

Amazon.com, Inc. (AMZN)

Equity research update | Prepared 25 August 2026 | Previous note 5 August 2026

WATCHLIST

Reaffirmed — but the gap to fair value has widened

Last close (24 Aug 2026)	\$262.07
Change since the 5 Aug note	-5.5%
P/E on annualised clean Q2 EPS	~33.6x
Probability-weighted fair value	\$298.64
Implied upside	+14.0%

What Has Moved Since the Last Note

The price, and only the price. Amazon closed at \$262.07 on 24 August against \$277.42 when this coverage was last updated, a decline of 5.5% across fourteen sessions and 8.8% from the \$287.20 intraday high set on 3 August. Measured against the 30 July pre-release close of \$235.50, the shares have retained \$26.57 of the \$51.70 post-earnings advance, or 51% of it. Roughly half the market's initial reaction to the second quarter has been given back.

No company disclosure explains that. Amazon has published nothing of substance since the 30 July release, and the segment facts underpinning the previous note are all still standing: AWS revenue growing 36.7% to \$42.2 billion at a 39.3% operating margin, a \$496 billion contracted backlog, group operating income up 43%, advertising up 26%, and the artificial intelligence and custom silicon businesses each above a \$25 billion annualised run rate. The retracement is a re-rating of the same facts, not a response to new ones.

The most plausible explanation is the one item in the release that markets have continued to chew on: the raised capital expenditure outlook of approximately \$220 billion for 2026, up from roughly \$200 billion, attributed chiefly to higher memory prices rather than to additional capacity. UBS reduced its target to \$305 from \$333 while retaining a Buy rating, citing higher capital expenditure estimates for 2027 and beyond as component prices feed through. That is a legitimate concern and it is the right one to hold: a capex increase that buys no incremental compute is a pure margin and cash-flow cost, and if memory pricing persists it extends the negative free-cash-flow period rather than merely deepening it for one year. The sell side as a whole has not followed the price down. Of 62 analysts covering the shares, none carries a sell rating, and the consensus target sits near \$322.

Do the Published Levels Still Hold?

The previous note was unusually explicit about what would change the rating, which makes this comparison straightforward.

Condition published 5 Aug 2026	Status at 24 Aug 2026	Assessment
A second consecutive quarter of AWS growth at or above 35% with margin near 39% would justify a Buy	No new segment data; Q3 results are not due until late October	Untested; not resolvable in this window
A retreat toward the \$245-250 area would provide the margin of safety the price lacks	Low of \$257.04 on 21 August; the 50-day average sits at \$250.14	Approached but not reached — the shares are 4.6% above the top of the zone
A downgrade would require AWS growth below 30% or free cash flow deteriorating further without a margin gain	No evidence either way	Untested
Probability-weighted fair value \$301, ~8.5% above the price	Restated at \$298.64, ~14.0% above the price	The discount has widened materially on an unchanged fair value

This is the honest position: the stock has done most of what the previous note asked of it, and stopped just short. A 5.5% decline on unchanged fundamentals has taken the multiple from 35.6 times annualised clean quarterly earnings to 33.6, unwound a twelve-percent extension above the fifty-day average, and widened the discount to fair value from 8.5% to 14.0%. What it has not done is enter the \$245-250 band that the previous note named, and the discipline of naming a level in advance is worth very little if the level is abandoned the moment the price gets close to it. The rating is therefore reaffirmed at Watchlist, with the qualification that this is a materially closer call than it was three weeks ago.

Valuation

At \$262.07 across roughly 10.89 billion diluted shares, Amazon carries a market capitalisation near \$2.85 trillion. The valuation anchor is unchanged from the previous note and is worth restating because the headline earnings figure remains misleading. Second-quarter reported earnings of \$5.75 per share included approximately \$53.4 billion of non-operating pre-tax other income, primarily a mark-to-market revaluation of the Anthropic stake. At the quarter's 22.6% effective tax rate that contributed roughly \$41.3 billion after tax, leaving clean earnings near \$1.95 per share. That clean figure is this analysis's own calculation from disclosed inputs, not a company measure. Annualising it gives \$7.80, and at \$262.07 the shares trade near 33.6 times.

Metric	5 Aug 2026	25 Aug 2026	Comment
Share price	\$277.42	\$262.07	-5.5% over fourteen sessions
Market capitalisation	~\$3.02tn	~\$2.85tn	~10.89bn diluted shares
P/E on annualised clean Q2 EPS	~35.6x	~33.6x	Still overstated by Q2 seasonality
AWS annualised run rate	\$169bn	\$169bn	No new data until Q3 results
AWS annualised operating income	~\$66bn	~\$66bn	39.3% segment margin
Free cash flow (TTM)	-\$7.6bn	-\$7.6bn	Consumed by the AI build
FY2026 cash capex guidance	~\$220bn	~\$220bn	Raised on memory prices, not capacity
Consensus analyst target	~\$322	~\$322	No sell ratings among 62 analysts
Probability-weighted fair value	\$301	\$298.64	Upside widened from 8.5% to 14.0%

The segment arithmetic is the more useful lens and has improved with the price. AWS at a \$169 billion run rate, growing 37% at a 39.3% operating margin, produces roughly \$66 billion of annualised segment operating income. On the multiples the market applies to comparable cloud franchises, that segment alone accounts for a very large share of a \$2.85 trillion capitalisation, which leaves the North American retail business, the international business and an advertising franchise growing 26% carried at a modest residual. Three weeks ago that argument had to contend with a price 12% above its fifty-day average. It no longer does.

