

Alibaba (BABA US)

Quick commerce investment peaked out; accelerating AI adoption

For 2QFY26E (March year-end), we expect Alibaba Group Holding (Alibaba) to deliver revenue growth of 2% YoY, broadly inline with Bloomberg consensus, with customer management revenue (CMR) and Cloud Intelligence Group (CIG) revenue growth standing at 10% and 30%, respectively. Although we have baked in the RMB37.4bn impact on adjusted EBITA from investment in quick commerce (QC) business, we believe the investment should have peaked out in 2QFY26 and its impact on earnings will start to fade in 3QFY26E as QC is on track to halve unit economics loss by end-Oct 2025. We fine-tune our target price to US\$209.4 (was US\$210.3) to reflect adjustments in earnings forecast. Alibaba remains one of the key beneficiaries under the AI theme, in our view, and both its capex investment and investment to accelerate AI adoption internally and externally should propel revenue and earnings growth over the long run. Maintain BUY.

- **2QFY26 preview.** We estimate Alibaba achieved 2QFY26 revenue of RMB241.2bn, up 2% YoY, broadly inline with Bloomberg consensus, and adjusted EBITA of RMB6.1bn, down 85% YoY due to the investment in QC, and investment to accelerate AI adoption in various AI-native and AI-empowered apps such as Quark and Amap. We are looking for non-GAAP net profit of RMB11.2bn for 2QFY26, down 69% YoY.
- **Quick commerce investment likely peaked out.** For Alibaba China E-commerce Group (ACEG) segment, we are estimating 10% YoY growth in revenue, and adjusted EBITA of RMB8.7bn, within which we have baked in an RMB37.4bn drag from investment in QC. Within ACEG, we are looking for 10% YoY growth for CMR, backed by 8% YoY increase in GMV and increase in take rate driven by a rise in penetration of Quanzhantui.
- **Cloud revenue growth could further accelerate.** We are looking for 30% YoY revenue growth for CIG in 2QFY26 (1QFY26: 26%), aided by both the increased adoption of AI-related products and digitalization demand. In addition, we estimate adjusted EBITA of RMB3.4bn for CIG, translating into 8.8% adjusted EBITA margin (2QFY25: 9.0%). Although capex investment may see some fluctuations between quarters, the three-year capex plan of RMB380bn is well on track, in our view, and our forecast of 30% revenue CAGR for CIG over FY25-28E remains unchanged.
- **Accelerating AI adoption across businesses.** Alibaba is escalating its investment in AI-native apps and AI-empowered apps, such as Amap and DingTalk, which will likely drag near-term earnings growth but should benefit long-term revenue and earnings growth, in our view. We estimate adjusted EBITA loss generated from All Others segment to reach RMB5.0bn in 2QFY26, widening from RMB1.4bn in 1QFY26.

Earnings Summary

(YE 31 Mar)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	941,168	996,347	1,026,003	1,139,610	1,257,614
YoY growth (%)	8.3	5.9	3.0	11.1	10.4
Net profit (RMB mn)	79,741.0	129,470.0	103,346.6	128,220.0	167,928.7
Adjusted net profit (RMB mn)	158,359.0	158,095.0	107,915.6	146,453.7	186,792.9
YoY growth (%)	10.0	(0.2)	(31.7)	35.7	27.5
EPS (Adjusted) (RMB)	62.77	67.31	47.36	66.27	84.52
Consensus EPS (RMB)	na	65.41	50.22	71.19	85.63
P/E (x)	39.2	22.5	27.3	21.3	16.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$209.40
 (Previous TP) US\$210.30
Up/Downside 20.6%
Current Price US\$173.68

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Ye TAO, CFA
 franktao@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Joanna Ma
 (852) 3761 8838
 joannama@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	406,812.0
Avg 3 mths t/o (US\$ mn)	746.2
52w High/Low (US\$)	189.34/80.53
Total Issued Shares (mn)	2342.3

Source: FactSet

Shareholding Structure

JPMorgan	2.3%
Parufam Limited	0.8%

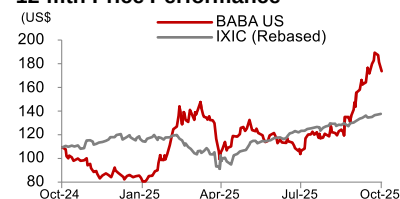
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	20.7%	14.7%
3-mth	62.9%	45.9%
6-mth	66.7%	18.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Revision of forecast and valuation

We nudge up FY26-28E revenue forecast by 0.4-0.8% to factor in slightly better assumption in revenue forecast for All Others segment, while we cut FY26-28E non-GAAP net profit forecast by 5-15% to account for likely wider-than-previously expected investment in QC business, as well as escalated investment to support business development of AI-native apps and AI-empowered apps.

