

Alibaba (BABA US)

Fundamentals on constant recovery track

Alibaba's core China marketplace GMV is on a stable recovery track which is likely to be better than consensus in 1QFY24 (March year-end), aided by discretionary consumption recovery and a low base. Also, Alibaba's strategic move to enhance merchant ROI and customer experience should gradually bear fruit. Recovery in YoY revenue growth for cloud business is likely in a mild pace, since demand recovery takes time. With all of the business lines strive to drive for business growth in an efficient way, overall adjusted EBITA in 1QFY24 could be better than consensus. Our 1QFY24 revenue/adjusted EBITA forecast for Alibaba was 2/5% better than Bloomberg consensus. Maintain SOTP-based target price at US\$156.6 and BUY rating.

- **1QFY24 preview.** We forecast 1QFY24 total revenue of RMB226.0bn, up 10% YoY and was 2% ahead of Bloomberg consensus, as we are estimating higher than consensus revenue generated from customer management revenue (CMR) and international commerce business. We forecast total adjusted EBITA of RMB39.3bn for 1QFY24, 5% better than consensus, thanks to higher CMR forecast and effective cost control.
- **CMR growth likely better than consensus estimate.** We forecast Alibaba's 1QFY24 CMR to reach RMB77.8bn, up 8% YoY, inline with its China marketplace GMV growth, thanks to low base effect and Alibaba's strategic move to enhance merchant ROI and customer experience, which we believe should gradually bear fruit. For local consumer services, we are forecasting adjusted EBITA loss of RMB2.9bn, slightly better than consensus, driven by ongoing efforts in improving operating efficiency. Overall, we are forecasting adjusted EBITA of RMB47.7bn for China commerce business segment, 3% better than consensus, translating into 31.5% adjusted EBITA margin (1QFY23: 30.7%). Margin drag from additional investment in Taobao & Tmall could be milder than our previous expectation given early-stage adjustment centres on traffic allocation.
- **International commerce revenue likely to maintain fast growth.** We forecast international commerce business achieved revenue growth of 36% YoY, with total revenue reaching RMB21.0bn in 1QFY24, driven by Alibaba Express (AE) Choice and robust revenue growth of Trendyol. Boosted by the optimization of logistics and fulfilment cost, as well as improvement in take rate for Lazada, we forecast adjusted EBITA loss of RMB1.2bn for international commerce business.
- **Cloud revenue growth on mild recovery trend.** We forecast cloud revenue to reach RMB18.3bn in 1QFY24, demonstrating a mild recovery in YoY growth to 4% (1QFY23: 10%; 4QFY23: -2%), due to: 1) slow demand recovery for private cloud business and delay in project deployment of hybrid cloud business; and 2) price cut for certain cloud services offerings for SME clients. However, we are expecting public cloud revenue to maintain healthy growth, and believe further recovery in client demand along with recovery in macro and IT spending should drive further recovery of Alibaba Cloud revenue growth in 2H23.

Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	853,062	868,687	963,125	1,048,813	1,122,311
Net profit (RMB mn)	61,959.0	72,509.0	119,042.2	128,332.7	137,864.7
Adjusted net profit (RMB mn)	143,515.0	143,991.0	163,345.9	175,529.3	187,246.4
EPS (Adjusted) (RMB)	53.26	54.91	62.22	66.80	71.19
Consensus EPS (RMB)			59.11	66.51	79.96
P/E (x)	46.5	23.0	14.4	13.4	12.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$156.60**
 Up/Downside **72.9%**
 Current Price **US\$90.55**

China Internet

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

Ye TAO
 franktao@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	239,223.1
Avg 3 mths t/o (US\$ mn)	1,589.7
52w High/Low (US\$)	120.90/63.15
Total Issued Shares (mn)	2641.9

Source: FactSet

Shareholding Structure

SoftBank	23.9%
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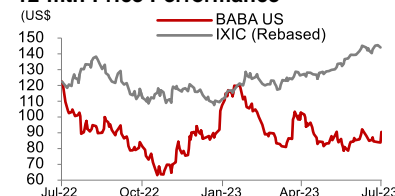
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.2%	3.2%
3-mth	-11.9%	-22.0%
6-mth	-15.7%	-34.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Valuation: target price of US\$156.6 per ADS

Our SOTP-based target price is US\$156.6 per ADS, and translates into 17.5x FY24E PE.

