J.P.Morgan

PCs and Servers

Read-through from Microsoft/Meta Jun-26 earnings

Technology - Hardware

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Microsoft (OW, covered by J.P. Morgan US Enterprise Software Analyst Samik Chatterjee) and Meta (Neutral, covered by J.P. Morgan US Internet Analyst Doug Anmuth) reported Jun-Q earnings before Asia market open today. The aggregated two US hyperscalers' cash CAPEX grew 32%/96% QoQ/YoY in Jun-Q. Meta has narrowed its 2026 CAPEX guidance to the higher end of the previous range, growing ~90% YoY at the mid point. While MSFT reiterated its FY26 CAPEX guidance this time, management guided to a step-up in total Capex in Sep-Q at over US$50bn (over 22% QoQ growth) and expects continued increase in FY27 Capex. The key implications for the Asian tech supply chain were:

Microsoft

- MSFT's Jun-Q cash CAPEX came in at ~$36bn (up 16%/110% QoQ/YoY), largely in line with Street expectations. Around two-thirds of the CAPEX was spent on short-lived assets (mainly GPUs/CPUs). Strong June-Q cash CAPEX is in line with our research of strong MSFT server spending.
- Management guided to an over US$50bn total Capex in Sep-Q (over 43% YoY growth), with more finance leases reclassified to operating leases. This implies an even more significant step-up in cash Capex. For the full year, management reiterated CY26 total Capex (US$190bn or adjusted US$175bn given the reclassification of some finance leases to operating leases). MSFT guided to a continued increase in total Capex in FY27 but did not provide the magnitude. However, the strong quarterly run-rate in Sept-Q (US$50bn+) implies a potential Capex uptick. This bodes well for MSFT server supply chain (AI: Quanta and Hon Hai; General servers: Wiwynn, Lenovo, Hon Hai).
- MSFT's Azure cloud revenue grew 43% YoY in Jun-Q, accelerating from 39% in the prior period, driven by strong cloud service demand, rising traction of AI products with pricing hikes, and faster-than-expected capacity delivery. Looking ahead, management guided to further accelerating growth momentum for the Azure business at +45% YoY in Sept-Q (vs. BBGe of +41%). Management highlighted continued supply constraints despite the accelerating growth momentum. The robust Azure demand bodes well for the Capex sustainability.
- MSFT's Windows OEM revenue was down 5% YoY in Jun-Q, better than company expectations due to continued inventory build ahead of component price hikes. This was better than Taiwan NB ODM shipment trend of 8% YoY decline, implying continued m/s shift from Taiwan ODMs to Chinese peers. Looking ahead, management guided to a low 20s% decline in Windows OEM revenue for Sep-Q and a high teens % YoY decline for FY27 due to weakening PC end demand from negative price elasticity, elevated PC inventory, and fading Win10 replacement demand. This indicates a HSD QoQ decline of PC shipment in 3Q26 and implies potential downside to our NB ODM shipment build outlook at down 3% QoQ.

Meta Platforms

- Meta's Jun-Q cash CAPEX came in at ~$30bn (+59%/+82% QoQ/YoY),

See page 4 for analyst certification and important disclosures, including non-US analyst disclosures.

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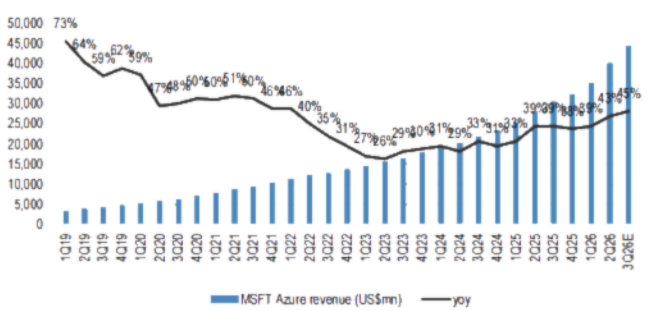
slightly below market consensus. Management has now guided 2026 total Capex guidance to the range of US$130-145 bn (up ~90% YoY at the midpoint), narrowed from their prior outlook of US$125-145 bn. This implies a strong Capex uptick in 2H26 (up ~70% HoH) and accelerating revenue momentum for Meta's server supply chain.