The Capital Expenditure Question, Revisited

Since the memory-cost driver is the most plausible explanation for the retracement, it deserves the sharper treatment the price action has earned it. Amazon raised its 2026 cash capital expenditure outlook by roughly \$20 billion and attributed the increase chiefly to higher memory prices. That distinction matters in both directions. It is better than a capacity-driven increase in the sense that it does not signal Amazon over-building; it is worse in that the incremental \$20 billion buys nothing. Trailing twelve-month free cash flow is already an outflow of \$7.6 billion against an inflow of \$18.2 billion a year earlier, driven by a \$66.1 billion year-over-year rise in property and equipment purchases.

The bull answer remains the strongest available in this sector, and nothing has contradicted it. AWS is the segment absorbing the spending, and it accelerated to its fastest growth in eighteen quarters while expanding its operating margin by roughly six percentage points. Growth accelerating alongside margin expansion is very difficult to manufacture, and the \$496 billion backlog against a \$169 billion run rate means close to three years of current revenue is already contracted. Owning the silicon, through Trainium and Graviton, converts a portion of what would be third-party capital expenditure into internal cost and is the most credible explanation for how the margin expanded at all.

What the last three weeks add is a reminder that this is a multi-year proposition being financed by a shareholder who receives no cash in the interim. The market is entitled to discount that, and it has. Whether the discount is now excessive is exactly the question the 29 October-quarter results will answer.

Risks

Risk	Probability	Severity	Change since 5 August
Negative free cash flow against ~\$220bn of guided capex	High	Medium	Unchanged in fact; more heavily weighted by the market
Memory prices extending elevated capex into 2027 and beyond	Medium	Medium	Elevated — now the leading explanation for the de-rating
Earnings quality: the Anthropic gain is non-cash and reversible	High	Low	Unchanged; it flatters comparatives for four quarters, then reverses
AI demand digestion slowing enterprise cloud spending	Medium	High	Unchanged; the \$496bn backlog is the principal mitigant
Price already moved	Medium	Medium	Reduced — upside to fair value has widened from 8.5% to 14.0%
AWS leadership change under Dave Treadwell	Low	Low	Unchanged
Regulatory exposure across marketplace and cloud	Medium	Medium	Unchanged

Technical Position

The extension that held the previous note back has fully unwound. On 4 August the shares sat 12.1% above their fifty-day average with a relative strength index of 67.0 and a MACD histogram of +4.58. They now sit 4.8% above a fifty-day average that has been rising to meet them, with the index at 52.5 and the histogram at -1.47. That is a healthy digestion of a large move rather than a breakdown: the price remains above both the fifty- and hundred-day averages, and the twenty-day average at \$262.91 is being tested rather than lost.

Indicator (24 Aug 2026)	Value	Reading
Close	\$262.07	Sitting on the 20-day average
SMA20	\$262.91	Price 0.3% below — the near-term pivot
SMA50	\$250.14	Price 4.8% above; was 12.2% above
SMA100	\$252.18	Price 3.9% above — support, and the top of the upgrade zone
SMA200	not computed	Insufficient history in the 100-session series; not estimated
EMA20 / EMA50	\$260.90 / \$255.04	Price above both; short-term trend intact
RSI(14)	52.5	Neutral; down from 67.0, the overbought condition is gone
MACD / signal / histogram	+3.16 / +4.63 / -1.47	Bullish crossover has rolled over; MACD still positive
ATR(14)	\$7.28 (2.8% of price)	Volatility down from \$9.82 and 3.5%
Volume, 20-day vs 50-day average	47.6m vs 51.3m	Fading — a drift lower, not distribution
100-session range	\$204.90 - \$287.20	Price in the upper third

Indicators computed from 100 daily OHLCV sessions (1 April to 24 August 2026). The 200-day average could not be derived from that window and has deliberately not been estimated.

For entry timing only: the \$250-252 area, where the fifty- and hundred-day averages now converge, is both the technical support and the top of the price zone the previous note named as the trigger for an upgrade. Those two lines arriving at the same place is convenient rather than significant, but it does mean a further 4.6% decline would satisfy the published condition at a level the chart also defends.

