

Alibaba (BABA US)

More catalysts to come

We expect Alibaba to deliver solid 1QFY21E in mid-Aug, with revenue/Non GAAP net profit +30% YoY/+16% YoY, 1%/1% above consensus. NBS data showed strong momentum of online sales in Jun (+26% YoY, vs. +22% in May). We think BABA's recovery pace in domestic market would trend better with OMS up 20% YoY in 1QFY20E, backed by upbeat "618" performance and share regain. Given better outlook, we lifted its earnings by 4.9%/5.7/6.8% in FY21/22/23E, and raised its SOTP-based TP to **US\$299** from US\$252. Waiting for more catalysts (potential stock connect & Ant Financial listing) to unlock its valuation.

- **Expecting upbeat 1QFY21E.** We expect BABA's revenue/Non GAAP net profit +30% YoY/+16% YoY in 1QFY21E, 1%/1% above consensus. By segment, we estimate ecommerce/ Cloud/ DME/ new initiatives to grow at 30%/58%/4%/59% YoY, with total non-GAAP EBITA margin at 27%. With better-than-expected ecommerce recovery and 618 promotions, we expect its core commerce to perform well and cloud & Ant business is still undervalued.
- **618 initiatives to stimulate ecommerce growth.** We expect core ecommerce rev up 30% YoY in 1QFY20E, with OMS +20% YoY (in which CMR/commission +22%/17%). Noted that China online retail sales of goods accelerated to 25.7% YoY in Jun (vs. +22% /+16% YoY in May/Apr), above market expectation, according to NBS data. Ecommerce penetration rate climbed to 25.2%, +0.9ppts QoQ. We expect BABA to strengthen its share in Jun quarter, backed by live streaming initiatives, 618 promotions, and government subsidies. Moreover, Hema mini achieved breakeven recently with beneficiary of COVID-19, a positive signal for new retail margin.
- **More catalysts to come in 2H20E.** We forecast BABA's cloud to surge 58% YoY in 1QFY20E, with long-term beneficiary from COVID-19. Given its higher growth and TAM, we think AliCloud is still undervalued (8x FY22E P/S) at 30% discount of AWS. On top of that, we believe potential stock connect & Ant Financial listing ahead would unlock its group valuation.
- **Maintain BUY.** We think BABA is well positioned to capture online consumption recovery and long term benefit from structural opportunities. We raised our earnings by 4.9%/5.7/6.8% in FY21/22/23E, and lifted SOTP-based TP from **US\$252** to **US\$299** (26.5x FY22E P/E).

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	376,844	509,711	665,470	852,020	1,042,774
YoY growth (%)	50.6	35.3	30.6	28.0	22.4
Net income (RMB mn)	93,407	132,479	166,520	217,851	265,701
EPS (RMB)	38.0	53.9	61.2	79.3	95.7
YoY growth (%)	15.6	41.8	13.6	29.5	20.8
Consensus EPS (RMB)	NA	NA	67.08	86.65	95.60
P/E (x)	45.5	32.1	28.3	21.8	18.1
P/B (x)	7.4	5.2	4.6	4.0	3.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.2	16.3	16.6	16.9	17.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$299.5
(Previous TP	US\$251.6)
Up/Downside	+21.2%
Current Price	US\$247.1

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	663,008
Avg 3 mths t/o (US\$ mn)	4,324.5
52w High/Low (US\$)	268/152
Total Issued Shares (mn)	2,683
Source: Bloomberg	

Shareholding Structure

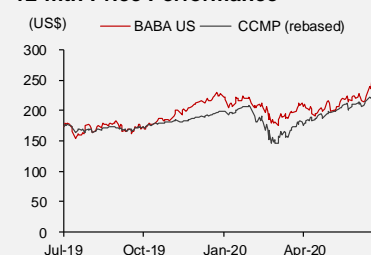
SoftBank	24.9%
Altaba Inc	14.8%
Ma Jack Yun	4.8%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	12.0%	6.1%
3-mth	18.0%	-2.8%
6-mth	8.7%	-2.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Better-than-expected ecommerce recovery – 25 May 2020
2. Solid 3QFY20; Eyes on epidemic challenges – 14 Feb 2020
3. 2QFY20E Preview: Solid results with strong core commerce – 18 Oct 2019

