

# Alibaba (BABA US)

## Business transition ongoing

Alibaba's business transition is ongoing and we are expecting an inline 3QFY24 (March year-end) results. Alibaba International Digital Commerce Group (AIDC) will likely remain a bright spot, and we are expecting an escalated investment to support more rapid international business expansion starting from 3Q. Although the room for further operating efficiency improvement is likely to be limited post an aggressive year of cost control and amid fierce competition, Alibaba remains committed to enhancing shareholder return through dividend payout and share buyback. The strategic move to drive an integrated group strategy should enhance long-term value, in our view. To account for persisting macro headwinds and likely slower-than-expected near-term revenue and earnings growth, we lower SOTP-based TP to US\$137.0, while we remain positive on Alibaba's long-term development potential, aided by international expansion and cloud business development. Maintain BUY.

- **3QFY24 preview.** We estimate Alibaba has achieved 3QFY24 revenue of RMB261.7bn, up 5.6% YoY, 2.7% shy of Bloomberg consensus estimates, owing to likely softer-than-expected revenue generation in China commerce retail business, as well as in the 'All Others' segment. We also expect an increase in investment to support international business expansion, as well as one-off impact in the 'All Others' segment to weigh on the adjusted EBITA margin expansion trend. We forecast group-level adjusted EBITA to decline 1% YoY to RMB51.7bn in 3QFY24, translating into a 19.7% adjusted EBITA margin (3QFY23: 21.0%).
- **Monetization rate improvement may see ST volatility.** The increase in GMV contribution from Taobao which does not charge commission should weigh on the overall monetization rate improvement trend shown in recent quarters. We forecast Alibaba has recorded CMR growth of 1% YoY in 3QFY24, on the back of 2% YoY growth from Taobao and Tmall GMV.
- **Driving more rapid international business expansion.** Given the increase in user adoption of AE Choice, and robust revenue growth of Trendyol, we forecast international commerce retail revenue/AIDC revenue growth of 51/40% YoY in 3QFY24. We are expecting an increase in sales and marketing activities to drive more rapid international business expansion from 3QFY24 onwards, which may weigh on short-term margin improvement but should benefit long-term growth. We estimate adjusted EBITA loss of RMB2.5bn for AIDC in 3QFY24 (3QFY23: -RMB645mn).
- **Remains committed to enhancing shareholder return.** We remain positive on Alibaba's long-term growth potential, supported by international expansion and cloud business growth. The strategic move to enhance group-level ROIC and shareholder return could propel a market rerating, in our view.

### Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	853,062	868,687	945,143	1,043,345	1,126,984
YoY growth (%)	18.9	1.8	8.8	10.4	8.0
Net profit (RMB mn)	61,959.0	72,509.0	118,988.3	142,163.1	157,146.6
Adjusted net profit (RMB mn)	143,515.0	143,991.0	162,645.5	173,463.5	190,956.1
EPS (Adjusted) (RMB)	53.26	54.91	63.81	67.98	74.76
Consensus EPS (RMB)	na	na	65.23	70.96	79.20
P/E (x)	46.5	23.0	11.2	9.4	8.5
ROE (%)	6.5	7.4	10.5	10.5	10.3

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

**Target Price** **US\$137.00**  
 (Previous TP) US\$148.30  
**Up/Downside** **88.0%**  
**Current Price** **US\$72.88**

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### Stock Data

Mkt Cap (US\$ mn)	186,962.8
Avg 3 mths t/o (US\$ mn)	1,164.6
52w High/Low (US\$)	120.57/71.37
Total Issued Shares (mn)	2565.4

Source: FactSet

### Shareholding Structure

SoftBank	13.9%
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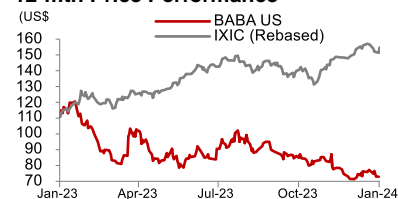
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	1.0%	-2.0%
3-mth	-14.1%	-22.0%
6-mth	-19.5%	-25.9%

Source: FactSet

### 12-month Price Performance



Source: FactSet

- **Cloud business revenue growth takes time to recover.** Overall cloud business revenue growth will likely take time to recover, in our view, given a slow recovery in enterprises' digitalization demand, as well as Alibaba's proactive move to phase out some low margin business, such as CDN. Public cloud business could sustain a healthy growth trajectory while the adjustment on private and hybrid cloud business remains a drag on revenue growth. We forecast cloud business revenue growth of 1.0% in 3QFY24 (2QFY24: 2.3%).