Figure 1: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	1,026.0	1,139.6	1,257.6	1,021.5	1,132.7	1,247.8	0.4%	0.6%	0.8%
Gross profit	461.7	512.8	565.9	459.7	509.7	561.5	0.4%	0.6%	0.8%
Non-GAAP net profit	107.9	146.5	186.8	127.6	167.2	195.6	-15.4%	-12.4%	-4.5%
Gross margin	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	0.0 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	10.5%	12.9%	14.9%	12.5%	14.8%	15.7%	-2.0 ppt	-1.9 ppt	-0.8 ppt

Source: CMBIGM estimates

Figure 2: Alibaba: CMBI forecast vs Bloomberg consensus

RMB bn	CMBI			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	1,026.0	1,139.6	1,257.6	1040.0	1152.7	1263.4	-1.3%	-1.1%	-0.5%
Gross profit	461.7	512.8	565.9	439.3	489.0	539.0	5.1%	4.9%	5.0%
Non-GAAP net profit	107.9	146.5	186.8	122.9	163.8	195.1	-12.2%	-10.6%	-4.3%
Gross margin	45.0%	45.0%	45.0%	42.2%	42.4%	42.7%	2.8 ppt	2.6 ppt	2.3 ppt
Non-GAAP net margin	10.5%	12.9%	14.9%	11.8%	14.2%	15.4%	-1.3 ppt	-1.4 ppt	-0.6 ppt

Source: Bloomberg, CMBIGM estimates

Valuation: target price of US\$209.4 per ADS

Our SOTP valuation is lifted to US\$209.4 per ADS, which comprises:

- 1) US\$88.5 for ACEG, based on a 12.0x FY28E EV/adj. EBITA and discounted back to FY26 at WACC of 11.0% (was US\$89.7 based on 12.0x FY28E EV/adj. EBITA); the tweak in valuation is mainly driven by adjustment in segment earnings forecast;
- 2) US\$13.9 for AIDC (was US\$14.0), based on an unchanged 1.5x EV/revenue multiple on FY26E revenue forecast;
- 3) US\$81.0 for the Cloud Intelligence Group (unchanged), based on an unchanged 7.5x EV/revenue multiple on FY27E revenue and discounted back to FY26E at WACC of 11.0%;
- 4) US\$14.9 for All Others (was US\$14.6), based on an unchanged 1.0x FY26E EV/revenue multiple;
- 5) US\$11.1 per ADS (unchanged) for strategic investments with a 30% holding discount.

Our new SOTP-based target price translates into 23.4/18.3x FY27/28E PE (non-GAAP).

Figure 3: 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	\$/ADS	Value split
1	Alibaba China E-commerce Group	12x FY28E EV/EBITA; assume 20% tax rate on adjusted EBITA; discount back with 11% WACC		21,273	12.0		1,491,753	207,188	88.5	42%
2	International Digital Commerce Group	1.5x FY26E EV/S	21,678			1.5	234,118	32,516	13.9	7%
3	Cloud Intelligence Group	7.5x FY27E EV/S on revenue before intersegment elimination; discount back with 11% WACC	28,094			7.5	1,366,741	189,825	81.0	39%
4	All others	1.0x FY26E EV/S	34,914			1.0	251,384	34,914	14.9	7%
Total Alibaba business							3,343,996	464,444	198.3	
INVESTMENTS										
1	Ant Group	Last round share buyback valuation; 33% share holding					187,143	25,992	11.1	
2	Others	Market valuation					79,526	11,045	4.7	
Total investment (with 30% holding discount)									11.1	5%
Total (US\$m)									209.4	
#s of diluted ADS (mn)									2,342	

