

Hardware & Networking

Cloud Capex: AI Investments by MSFT and GOOG Tracking Ahead of Expectations; Reit. Top AI Picks ANET & COHR

Cloud capex from both Microsoft and Alphabet tracked ahead of expectations in the Mar-Q, with the two US Cloud Service Providers (CSPs) reporting aggregate capex +20% above consensus estimates heading into the print. Additionally, both CSPs followed Meta's lead and also provided a more favorable outlook relative to capex trends, led unsurprisingly by AI infrastructure investments - supporting Meta's acclamation of a multi-year AI investment cycle (see report [here](#)) and our view that concerns around a potential near-term air pocket in the AI infrastructure build-out, which has driven "AI stocks" to trade-off almost -10% since the beginning of March, is overblown (see report [here](#)) – *Reiterate our preference for AI-levered names in our coverage universe, including Arista, Coherent, Dell, Super Micro, and Lumentum.*

- Microsoft (Covered by Mark Murphy): Capex results and guide again track ahead of expectations, underscoring strong year-over-year growth.** F3Q24 (Mar-end) capex rose +22% q/q and +79% y/y as it tracked to \$14.0 bn (including leases), which was higher than expectations (vs. consensus of \$11.3 bn) and compares to guidance commentary for a material sequential increase, as management noted capex was driven by cloud demand and scaling out AI infrastructure. Looking forward, capex for F4Q24 (Jun-end) was guided to "increase materially on a sequential basis", driven by cloud and AI infrastructure investments. Importantly, even if we assume sequential growth of 10%+ for F4Q24, it would imply capex of \$15 bn+ or growth of 40%+ y/y, which is ahead of expectations heading into the print (vs. consensus of \$11.7 bn).
- Alphabet (Covered by Doug Anmuth): 1Q24 and implied full-year capex tracks ahead of expectations, implying strong double-digit growth.** 1Q24 capex increased +9% q/q and +91% y/y as it tracked to \$12.0 bn, which was above expectations (vs. consensus of \$10.3 bn), with management noting investments were driven "overwhelmingly" by investment in technical infrastructure with the largest components being servers followed by data centers. Looking forward, Alphabet expects quarterly capex throughout the year to be roughly at or above 1Q24 levels, implying a record full-year capex of at least \$48 bn or growth in the 50%+ range - *noting less than 10% will be accounted for by office facilities.* By comparison, consensus was forecasting capex of \$42 bn in 2024.
- Meta (Covered by Doug Anmuth): Raises full-year capex outlook again, implying a strong step up in growth for the remainder of the year.** 1Q24 capex declined -15% q/q and -5% y/y as it tracked to \$6.7 bn (vs. consensus of \$8.3 bn), led by investments in servers, data centers, and network infrastructure. Looking forward, Meta raised its full-year capex outlook for 2024 for the second quarter in a row to a range of \$35-40 bn (vs. prior guide of \$30-37 bn), implying growth of +34% y/y, led by accelerating infrastructure

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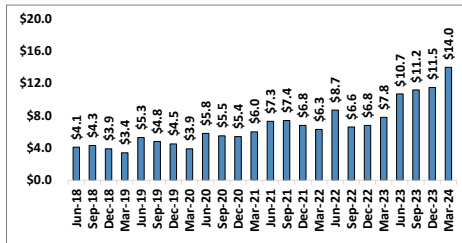
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investments to support the company's AI road map. Based on 1Q24 results, the updated capex guidance implies capex of \$30.8 bn for the remaining three quarters of the year or growth of +48% y/y. Additionally, Meta reiterated its expectations for capex to increase next year as it invests aggressively to support AI research and product development efforts.

Please find the latest data center capex forecast for the Top 4 US CSPs [here](#).

