

# Alibaba (9988 HK)

## Stepping-up reinvestment

Alibaba delivered upbeat 3QFY21 results, with revenue/Non GAAP net profit +37% YoY/+27% YoY, 3%/7% above consensus. CMR +20% YoY, 1% above our estimate. Cloud achieved positive adjusted EBITA and Cainiao was operating cash flow positive for the first time. However, regulation headwinds are yet over, as Ant Group and Anti-monopoly Investigation uncertainties remain. To factor in stepping up reinvestment and involving competition, we cut its earnings by 1%/5%/4% in FY21/22/23E, with new SOTP-based TP of HK\$330.6 (from HK\$349.4).

- **3QFY21 beat.** 3QFY21 topline/bottom line grew 37%/27% YoY, 3%/7% above consensus. Adj. EBITA margin came out at 28%, mainly on better margin of Cainiao, cloud and innovations. Cloud achieved breakeven earlier than our expectation. We view this result as positive, but market concern lies on regulations uncertainty and margin dilution with ramp-up in reinvestment. Mgmt. stated that Ant Group is in the process of developing its rectification plan, and BABA are fully cooperating with the SAMR and conduct internal reviews under Anti-monopoly Investigation. New wave of COVID-19 posed limited impact on its business, per mgmt stated.
- **Solid core commerce with stepping-up reinvestment.** 3QFY21 CMR revenue grew 20% YoY, 1% above our estimate, for better monetization with feeds, enriched ads formats and livestreaming. Taobao Live delivered > RMB400bn GMV by Dec 2020. We expect its core commerce to see further upside from: 1) lower-tier cities penetration (Taobao Deals AAC >100mn); 2) livestreaming to stimulate engagement; and 3) expanding TAM from groceries (e.g. upcoming Taobao Maicai <淘宝买菜>). Mgmt prioritizes TAM expansion and topline growth than profitability, and reiterates its determination to reinvest for new initiatives (e.g. groceries, low-tier markets, cloud).
- **Maintain BUY.** The market is digesting the potential risks of merchants retention, competition landscape and margin dilution. In the short term, BABA might still see challenges from regulations and rectification, but we keep positive on its long-term momentum and expanding TAM with strong cloud & emerging business. We slightly trimmed its earnings by 1%/5%/4% in FY21/22/23E, and assign SOTP-based TP of HK\$330.6 (27x FY22E P/E).

### Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	376,844	509,711	702,685	919,093	1,100,336
YoY growth (%)	50.6	35.3	37.9	30.8	19.7
Adj. net profit (RMB mn)	93,407	132,479	172,802	220,672	267,000
Adj. EPS (RMB)	38.0	53.9	63.5	80.3	96.2
YoY growth (%)	15.6	41.8	17.9	26.4	19.8
Consensus EPS (RMB)	NA	NA	65.7	79.3	98.5
P/E (x)	43.7	30.8	26.1	20.7	17.3
P/B (x)	7.1	5.0	4.4	3.8	3.2
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.2	16.3	17.1	17.1	17.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$330.6**  
 (Previous TP **HK\$349.4**)  
 Up/Downside **+27.2%**  
 Current Price **HK\$260.0**

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	5,653,698
Avg 3 mths t/o (HK\$ mn)	9,001.10
52w High/Low (HK\$)	309.4/ 167.6
Total Issued Shares (mn)	21,645
Source: Bloomberg	

### Shareholding Structure

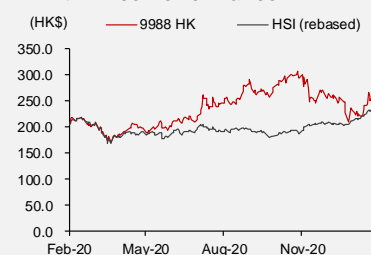
SoftBank	24.9%
Ma Jack Yun	3.5%
APN Ltd	1.9%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	8.0%	1.8%
3-mth	-14.3%	-28.5%
6-mth	2.1%	-13.1%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

- 2QFY21 beat on margin – 6 Nov 2020
- Expecting solid 2QFY21E -19 Oct 2020
- Key takeaways from 2020 Investor Day - 6 Oct 2020