Figure 1: 1QFY21E financial preview

RMB mn, Mar-YE	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21E	QoQ	YoY	Consensus	Diff %
Revenue	117,278	93,498	114,924	119,017	161,456	114,314	149,654	30.9%	30.2%	147,847	1%
Operating Profit	26,798	8,765	24,375	20,364	39,560	7,131	28,177	295.1%	15.6%	27,277	3%
Net profit	33,052	25,830	19,122	72,540	52,309	3,162	22,448	609.9%	17.4%	24,589	-9%
Adj. net profit	29,797	20,056	30,949	32,750	46,493	22,287	36,031	61.7%	16.4%	35,533	1%
Adj. EPS (RMB)	12.19	8.57	12.55	13.10	18.19	9.20	14.17	54.0%	12.9%	17.18	-18%
Margin (%)											
Gross margin	48.1%	40.5%	47.8%	45.0%	47.8%	36.6%	42.6%			45.1%	
Operating margin	22.8%	9.4%	21.2%	17.1%	24.5%	6.2%	18.8%			18.4%	
Adj. net margin	25.4%	21.5%	26.9%	27.5%	28.8%	19.5%	24.1%			24.0%	
Growth (%)											
Revenue (YoY)	41.3%	51.0%	42.0%	39.8%	37.7%	22.3%	30.2%			28.6%	
Revenue (QoQ)	37.7%	-20.3%	22.9%	50.8%	47.6%	-18.6%	15.6%			29.3%	
Operating Profit	98.5%	-4.9%	203.9%	262.1%	58.3%	-87.8%	17.4%			11.9%	
Adj. net profit	27.0%	42.3%	54.0%	39.6%	56.0%	11.1%	16.4%			14.8%	

Source: Company data, CMBIS estimates, Bloomberg

Figure 2: CMBIS estimates vs consensus

Rmb mn, Mar-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	665,470	852,020	1,042,774	662,944	833,993	996,282	0.4%	2.2%	4.7%
Gross Profit	297,465	380,853	466,120	298,991	378,661	451,178	-0.5%	0.6%	3.3%
Operating Profit	105,606	138,271	173,998	128,473	177,171	229,318	-17.8%	-22.0%	-24.1%
Adj. Net profit	166,520	217,851	265,701	162,328	211,459	258,503	2.6%	3.0%	2.8%
EPS (RMB)	61.18	79.25	95.70	67.08	86.65	95.60	-8.8%	-8.5%	0.1%
Gross Margin	44.7%	44.7%	44.7%	45.1%	45.4%	45.3%	-0.4ppts	-0.7ppts	-0.6ppts
Operating Margin	15.9%	16.2%	16.7%	19.4%	21.2%	23.0%	-3.5ppts	-5.0ppts	-6.3ppts
Adj. Net Margin	25.0%	25.6%	25.5%	24.5%	25.4%	25.9%	+0.5ppts	+0.2ppts	-0.5ppts

Source: CMBIS estimates, Bloomberg

Figure 3: Earnings revision

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	665,470	852,020	1,042,774	652,673	825,772	998,826	2.0%	3.2%	4.4%
Gross Profit	297,465	380,853	466,120	287,176	363,339	439,484	3.6%	4.8%	6.1%
Operating Profit	105,606	138,271	173,998	98,644	127,529	158,569	7.1%	8.4%	9.7%
Adj. Net profit	166,520	217,851	265,701	158,709	206,081	248,794	4.9%	5.7%	6.8%
EPS (RMB)	61.18	79.25	95.70	58.57	74.61	90.92	4.5%	6.2%	5.3%
Gross Margin	44.7%	44.7%	44.7%	44.0%	44.0%	44.0%	+0.7ppts	+0.7ppts	+0.7ppts
Operating Margin	15.9%	16.2%	16.7%	15.1%	15.4%	15.9%	+0.8ppts	+0.8ppts	+0.8ppts
Adj. Net Margin	25.0%	25.6%	25.5%	24.3%	25.0%	24.9%	+0.7ppts	+0.6ppts	+0.6ppts