- Meta targets to maximize compute capacity of 2026/ 2027 to grow their business in the next few years given the supply constraints in the foreseeable future. However, the company will maintain a flexible and fungible capacity strategy beyond 2028 to cope with the demand uncertainty. For example, the company plans to build long-lived assets ahead (i.e. land, power, facility) for the long-term demand but postpone the decision to build short-lived assets given the uncertainty. The company will also adopt a modular server design that can shift between AI and general workloads.
- Meta's Sep-Q revenue guidance came in at US$61-64bn (+22% YoY at the midpoint), in line with market expectations, likely driven by robust ad and agentic AI demand. Management also sees substantial AI monetization opportunities across consumer, enterprise, and infrastructure offerings, supported by improved engagement in core apps, expansion of AI product offerings, growing enterprise demand for APIs, and potentially selling compute directly. Robust core business growth, coupled with rising AI traction, bodes well for the Capex sustainability, in our view.

J.P. Morgan views on the PC/server industry

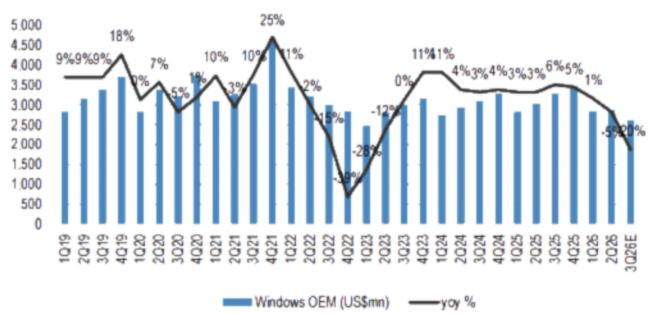
- Robust MSFT/Meta's CY26 Capex outlook indicates a strong 2H26 Capex uptick and bodes well for the revenue momentum of AI server foodchain in the coming quarters.
- Continued supply constraints also imply potential AI server shipment uptick and favorable pricing/margin dynamics for component vendors in the mid to near term.
- Increasing CSPs' AI footprint both internally (e.g. efficiency gains, improvement of core product performance, expediting the product development) and externally (e.g. fast-growing AI service revenue/user base, higher value-add/pricing) indicate a more sustained Capex trend in the future.
- We maintain our positive view on the server sector given the robust AI-led revenue growth of hyperscalers and upbeat Capex outlook. In the server ODM space, our top pick remains **Wiwynn** due to general server upcycle and upcoming AWS Trainium 3 cycle. In the component space, we like secular AI power and liquid cooling plays such as **Delta**, **Jentech**, and **AVC**. We believe **ASPEED** and **Lotes** will benefit from stronger-than-expected traditional server spending this year. **Accton** will also ride on the secular datacenter networking demand and accelerating AI networking upgrade cycle.

Figure 1: MSFT's Azure revenue trend



Source: Company data. 3Q26E based on company guidance of 45% YoY growth.

Figure 2: MSFT's Windows OEM revenue trend



Source: Company data. 3Q26E is based on management commentary.

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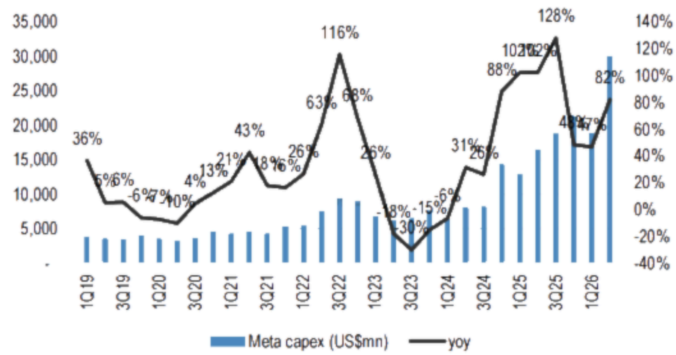
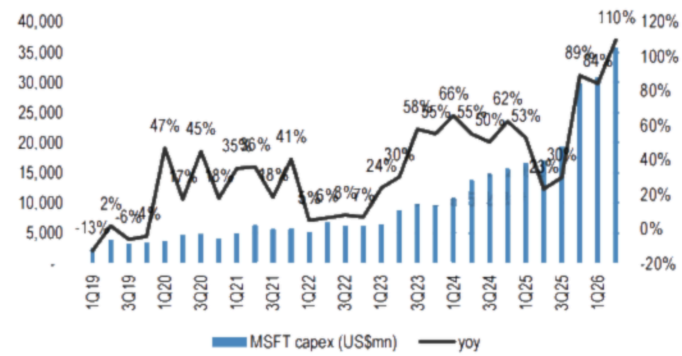
Figure 3: Meta's cash CAPEX trend



Source: Company data.

Figure 4: Microsoft's cash CAPEX trend



Source: Company data.