SOFTWARE - INFRASTRUCTURE · TECHNOLOGY

Microsoft (MSFT)

Price at analysis **523.88 USD** · Market cap 3.89 tn USD

5.7/10

Neutral

AI assessment

> **Microsoft is a highly profitable, fast-growing platform leader, but heavy AI investment has nearly erased free cash flow, and the share price sits above our model range.**

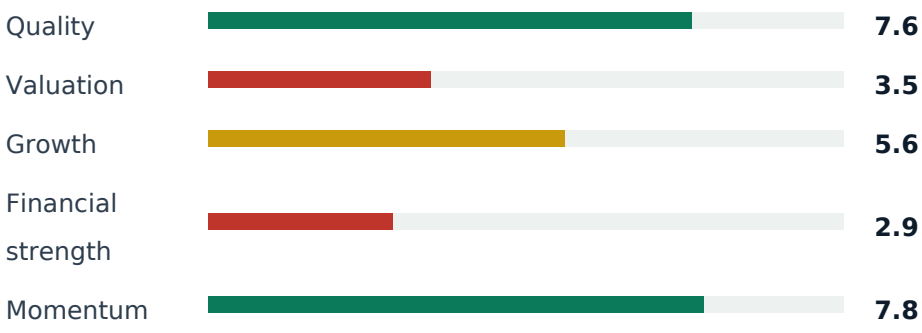
Forward P/E	EV/EBITDA	Revenue growth
21.7x	**19.3x**	**18.8%**
Industry 16.3x	Industry 18.4x	Industry 13.7%

Operating margin	Return on equity	Free cash flow yield
47.1%	**34.2%**	**0.1%**
Industry 11.6%	Industry 13.3%	Industry 3.6%

Summary

Microsoft combines top-tier profitability with double-digit growth, and the quality score of 7.6 and momentum score of 7.8 reflect that. Valuation is the weak point: at 523.88 USD the share trades above the upper end of our model range of 393.45 to 501.44 USD, and the valuation score is only 3.5. Near-zero free cash flow shows how much capital the AI infrastructure push requires, which raises the bar for future returns on that spending. Overall, the business is strong but much of it already appears to be priced in, so we see a balanced risk-reward profile.

Score profile



Percentile vs. Software - Infrastructure (51 companies).

Investment thesis

- Business quality is exceptional, with an operating margin of 47.1% and a net margin of 41.2%, both far above the peer medians of 11.6% and 10.6%.
- Growth is strong for a company of this size, with revenue up 18.8% and earnings up 32.3%, both above the peer medians of 13.7% and 25.0%.
- Free cash flow of only 3.0 bn USD on 346.4 bn USD revenue (0.1% FCF yield) shows that the AI and cloud build-out is absorbing almost all operating cash, and the stock already trades above our fair value range.

Business model & competition

Microsoft earns most of its money from recurring software subscriptions such as Microsoft 365, Dynamics and security products, and from usage-based cloud services through Azure. Further revenue comes from Windows licensing, LinkedIn, Bing search advertising, and gaming (Xbox content and services, including Activision Blizzard titles). The company increasingly monetizes AI through Copilot add-ons and through Azure capacity that it sells to AI developers, including OpenAI.

Moat Wide

Microsoft benefits from deep enterprise lock-in: Office, Windows, Active Directory/Entra and Teams are embedded in corporate workflows, so switching is costly and risky for customers. Its scale in cloud infrastructure, where it is one of only three hyperscale providers alongside Amazon and Google, creates high entry barriers. These advantages look durable, although AI could shift parts of the competitive landscape in software.

Financial analysis

Growth Strong

Revenue grew 18.8% and earnings 32.3%, ahead of the peer medians of 13.7% and 25.0%, which is remarkable at a revenue base of 346.4 bn USD. The growth score of 5.6 is only mid-range because many smaller peers grow from a much lower base.

Profitability Strong

An operating margin of 47.1% (better than 95% of peers) and a return on equity of 34.2% (peer median 13.3%) show outstanding profitability. The gross margin of 67.7% is slightly below the peer median of 71.9%, which reflects the more capital-heavy cloud and hardware mix.

Balance sheet Solid

Debt/equity of 28.5% is above the peer median of 16.0%, and the current ratio of 1.2x is below the median of 1.5x, which explains the low financial strength score of 2.9. Given net margins above 40% and very high operating earnings, the debt load is easily serviceable, so we rate the balance sheet as solid rather than weak.

Cash flow Weak

Free cash flow is only 3.0 bn USD, a free cash flow yield of 0.1% versus a peer median of 3.6%, because capital spending on data centers and AI hardware is consuming almost all operating cash flow. Whether this spending earns adequate returns is the key open question for the investment case.