Scorecard

Category	Score		Comment
Business quality		9/10	Three strong franchises: AWS, retail and a 26%-growth advertising business
Financial strength		7/10	\$161.4bn of operating cash flow, entirely consumed; free cash flow negative
Competitive advantage		9/10	AWS scale plus custom silicon in Trainium and Graviton
Management		8/10	AWS reacceleration is a genuine achievement; the headline EPS presentation still leans on a mark-to-market gain
Growth potential		9/10	AWS +37% with a \$496bn backlog; AI and chips each above \$25bn with triple-digit growth
Valuation		6/10	~33.6x annualised clean earnings after a 5.5% decline (was 5 at ~35.6x)
Risk (10 = lowest risk)		6/10	~\$220bn of capex, negative free cash flow, memory prices possibly extending into 2027
Technical setup		6/10	Extension above the 50-day unwound to 4.8%, but momentum has rolled over (was 7)

Scored 1–10, where 10 is always best, including Risk. Weightings: growth 16, valuation 16, business quality 15, competitive advantage 13, risk 13, financial strength 11, management 11, technicals 5. Previous note scored 75/100; valuation improves on the lower price, technicals give back part of the breakout. Unrounded total 76.5.

Overall Investment Score: 77 / 100

The previous note already scored Risk on the convention used here, with a higher number meaning a safer business, so no restatement was required to compare the two scorecards.

Scenario Analysis

Scenario	Prob.	Earnings path	Fair value	Conditions
Bull	28%	FY27 clean EPS ~\$11.00	\$374	AWS sustains 35%+ with margin near 40%, advertising compounds, free cash flow turns positive; multiple near 34x
Base	46%	FY27 clean EPS ~\$9.50	\$304	AWS moderates toward 30%, operating leverage continues, capex plateaus; multiple near 32x
Bear	26%	FY27 clean EPS ~\$8.00	\$208	Enterprise AI digestion, memory prices keep capex elevated through 2027, margin compresses; multiple de-rates toward 26x

Probabilities sum to 100%. Probability-weighted fair value: \$298.64, approximately 14.0% above the 24 August close of \$262.07. Earnings figures exclude non-operating investment gains. The fair-value estimates are unchanged from the previous note; two percentage points have moved from bull to bear to reflect the risk that memory pricing extends elevated capital expenditure beyond 2026. Previously \$301.

Recommendation: Watchlist (reaffirmed, and closer to an upgrade)

The rating is unchanged at Watchlist, but the reasoning has shifted and that shift should be stated rather than buried. Three weeks ago the objection to Amazon was entirely about price: an excellent quarter had been repriced within

seventy-two hours, leaving 8.5% of upside to fair value and a stock 12% above its fifty-day average. Half of that objection has now been removed by the market itself, without a single fundamental fact changing.

What remains is a genuine and unresolved question about cash. Free cash flow is an outflow of \$7.6 billion, capital expenditure is guided to approximately \$220 billion, and the incremental \$20 billion of that figure buys no additional compute because it is memory inflation. If component prices stay where they are, the negative free-cash-flow period extends rather than ends, and the shareholder funds a longer build than the one originally underwritten. The strongest counter is that AWS accelerated to 37% while expanding margin six points and carries a \$496 billion contracted backlog, which is the most direct evidence available anywhere in this sector that the spending has demand waiting for it.

The upgrade conditions are unchanged and remain the right ones. A second consecutive quarter of AWS growth at or above 35% with the margin holding near 39%, reportable at the third-quarter release, would confirm a trend rather than a step and would justify a Buy at a higher price than today's. Alternatively, a decline into the \$245-250 area, now 4.6% below the market and coincident with the fifty- and hundred-day averages, would supply the margin of safety the price still lacks. A downgrade would require AWS growth falling below 30%, or free cash flow deteriorating further without a corresponding margin gain.

Final Verdict

Nothing about Amazon's business has changed in three weeks, and the shares are 5.5% cheaper. That is the whole content of this update, and it is worth more than it sounds, because the previous note's single objection was the price.

The multiple has come from 35.6 to 33.6 times annualised clean earnings, the twelve percent extension above the fifty-day average has unwound to under five, the relative strength index has returned from 67 to 52, and the discount to a probability-weighted fair value of \$298.64 has widened from 8.5% to 14.0%. The market's reason for marking the shares down appears to be the memory-driven capital expenditure increase and its implications for 2027 cash flow, which is a real concern and one this report now weights more heavily in the bear case.

The reason this is still not a Buy is that the previous note named \$245-250 as the level at which the price would compensate for that concern, and the shares are 4.6% above it. Abandoning a published level because the market came within a few percent of it would make the level meaningless. Amazon at \$262 is an excellent business at a fair price with an unresolved cash-flow question and a catalyst in late October. One more ordinary week of drift, or one confirming quarter, and this becomes a straightforward decision.

Sources

Alpha Vantage — daily OHLCV series, 1 April to 24 August 2026 (single call) • Amazon.com, Inc. — Q2 2026 results release and earnings call, aboutamazon.com and ir.aboutamazon.com, 30 July 2026 • CNBC — Amazon hikes 2026 capex to \$220 billion on higher memory costs, 30 July 2026 • Fierce Network — memory drives Amazon capex up another \$20bn for 2026 • Benzinga and MarketBeat — analyst ratings and price targets, August 2026 • 24/7 Wall St. — Amazon price target coverage, 13 August 2026 • The Motley Fool — what the capex hike means for investors, 24 August 2026

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