- 1) US\$104.7 per ADS for BABA's core commerce business (excluding cloud, local consumer services, and Cainiao), based on a DCF valuation (WACC of 11.7% and terminal growth of 2%);
- 2) US\$25.1 per ADS for the cloud business, based on a 5.2x PS multiple on FY24E revenue. The 5.2x PS multiple is lower than comparable peers at 7.8x 2023E PE due to slower cloud revenue growth in the near term.
- 3) US\$6.7 per ADS for Cainiao, based on the transaction in the most recent round of financing and Alibaba's 63% shareholding.
- 4) US\$5.5 per ADS for local consumer services, based on a 1.7x PS on FY24E revenue, inline with the FY24E valuation multiple implied in our previous valuation. The 1.7x PS implies a discount to the current trading 2023E PS of 2.5x for Meituan, as Ele.me has a relatively smaller market share.
- 5) US\$14.7 per ADS for strategic investment with 30% holding discount.

Figure 1: Alibaba: SOTP valuation

Business	Method	Target PS	Valuation (USDmn)	Valuation per ADS (USD)	As % of total valuation
Core business (ex-cloud, Cainiao, and local consumer services)	DCF		276,521	104.7	66.8
Cainiao	Last round financing valuation, 63% shareholding		17,664	6.7	4.3
Local consumer services	PS, based on FY24 revenue	1.7	14,468	5.5	3.5
Alibaba Cloud	PS, based on FY24 revenue	5.2	66,309	25.1	16.0
Strategic investments	Market valuation, 30% holding discount applied to all investment		38,856	14.7	9.4
Total			413,818	156.6	

Source: CMBIGM estimates

Figure 2: Cloud computing: peers valuation comps

Companies	Ticker	Price	Revenue growth (YoY%)			PS(x)		
		(US\$)	2023E	2024E	2025E	2023E	2024E	2025E
Microsoft	MSFT US	337.2	8.9	11.7	13.5	11.2	10.0	8.9
Google	GOOG US	120.1	6.1	10.4	11.6	6.1	5.6	5.0
Salesforce	CRM US	209.6	11.8	10.9	10.9	5.9	5.3	4.8
Average						7.8	7.0	6.2

Source: Bloomberg, CMBIGM

Note: data as of 7 July 2023

Figure 3: Food delivery: peers valuation comps

Companies	Ticker	Revenue growth (YoY%)			PS (x)		
		2023E	2024E	2025E	2023E	2024E	2025E
Meituan	3690 HK	20.9	23.1	19.8	2.5	2.0	1.7
DoorDash	DASH US	26.5	16.5	15.8	3.7	3.2	2.7
Delivery Hero	DSHE GR	11.7	17.4	17.9	1.0	0.9	0.8
Just Eat Takeaway	TKWY NA	2.5	7.4	7.4	0.5	0.5	0.5
Average					1.9	1.6	1.4

Source: Bloomberg, CMBIGM

Note: data as of 7 July 2023

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Revenue	717,289	853,062	868,687	963,125	1,048,813	1,122,311
Cost of goods sold	(421,205)	(539,450)	(549,695)	(612,547)	(668,094)	(716,034)
Gross profit	296,084	313,612	318,992	350,577	380,719	406,277
Operating expenses	(206,406)	(243,974)	(218,641)	(233,076)	(250,666)	(265,988)
SG&A expense	(136,743)	(151,721)	(145,679)	(159,879)	(172,005)	(181,814)
R&D expense	(57,236)	(55,465)	(56,744)	(61,640)	(66,075)	(70,706)
Others	(12,427)	(36,788)	(16,218)	(11,557)	(12,586)	(13,468)
Operating profit	89,678	69,638	100,351	117,501	130,053	140,289
Interest income	72,794	(15,702)	(11,071)	7,705	8,391	8,754
Interest expense	(4,476)	(4,909)	(5,918)	(6,742)	(6,083)	(6,734)
Other income/expense	7,582	10,523	5,823	6,742	5,768	6,173
Pre-tax profit	165,578	59,550	89,185	125,206	138,129	148,482
Income tax	(29,278)	(26,815)	(15,549)	(22,537)	(27,626)	(29,696)
Others	6,984	14,344	(8,063)	8,668	9,439	10,101
After tax profit	143,284	47,079	65,573	111,337	119,942	128,886
Minority interest	7,294	15,170	7,210	7,705	8,391	8,978
Others	(270)	(290)	(274)	0	0	0
Net profit	150,308	61,959	72,509	119,042	128,333	137,865
Adjusted net profit	178,954	143,515	143,991	163,346	175,529	187,246
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Current assets	643,360	638,535	697,966	909,096	1,021,467	1,177,434
Cash & equivalents	321,262	189,898	193,086	394,893	495,289	641,279
Restricted cash	35,207	37,455	36,424	36,424	36,424	36,424
Prepayment	124,708	145,995	137,072	146,395	158,371	168,347
Financial assets at FVTPL	162,183	265,187	331,384	331,384	331,384	331,384
Non-current assets	1,046,858	1,057,018	1,055,078	1,140,962	1,184,494	1,228,274
PP&E	147,412	171,806	176,031	244,702	269,274	295,363
Investment in JVs & assos	200,189	219,642	207,380	203,786	200,963	198,802
Intangibles	70,833	59,231	46,913	118,932	137,500	155,186
Goodwill	292,771	269,581	268,091	268,091	268,091	268,091
Financial assets at FVTPL	237,221	223,611	245,737	245,737	245,737	245,737
Other non-current assets	98,432	113,147	110,926	59,714	62,929	65,094
Total assets	1,690,218	1,695,553	1,753,044	2,050,058	2,205,961	2,405,708
Current liabilities	377,358	383,784	385,351	428,366	423,792	452,902
Short-term borrowings	3,606	8,841	7,466	8,320	9,074	9,725
Tax payable	25,275	21,753	12,543	19,833	23,482	24,351
Other current liabilities	87,337	81,730	89,392	94,264	102,812	110,190
Accrued expenses	261,140	271,460	275,950	305,949	288,423	308,636
Non-current liabilities	229,226	229,576	244,772	223,660	229,585	235,422
Long-term borrowings	38,335	38,244	52,023	52,023	51,186	51,186
Deferred income	3,158	3,490	3,560	3,967	4,327	4,637
Other non-current liabilities	187,733	187,842	189,189	167,670	174,073	179,599
Total liabilities	606,584	613,360	630,123	652,026	653,377	688,323
Share capital	1	1	1	1	1	1
Capital surplus	394,308	410,506	416,880	561,748	596,359	632,273
Retained earnings	554,924	563,557	599,028	718,070	846,403	984,268
Other reserves	(3,090)	(15,930)	(16,394)	2,511	2,511	2,511
Total shareholders equity	946,143	958,134	999,515	1,282,330	1,445,274	1,619,052
Minority interest	137,491	124,059	123,406	115,701	107,311	98,332
Total equity and liabilities	1,690,218	1,695,553	1,753,044	2,050,058	2,205,961	2,405,708

