

Alibaba (BABA US)

Better-than-expected ecommerce recovery

Alibaba delivered strong 4QFY20 results, with revenue/non-GAAP net profit +22% YoY/+11% YoY, 7%/36% above consensus. Mgmt guided FY21E rev at >RMB650bn, +27.5% YoY (in line with consensus). Recovery path was better than expected, QTD GMV has recovered to 4Q19 level and seen obvious rebound since Apr. We slightly raised its adj. net profit by 4.9%/2.4% in FY21/22E. Maintain BUY with new SOTP-based TP up to **US\$251.6** (30x FY21E P/E).

- **4QFY20 beat, with FY21E rev guided +27.5% YoY.** 4QFY20 revenue grew 22% YoY, 7% above consensus. Non-GAAP net profit +11% YoY, 36% above consensus. We view its positive core commerce growth is better-than-feared, and margin improvement saw upside surprise.
- **Better-than-expected ecommerce recovery.** 4QFY20 OMS revenue grew 1% YoY, above our estimates. Customer management rev (CMR) +3% YoY while commission rev -2% YoY. Tmall physical GMV growth came in at 10%, mainly on strong FMCG and consumer electronics (+20% YoY in 1Q, +30% QTD). QTD GMV has recovered to 4Q19 level, and seen obvious rebound since Apr, especially for apparel and home appliance. BABA would continuously strengthen its lower-tier cities penetration, with diversified products offerings, livestreaming, and partner cooperation. Mgmt stated preferential take rate to continue, coupled with waiving annual fee, instead of free traffic to merchants. Given SME's operation pressure, we expect prudent monetization enhancement ahead, but keep positive on its long-term upside from feeds monetization and innovations.
- **Structural opportunities ahead.** Cloud surged 58% YoY in 4QFY20, higher than peers. We expect Alibaba to benefit from structural opportunities, including cloud business (e.g. DingTalk, online education). 2020 could be Alibaba's another investment year on lower-tier cities penetration, merchants support, cloud business and local services.
- **Maintain BUY.** We think Alibaba is well positioned to capture online consumption recovery and long term benefit from structural opportunities. We raised our earnings by 4.9%/2.4% in FY21/22E, and lifted SOTP-based TP from **US\$229.8** to **US\$251.6** (30x FY21E P/E, rolling over to FY21E multiple). Further catalysts: 1) decent ecommerce recovery; 2) potential stock connect & Ant Financial listing; and 3) structural opportunities.

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	376,844	509,711	652,673	825,772	998,826
YoY growth (%)	50.6	35.3	28.0	26.5	21.0
Net income (RMB mn)	93,407	132,479	158,709	206,081	248,794
EPS (RMB)	38.0	53.0	58.6	70.6	84.9
YoY growth (%)	15.6	39.5	10.5	20.6	20.3
Consensus EPS (RMB)	NA	NA	57.3	75.7	98.5
P/E (x)	36.5	26.2	23.7	19.6	16.3
P/B (x)	5.9	4.3	3.8	3.3	2.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.2	16.3	15.9	16.6	17.1
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$251.6
(Previous TP)	US\$229.8
Up/Downside	+26.9%
Current Price	US\$198.2

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	535,746
Avg 3 mths t/o (US\$ mn)	3,962.5
52w High/Low (US\$)	231/148
Total Issued Shares (mn)	2,683
Source: Bloomberg	

Shareholding Structure

SoftBank	28.8%
Altaba Inc	14.8%
Ma Jack Yun	5.1%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-2.7%	-11.4%
3-mth	-6.1%	-3.5%
6-mth	6.9%	-2.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Solid 3QFY20; Eyes on epidemic challenges – 14 Feb 2020
2. 2QFY20E Preview: Solid results with strong core commerce – 18 Oct 2019
3. Key takeaways from 2019 Investor Day – 26 Sep 2019

Figure 1: 4QFY20 financial review

RMB mn, Mar-YE	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ	YoY	Consensus	Diff %
Revenue	85,148	117,278	93,498	114,924	119,017	161,456	114,314	-29.2%	22.3%	107,038	7%
Operating Profit	13,501	26,798	8,765	24,375	20,364	39,560	7,131	-82.0%	-18.6%	6,194	15%
Net profit	20,033	33,052	25,830	19,122	72,540	52,309	3,162	-94.0%	-87.8%	2,385	33%
Adj. net profit	23,453	29,797	20,056	30,949	32,750	46,493	22,287	-52.1%	11.1%	16,409	36%
Adj. EPS (RMB)	9.60	12.19	8.57	12.55	13.10	18.19	9.20	-49.4%	7.4%	5.88	57%
Margin (%)											
Gross margin	45.1%	48.1%	40.5%	47.8%	45.0%	47.8%	36.6%			36.8%	
Operating margin	15.9%	22.8%	9.4%	21.2%	17.1%	24.5%	6.2%			5.8%	
Adj. net margin	27.5%	25.4%	21.5%	26.9%	27.5%	28.8%	19.5%			15.3%	
Growth (%)											
Revenue (YoY)	54.5%	41.3%	51.0%	42.0%	39.8%	37.7%	22.3%			14.5%	
Revenue (QoQ)	5.2%	37.7%	-20.3%	22.9%	50.8%	47.6%	-18.6%			-33.7%	
Operating Profit	68.3%	98.5%	-4.9%	203.9%	262.1%	58.3%	-87.8%			-29.3%	
Adj. net profit	16.7%	27.0%	42.3%	54.0%	39.6%	56.0%	11.1%			-18.2%	

