

Alibaba (BABA US)

Investment for long-term growth

We expect Alibaba's rev/ adj. net profit +58% YoY/+16% YoY in 4QFY21E, 0%/13% below consensus. Core commerce GMV solid, while margin dilution will continue. We believe 2021 would be an investment year, as BABA prioritizes TAM expansion than profitability. Regarding AML risks, BABA stated little material effect on business, apart from administrative penalty. We view this result as better-than-feared, without asset disposal or significant adjustment. After major regulation overhang has gone, market would focus more on its new initiatives and competition landscape. To factor in reinvestment, we cut its earnings by 1%/21%/20% in FY21/22/23E, with new TP of US\$314.2 (from US\$338.4).

- **Expecting solid GMV while margin diluted by reinvestment.** We forecast 4QFY21E topline/bottom line up 58.5%/15.6% YoY (0%/13% below consensus), in which core commerce/ cloud/ DME rev +62%/ 50%/18% YoY. CMR might see 36% YoY growth, above Jan & Feb industrial online sales. Given investment on local services and Taobao deal, we model adj. EBITA margin at 15% (-2ppts YoY). Looking ahead, BABA would prioritize on investment in 2021E, especially on community ecommerce, Taobao deal, live streaming and local life. BABA restructured its CGB business to MMC business unit in Mar 2021, with integrating Lingshoutong and Hema Jishi. Compared to peers, we expect BABA to leverage its advantage in supply chain, logistics and offline stores to expand CGB network. We expect its CGB to generate net loss of RMB25bn/RMB20bn in FY22E/23E.
- **Regulation overhang to lift.** BABA hosted a call in response to the antitrust penalty decision (RMB18.2bn fine, 4% of its domestic sales in 2019) issued by SAMR. Mgmt stated little material impact on business, given already multi-platform mode for merchants. We view this decision as better-than-feared, as it does not require asset disposal or significant rectification. BABA would continue to eliminate the "two-choose-one" practice, to promote healthy competition. On the other hand, it tends to lower entry barriers and operating expenses of merchants, (e.g. waiving tech service fee), and to invest more on back-end workstation enhancement.
- **Maintain BUY.** We trimmed its earnings by 1%/21%/20% in FY21/22/23E for heavier investment, with SOTP-based TP of US\$314.2 (32x FY22E P/E).

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	376,844	509,711	711,116	930,484	1,113,793
YoY growth (%)	50.6	35.3	39.5	30.8	19.7
Adj. net profit (RMB mn)	93,407	132,479	171,550	173,760	214,562
Adj. EPS (RMB)	38.0	53.9	63.0	63.2	77.3
YoY growth (%)	15.6	41.8	17.0	0.3	22.3
Consensus EPS (RMB)	NA	NA	66.5	74.1	92.3
P/E (x)	41.5	29.3	25.0	25.0	20.4
P/B (x)	6.7	4.8	4.2	3.7	3.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.2	16.3	17.0	13.7	14.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$314.2
(Previous TP)	US\$338.4)
Up/Downside	+29.8%
Current Price	US\$241.7

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	661,855
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

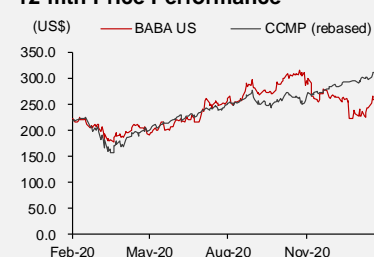
BlackRock	3.3%
T Rowe Price Group	2.3%
Vanguard Group	2.3%
Source: Bloomberg	

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

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3. Expecting solid 2QFY21E -19 Oct 2020
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Figure 1: 4QFY21E financial preview

