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UPDATE

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Greater China Technology Semiconductors | Asia Pacific

Cloud Semis: Growing Cloud Capex into 2027

Hyperscalers' spending remains strong so far, with further expansion signaled for 2027 amid FCF turning negative. Positive read for cloud semis (Aspeed and Montage).

Key Takeaways

- 2027 capex is highlighted: Microsoft, Google and Amazon flag higher spending; Meta remains committed to aggressive investment.
- Capacity constraints, not budget: Microsoft's delivery delays and Google's third-party computing usage point to infrastructure bottlenecks.
- Cloud semis: Constructive read-through so far. Sustained hyperscaler spending provides a favorable backdrop, with capacity additions raising demand.

2027 capex growth is highlighted: The Big Four hyperscalers' combined C3Q capex was US$185bn, +90% Y/Y. CY2026 guidance stands at approximately US$170bn for Microsoft, US$195–205bn for Google, US$135–145bn for Meta, and US$220bn for Amazon. Google and Amazon maintained guidance; Meta raised its spending floor US$5bn. More importantly, Microsoft expects spending to accelerate in January–June 2027, Google anticipates a significant increase in 2027, and Amazon expects meaningfully higher spending. Meta also plans to keep investing aggressively.

Supply constraints remain the issue: Microsoft reported C3Q26 capex of US $45.2bn and expects C4Q spending >US$50bn, with some capacity deliveries shifting into 1H27. Google invested US$51.4bn and turned to third-party computing late in C3Q to address supply constraints, with usage rising in C4Q. Meta invested US$34.9bn, including finance lease principal payments; Amazon's cash capex reached US$75.9bn. Inference already contributes well over half of AWS AI revenue.

Debating monetization: Microsoft generated US$18.6bn of quarterly FCF and expects positive FCF in FY2027. Google, Meta, and Amazon reported negative quarterly FCF of US$9.1bn, US$2.1bn, and US$33.5bn, respectively. Google also flagged depreciation, data center operating costs, and third-party computing expenses as near-term cloud margin headwinds, alongside TPU inventory cash requirements. Management remains focused on attractive long-term returns.

Cloud semis: Constructive read-through. Sustained server investment supports Aspeed's and Montage's demand outlook; delayed capacity could shift revenue between quarters, but it's just a timing issue. Approximately 75% of Microsoft's C3Q capex targeted short-lived assets, including CPUs, GPUs, and higher memory/storage costs, up from two-thirds mentioned before. Google allocated ~65% to servers and networking.

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