Industry comparison (Software - Infrastructure, 51 companies)

METRIC	AKTIE	MEDIAN	BETTER THAN
Forward P/E	21.7x	16.3x	36 %
Trailing P/E	27.3x	28.8x	52 %
PEG ratio	1.6x	1.4x	43 %
EV/EBITDA	19.3x	18.4x	49 %
Price/sales	11.2x	4.0x	13 %
Price/book	8.3x	5.2x	33 %
Revenue growth	18.8%	13.7%	58 %
Earnings growth	32.3%	25.0%	54 %
Gross margin	67.7%	71.9%	40 %
Operating margin	47.1%	11.6%	95 %
Net margin	41.2%	10.6%	91 %
Return on equity	34.2%	13.3%	79 %
Debt/equity	28.5%	16.0%	44 %
Current ratio	1.2x	1.5x	33 %
Free cash flow yield	0.1%	3.6%	9 %
Dividend yield	0.8%	1.1%	–
Payout ratio	19.0%	31.4%	–
Beta	1.04	1.03	–

Valuation

Relative to its peer group, Microsoft looks expensive on most multiples: the forward P/E is 21.7x versus a median of 16.3x, price/sales is 11.2x versus 4.0x, and the PEG ratio is 1.6x versus 1.4x. The trailing P/E of 27.3x and EV/EBITDA of 19.3x are close to the peer medians of 28.8x and 18.4x, so the premium is moderate on earnings-based measures. Our model calculations give 393.45 USD per share using the industry forward P/E and 501.44 USD using industry EV/EBITDA, for a fair value range of 393.45 to 501.44 USD with a midpoint of 447.45 USD. No DCF was calculated because free cash flow is too low to be meaningful. The current price of 523.88 USD is about 17% above our midpoint, while the 54-analyst consensus target of 636.12 USD (range 440.00 to 870.00 USD) is clearly more optimistic and implicitly assumes that Microsoft deserves a lasting premium to the industry average.

Fair value range	Midpoint / vs. price	Price at analysis	Analyst avg.
393.45 USD – 501.44 USD	**447.45 USD** (−14.6%)	**523.88 USD**	**636.12 USD**

Multiples at industry level

METHOD	FAIR MULTIPLE	VALUE PER SHARE
Forward P/E at industry level	16.3x	393.45 USD
EV/EBITDA at industry level	18.4x	501.44 USD

Analyst consensus: 54 analysts, rating “Strong buy”, avg. target 636.12 USD (440.00 USD – 870.00 USD). Analyst targets are not part of the fair value range.

No DCF: free cash flow is negative or not available.

Catalysts

CATALYST	TIME FRAME	DIRECTION
Upcoming quarterly results with Azure growth and capex guidance Strong Azure growth alongside signs that capital spending is peaking would support the stock, while rising capex without faster revenue growth would weigh on it.	Short term	Open
Monetization of Microsoft 365 Copilot and AI services Broader paid adoption of Copilot across the large Microsoft 365 installed base could lift revenue per user and justify the AI investments.	Medium term	Positive
Recovery of free cash flow as data center investments mature If capital spending normalizes while cloud revenue keeps growing, free cash flow could recover from today's 3.0 bn USD and ease the valuation concern.	Long term	Positive

Risk matrix

RISK	LIKELIHOOD	IMPACT
Low returns on AI capital spending If AI demand or pricing falls short of expectations, the large data center build-out could depress margins and keep free cash flow near zero for longer.	Medium	High
Valuation de-rating With the share price above our model range of 393.45 to 501.44 USD, any growth disappointment could push the multiple toward the industry level.	Medium	Medium
Cloud and AI competition Amazon Web Services, Google Cloud and specialized AI providers compete hard on price and capability, which could pressure Azure growth and margins.	Medium	Medium
Regulation and antitrust scrutiny Regulators in the US and Europe are examining software bundling, cloud licensing and AI partnerships, which could force changes to commercial practices.	Low	Medium

Scenarios

Bull scenario · 25 %

630.00 USD

+20.3% vs. price

Azure and Copilot growth accelerate and capital spending begins to translate into rising free cash flow, so the market keeps paying a clear premium multiple close to the analyst consensus of 636.12 USD.

Base scenario · 50 %

530.00 USD

+1.2% vs. price

Revenue and earnings keep growing in the high teens while capex stays elevated, so earnings growth is largely offset by a slightly lower multiple and the share price moves little.

Bear scenario · 25 %

410.00 USD

−21.7% vs. price

AI returns disappoint or cloud growth slows, and the valuation moves toward the lower half of our model range of 393.45 to 501.44 USD.

Suits …

Suitable for long-term investors seeking a high-quality, broadly diversified technology holding who can accept a premium valuation and a period of weak free cash flow. Less suitable for value- or income-oriented investors, given the 0.75% dividend yield and a price above our model range.

Watch checklist

- Azure growth rate and management commentary on AI capacity demand versus supply in each quarterly report.
- Development of capital expenditure relative to operating cash flow, and whether free cash flow starts to recover from 3.0 bn USD.
- Operating margin trend versus the current 47.1%, as rising depreciation from data centers could pressure profitability.

Conclusion

Microsoft is one of the strongest businesses in its sector, with margins above 40%, a return on equity of 34.2% and growth rates above the peer median. The investment case now depends heavily on whether its massive AI and cloud investments earn adequate returns, which is not yet visible in free cash flow. At 523.88 USD the stock trades above our fair value range of 393.45 to 501.44 USD, while momentum remains strong, with the price above both the 50-day and 200-day averages. We see the overall risk-reward profile as balanced and rate the stock Neutral, with a score of 5.7.

This analysis was generated automatically by an AI from publicly available market data (data as of 15.11.2026). It is information, not investment advice, and not a solicitation to buy or sell securities. Model values are based on assumptions. Stocks can lose their entire value.

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