Figure 1: Quarterly Microsoft Capex

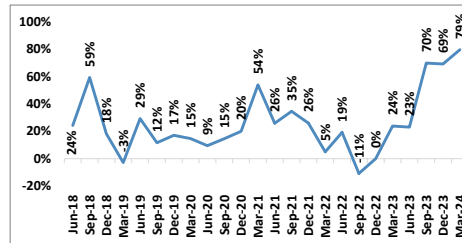
\$ in Billions



Source: Company reports

Figure 2: Quarterly Microsoft Capex

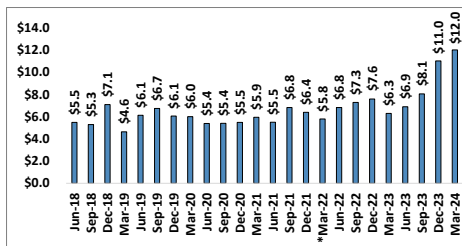
Y/Y % Change



Source: Company reports

Figure 3: Quarterly Alphabet Capex

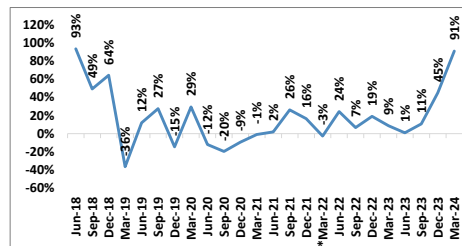
\$ in Billions



Source: Company reports

Figure 4: Quarterly Alphabet Capex

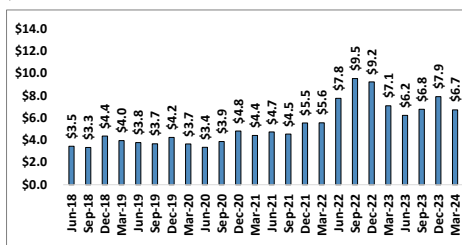
Y/Y % Change



Source: Company reports

Figure 5: Quarterly Meta Capex

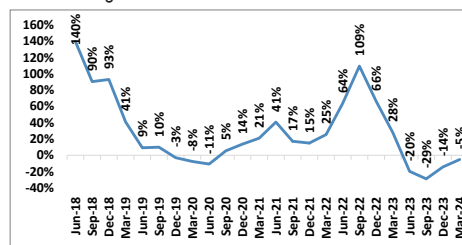
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Source: Company reports

Figure 6: Quarterly Meta Capex

Y/Y % Change



Source: Company reports

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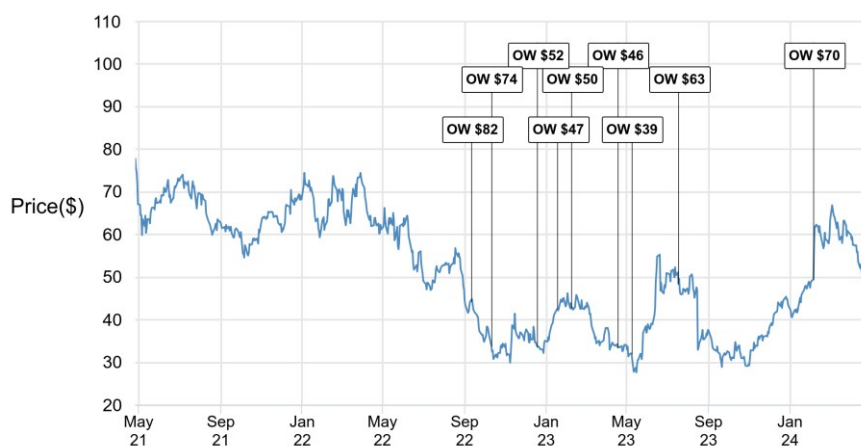
Arista (ANET, ANET US) Price Chart



Date	Rating	Price (\$)	Price Target (\$)
05-May-21	OW	76.38	94
20-Jul-21	OW	90.53	109
18-Oct-21	OW	97.44	114
02-Nov-21	OW	102.14	125
10-Nov-21	OW	132.84	147.5
13-Dec-21	OW	130.69	149.996
20-Jan-22	OW	125.31	150
14-Feb-22	OW	120.92	160
14-Jul-22	OW	98.30	150
01-Aug-22	OW	116.63	160
12-Oct-22	OW	107.05	175
19-Apr-23	OW	162.69	195
27-Jun-23	OW	150.82	200
19-Jul-23	OW	173.51	215
31-Jul-23	OW	151.09	220
30-Oct-23	OW	176.19	230
08-Jan-24	OW	230.92	297
11-Apr-24	OW	288.22	315

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage May 13, 2016. All share prices are as of market close on the previous business day.

