



CIO Perspectives

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Key points

- Cloud computing has emerged as an important element in the global trend towards digital transformation
- The industry's TAM is projected to reach USD1t in the next few years
- Cloud computing fits well in our I.D.E.A. framework and has a long runway ahead
- Valuations are looking attractive, therefore presenting a window of opportunity to engage in them

EQUITY STRATEGY

Cloud Services – Ride the Secular Wave

The stronger-than-expected earnings in the latest quarter by Salesforce.com demonstrated the resilience and constructive outlook of the cloud computing industry. The admirable results were achieved despite muted expectations and a mixed operating backdrop.

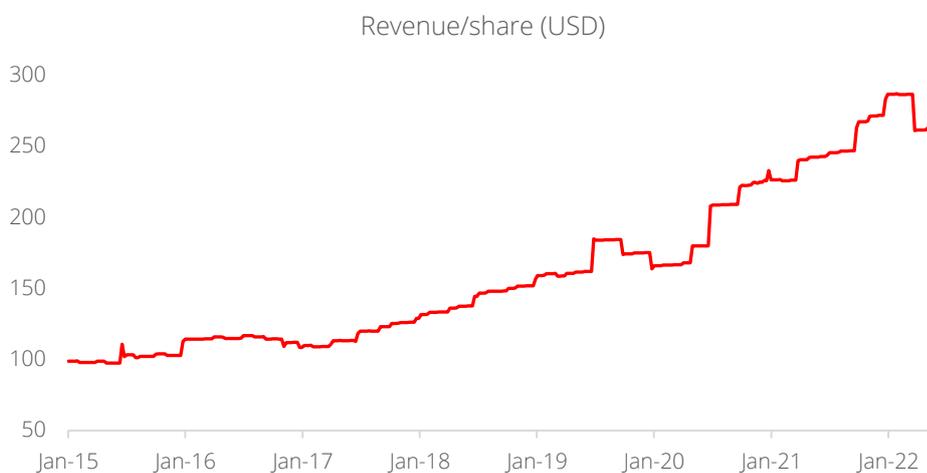
Over time, cloud solutions have emerged as an important element in the global trend towards digital transformation. Cloud services companies play the roles of an innovator, disruptor, enabler, and adapter in our I.D.E.A. framework, and we believe this development has a long runway ahead (Figure 1).

Cloud access means using the Internet as the ubiquitous mode to utilise applications without the necessity to download. This saves users the operational hassle and the financial burden of having to maintain an infrastructure of hardware and software. Instead, these applications are hosted on networks of cloud ecosystems where the vendors own the servers, manage the applications for users' access, and run daily business functions on a real time basis.

Common types of cloud solutions include: enterprise resource planning (ERP), front-mid/back-office processes, accounting, procurement management, customer relationship management (CRM), risk tracking, supply chain management, enterprise performance management (EPM), and data analytics; to name a few.

Given its long-term growth potential, cloud services are among the secular growth themes in the CIO's barbell strategy and I.D.E.A. Fund.

Figure 1: Strong revenue uptrend



Source: Bloomberg, DBS

The global cloud computing market is expected to reach USD947.3b by 2026 (Figure 2) and will soon surpass the trillion-dollar level in the later part of the decade, from USD445.3b in 2021, as the world continues to transform towards digital engagement.

Time and again, cloud networks have been used as key tools in this era of remote and timely access to information that facilitates greater collaboration, transparency, and reliability.

GLOBAL CROSS ASSETS

Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	32,272.79	-1.9%	-11.2%
S&P 500	4,017.82	-2.4%	-15.7%
NASDAQ	11,754.23	-2.7%	-24.9%
Stoxx Europe 600	434.38	-1.4%	-11.0%
DAX	14,198.80	-1.7%	-10.6%
CAC 40	6,358.46	-1.4%	-11.1%
FTSE 100	7,476.21	-1.5%	1.2%
MSCI Axj	688.05	-0.5%	-12.8%
Nikkei 225	28,246.53	0.0%	-1.9%
SHCOMP	3,238.95	-0.8%	-11.0%
Hang Seng	21,869.05	-0.7%	-6.5%
MSCI EM	1,067.15	-0.6%	-13.4%
UST 10-yr yield*	3.04	2.0	153.2
JGB 10-yr yield*	0.25	0.1	18.0
Bund 10-yr yield*	1.43	7.5	160.8
US HY spread*	4.28	8.0	145.0
EM spread*	396.40	8.5	66.1
WTI (USD)	121.51	-0.5%	61.6%
LMEX	4,563.80	-1.5%	1.4%
Gold (USD)	1,847.95	-0.3%	1.0%

Source: Bloomberg

* Changes in basis points

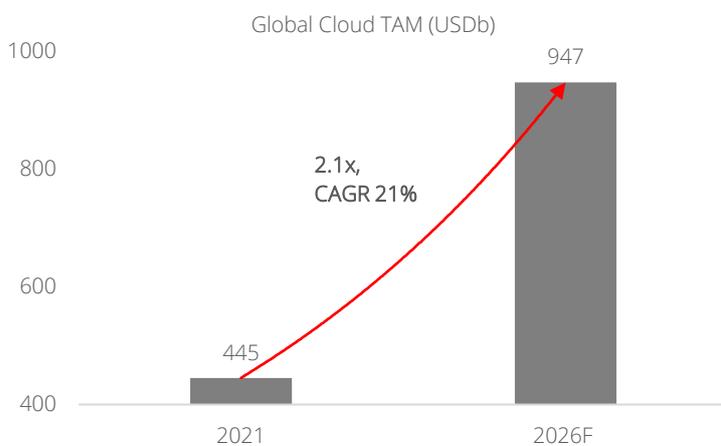
Drivers for cloud service industry

- Digital transformation
- Business customisations
- Efficiency and mobility
- Scalability and productivity
- Automated engagement
- Flexibility and agility
- Cost savings
- Global access
- Real-time responses

The five industry leaders, Salesforce, Microsoft, SAP, Oracle, and Google collectively account for only 30% of this highly fragmented market (Figure 3). We believe these industry leaders will stand to gain market share with their advantages of scale, geographical reach, product offerings, and patent portfolios. Among them, Salesforce and Microsoft are presently the clear leaders with 9.3% and 8.7% share respectively.

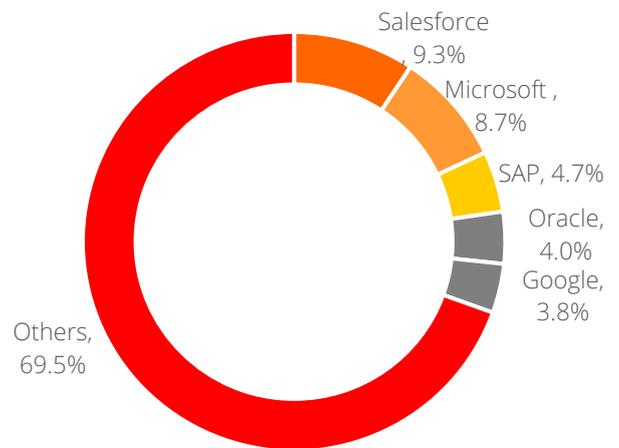
After the recent market selloff, valuations are looking attractive, presenting a window of opportunity to engage in them.

Figure 2: A trillion-dollar opportunity



Source: Businesswire, DBS

Figure 3: Fragmented marketplace



Source: IDC, DBS

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