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21E	QoQ	YoY	Consensus	Diff %
Revenue	114,924	119,017	161,456	114,314	153,751	155,059	221,084	181,222	-18.0%	58.5%	180,465	0%
Operating Profit	24,375	20,364	39,560	7,131	34,705	13,634	49,002	14,667	-70.1%	105.7%	13,833	6%
Net profit	19,122	72,540	52,309	3,162	46,437	26,524	79,427	8,030	-89.9%	153.9%	17,162	-53%
Adj. net profit	30,949	32,750	46,493	22,287	39,494	47,088	59,207	25,761	-56.5%	15.6%	31,616	-19%
Adj. EPS (RMB)	12.55	13.10	18.19	9.20	14.82	17.97	22.03	8.21	-62.7%	-10.8%	12.31	-33%
Margin (%)												
Gross margin	47.8%	45.0%	47.8%	36.6%	45.0%	42.0%	45.1%	33.1%			37.3%	
Operating margin	21.2%	17.1%	24.5%	6.2%	22.6%	8.8%	22.2%	8.1%			7.7%	
Adj. net margin	26.9%	27.5%	28.8%	19.5%	25.7%	30.4%	26.8%	14.2%			17.5%	
Growth (%)												
Revenue (YoY)	42.0%	39.8%	37.7%	22.3%	33.8%	30.3%	36.9%	58.5%			57.9%	
Revenue (QoQ)	22.9%	3.6%	35.7%	-29.2%	34.5%	0.9%	42.6%	-18.0%			-18.4%	
Operating Profit	203.9%	50.8%	47.6%	-18.6%	42.4%	-33.0%	23.9%	105.7%			94.0%	
Adj. net profit	54.0%	39.6%	56.0%	11.1%	27.6%	43.8%	27.3%	15.6%			41.9%	

Source: Company data, CMBIS estimates, Bloomberg

Figure 2: Revenue breakdown

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21E	QoQ	YoY
Total revenue	114,924	119,017	161,456	114,314	153,751	155,059	221,084	181,222	-18%	59%
Core commerce		99,544	101,220	102,843	93,865	133,318	130,922	195,541	-22%	62%
Cloud computing		7,787	9,291	10,721	12,217	12,345	14,899	16,115	16%	53%
Digital media and entertainment		6,312	7,296	7,396	5,944	6,994	8,066	8,079	-6%	28%
Innovation initiatives and others		1,281	1,210	1,864	2,288	1,094	1,172	1,349	129%	35%

Source: Company data, CMBIS estimates

Figure 3: Earnings revision

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	711,116	930,484	1,113,793	702,685	919,093	1,100,336	1.2%	1.2%	1.2%
Gross profit	310,758	353,584	426,583	307,073	393,372	470,944	1.2%	-10.1%	-9.4%
Operating profit	112,008	97,271	126,375	110,457	139,918	174,047	1.4%	-30.5%	-27.4%
Adj. net profit	171,550	173,760	214,562	172,802	220,672	267,000	-0.7%	-21.3%	-19.6%
EPS (RMB)	63.03	63.21	77.28	63.49	80.28	96.17	-0.7%	-21.3%	-19.6%
Gross margin	43.7%	38.0%	38.3%	43.7%	42.8%	42.8%	+0.0ppts	-4.8ppts	-4.5ppts
Operating margin	15.8%	10.5%	11.3%	15.7%	15.2%	15.8%	+0.0ppts	-4.8ppts	-4.5ppts
Adj. net margin	24.1%	18.7%	19.3%	24.6%	24.0%	24.3%	-0.5ppts	-5.3ppts	-5.0ppts

Source: CMBIS estimates

Figure 4: CMBI estimates vs. consensus

Rmb mn, Mar-YE	CMBI			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	711,116	930,484	1,113,793	707,063	924,197	1,094,542	0.6%	0.7%	1.8%
Gross profit	310,758	353,584	426,583	301,396	385,594	458,731	3.1%	-8.3%	-7.0%
Operating profit	112,008	97,271	126,375	116,775	150,662	200,150	-4.1%	-35.4%	-36.9%
Adj. net profit	171,550	173,760	214,562	181,164	205,399	253,814	-5.3%	-15.4%	-15.5%
EPS (RMB)	63.03	63.21	77.28	66.5	74.1	92.3	-5.3%	-14.7%	-16.2%
Gross margin	43.7%	38.0%	38.3%	42.6%	41.7%	41.9%	+1.1ppts	-3.7ppts	-3.6ppts
Operating margin	15.8%	10.5%	11.3%	16.5%	16.3%	18.3%	-0.8ppts	-5.8ppts	-6.9ppts
Adj. net margin	24.1%	18.7%	19.3%	25.6%	22.2%	23.2%	-1.5ppts	-3.6ppts	-3.9ppts