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	165,578	59,550	89,185	125,206	138,129	148,482
Depreciation & amortization	47,909	48,065	31,661	33,239	41,504	42,372
Tax paid	(29,278)	(26,815)	(15,549)	(22,537)	(27,626)	(29,696)
Change in working capital	50,297	(18,150)	9,395	64,266	(16,827)	19,504
Others	(2,720)	80,109	85,060	36,220	37,681	38,563
Net cash from operations	231,786	142,759	199,752	236,393	172,861	219,225
Investing						
Capital expenditure	(41,450)	(3,412)	(4,343)	(4,816)	(5,244)	(5,612)
Acquisition of subsidiaries/ investments	(1,735)	(15)	(29,664)	(31,154)	(31,154)	(31,154)
Net proceeds from disposal of short-term investments	(114,826)	(106,984)	69,978	0	0	0
Others	(86,183)	(88,181)	(171,476)	(35,894)	(35,983)	(37,120)
Net cash from investing	(244,194)	(198,592)	(135,506)	(71,864)	(72,382)	(73,885)
Financing						
Net borrowings	32,008	0	0	0	0	0
Proceeds from share issues	175	109	6,374	0	0	0
Share repurchases	(773)	(61,225)	0	0	0	0
Others	(1,328)	(3,333)	(71,993)	854	(83)	651
Net cash from financing	30,082	(64,449)	(65,619)	854	(83)	651
Net change in cash						
Cash at the beginning of the year	345,982	356,469	227,353	229,510	394,893	495,289
Exchange difference	(7,187)	(8,834)	3,530	0	0	0
Cash at the end of the year	356,469	227,353	229,510	394,893	495,289	641,279
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Revenue	na	18.9%	1.8%	10.9%	8.9%	7.0%
Gross profit	na	5.9%	1.7%	9.9%	8.6%	6.7%
Operating profit	na	(22.3%)	44.1%	17.1%	10.7%	7.9%
Net profit	na	(58.8%)	17.0%	64.2%	7.8%	7.4%
Adj. net profit	na	(19.8%)	0.3%	13.4%	7.5%	6.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Gross profit margin	41.3%	36.8%	36.7%	36.4%	36.3%	36.2%
Operating margin	12.5%	8.2%	11.6%	12.2%	12.4%	12.5%
Adj. net profit margin	24.9%	16.8%	16.6%	17.0%	16.7%	16.7%
Return on equity (ROE)	na	6.5%	7.4%	10.4%	9.4%	9.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.7	1.7	1.8	2.1	2.4	2.6
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
P/E	30.2	46.5	23.0	14.4	13.4	12.5
P/E (diluted)	30.7	47.0	23.2	14.5	13.5	12.6
P/B	4.9	3.0	1.7	1.3	1.2	1.1
P/CFPS	24.2	20.9	8.6	7.5	10.3	8.1

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

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CMB International Global Markets Limited

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

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