**Figure 1: 3QFY21 financial review**

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	QoQ	YoY	Consensus	Diff %
Revenue	114,924	119,017	161,456	114,314	153,751	155,059	221,084	42.6%	36.9%	215,320	3%
Operating Profit	24,375	20,364	39,560	7,131	34,705	13,634	49,002	259.4%	23.9%	46,767	5%
Net profit	19,122	72,540	52,309	3,162	46,437	26,524	79,427	199.5%	51.8%	45,733	74%
Adj. net profit	30,949	32,750	46,493	22,287	39,494	47,088	59,207	25.7%	27.3%	55,141	7%
Adj. EPS (RMB)	12.55	13.10	18.19	9.20	14.82	17.97	22.03	22.6%	21.1%	20.38	8%
<b>Margin (%)</b>											
Gross margin	47.8%	45.0%	47.8%	36.6%	45.0%	42.0%	45.1%			44.9%	
Operating margin	21.2%	17.1%	24.5%	6.2%	22.6%	8.8%	22.2%			21.7%	
Adj. net margin	26.9%	27.5%	28.8%	19.5%	25.7%	30.4%	26.8%			25.6%	
<b>Growth (%)</b>											
Revenue (YoY)	42.0%	39.8%	37.7%	22.3%	33.8%	30.3%	36.9%			33.4%	
Revenue (QoQ)	22.9%	3.6%	35.7%	-29.2%	34.5%	0.9%	42.6%			38.9%	
Operating Profit	203.9%	50.8%	47.6%	-18.6%	42.4%	-33.0%	23.9%			18.2%	
Adj. net profit	54.0%	39.6%	56.0%	11.1%	27.6%	43.8%	27.3%			18.6%	

Source: Company data, CMBIS estimates, Bloomberg

**Figure 2: Revenue breakdown**

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	QoQ	YoY
<b>Total revenue</b>	<b>114,924</b>	<b>119,017</b>	<b>161,456</b>	<b>114,314</b>	<b>153,751</b>	<b>155,059</b>	<b>221,084</b>	<b>43%</b>	<b>37%</b>
Core commerce	99,544	101,220	102,843	93,865	133,318	130,922	195,541	49%	90%
Cloud computing	7,787	9,291	10,721	12,217	12,345	14,899	16,115	8%	50%
Digital media and entertainment	6,312	7,296	7,396	5,944	6,994	8,066	8,079	0%	9%
Innovation initiatives and others	1,281	1,210	1,864	2,288	1,094	1,172	1,349	15%	-28%

Source: Company data

**Figure 3: Earnings revision**

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	702,685	919,093	1,100,336	707,470	957,420	1,152,774	-0.7%	-4.0%	-4.5%
Gross profit	307,073	393,372	470,944	309,164	409,776	493,387	-0.7%	-4.0%	-4.5%
Operating profit	110,457	139,918	174,047	111,337	149,575	187,049	-0.8%	-6.5%	-7.0%
Adj. net profit	172,802	220,672	267,000	173,794	231,294	279,302	-0.6%	-4.6%	-4.4%
EPS (RMB)	63.49	80.28	96.17	63.86	84.14	101.32	-0.6%	-4.6%	-5.1%
Gross margin	43.7%	42.8%	42.8%	43.7%	42.8%	42.8%	+0.0ppts	+0.0ppts	+0.0ppts
Operating margin	15.7%	15.2%	15.8%	15.7%	15.6%	16.2%	+0.0ppts	-0.4ppts	-0.4ppts
Adj. net margin	24.6%	24.0%	24.3%	24.6%	24.2%	24.4%	-0.0ppts	-0.2ppts	-0.1ppts

Source: CMBIS estimates

**Figure 4: SOTP valuation**

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY21E	FY22E	FY21E	FY22E
Core Commerce	647.4	235.5	EV/EBITA	20.9	16.0	31.0	40.5
Cloud	170.1	61.9	P/S	17.7	12.0	9.6	14.2
Others	112.7	41.0					
Digital Entertainment	17.4	6.3	P/S	3.8	3.5	4.6	5.0
Innovations	4.4	1.6	P/S	3.5	3.0	1.3	1.5
Strategic Investments	61.1	22.2	SoTP for all investments				
Net (Debt)/Cash	29.8	10.9	Cash forecasted on Balance sheet				
<b>Equity Value (US\$)</b>	<b>930</b>	<b>338.4</b>					
<b>TP (HK\$)</b>		<b>330.6</b>					

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	376,844	509,711	702,685	919,093	1,100,336
Core commerce	323,400	436,104	602,247	785,113	925,835
Cloud	24,702	40,016	62,425	92,139	129,419
DME	24,077	26,948	29,679	32,236	34,597
Others	4,665	6,643	8,333	9,605	10,485
<b>COSG</b>	(206,929)	(282,367)	(395,611)	(525,721)	(629,392)
<b>Gross profit</b>	169,915	227,344	307,073	393,372	470,944
R&D	(37,435)	(43,080)	(65,350)	(82,718)	(96,830)
S&M	(39,780)	(50,673)	(73,782)	(99,262)	(117,736)
Admin. Expense	(24,889)	(28,197)	(38,648)	(48,712)	(56,117)
Other income	(10,727)	(13,964)	(18,837)	(22,761)	(26,214)
<b>Operating profit</b>	57,084	91,430	110,457	139,918	174,047
Interest exp	(5,190)	(5,180)	(5,698)	(6,268)	(6,895)
Associates	44,106	72,956	87,547	105,057	126,068
Others	221	7,439	1,000	1,000	1,000
<b>Pre-tax profit</b>	96,221	166,645	193,306	239,707	294,220
Equity investees	566	(5,733)	(11,057)	(11,057)	(11,057)
Tax	(16,553)	(20,562)	(23,197)	(28,765)	(35,306)
<b>Net profit</b>	79,948	140,180	159,052	199,885	247,857
<b>Non-GAAP NI</b>	93,407	132,479	172,802	220,672	267,000

