

Alibaba (BABA US)

Escalated investment in instant commerce could weigh on ST profitability

Alibaba Group (Alibaba) is escalating its investment in instant commerce to shape a better prospect in long-term e-commerce business development. For 1QFY26 (March year-end), we are anticipating a continued acceleration in cloud revenue growth QoQ, a sustained YoY increase in monetization rate of Taobao & Tmall Group (TTG), and ongoing YoY loss reduction of Alibaba International Digital Commerce (AIDC). However, we expect the heightened investment in instant commerce to weigh on near-term profitability. We bake in c.RMB10bn/20bn of investment in 1Q/2QFY26E, which will likely lead to 16%/45% YoY declines in group-level adj. EBITA, and ROI-related operating data such as user retention and stickiness, and cross-sell rate are key to monitor, in our view. We lower our FY26-28E non-GAAP net income forecast by 9-18% to factor in the impact from investment. Taking into account the cut in TTG earnings, our SOTP-based TP is lowered by 9% to US\$141.2 (was US\$155.5), translating into 14x FY27E PE (non-GAAP). However, we believe Alibaba remains one of the key beneficiaries under the AI theme, and we suggest investors look beyond near-term earnings fluctuations. Maintain BUY.

- **1QFY26 preview.** We estimate Alibaba achieved 1QFY26 revenue of RMB245.7bn, up 1% YoY, 4% lower than Bloomberg consensus, due to the deconsolidation of Sun Art and Intime, which we estimate used to contribute c. a high-single digit percentage of total revenue. Given the heightened investment to support instant commerce business development, which we estimate to be c. RMB10bn for the quarter, we are anticipating group-level adjusted EBITA to come in at RMB37.9bn, down 16% YoY. Currently we expect Alibaba to further step up investment in 2QFY26, with the total investment amount in instant commerce to be doubled QoQ in the summer peak season. Although we believe this could generate synergies with core commerce business in terms of user stickiness and user shopping frequency, the committed investment may weigh on near-term profitability, and ROI-related operating data are the key to monitor.
- **Increase in monetization rate of T&T Group to continue.** We are looking for customer management revenue (CMR) growth of 11% YoY in 1QFY26 on the back of 6% YoY GMV growth and increase in monetization rate driven by both incremental technology service fee charges and the increase in penetration of Quanzhantui. However, we expect the investment to drive business expansion of instant commerce should drag on profitability of TTG and Local Services Group (LSG) in the near term. On a combined basis, we are anticipating adjusted EBITA of TTG and LSG to decline 20% YoY to RMB38.6bn in 1QFY26.
- **Sequential acceleration in YoY cloud revenue growth could sustain.** For 1QFY26, we are expecting: 1) 22% YoY revenue growth for Cloud Intelligence Group (4QFY25: 18%), driven by increased adoption in both new verticals and AI-related cloud services, as well as solid growth of public cloud business; and we are looking for adjusted EBITA margin of 8.2% (4QFY25: 8.0%); 2) 19% YoY revenue growth for AIDC, with 3ppts QoQ deceleration due to tariff impact and more moderate investment plans due to efficiency considerations. Meanwhile, we are expecting a meaningful adj. EBITA loss reduction to RMB1.8bn (1QFY25: loss of RMB3.7bn), and we believe AIDC is on track to achieve the first quarter of profitability in FY26.

BUY (Maintain)

Target Price **US\$141.20**
(Previous TP) US\$155.50
Up/Downside **36.0%**
Current Price **US\$103.83**

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Stock Data

Mkt Cap (US\$ mn)	243,201.8
Avg 3 mths t/o (US\$ mn)	702.2
52w High/Low (US\$)	147.57/75.27
Total Issued Shares (mn)	2342.3