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Revenue	868,687	941,168	996,347	1,026,003	1,139,610	1,257,614
Cost of goods sold	(549,695)	(586,323)	(598,285)	(564,302)	(626,785)	(691,688)
Gross profit	318,992	354,845	398,062	461,701	512,824	565,926
Operating expenses	(218,641)	(241,495)	(257,157)	(370,238)	(376,071)	(376,027)
SG&A expense	(145,679)	(157,126)	(188,260)	(303,697)	(304,276)	(298,054)
R&D expense	(56,744)	(52,256)	(57,151)	(63,612)	(68,377)	(74,199)
Others	(16,218)	(32,113)	(11,746)	(2,929)	(3,419)	(3,773)
Operating profit	100,351	113,350	140,905	91,463	136,753	189,900
Interest income	(11,071)	(9,964)	20,759	32,832	26,211	28,674
Interest expense	(5,918)	(7,947)	(9,596)	(9,882)	(10,406)	(11,484)
Other income/expense	5,823	6,157	3,387	5,100	5,665	6,251
Pre-tax profit	89,185	101,596	155,455	119,514	158,223	213,341
Income tax	(15,549)	(22,529)	(35,445)	(25,098)	(37,182)	(53,335)
Others	(8,063)	(7,735)	5,966	5,130	5,698	6,288
After tax profit	65,573	71,332	125,976	99,546	126,738	166,294
Minority interest	7,210	8,677	4,133	1,334	1,481	1,635
Others	(274)	(268)	(639)	2,467	0	0
Net profit	72,509	79,741	129,470	103,347	128,220	167,929
Adjusted net profit	143,991	158,359	158,095	107,916	146,454	186,793
BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Current assets	697,966	752,864	674,049	731,873	785,565	868,892
Cash & equivalents	193,086	248,125	145,487	251,586	289,376	356,378
Restricted cash	36,424	38,299	43,781	43,781	43,781	43,781
Prepayment	137,072	143,536	202,175	153,900	169,802	186,127
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	1,350,115	1,498,654	1,661,764
PP&E	176,031	185,161	203,348	429,468	557,672	700,036
Investment in JVs & assos	207,380	203,131	210,169	222,337	235,073	248,399
Intangibles	46,913	26,950	20,911	26,483	29,772	33,099
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	59,508	63,818	67,911
Total assets	1,753,044	1,764,829	1,804,227	2,081,988	2,284,219	2,530,655
Current liabilities	385,351	421,507	435,346	388,723	438,281	491,783
Short-term borrowings	7,466	12,749	22,562	21,280	23,637	26,084
Tax payable	12,543	9,068	11,638	20,580	29,374	40,535
Other current liabilities	89,392	101,807	68,609	64,712	71,877	79,320
Accrued expenses	275,950	297,883	332,537	282,151	313,393	345,844
Non-current liabilities	244,772	230,723	278,775	272,727	283,847	295,396
Long-term borrowings	52,023	55,686	49,909	49,909	49,909	49,909
Deferred income	3,560	4,069	4,536	4,278	4,752	5,244
Other non-current liabilities	189,189	170,968	224,330	218,540	229,186	240,243
Total liabilities	630,123	652,230	714,121	661,451	722,128	787,179
Share capital	1	1	1	1	1	1
Capital surplus	416,880	397,999	381,379	398,738	413,553	428,644
Retained earnings	599,028	597,897	645,478	910,026	1,038,246	1,206,174
Other reserves	(16,394)	1,375	(5,287)	2,511	2,511	2,511
Total shareholders equity	999,515	997,272	1,021,571	1,311,275	1,454,310	1,637,330
Minority interest	123,406	115,327	68,535	109,262	107,781	106,146
Total equity and liabilities	1,753,044	1,764,829	1,804,227	2,081,988	2,284,219	2,530,656

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	89,185	101,596	155,455	119,514	158,223	213,341
Depreciation & amortization	46,938	44,504	42,459	11,628	11,969	12,323
Tax paid	(15,549)	(22,529)	(35,445)	(25,098)	(37,182)	(53,335)
Change in working capital	13,482	(13,749)	(23,988)	82,388	32,524	36,385
Others	65,696	72,771	25,028	11,326	20,400	20,893
Net cash from operations	199,752	182,593	163,509	199,758	185,933	229,606
Investing						
Capital expenditure	(34,330)	(32,087)	(85,972)	(123,120)	(136,753)	(150,914)
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)	(136,158)	(150,499)	(165,052)
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	(1,282)	2,356	2,448
Net cash from financing	(65,619)	(108,244)	(76,215)	(1,282)	2,356	2,448
Net change in cash						
Cash at the beginning of the year	227,353	229,510	286,424	189,268	251,586	289,376
Exchange difference	3,530	4,389	965	0	0	0
Cash at the end of the year	229,510	286,424	189,268	251,586	289,376	356,378
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Revenue	1.8%	8.3%	5.9%	3.0%	11.1%	10.4%
Gross profit	1.7%	11.2%	12.2%	16.0%	11.1%	10.4%
Operating profit	44.1%	13.0%	24.3%	(35.1%)	49.5%	38.9%
Net profit	17.0%	10.0%	62.4%	(20.2%)	24.1%	31.0%
Adj. net profit	0.3%	10.0%	(0.2%)	(31.7%)	35.7%	27.5%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Gross profit margin	36.7%	37.7%	40.0%	45.0%	45.0%	45.0%
Operating margin	11.6%	12.0%	14.1%	8.9%	12.0%	15.1%
Adj. net profit margin	16.6%	16.8%	15.9%	10.5%	12.9%	14.9%
Return on equity (ROE)	7.4%	8.0%	12.8%	8.9%	9.3%	10.9%
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	1.8	1.8
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
P/E	44.8	39.2	22.5	27.3	21.3	16.3
P/E (diluted)	45.0	39.5	23.1	28.0	21.9	16.7
P/B	3.3	3.2	2.9	2.2	1.9	1.7
P/CFPS	19.7	20.9	38.5	37.8	57.2	35.7

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.