Source: Company data, CMBIS estimates

Figure 4: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY21E	FY22E	FY21E	FY22E
Core Commerce	582.4	214.0	EV/EBITA	19.0	15.0	30.6	38.8
Cloud	106.6	39.2	P/S	11.9	8.0	9.0	13.3
Others	126.1	46.3					
Digital Entertainment	16.1	5.9	P/S	3.8	3.5	4.2	4.6
Innovations	4.8	1.8	P/S	3.8	3.0	1.3	1.6
Strategic Investments	77.4	28.4	SoTP for all investments				
Net (Debt)/Cash	27.7	10.2	Cash forecasted on Balance sheet				
Equity Value	815	299.5					

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	376,844	509,711	665,470	852,020	1,042,774
Core commerce	323,400	436,104	564,069	715,209	864,998
Cloud	24,702	40,016	62,825	93,264	129,413
DME	24,077	26,948	29,679	32,236	34,597
Others	4,665	6,643	8,896	11,311	13,766
COSG	(206,929)	(282,367)	(368,005)	(471,167)	(576,654)
Gross profit	169,915	227,344	297,465	380,853	466,120
R&D	(37,435)	(43,080)	(63,220)	(79,238)	(93,850)
S&M	(39,780)	(50,673)	(69,874)	(89,462)	(109,491)
Admin. Expense	(24,889)	(28,197)	(39,928)	(51,121)	(62,566)
Other income	(10,727)	(13,964)	(18,837)	(22,761)	(26,214)
Operating profit	57,084	91,430	105,606	138,271	173,998
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
Pre-tax profit	96,221	166,645	188,455	238,060	294,172
Equity investees	566	(5,733)	(11,057)	(11,057)	(11,057)
Tax	(16,553)	(20,562)	(23,253)	(29,374)	(36,297)
Net profit	79,948	140,180	154,145	197,629	246,817
Non-GAAP NI	93,407	132,479	166,520	217,851	265,701

Cash flow summary

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	80,234	140,350	154,145	197,629	246,817
D&A	60,377	62,344	81,909	95,427	114,218
Change in WC	50,241	46,132	32,307	38,769	46,522
Others	(39,801)	(15,083)	(6,704)	(7,397)	(8,529)
Operating CF	151,051	233,743	261,657	324,428	399,028
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
Investing CF	(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
Financing CF	(9,248)	(23,980)	2,202	0	0
Change in cash	(9,256)	(154,402)	25,152	72,634	132,839
Cash (beg of yr)	199,331	190,075	35,673	60,824	133,458
FX	3,245	0	0	0	0
Cash (end of yr)	193,320	35,673	60,824	133,458	266,297

Balance sheet

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
NC assets	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
Current assets	270,273	462,923	210,090	302,939	460,035
Cash	189,976	330,503	60,824	133,458	266,297
Account receivable	67,108	99,708	116,554	136,769	161,027
Other	13,189	32,712	32,712	32,712	32,712
Current liabilities	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	0	0	0	0	0
	41,557	51,978	51,978	51,978	51,978
NC liabilities	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
Total Equity	608,583	870,548	1,008,090	1,190,362	1,414,119
M	116,326	115,147	113,122	127,697	145,813
S/H equity					

Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Core commerce	85.8	85.6	84.8	83.9	83.0
Cloud	6.6	7.9	9.4	10.9	12.4
DME	6.4	5.3	4.5	3.8	3.3
Others	1.2	1.3	1.3	1.3	1.3
Total	100.0	100.0	100.0	100.0	100.0
Profitability (%)					
Gross margin	45.1	44.6	44.7	44.7	44.7
PreTax margin	25.5	32.7	28.3	27.9	28.2
Tax rate	-4.4	-4.0	-3.5	-3.4	-3.5
Adj. net margin	26.4	28.2	25.3	23.9	23.7
Balance sheet					
Current ratio (x)	1.3	1.9	0.8	1.0	1.3
Debtors turnover	49.3	51.1	50.8	47.6	46.7
Creditors turnover	175.4	180.5	176.2	165.2	162.0
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROE	16.2	16.3	16.6	16.9	17.4
ROA	9.7	10.1	12.0	13.0	13.1
Per share data					
Adj. EPS (RMB)	38.0	53.9	61.2	79.3	95.7
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	234.6	329.7	373.7	436.3	512.6

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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.

CMBIS 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 CMBIS

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 Securities Limited

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

CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS 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 CMBIS.

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 CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

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.

Note: CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.