The Hyperscalers' AI Trade Is Shifting From Theme To Selection



aranca

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Evaluating Hyperscalers Across The Full AI Investment Cycle

- **The AI capex cycle is creating increasingly different economic outcomes across hyperscalers**
  - *Growth remains strong across the group, but the economics beneath it are diverging materially: capital intensity is rising, free cash flow is compressing for several names, infrastructure commitments are expanding, and historical corporate ROIC does not necessarily translate into attractive returns on the next dollar of AI capex.
- **Rather than focusing only on who is growing the fastest, we evaluated hyperscalers across the full AI investment cycle**
  - We have ranked them across five pillars i.e., *growth & earnings, capital efficiency, cash & funding, estimate momentum and valuation,* to identify which companies are best positioned to convert AI capex into sustainable shareholder returns.

Key Investment Questions



1. Are revenue and profits translating into incremental economic returns?



2. Can business quality hold up through the AI capex cycle?



3. Who can fund the build-out without impairing cash generation?



4. Does valuation already reflect the quality of the economics?

Analytical Framework

23 metrics | 5 pillars | one normalized framework

Pillar	Captures
Growth	Revenue, EBIT and CFO CAGR
Capital Efficiency	ROIC, incremental returns and capex efficiency
Cash & Funding	FCF, leverage and funding commitments
Estimate Momentum	Revenue and EPS revisions
Valuation	P/E, EV/Sales, PEG and FCF yield

Scoring: Winsorized percentile scores using the peer 10th–90th percentile range.

Note: *Pillar weights are Growth & Earnings Delivery 15%, Capital Efficiency & Returns 30%, Cash & Funding Resilience 25%, Estimate Momentum 10%, and Valuation / Expectations 20%. Sub-metric weights are applied within each pillar before calculating the composite percentile score.*

Note: *Growth here implies increase in revenue, EBIT and Cash from Operations CAGR*

Source: *Aranca Research, S&P Capital IQ, company disclosures*

Two Distinct Leadership Tiers Emerge, But The Underlying Economics Differ Materially

Composite ranking masks very different economic profiles:

- **Amazon, Alphabet and Microsoft form the leading cluster, but for different reasons:** Amazon offers the most balanced setup, Alphabet leads on capital efficiency and estimate momentum, while Microsoft stands out on cash and funding resilience.
- **Meta benefits from strong valuation support but trails on growth, capital efficiency and cash resilience:** Its high normalized ROIC contrasts with weak incremental NOPAT/capex, highlighting the need to assess returns on the next dollar of AI investment rather than rely solely on the profitability of the existing business.
- **Oracle presents the opposite trade-off:** it leads the group on forecast growth, but its weak cash and funding resilience and subdued estimate momentum indicate that exceptional growth is coming with a materially heavier capital burden.

Company	*Growth	Capital Efficiency	Cash & Funding	Estimate Momentum	Valuation	Composite
Amazon	49.6	56.6	65.8	52.0	62.7	**58.6**
Alphabet	45.3	84.6	55.2	64.9	26.9	**57.8**
Microsoft	13.9	62.2	94.5	57.7	37.7	**57.7**
Meta	12.4	32.6	36.5	22.8	70.5	**37.1**
Oracle	99.9	36.6	0.0	14.7	48.0	**37.0**

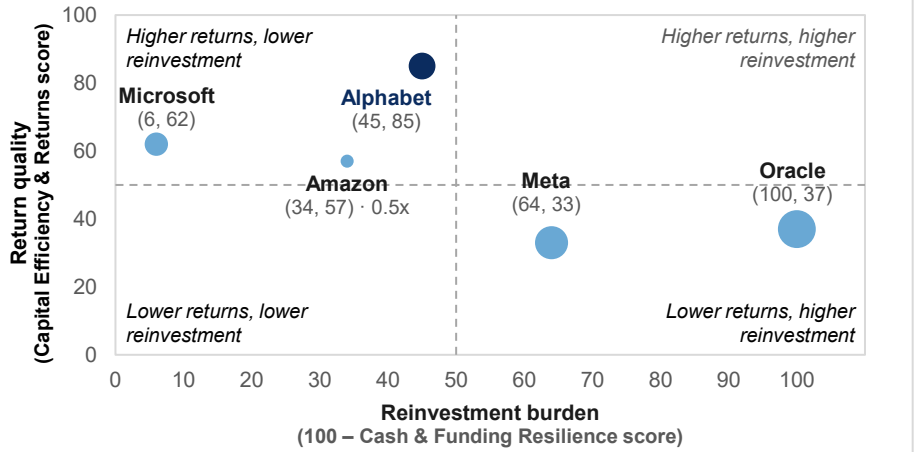
Source: *Aranca Research, S&P Capital IQ, company disclosures*