Source: CMBIS estimates

Figure 5: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY21E	FY22E	FY21E	FY22E
Core Commerce	584.3	212.6	EV/EBITA	20.9	16.0	28.0	36.5
Cloud	166.8	60.7	P/S	17.6	12.0	9.5	13.9
Others	112.6	41.0					
Digital Entertainment	18.4	6.7	P/S	3.9	3.5	4.7	5.2
Innovations	3.5	1.3	P/S	3.5	3.0	1.0	1.2
Strategic Investments	61.1	22.2	SoTP for all investments				
Net (Debt)/Cash	29.6	10.8	Cash forecasted on Balance sheet				
Equity Value (US\$)	864	314.2					

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	376,844	509,711	711,116	930,484	1,113,793
Core commerce	323,400	436,104	611,661	797,370	940,338
Cloud	24,702	40,016	62,025	91,021	127,191
DME	24,077	26,948	30,721	34,376	37,854
Others	4,665	6,643	6,709	7,716	8,410
COSG	(206,929)	(282,367)	(400,358)	(576,900)	(687,210)
Gross profit	169,915	227,344	310,758	353,584	426,583
R&D	(37,435)	(43,080)	(66,134)	(83,744)	(98,014)
S&M	(39,780)	(50,673)	(74,667)	(100,492)	(119,176)
Admin. Expense	(24,889)	(28,197)	(39,111)	(49,316)	(56,803)
Other income	(10,727)	(13,964)	(18,837)	(22,761)	(26,214)
Operating profit	57,084	91,430	112,008	97,271	126,375
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	194,858	197,060	246,549
Equity investees	566	(5,733)	(11,057)	(11,057)	(11,057)
Tax	(16,553)	(20,562)	(23,383)	(23,647)	(29,586)
Net profit	79,948	140,180	160,418	162,356	205,906
Non-GAAP NI	93,407	132,479	171,550	173,760	214,562

Cash flow summary

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	80,234	140,350	160,418	162,356	205,906
D&A	60,377	62,344	83,665	86,609	103,990
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	269,686	280,337	347,889
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)	33,181	28,543	81,699
Cash (beg of yr)	199,331	190,075	35,673	68,853	97,396
FX	3,245	0	0	0	0
Cash (end of yr)	193,320	35,673	68,853	97,396	179,095

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	218,119	266,877	372,834
Cash	189,976	330,503	68,853	97,396	179,095
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	1,013,119	1,151,300	1,323,918
MI	116,326	115,147	113,122	127,697	145,813
S/H equity	492,257	755,401	899,997	1,023,603	1,178,105

Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Core commerce	85.8	85.6	86.0	85.7	84.4
Cloud	6.6	7.9	8.7	9.8	11.4
DME	6.4	5.3	4.3	3.7	3.4
Others	1.2	1.3	0.9	0.8	0.8
Total	100.0	100.0	100.0	100.0	100.0
Profitability (%)					
Gross margin	45.1	44.6	43.7	38.0	38.3
PreTax margin	25.5	32.7	27.4	21.2	22.1
Tax rate	(4.4)	(4.0)	(3.3)	(2.5)	(2.7)
Adj. net margin	26.4	28.2	24.4	17.1	17.6
Balance sheet					
Current ratio (x)	1.3	1.9	0.8	0.8	1.0
Debtors turnover	49.3	51.1	47.6	43.6	43.7
Creditors turnover	175.4	180.5	162.0	134.9	135.9
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROE	16.2	16.3	17.0	13.7	14.7
ROA	9.7	10.1	12.2	10.6	11.0
Per share data					
Adj. EPS (RMB)	38.0	53.9	63.0	63.2	77.3
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	234.6	329.7	375.6	422.1	480.1

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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