Source: FactSet

Shareholding Structure

Blackrock	5.0%
Softbank	4.9%

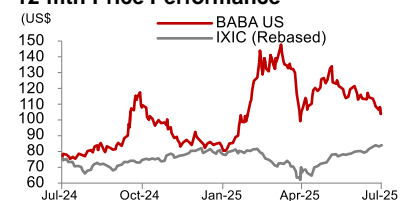
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-14.8%	-18.5%
3-mth	-0.3%	-20.8%
6-mth	28.9%	19.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Mar)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	941,168	996,347	1,020,327	1,097,407	1,163,181
YoY growth (%)	8.3	5.9	2.4	7.6	6.0
Net profit (RMB mn)	79,741.0	129,470.0	116,108.8	142,941.6	166,718.0
Adjusted net profit (RMB mn)	158,359.0	158,095.0	136,515.3	163,792.4	187,655.3
YoY growth (%)	10.0	(0.2)	(13.6)	20.0	14.6
EPS (Adjusted) (RMB)	62.77	67.31	59.92	74.11	84.91
P/E (x)	23.6	13.5	14.6	11.5	9.9
ROE (%)	8.0	12.8	9.9	10.1	10.5

Source: Company data, Bloomberg, CMBIGM estimates

Revision of forecast and valuation

We nudge down our FY26-28E revenue forecast by 1.7-2.0%, mainly driven by the deconsolidation of Sun Art and Intime, and we cut non-GAAP net profit forecast by 9-18% to factor in additional investment in quick commerce.

Figure 1: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	1,020.3	1,097.4	1,163.2	1041.0	1118.0	1183.4	-2.0%	-1.8%	-1.7%
Gross Profit	402.0	447.7	474.6	421.6	456.1	482.8	-4.7%	-1.8%	-1.7%
Non-GAAP net profit	136.5	163.8	187.7	166.8	186.5	206.9	-18.2%	-12.2%	-9.3%
Gross Margin	39.4%	40.8%	40.8%	40.5%	40.8%	40.8%	-1.1 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	13.4%	14.9%	16.1%	16.0%	16.7%	17.5%	-2.6 ppt	-1.8 ppt	-1.4 ppt

Source: CMBIGM estimates

Valuation: target price of US\$141.2 per ADS

Our target price of US\$141.2 comprises, per ADS:

- 1) US\$65.4 (was US\$79.1) for Taobao and Tmall Group, based on an unchanged 8.0x FY26E EV/adj. EBITA. The lowering of valuation is mainly due to lower earnings forecast after accounting for incremental impact from investment to support instant commerce business growth;
- 2) US\$13.9 for AIDC (was US\$14.0), based on an unchanged 1.5x EV/revenue multiple;
- 3) US\$4.5 for Local Services Group (unchanged), based on an unchanged 1.0x FY26E EV/revenue multiple;
- 4) US\$2.8 for Cainiao (unchanged), based on the latest valuation given by Alibaba to repurchase Cainiao shares from minority shareholders, and Alibaba's current 63.7% shareholding on a fully diluted basis;
- 5) US\$34.3 for the Cloud Intelligence Group (was US\$33.8), based on an unchanged 4.0x EV/revenue multiple on FY26E revenue;
- 6) US\$1.0 for Digital Media and Entertainment Group (unchanged) based on an unchanged 0.7x EV/revenue multiple;
- 7) US\$8.2 for All Others (was US\$9.5), based on an unchanged 1.0x EV/revenue multiple; the lowering in valuation mainly reflects deconsolidation of Sun Art and Intime given the sale of the businesses;
- 8) US\$11.1 per ADS (was US\$10.9) for strategic investments with a 30% holding discount.

Our new SOTP-based target price translates into 17.4x/14.1x FY26E/FY27E PE (non-GAAP).

