,22%	60,22%	58,84%	69,81%	39,84	45,92	40,77
Adobe Inc.	10,53%	40,07%	36,63%	28,43%	12,04	16,07	13,17
Oracle Corporation	11,08%	43,63%	31,94%	11,45%	19,90	26,84	27,18
Salesforce, Inc.	8,41%	35,80%	22,03%	5,80%	12,64	25,53	20,55
Average	20,71%	41,37%	33,66%	27,33%	20,27	28,82	25,55
Median	12,38%	40,07%	32,94%	28,43%	16,74	28,16	27,18

Data sources: FactSet

DCF

DCF Valuation Breakdown (USD bn)	
Sum of FCF	520,03
TV	3106,05
EV	**3626,07**
(-) Debt	43,15
(+) Cash	94,57
Equity Value	**3677,49**
Share outstanding	7,40
Equity Value per Share	**496,96**

WACC	
Market Cap	3070242
% of Equity	*98,61%*
Risk Free Rate	4,15%
Beta	1,01
Market Risk Premium	4,23%
Cost of Equity	8,42%
Debt	43151
% of Debt	*1,39%*
Cost of Debt	2,88%
Tax Rate	18,28%
Total	3113393
WACC	**8,34%**

Appendix

DCF USD bn	2025	2026E	2027E	2028E	2029E	2030E
Revenue Growth - %	14,93%	17,00%	17,00%	19,00%	19,00%	21,00%
EBIT - %	45,62%	45,72%	46,22%	47,84%	44,75%	44,50%
EBIT	**128,53**	**150,71**	**178,25**	**219,54**	**244,39**	**294,06**
D&A	34,15	43,76	53,14	60,41	92,84	118,95
EBITDA	**162,68**	**194,47**	**231,39**	**279,94**	**337,23**	**413,00**
Tax	(22,66)	(27,55)	(32,58)	(40,13)	(44,67)	(53,75)
Tax Rate	17,63%	18,28%	18,28%	18,28%	18,28%	18,28%
CapEx	(64,55)	(102,18)	(111,84)	(123,91)	(136,53)	(132,16)
Change in OWC	(1,39)	(1,62)	(0,64)	(0,85)	(5,48)	(3,73)
Unlevered FCF	--	**66,37**	**87,61**	**116,75**	**161,50**	**230,82**
Present Value of FCF	--	**63,76**	**77,69**	**95,56**	**122,00**	**160,94**

Sensitivity table		Terminal value							
		0,50%	1,00%	1,50%	2,00%	2,50%	3,00%	3,50%	4,00%
WACC	8,24%	360,84	381,91	406,10	434,18	467,13	506,38	553,90	612,61
	8,29%	358,34	379,10	402,91	430,51	462,87	501,35	547,85	605,18
	8,34%	355,87	376,32	399,77	426,90	458,68	496,41	541,93	597,93
	8,39%	353,44	373,59	396,67	423,35	454,57	491,57	536,13	590,84
	8,44%	351,03	370,89	393,61	419,86	450,52	486,82	530,45	583,91

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