****Note:*** *Growth here implies increase in revenue, EBIT and Cash from Operations CAGR*

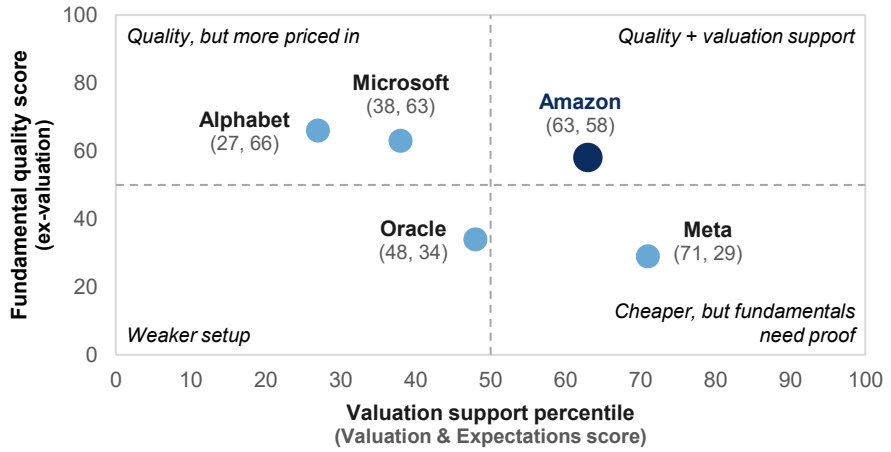
Two Additional Lenses Sharpen The Risk/Reward Trade-Off

- **Return quality alone does not determine the attractiveness of the AI build-out but the capital required to sustain it matters equally**
  - Alphabet leads on return quality, while Microsoft combines strong returns with the lowest reinvestment burden; Amazon remains relatively balanced. Meta and Oracle sit in the less favorable part of the spectrum, where weaker return quality coincides with materially heavier reinvestment requirements.
- **Bringing valuation into the analysis further separates fundamental quality from investment support**
  - Amazon is the only name positioned in the quality + valuation support quadrant. Alphabet and Microsoft retain stronger fundamentals but offer less valuation support, while Meta's cheaper valuation is offset by weaker fundamentals; Oracle remains more dependent on future execution to improve its positioning.

Return Quality vs Reinvestment Burden



Fundamental Quality vs Valuation Support



- **Return Quality** = Capital Efficiency & Returns score, based on normalized ROIC, incremental NOPAT/capex, incremental revenue/capex, depreciation absorption and capex/revenue.
- **Reinvestment Burden** = 100 – Cash & Funding Resilience score, which captures FCF, leverage, liquidity and funding commitments.
- **Bubble Size** = Committed infrastructure / 2026E revenue (x), a proxy for the scale of the build-out.

- **Fundamental Quality** = Weighted score of the first four pillars (ex-valuation): (15% × Growth + 30% × Capital Efficiency + 25% × Cash & Funding + 10% × Estimate Momentum) / 80%.
- **Valuation Support** = Valuation & Expectations score, based on P/E (historical rank), EV/Sales (historical rank), PEG and FCF yield.

Source: *Aranca Research, S&P Capital IQ, company disclosures*

The Hyperscaler AI Trade Is Now About Selection, Not Participation

Amazon	Alphabet	Microsoft	Meta	Oracle
Relatively balanced	**Best capital efficiency**	**Strongest funding resilience**	**Valuation support, but proof needed**	**Highest growth, highest burden**
▪ Combines solid growth, manageable reinvestment burden and reasonable valuation support. ▪ Screens as the most balanced setup across the full AI capex cycle. ▪ Less dependent on any single pillar than peers.	▪ Stands out on capital efficiency and estimate momentum. ▪ Strong economics, but less valuation support compared to peers.. ▪ Attractive quality profile, though more of the upside is already recognized.	▪ Leads on cash generation and funding resilience. ▪ High-quality economics, but with a heavier infrastructure commitment than Amazon. ▪ Well-positioned to fund the build-out without stressing cash generation.	▪ Screens attractively on valuation support. ▪ Fundamental quality and incremental payback remain weaker than top-tier peers. ▪ A durable rerating likely requires clearer evidence of returns on new infrastructure spend.	▪ Forecast growth is strongest, but the funding and reinvestment burden is also the heaviest. ▪ The story is compelling if demand remains strong and execution holds. ▪ More sensitive than peers to capital intensity and balance-sheet strain.
Watchpoint: Must sustain execution as AI investment scales.	**Watchpoint:** Future returns must justify a richer quality premium.	**Watchpoint:** Needs continued monetization to offset rising capital intensity.	**Watchpoint:** Incremental capex returns remain the key debate.	**Watchpoint:** Execution risk is highest as growth must convert into cash returns.

Bottom line: There is no single winner on every dimension; the next phase of the AI trade will separate companies by payback, funding resilience and how much optimism is already priced in.

Source: *Aranca Research, S&P Capital IQ, company disclosures*



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