## Revision of forecast and valuation

**Figure 1: Alibaba: forecast revision**

RMB bn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	945.1	1043.3	1127.0	955.4	1063.9	1153.8	-1.1%	-1.9%	-2.3%
Gross Profit	358.2	395.4	427.1	361.1	401.1	435.0	-0.8%	-1.4%	-1.8%
Non-GAAP net profit	162.6	173.5	191.0	169.1	186.4	203.8	-3.8%	-6.9%	-6.3%
Gross margin	37.9%	37.9%	37.9%	37.8%	37.7%	37.7%	0.1 ppt	0.2 ppt	0.2 ppt
Non-GAAP net margin	17.2%	16.6%	16.9%	17.7%	17.5%	17.7%	-0.5 ppt	-0.9 ppt	-0.7 ppt

Source: CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

RMB bn	Current			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	945.1	1043.3	1127.0	955.4	1063.9	1153.8	-1.1%	-1.9%	-2.3%
Gross Profit	358.2	395.4	427.1	361.1	401.1	435.0	-0.8%	-1.4%	-1.8%
Non-GAAP net profit	162.6	173.5	191.0	169.1	186.4	203.8	-3.8%	-6.9%	-6.3%
Gross margin	37.9%	37.9%	37.9%	37.8%	37.7%	37.7%	0.1 ppt	0.2 ppt	0.2 ppt
Non-GAAP net margin	17.2%	16.6%	16.9%	17.7%	17.5%	17.7%	-0.5 ppt	-0.9 ppt	-0.7 ppt

Source: Bloomberg, CMBIGM estimates

## Valuation: target price of US\$137.0 per ADS

Our SOTP-based target price is US\$137.0 per ADS, and translates into 15.6x FY24E PE.

- 1) US\$59.3 per ADS (was US\$68.7) for Taobao and Tmall Group, based on 7.0x FY24E EV/adjusted EBITA (was 8.0x); the lowered target valuation reflects likely slower-than-expected revenue and earnings growth;
- 2) US\$16.4 per ADS for AIDC (unchanged), based on 3.0x FY24E EV/revenue; currently we are assuming a 20% net profit margin and 15x PE for the business at steady state;
- 3) US\$5.5 per ADS for local services group (unchanged), based on 1.7x EV/revenue on FY24E revenue;
- 4) US\$7.3 per ADS for Cainiao (unchanged), based on the transaction in the most recent round of financing and Alibaba's 69.54% shareholding.
- 5) US\$24.0 per ADS for the Cloud Intelligence Group (was US\$24.3), based on a 4.2x PS multiple on FY24E revenue (before intersegment elimination);
- 6) US\$2.0 per ADS for Digital Media and Entertainment Group (unchanged), based on 1.7x FY24 EV/S;
- 7) US\$10.5 per ADS for All Others (was US\$10.7), based on 1.0x FY24E EV/Sales.
- 8) US\$12.0 per ADS for strategic investment with a 30% holding discount.