Figure 2: Alibaba: SOTP valuation

#	Segment (USDmn)	Valuation method	Rev (USDmn)	Adj. EBITA post tax (USDmn)	P/E (x)	EV/S (x)	Val. Rmb mn	Val. US\$m	\$/share	Value split
1	Taobao and Tmall Group	8.0x FY26E P/E; 20% tax rate on adjusted EBITA	67,443	19,148	8.0		1,102,925	153,184	65.4	46%
2	International Digital Commerce Group	1.5x FY26E EV/S	21,635			1.5	233,653	32,452	13.9	10%
3	Local Services Group	1.0x FY26E EV/S	10,527			1.0	75,796	10,527	4.5	3%
4	Cainiao Smart Logistics Network Limited	Last round transaction value; 63.7% shareholding	12,800				47,380	6,581	2.8	2%
5	Cloud Intelligence Group	4.0x FY26E EV/S on revenue before intersegment elimination	20,067			4.0	577,935	80,269	34.3	24%
6	Digital Media and Entertainment Group	0.7x FY26E EV/S, inline with iQIYI trading EV/S	3,224			0.7	16,249	2,257	1.0	1%
7	All others	1.0x FY26E EV/S	20,315			1.0	138,956	19,299	8.2	6%
Total Alibaba business							2,192,893	304,568	130.0	
INVESTMENTS										
1	Ant Group	Last round share buyback valuation; 33% share holding					187,143	25,992	11.1	
2	Others	Market valuation					81,203	11,278	4.8	
Total investment (with 30% holding discount)									11.1	8%
Total (US\$m)									141.2	
#s of diluted ADS (mn)									2,342	

Source: CMBIGM estimates

Risks

- 1) Investments for driving business growth pose a more severe impact on margin than we expect;
- 2) Consumption recovery takes longer than we expect.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Revenue	868,687	941,168	996,347	1,020,327	1,097,407	1,163,181
Cost of goods sold	(549,695)	(586,323)	(598,285)	(618,318)	(649,665)	(688,603)
Gross profit	318,992	354,845	398,062	402,009	447,742	474,578
Operating expenses	(218,641)	(241,495)	(257,157)	(280,958)	(291,209)	(284,236)
SG&A expense	(145,679)	(157,126)	(188,260)	(218,350)	(226,066)	(217,515)
R&D expense	(56,744)	(52,256)	(57,151)	(56,486)	(58,558)	(59,742)
Others	(16,218)	(32,113)	(11,746)	(6,122)	(6,584)	(6,979)
Operating profit	100,351	113,350	140,905	121,051	156,534	190,342
Interest income	(11,071)	(9,964)	20,759	20,407	21,729	22,798
Interest expense	(5,918)	(7,947)	(9,596)	(9,827)	(10,021)	(10,621)
Other income/expense	5,823	6,157	3,387	5,612	5,487	5,583
Pre-tax profit	89,185	101,596	155,455	137,242	173,729	208,103
Income tax	(15,549)	(22,529)	(35,445)	(30,468)	(40,826)	(52,026)
Others	(8,063)	(7,735)	5,966	5,102	5,487	5,816
After tax profit	65,573	71,332	125,976	111,876	138,389	161,893
Minority interest	7,210	8,677	4,133	4,232	4,552	4,825
Others	(274)	(268)	(639)	0	0	0
Net profit	72,509	79,741	129,470	116,109	142,942	166,718
Adjusted net profit	143,991	158,359	158,095	136,515	163,792	187,655
BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Current assets	697,966	752,864	674,049	773,995	838,383	924,555
Cash & equivalents	193,086	248,125	145,487	294,559	348,482	426,018
Restricted cash	36,424	38,299	43,781	43,781	43,781	43,781
Prepayment	137,072	143,536	202,175	153,049	163,514	172,151
Financial assets at FVTPL	331,384	322,904	282,606	282,606	282,606	282,606
Non-current assets	1,055,078	1,011,965	1,130,178	1,347,619	1,474,708	1,602,625
PP&E	176,031	185,161	203,348	430,374	542,539	656,123
Investment in JVs & assos	207,380	203,131	210,169	222,309	234,834	247,688
Intangibles	46,913	26,950	20,911	23,439	23,562	23,683
Goodwill	268,091	259,679	255,501	255,501	255,501	255,501
Financial assets at FVTPL	245,737	220,942	356,818	356,818	356,818	356,818
Other non-current assets	110,926	116,102	83,431	59,179	61,455	62,812
Total assets	1,753,044	1,764,829	1,804,227	2,121,614	2,313,091	2,527,180
Current liabilities	385,351	421,507	435,346	399,797	433,040	464,349
Short-term borrowings	7,466	12,749	22,562	23,317	24,500	25,968
Tax payable	12,543	9,068	11,638	24,984	32,253	39,540
Other current liabilities	89,392	101,807	68,609	70,906	74,501	78,966
Accrued expenses	275,950	297,883	332,537	280,590	301,787	319,875
Non-current liabilities	244,772	230,723	278,775	282,340	287,918	294,848
Long-term borrowings	52,023	55,686	49,909	49,909	49,909	49,909
Deferred income	3,560	4,069	4,536	4,688	4,926	5,221
Other non-current liabilities	189,189	170,968	224,330	227,743	233,084	239,718
Total liabilities	630,123	652,230	714,121	682,138	720,959	759,196
Share capital	1	1	1	1	1	1
Capital surplus	416,880	397,999	381,379	405,346	419,613	433,571
Retained earnings	599,028	597,897	645,478	925,255	1,068,196	1,234,914
Other reserves	(16,394)	1,375	(5,287)	2,511	2,511	2,511
Total shareholders equity	999,515	997,272	1,021,571	1,333,113	1,490,321	1,670,997
Minority interest	123,406	115,327	68,535	106,364	101,811	96,986
Total equity and liabilities	1,753,044	1,764,829	1,804,227	2,121,614	2,313,091	2,527,180