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	652,673	825,772	998,826	657,456	826,250	775,331	-0.7%	-0.1%	28.8%
Gross Profit	287,176	363,339	439,484	298,912	376,149	349,674	-3.9%	-3.4%	25.7%
Operating Profit	98,644	127,529	158,569	127,688	179,395	239,403	-22.7%	-28.9%	-33.8%
Adj. Net profit	158,709	206,081	248,794	154,234	203,542	244,480	2.9%	1.2%	1.8%
EPS (RMB)	58.57	70.61	84.92	57.29	75.70	98.56	2.2%	-6.7%	-13.8%
Gross Margin	44.0%	44.0%	44.0%	45.5%	45.5%	45.1%	-1.4ppts	-1.5ppts	-1.1ppts
Operating Margin	15.1%	15.4%	15.9%	19.4%	21.7%	30.9%	-4.3ppts	-6.3ppts	-15ppts
Adj. Net Margin	24.3%	25.0%	24.9%	23.5%	24.6%	31.5%	+0.9ppts	+0.3ppts	-6.6ppts

Source: CMBIS estimates, Bloomberg

Figure 3: Earnings revision

RMB mn, Mar-YE	New		Old		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	652,673	825,772	672,744	840,167	-3.0%	-1.7%
Gross Profit	287,176	363,339	304,753	380,596	-5.8%	-4.5%
Operating Profit	98,644	127,529	111,003	140,231	-11.1%	-9.1%
Adj. Net profit	158,709	206,081	151,234	201,196	4.9%	2.4%
EPS (RMB)	58.57	70.61	60.46	70.92	-3.1%	-0.4%
Gross Margin	44.0%	44.0%	45.3%	45.3%	-1.3ppts	-1.3ppts
Operating Margin	15.1%	15.4%	16.5%	16.7%	-1.4ppts	-1.2ppts
Adj. Net Margin	24.3%	25.0%	23.7%	23.9%	+0.6ppts	+1.0ppts

Source: Company data, CMBIS estimates

Figure 4: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY20A	FY21E	FY20A	FY21E
Core Commerce	506.7	186.8	EV/EBITA	20.3	16.0	24.9	31.7
Cloud	68.4	25.2	P/S	12.0	8.0	5.7	8.6
Others	107.3	39.5					
Digital Entertainment	14.8	5.5	P/S	3.9	3.5	3.8	4.2
Innovations	3.8	1.4	P/S	4.0	3.0	0.9	1.3
Strategic Investments	60.9	22.5	SoTP for all investments				
Net (Debt)/Cash	27.7	10.2	Cash forecasted on Balance sheet				
Equity Value	682	251.6					

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	376,844	509,711	652,673	825,772	998,826
Core commerce	323,400	436,104	554,235	698,611	840,309
Cloud	24,702	40,016	59,862	83,614	110,154
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)	(365,497)	(462,432)	(559,343)
Gross profit	169,915	227,344	287,176	363,339	439,484
R&D	(37,435)	(43,080)	(62,004)	(76,797)	(89,894)
S&M	(39,780)	(50,673)	(68,531)	(86,706)	(104,877)
Admin. Expense	(24,889)	(28,197)	(39,160)	(49,546)	(59,930)
Other income	(10,727)	(13,964)	(18,837)	(22,761)	(26,214)
Operating profit	57,084	91,430	98,644	127,529	158,569
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	181,494	227,318	278,742
Equity investees	566	(5,733)	(11,057)	(11,057)	(11,057)
Tax	(16,553)	(20,562)	(22,394)	(28,048)	(34,393)
Net profit	79,948	140,180	148,042	188,213	233,292
Non-GAAP NI	93,407	132,479	158,709	206,081	248,794

Cash flow summary

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	80,234	140,350	148,042	188,213	233,292
D&A	60,377	62,344	80,200	93,073	110,836
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	253,846	312,658	382,121
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)	17,340	60,864	115,931
Cash (beg of yr)	199,331	190,075	35,673	53,013	113,877
FX	3,245	0	0	0	0
Cash (end of yr)	193,320	35,673	53,013	113,877	229,808

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	202,279	283,358	423,547
Cash	189,976	330,503	53,013	113,877	229,808
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
Other	41,557	51,978	51,978	51,978	51,978
NC liabilities					
Borrowings	142,005	191,462	191,462	191,462	191,462
Deferred taxation	35,427	39,660	39,660	39,660	39,660
Other	22,517	43,898	43,898	43,898	43,898
Other	84,061	107,904	107,904	107,904	107,904
Mezzanine equity					
Total Equity	6,819	9,103	9,103	9,103	9,103
MI	608,583	870,548	1,000,278	1,170,780	1,377,631
S/H equity	116,326	115,147	113,412	124,133	135,632

Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Core commerce	85.8	85.6	84.9	84.6	84.1
Cloud	6.6	7.9	9.2	10.1	11.0
DME	6.4	5.3	4.5	3.9	3.5
Others	1.2	1.3	1.4	1.4	1.4
Total	100.0	100.0	100.0	100.0	100.0
Profitability (%)					
Gross margin	45.1	44.6	44.0	44.0	44.0
PreTax margin	25.5	32.7	27.8	27.5	27.9
Tax rate	-4.4	-4.0	-3.4	-3.4	-3.4
Adj. net margin	21.3	27.5	22.7	22.8	23.4
	26.4	28.2	24.6	23.7	23.8
Balance sheet					
Current ratio (x)	1.3	1.9	0.7	0.9	1.2
Debtors turnover	49.3	51.1	51.8	49.1	48.8
Creditors turnover	175.4	180.5	177.4	168.3	167.0
Net gearing (%)	Net Cash				
Returns (%)					
ROE	16.2	16.3	15.9	16.6	17.1
ROA	9.7	10.1	11.5	12.4	12.5
Per share data					
Adj. EPS (RMB)	38.0	53.0	58.6	70.6	84.9
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	234.6	324.3	368.5	426.5	496.3

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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