Coherent Corp (COHR, COHR US) Price Chart



Date	Rating	Price (\$)	Price Target (\$)
12-Sep-22	OW	44.23	82
12-Oct-22	OW	33.78	74
20-Dec-22	OW	33.63	52
19-Jan-23	OW	42.57	47
09-Feb-23	OW	42.70	50
19-Apr-23	OW	33.50	46
10-May-23	OW	31.90	39
19-Jul-23	OW	48.37	63
06-Feb-24	OW	49.42	70

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Jul 29, 2019. All share prices are as of market close on the previous business day.

Dell Technologies (DELL, DELL US) Price Chart



Date	Rating	Price (\$)	Price Target (\$)
29-Sep-21	OW	53.26	120
22-Nov-21	OW	55.02	72
24-Nov-21	OW	54.67	75
18-Apr-22	OW	46.94	68
25-May-22	OW	40.88	60
14-Jul-22	OW	43.14	55
18-Aug-22	OW	47.83	60
26-Aug-22	OW	47.90	56
11-Oct-22	OW	34.48	52
21-Nov-22	OW	42.04	50
19-Jan-23	OW	40.02	49
16-Feb-23	OW	42.80	50
03-Mar-23	OW	40.17	47
17-Apr-23	N	43.28	47
19-Jul-23	N	53.83	61
31-Aug-23	N	55.69	68
28-Nov-23	N	74.46	76
30-Nov-23	N	75.06	77
08-Jan-24	OW	75.84	90
22-Feb-24	OW	81.39	100
01-Mar-24	OW	94.66	125

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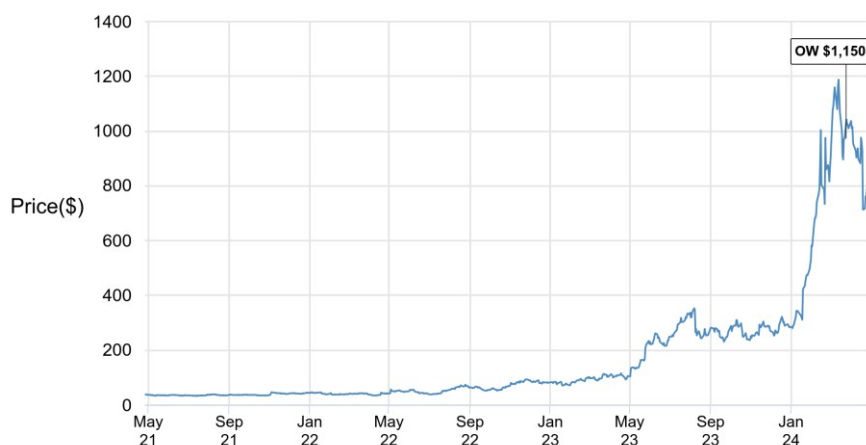
Lumentum (LITE, LITE US) Price Chart



Date	Rating	Price (\$)	Price Target (\$)
14-May-21	N	67.43	80
20-Jul-21	N	80.64	85
18-Aug-21	N	80.24	90
18-Oct-21	N	85.19	95
13-Dec-21	N	100.60	100
20-Jan-22	N	99.44	110
26-Jan-22	OW	95.48	110
05-May-22	OW	89.50	115
14-Jul-22	OW	78.06	100
17-Aug-22	OW	89.60	105
12-Oct-22	OW	71.38	115
08-Nov-22	OW	70.38	83
20-Dec-22	N	50.80	64
19-Jan-23	N	58.47	66
05-Apr-23	N	52.45	54
17-Apr-23	OW	45.24	60
19-Jul-23	OW	52.10	64
17-Aug-23	OW	46.81	57
08-Jan-24	OW	50.47	63
08-Feb-24	OW	58.77	62
11-Apr-24	OW	45.34	57

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 06, 2015. All share prices are as of market close on the previous business day.

Super Micro (SMCI, SMCI US) Price Chart



Date	Rating	Price (\$)	Price Target (\$)
25-Mar-24	OW	972.74	1,150

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Mar 25, 2024. All share prices are as of market close on the previous business day.

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