

Alibaba (BABA US)

Stepping-up reinvestment

Alibaba delivered upbeat 3QFY21 results, with revenue/Non GAAP net profit +37% YoY/+27% YoY, 3%/7% above consensus. CMR +20% YoY, 1% above our estimate. Cloud achieved positive adjusted EBITA and Cainiao was operating cash flow positive for the first time. However, regulation headwinds are yet over, as Ant Group and Anti-monopoly Investigation uncertainties remain. To factor in stepping up reinvestment and involving competition, we cut its earnings by 1%/5%/4% in FY21/22/23E, with new SOTP-based TP of US\$338.4 (from US\$358.6).

- **3QFY21 beat.** 3QFY21 topline/bottom line grew 37%/27% YoY, 3%/7% above consensus. Adj. EBITA margin came out at 28%, mainly on better margin of Cainiao, cloud and innovations. Cloud achieved breakeven earlier than our expectation. We view this result as positive, but market concern lies on regulations uncertainty and margin dilution with ramp-up in reinvestment. Mgmt. stated that Ant Group is in the process of developing its rectification plan, and BABA are fully cooperating with the SAMR and conduct internal reviews under Anti-monopoly Investigation. New wave of COVID-19 posed limited impact on its business, per mgmt stated.
- **Solid core commerce with stepping-up reinvestment.** 3QFY21 CMR revenue grew 20% YoY, 1% above our estimate, for better monetization with feeds, enriched ads formats and livestreaming. Taobao Live delivered > RMB400bn GMV by Dec 2020. We expect its core commerce to see further upside from: 1) lower-tier cities penetration (Taobao Deals AAC >100mn); 2) livestreaming to stimulate engagement; and 3) expanding TAM from groceries (e.g. upcoming Taobao Maicai <淘宝买菜>). Mgmt prioritizes TAM expansion and topline growth than profitability, and reiterates its determination to reinvest for new initiatives (e.g. groceries, low-tier markets, cloud).
- **Maintain BUY.** The market is digesting the potential risks of merchants retention, competition landscape and margin dilution. In the short term, BABA might still see challenges from regulations and rectification, but we keep positive on its long-term momentum and expanding TAM with strong cloud & emerging business. We slightly trimmed its earnings by 1%/5%/4% in FY21/22/23E, and assign SOTP-based TP of US\$338.4 (27x FY22E P/E).

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	376,844	509,711	702,685	919,093	1,100,336
YoY growth (%)	50.6	35.3	37.9	30.8	19.7
Adj. net profit (RMB mn)	93,407	132,479	172,802	220,672	267,000
Adj. EPS (RMB)	38.0	53.9	63.5	80.3	96.2
YoY growth (%)	15.6	41.8	17.9	26.4	19.8
Consensus EPS (RMB)	NA	NA	65.7	79.3	98.5
P/E (x)	43.7	30.8	26.1	20.7	17.3
P/B (x)	7.1	5.0	4.4	3.8	3.2
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.2	16.3	17.1	17.1	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\$338.4**
 (Previous TP **US\$358.6**)
 Up/Downside **+32.5%**
 Current Price **US\$255.4**

China Internet Sector

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

Miriam Lu
 (852) 3761 8728
 miriamlu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	716,155
Avg 3 mths t/o (US\$ mn)	6,814.70
52w High/Low (US\$)	319.3/ 170.0
Total Issued Shares (mn)	2,706

Source: Bloomberg

Shareholding Structure

BlackRock	3.3%
T Rowe Price Group	2.3%
Vanguard Group	2.3%

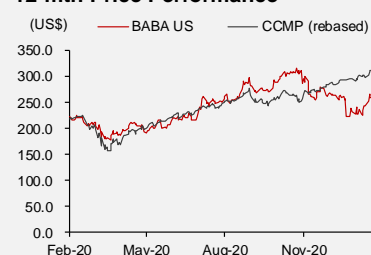
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	13.7%	9.4%
3-mth	-13.1%	-29.3%
6-mth	5.4%	-15.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- 2QFY21 beat on margin – 6 Nov 2020
- Expecting solid 2QFY21E -19 Oct 2020
- Key takeaways from 2020 Investor Day - 6 Oct 2020

Figure 1: 3QFY21 financial review

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	QoQ	YoY	Consensus	Diff %
Revenue	114,924	119,017	161,456	114,314	153,751	155,059	221,084	42.6%	36.9%	215,320	3%
Operating Profit	24,375	20,364	39,560	7,131	34,705	13,634	49,002	259.4%	23.9%	46,767	5%
Net profit	19,122	72,540	52,309	3,162	46,437	26,524	79,427	199.5%	51.8%	45,733	74%
Adj. net profit	30,949	32,750	46,493	22,287	39,494	47,088	59,207	25.7%	27.3%	55,141	7%
Adj. EPS (RMB)	12.55	13.10	18.19	9.20	14.82	17.97	22.03	22.6%	21.1%	20.38	8%
Margin (%)											
Gross margin	47.8%	45.0%	47.8%	36.6%	45.0%	42.0%	45.1%			44.9%	
Operating margin	21.2%	17.1%	24.5%	6.2%	22.6%	8.8%	22.2%			21.7%	
Adj. net margin	26.9%	27.5%	28.8%	19.5%	25.7%	30.4%	26.8%			25.6%	
Growth (%)											
Revenue (YoY)	42.0%	39.8%	37.7%	22.3%	33.8%	30.3%	36.9%			33.4%	
Revenue (QoQ)	22.9%	3.6%	35.7%	-29.2%	34.5%	0.9%	42.6%			38.9%	
Operating Profit	203.9%	50.8%	47.6%	-18.6%	42.4%	-33.0%	23.9%			18.2%	
Adj. net profit	54.0%	39.6%	56.0%	11.1%	27.6%	43.8%	27.3%			18.6%	

