21 Aug 2026

CMB International Global Markets | Equity Research | Company Flash Note

招银国际 CMB INTERNATIONAL
招商银行全资附属机构 A Wholly Owned Subsidiary Of China Merchants Bank

Alibaba (BABA US)

Strong cloud growth prospects with clear ROIC visibility

FLASH

Rating	**BUY**
Target Price	**US$220.10**
Up/Downside	**68.6%**
Current Price	**US$130.53**

China Internet

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

Ye TAO, CFA
(852) 3850 5226
franktao@cmbi.com.hk

Wentao LU, CFA
luwentao@cmbi.com.hk

Shuyin GUO
(852) 3916 3716
guoshuyin@cmbi.com.hk

Alibaba reported 1QFY27 (March year-end) revenue of RMB269.0bn, up 8.6% YoY and in line with Visible Alpha (VA) consensus. Adjusted EBITA came in at RMB27.3bn, down 30% YoY but 7% ahead of consensus, which we attribute mainly to better-than-expected performance at Alibaba E-commerce Group (AEG). For 1QFY27, management highlighted that Alibaba Cloud's external revenue growth accelerated to 45% YoY (4QFY26: 40%) and expects the acceleration momentum to sustain in the coming quarters, supported by robust demand and continued capacity expansion. Moreover, management noted that AI-related capex can achieve a three-year payback period, with further shortening expected as AI-related product gross margins improve, supported by greater economies of scale, increased deployment of proprietary chips, and improved capital efficiency. We remain positive on Alibaba as one of the key beneficiaries of the AI theme within our coverage universe. In our view, the stable cash flow generated by AEG and Alibaba's strong balance sheet should support continued investment to capture opportunities in the AI era, while a clear path to attractive ROIC should underpin long-term shareholder returns. Maintain BUY.

- **ACCS: strong revenue growth with a solid margin expansion outlook.** AI Cloud and Compute Services (ACCS) delivered 45% YoY revenue growth in 1QFY27. Management highlighted that: 1) AI-related revenue accounted for 35% of external cloud revenue, with an annualized run rate of RMB49.5bn (US$7.3bn); and 2) ARR from AI model and app services, mainly MaaS/API revenue, recently surpassed RMB16bn in Aug, with management remaining confident in achieving its previously stated RMB30bn target by end-2026. ACCS adjusted EBITA margin reached 11.6% in 1QFY27, up 4.2ppts YoY, driven by improving economies of scale and stronger pricing power for AI-related products. For 2QFY27E, we expect: 1) ACCS revenue growth to further accelerate to over 50% YoY; 2) AI-related revenue to exceed a US$10bn annualized run rate; and 3) adjusted EBITA margin to improve further QoQ, keeping the segment on track toward management's c.20% OPM target over the next 5 years.
- **AI Labs and Applications: losses to narrow on revenue ramp-up and improving operating efficiency.** AI Labs and Applications (ALA) recorded an adjusted EBITA loss of RMB13.9bn in 1QFY27, compared with a loss of RMB3.2bn in 1QFY26, primarily due to increased investment in AI capabilities and higher inference costs associated with the Qwen app. However, we expect the adjusted EBITA loss to narrow QoQ to RMB12bn in 2QFY27E, supported by optimization of model training costs and improved inference efficiency for the Qwen app. Capex reached RMB67.7bn in 1QFY27, up 75% YoY. While capex may fluctuate depending on procurement cycles, Alibaba remains committed to investing in long-term growth opportunities. In our view, the elevated capex is justified by an increasingly visible path to an attractive ROIC.
- **AEG: stable cash flow generator supporting AI investment.** AEG adjusted EBITA declined 1% YoY to RMB39.7bn in 1QFY27, primarily due to increased investment in user experience and technology, partly offset by improved operating performance across various businesses. We believe AEG should remain a stable cash flow generator, providing meaningful funding support for Alibaba's continued AI investment.

Key business segment updates

During the quarter ended June 30, 2026, Alibaba implemented a new segment reporting structure to reflect its strategic realignment aimed at capturing greater synergies across commerce platforms, strengthening its integrated AI infrastructure offerings, and accelerating the development of AI products and services. The new structure comprises: 1) **Alibaba E-commerce Group (AEG)**, a unified group combining Alibaba China E-Commerce Group, Alibaba International Digital Commerce Group, Freshippo, and certain commerce businesses previously within Cainiao; 2) **AI Cloud and Compute Services (ACCS)**, which combines Cloud Intelligence Group with T-Head to strengthen the infrastructure and computing layer of Alibaba's full-stack AI capabilities; 3) **AI Labs and Applications (ALA)**, which brings together AI model labs, Qwen Consumer Business Group, and QwenWork, previously classified under All Others, to integrate the full value chain from AI model innovation to consumer applications and enterprise productivity solutions; and 4) **All Others**, which now mainly includes Alibaba Health, Hujing Digital Media and Entertainment Group, Amap, Lingxi Games, and other technology businesses.

AEG (71.9% of 1QFY27 revenue)

In 1QFY27, AEG generated revenue of RMB205.9bn, up 4% YoY. Within the segment, revenue from China E-commerce/China Quick Commerce/International E-commerce/Global Wholesale changed by -8%/+45%/-1%/+7% YoY, respectively. Within the China E-commerce sub-segment, customer management revenue (CMR) and Direct Sales, Logistics & Others revenue declined 7% and 10% YoY, respectively.

Within AEG, CMR revenue declined 7% YoY in 1QFY27, but grew 1% on a like-for-like basis excluding the contra-revenue impact from the new business development program, in line with consensus. Within International E-commerce, AliExpress achieved operating profitability, supported by logistics optimization and improved cost efficiency.

AEG adjusted EBITA came in at RMB39.7bn in 1QFY27, down 1% YoY, primarily due to increased investment in user experience and technology, partly offset by improved operating performance across various businesses. For 2QFY27E, we expect the YoY decline in CMR to narrow sequentially to 6%, as prior investments in user experience begin to bear fruit, which should also support an improving outlook for segment EBITA.

ACCS (16.9% of 1QFY27 revenue)

In 1QFY27, ACCS generated revenue of RMB48.4bn, up 45% YoY, primarily driven by public cloud revenue growth, including the increasing adoption of AI-related products.

ACCS adjusted EBITA reached RMB5.6bn in 1QFY27, up 133% YoY, primarily driven by strong revenue growth and improving operating efficiency, partly offset by increased investment in customer acquisition and technology innovation.

AI Labs and Applications (1.2% of 1QFY27 revenue)

Revenue from AI Labs and Applications (ALA) came in at RMB3.3bn in 1QFY27, up 16% YoY, which we believe was primarily driven by revenue growth at Quark and DingTalk.

ALA recorded an adjusted EBITA loss of RMB13.9bn in 1QFY27, compared with a loss of RMB3.2bn in 1QFY26, primarily due to increased investment in AI capabilities and higher inference costs associated with the Qwen app. However, we expect the adjusted EBITA loss to narrow QoQ to RMB12bn in 2QFY27E, supported by optimization of model training costs and improved inference efficiency for the Qwen app.

All others (10.1% of 1QFY27 revenue)

Revenue from the All Others segment came in at RMB28.8bn in 1QFY27, up 1% YoY.

The All Others segment recorded an adjusted EBITA loss of RMB3.3bn in 1QFY27, compared with a profit of RMB687mn in 1QFY26, primarily due to increased investment in technology businesses.

Risks

1) Slower-than-expected cloud revenue growth; 2) more intensified-than-expected industry competition; 3) stronger-than-expected macro headwind.

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.