### Cash flow summary

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	80,234	140,350	159,052	199,885	247,857
D&A	60,377	62,344	83,283	95,991	114,477
Change in WC	50,241	46,132	32,307	38,769	46,522
Others	(39,801)	(15,083)	(6,704)	(7,397)	(8,529)
<b>Operating CF</b>	151,051	233,743	267,939	327,249	400,327
Capex	(215,995)	(226,810)	(238,707)	(251,794)	(266,190)
Associates	67,212	(105,178)	0	0	0
Others	(2,277)	(32,177)	0	0	0
<b>Investing CF</b>	(151,060)	(364,165)	(238,707)	(251,794)	(266,190)
Equity raised	0	0	0	0	0
Change of Debts	31,548	(32,422)	2,202	0	0
Dividend paid	0	0	0	0	0
Others	(40,796)	8,442	0	0	0
<b>Financing CF</b>	(9,248)	(23,980)	2,202	0	0
<b>Change in cash</b>	(9,256)	(154,402)	31,433	75,455	134,138
Cash (beg of yr)	199,331	190,075	35,673	67,106	142,561
FX	3,245	0	0	0	0
<b>Cash (end of yr)</b>	193,320	35,673	67,106	142,561	276,698

### Balance sheet

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>NC assets</b>	694,803	850,062	1,182,568	1,375,524	1,573,471
Fixed asset	92,030	103,387	196,515	229,557	259,559
Associates	84,454	189,632	189,632	189,632	189,632
Land use-right	28,018	57,985	0	0	0
Intangible assets	333,211	337,729	635,092	795,006	962,952
Others	157,090	161,329	161,329	161,329	161,329
<b>Current assets</b>	270,273	462,923	216,372	312,041	470,437
Cash	189,976	330,503	67,106	142,561	276,698
Account receivable	67,108	99,708	116,554	136,769	161,027
Other	13,189	32,712	32,712	32,712	32,712
<b>Current liabilities</b>	207,669	241,872	276,381	315,150	361,672
Borrowings	22,466	5,154	7,356	7,356	7,356
Trade & payables	125,961	164,550	196,857	235,626	282,148
Income tax	17,685	20,190	20,190	20,190	20,190
Other	41,557	51,978	51,978	51,978	51,978
<b>NC liabilities</b>	142,005	191,462	191,462	191,462	191,462
Borrowings	35,427	39,660	39,660	39,660	39,660
Deferred taxation	22,517	43,898	43,898	43,898	43,898
Other	84,061	107,904	107,904	107,904	107,904
Mezzanine equity	6,819	9,103	9,103	9,103	9,103
<b>Total Equity</b>	608,583	870,548	1,014,371	1,199,464	1,424,521
MI	116,326	115,147	113,122	127,697	145,813
<b>S/H equity</b>	492,257	755,401	901,249	1,071,767	1,278,708

### Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Core commerce	85.8	85.6	85.7	85.4	84.1
Cloud	6.6	7.9	8.9	10.0	11.8
DME	6.4	5.3	4.2	3.5	3.1
Others	1.2	1.3	1.2	1.0	1.0
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Profitability (%)</b>					
Gross margin	45.1	44.6	43.7	42.8	42.8
PreTax margin	25.5	32.7	27.5	26.1	26.7
Tax rate	-4.4	-4.0	-3.3	-3.1	-3.2
Adj. net margin	26.4	28.2	24.9	22.4	22.6
<b>Balance sheet</b>					
Current ratio (x)	1.3	1.9	0.8	1.0	1.3
Debtors turnover	49.3	51.1	48.1	44.2	44.3
Creditors turnover	175.4	180.5	163.9	148.0	148.4
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROE	16.2	16.3	17.1	17.1	17.4
ROA	9.7	10.1	12.4	13.1	13.1
<b>Per share data</b>					
Adj. EPS (RMB)	38.0	53.9	63.5	80.3	96.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	234.6	329.7	376.0	439.7	516.4

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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