Source: Company data, CMBIS estimates, Bloomberg

Figure 2: Revenue breakdown

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	QoQ	YoY
Total revenue	114,924	119,017	161,456	114,314	153,751	155,059	221,084	43%	37%
Core commerce	99,544	101,220	102,843	93,865	133,318	130,922	195,541	49%	90%
Cloud computing	7,787	9,291	10,721	12,217	12,345	14,899	16,115	8%	50%
Digital media and entertainment	6,312	7,296	7,396	5,944	6,994	8,066	8,079	0%	9%
Innovation initiatives and others	1,281	1,210	1,864	2,288	1,094	1,172	1,349	15%	-28%

Source: Company data

Figure 3: Earnings revision

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	702,685	919,093	1,100,336	707,470	957,420	1,152,774	-0.7%	-4.0%	-4.5%
Gross profit	307,073	393,372	470,944	309,164	409,776	493,387	-0.7%	-4.0%	-4.5%
Operating profit	110,457	139,918	174,047	111,337	149,575	187,049	-0.8%	-6.5%	-7.0%
Adj. net profit	172,802	220,672	267,000	173,794	231,294	279,302	-0.6%	-4.6%	-4.4%
EPS (RMB)	63.49	80.28	96.17	63.86	84.14	101.32	-0.6%	-4.6%	-5.1%
Gross margin	43.7%	42.8%	42.8%	43.7%	42.8%	42.8%	+0.0ppts	+0.0ppts	+0.0ppts
Operating margin	15.7%	15.2%	15.8%	15.7%	15.6%	16.2%	+0.0ppts	-0.4ppts	-0.4ppts
Adj. net margin	24.6%	24.0%	24.3%	24.6%	24.2%	24.4%	-0.0ppts	-0.2ppts	-0.1ppts

Source: CMBIS estimates

Figure 4: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY21E	FY22E	FY21E	FY22E
Core Commerce	647.4	235.5	EV/EBITA	20.9	16.0	31.0	40.5
Cloud	170.1	61.9	P/S	17.7	12.0	9.6	14.2
Others	112.7	41.0					
Digital Entertainment	17.4	6.3	P/S	3.8	3.5	4.6	5.0
Innovations	4.4	1.6	P/S	3.5	3.0	1.3	1.5
Strategic Investments	61.1	22.2	SoTP for all investments				
Net (Debt)/Cash	29.8	10.9	Cash forecasted on Balance sheet				
Equity Value (US\$)	930	338.4					
TP (HK\$)		349.4					

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	376,844	509,711	702,685	919,093	1,100,336
Core commerce	323,400	436,104	602,247	785,113	925,835
Cloud	24,702	40,016	62,425	92,139	129,419
DME	24,077	26,948	29,679	32,236	34,597
Others	4,665	6,643	8,333	9,605	10,485
COSG	(206,929)	(282,367)	(395,611)	(525,721)	(629,392)
Gross profit	169,915	227,344	307,073	393,372	470,944
R&D	(37,435)	(43,080)	(65,350)	(82,718)	(96,830)
S&M	(39,780)	(50,673)	(73,782)	(99,262)	(117,736)
Admin. Expense	(24,889)	(28,197)	(38,648)	(48,712)	(56,117)
Other income	(10,727)	(13,964)	(18,837)	(22,761)	(26,214)
Operating profit	57,084	91,430	110,457	139,918	174,047
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	193,306	239,707	294,220
Equity investees	566	(5,733)	(11,057)	(11,057)	(11,057)
Tax	(16,553)	(20,562)	(23,197)	(28,765)	(35,306)
Net profit	79,948	140,180	159,052	199,885	247,857
Non-GAAP NI	93,407	132,479	172,802	220,672	267,000

Cash flow summary

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	80,234	140,350	159,052	199,885	247,857
D&A	60,377	62,344	83,283	95,991	114,477
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	267,939	327,249	400,327
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)	31,433	75,455	134,138
Cash (beg of yr)	199,331	190,075	35,673	67,106	142,561
FX	3,245	0	0	0	0
Cash (end of yr)	193,320	35,673	67,106	142,561	276,698

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	216,372	312,041	470,437
Cash	189,976	330,503	67,106	142,561	276,698
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	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	1,014,371	1,199,464	1,424,521
MI	116,326	115,147	113,122	127,697	145,813
S/H equity	492,257	755,401	901,249	1,071,767	1,278,708

Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Core commerce	85.8	85.6	85.7	85.4	84.1
Cloud	6.6	7.9	8.9	10.0	11.8
DME	6.4	5.3	4.2	3.5	3.1
Others	1.2	1.3	1.2	1.0	1.0
Total	100.0	100.0	100.0	100.0	100.0
Profitability (%)					
Gross margin	45.1	44.6	43.7	42.8	42.8
PreTax margin	25.5	32.7	27.5	26.1	26.7
Tax rate	-4.4	-4.0	-3.3	-3.1	-3.2
Adj. net margin	26.4	28.2	24.9	22.4	22.6
Balance sheet					
Current ratio (x)	1.3	1.9	0.8	1.0	1.3
Debtors turnover	49.3	51.1	48.1	44.2	44.3
Creditors turnover	175.4	180.5	163.9	148.0	148.4
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROE	16.2	16.3	17.1	17.1	17.4
ROA	9.7	10.1	12.4	13.1	13.1
Per share data					
Adj. EPS (RMB)	38.0	53.9	63.5	80.3	96.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	234.6	329.7	376.0	439.7	516.4

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.

Disclosure

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

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

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS 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.