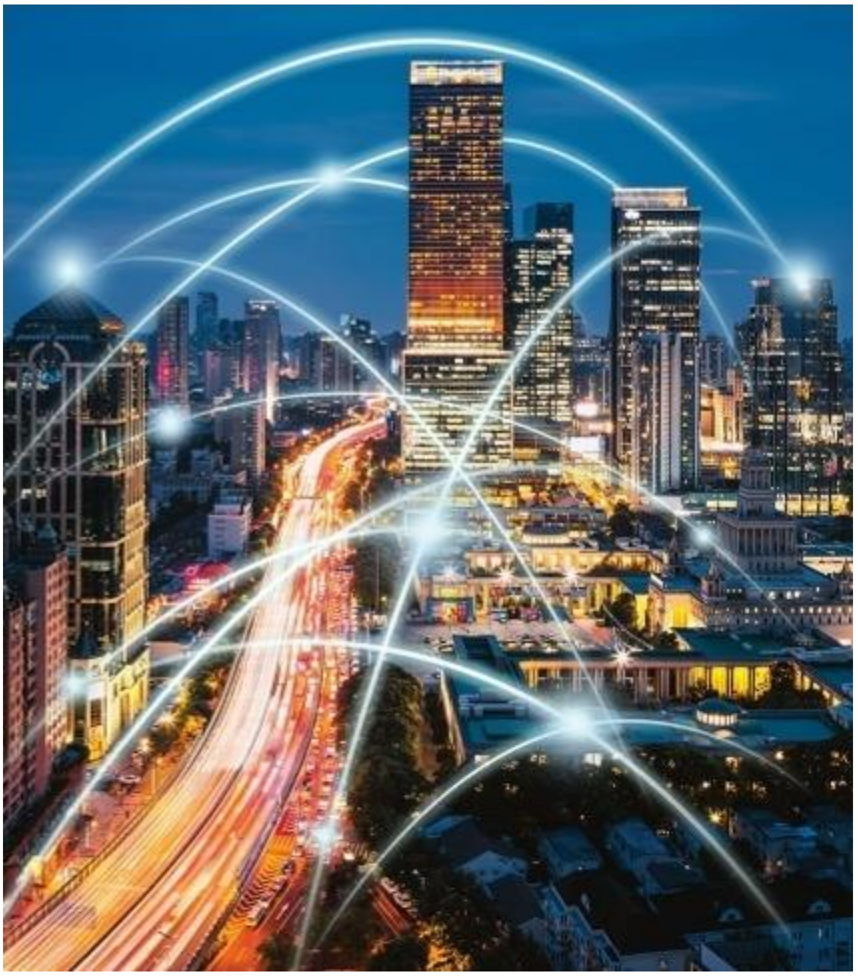
The sky's the limit for these companies profiting from cloud computing

2 MIN READ

A professional investor tells us where he'd put his money. This week: Anthony Ginsberg, manager of the HAN-GINS Tech Megatrend Equal Weight UCITS ETF



The cloud is transforming technology
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Cloud computing is a transformative force in the technology landscape. Cloud computing allows companies to access third-party technology, such as data centres and servers, in a cost-effective manner online. This paradigm shift eliminates the need for businesses to maintain their own hardware and software infrastructure. Instead, they seamlessly integrate digital clouds, reducing operational costs and enhancing efficiency.

This sector's anticipated annual expansion of 20% is driven, in part, by the growing demand for cloud services, mainly fuelled by the requirements of artificial intelligence (AI). While many investors are looking for AI exposure, cloud computing can be considered a way to access the "picks and shovels", or key equipment and infrastructure providers, of this emerging technology.

Enhancing corporate efficiency

A frontrunner in cloud-computing platforms, **ServiceNow (NYSE: NOW)** focuses on optimising digital workflows for companies. With a robust balance sheet and $2.7bn in free cash flow for 2023, the company reported a remarkable 25% year-on-year increase in revenue growth in the third quarter. ServiceNow's commitment to generative AI across workflows enhances productivity, agility and cost-efficiency for clients.

ServiceNow is leveraging Nvidia chips for automation and expanding its client base, and is well positioned to capitalise on the demands of remote work and AI, and overcome growing challenges such as labour shortages. ServiceNow looks appealing as its cloud solutions continue to infiltrate corporate operations globally.

Oracle (Nasdaq: ORCL) is a giant in enterprise software that needs no introduction. But the company has also continued to diversify its offerings to include a range of cloud-computing services. The company's focus on large-scale Oracle Cloud Infrastructure (OCI) services, coupled with advancements in AI integration, positions Oracle as a significant player in generative AI. Cloud revenue of $4.6bn makes up more than a third of the company's total sales. Investors expect cloud computing to become an ever-larger part of the overall business.

Oracle also offers appealing fundamentals. The firm trades at a forward price/earnings (p/e) ratio of 21 and a dividend yield of 1.4%. This makes it stand out among cloud firms, which typically trade on very rich valuations and offer notably lower dividend yields.

Catching up with Amazon

Microsoft (Nasdaq: MSFT) is also a legacy name increasingly dominating cloud computing and, in turn, having its revenues dominated by the sector. Firstly, Microsoft has started to close the gap in cloud market share with Amazon's AWS. Microsoft now represents 24% of the global cloud-services market.

The cloud is also an increasingly dominant part of Microsoft's business. Microsoft's Intelligent Cloud business segment comprised 42% of the company's total revenue in the fourth quarter of 2023. Cloud computing and AI-powered segments also contributed significantly to Microsoft's higher profits and revenue.

With a staggering $25.9bn in cloud revenues in the fourth quarter of 2023, Microsoft's cloud business achieves annual sales of approximately $104bn. Cloud computing's pivotal role in Microsoft's revenue stream, surpassing other products, highlights the group's sustained success in capturing this exciting segment of technology.