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	89,185	101,596	155,455	137,242	173,729	208,103
Depreciation & amortization	46,938	44,504	42,459	14,672	15,134	15,529
Tax paid	(15,549)	(22,529)	(35,445)	(30,468)	(40,826)	(52,026)
Change in working capital	13,482	(13,749)	(23,988)	97,390	22,097	23,295
Others	65,696	72,771	25,028	16,075	17,068	17,439
Net cash from operations	199,752	182,593	163,509	234,911	187,201	212,339
Investing						
Capital expenditure	(34,330)	(32,087)	(85,972)	(117,338)	(120,715)	(122,134)
Acquisition of subsidiaries/ investments	(22)	(842)	0	(6,000)	(6,708)	(7,100)
Net proceeds from disposal of short-term investments	(61,086)	71,426	23,395	0	0	0
Others	(40,068)	(60,321)	(122,838)	(7,038)	(7,038)	(7,038)
Net cash from investing	(135,506)	(21,824)	(185,415)	(130,376)	(134,461)	(136,272)
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	11	843	10	0	0	0
Share repurchases	(74,746)	(88,745)	(86,662)	0	0	0
Others	9,116	(20,342)	10,437	755	1,182	1,468
Net cash from financing	(65,619)	(108,244)	(76,215)	755	1,182	1,468
Net change in cash						
Cash at the beginning of the year	227,353	229,510	286,424	189,268	294,559	348,482
Exchange difference	3,530	4,389	965	0	0	0
Cash at the end of the year	229,510	286,424	189,268	294,559	348,482	426,018
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Revenue	1.8%	8.3%	5.9%	2.4%	7.6%	6.0%
Gross profit	1.7%	11.2%	12.2%	1.0%	11.4%	6.0%
Operating profit	44.1%	13.0%	24.3%	(14.1%)	29.3%	21.6%
Net profit	17.0%	10.0%	62.4%	(10.3%)	23.1%	16.6%
Adj. net profit	0.3%	10.0%	(0.2%)	(13.6%)	20.0%	14.6%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Gross profit margin	36.7%	37.7%	40.0%	39.4%	40.8%	40.8%
Operating margin	11.6%	12.0%	14.1%	11.9%	14.3%	16.4%
Adj. net profit margin	16.6%	16.8%	15.9%	13.4%	14.9%	16.1%
Return on equity (ROE)	7.4%	8.0%	12.8%	9.9%	10.1%	10.5%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Net debt to equity (x)	(0.4)	(0.4)	(0.2)	(0.3)	(0.3)	(0.3)
Current ratio (x)	1.8	1.8	1.5	1.9	1.9	2.0
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
P/E	27.0	23.6	13.5	14.6	11.5	9.9
P/E (diluted)	27.1	23.8	13.9	15.0	11.9	10.2
P/B	2.0	1.9	1.8	1.3	1.1	1.0
P/CFPS	11.9	12.6	23.2	14.9	25.5	18.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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