Figure 3: Alibaba: SOTP valuation

#	Segment (US\$mn)	Valuation method	FY24E Rev (US\$mn)	Adj. EBITA post tax	P/E (x)	EV/S (x)	Val. RMB mn	Val. US\$m	\$/share	Value split
1	Taobao and Tmall Group	7.0x FY24E P/E; 20% tax rate on adjusted EBITA	60,293	21,714	7.0		1,094,383	151,998	59.3	43%
2	Digital Commerce Group	3.0x FY24E EV/S	14,057			3.0	303,623	42,170	16.4	12%
3	Local Services Group	1.7x FY24 EV/S	8,297			1.7	101,549	14,104	5.5	4%
4	Cainiao Smart Logistics Network Limited	Last round transaction value; 63% shareholding	13,520				135,024	18,753	7.3	5%
5	Cloud Intelligence Group	4.2x FY24 EV/S on revenue before intersegment elimination	14,581			4.2	444,078	61,677	24.0	18%
6	Digital Media and Entertainment Group	1.7x FY24 EV/S, inline with iQIYI target EV/S	2,999			1.7	36,704	5,098	2.0	1%
7	All others	1.0x FY24 EV/PS	26,980			1.0	194,255	26,980	10.5	8%
	<b>Total Alibaba business</b>						<b>2,309,615</b>	<b>320,780</b>	<b>125.0</b>	
<b>INVESTMENTS</b>										
1	Ant Group	Last round share buyback valuation; 33% share holding					187,143	25,992	10.1	
2	Others	Market valuation					128,237	17,811	6.9	
	<b>Total investment (with 30% holding discount)</b>									<b>12.0</b>
	<b>Total (US\$mn)</b>								<b>137.0</b>	
	#s of diluted ADS (mn)								2,565	

Source: CMBIGM estimates

Figure 4: Alibaba: two-year average one-year forward PE



Source: Bloomberg, CMBIGM

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Revenue	717,289	853,062	868,687	945,143	1,043,345	1,126,984
Cost of goods sold	(421,205)	(539,450)	(549,695)	(586,934)	(647,917)	(699,857)
Gross profit	296,084	313,612	318,992	358,209	395,428	427,127
Operating expenses	(206,406)	(243,974)	(218,641)	(217,496)	(241,013)	(254,698)
SG&A expense	(136,743)	(151,721)	(145,679)	(155,949)	(176,325)	(185,952)
R&D expense	(57,236)	(55,465)	(56,744)	(50,093)	(54,254)	(57,476)
Others	(12,427)	(36,788)	(16,218)	(11,455)	(10,433)	(11,270)
Operating profit	89,678	69,638	100,351	140,713	154,415	172,429
Interest income	72,794	(15,702)	(11,071)	0	2,087	2,029
Interest expense	(4,476)	(4,909)	(5,918)	(7,089)	(6,051)	(6,762)
Other income/expense	7,582	10,523	5,823	5,671	5,738	6,198
Pre-tax profit	165,578	59,550	89,185	139,295	156,189	173,894
Income tax	(29,278)	(26,815)	(15,549)	(22,287)	(29,676)	(34,779)
Others	6,984	14,344	(8,063)	(2,835)	9,390	10,143
After tax profit	143,284	47,079	65,573	114,173	135,903	149,258
Minority interest	7,294	15,170	7,210	4,726	6,260	7,889
Others	(270)	(290)	(274)	90	0	0
Net profit	150,308	61,959	72,509	118,988	142,163	157,147
Adjusted net profit	178,954	143,515	143,991	162,646	173,463	190,956
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Current assets	643,360	638,535	697,966	881,297	977,317	1,120,314
Cash & equivalents	321,262	189,898	193,086	369,828	451,964	583,458
Restricted cash	35,207	37,455	36,424	36,424	36,424	36,424
Prepayment	124,708	145,995	137,072	143,662	157,545	169,048
Financial assets at FVTPL	162,183	265,187	331,384	331,384	331,384	331,384
Non-current assets	1,046,858	1,057,018	1,055,078	1,149,789	1,219,633	1,289,750
PP&E	147,412	171,806	176,031	266,045	314,039	363,627
Investment in JVs & assos	200,189	219,642	207,380	192,283	189,411	187,292
Intangibles	70,833	59,231	46,913	119,034	139,755	159,639
Goodwill	292,771	269,581	268,091	268,091	268,091	268,091
Financial assets at FVTPL	237,221	223,611	245,737	245,737	245,737	245,737
Other non-current assets	98,432	113,147	110,926	58,599	62,601	65,365
Total assets	1,690,218	1,695,553	1,753,044	2,031,086	2,196,950	2,410,064
Current liabilities	377,358	383,784	385,351	418,145	420,652	455,645
Short-term borrowings	3,606	8,841	7,466	7,972	8,800	9,506
Tax payable	25,275	21,753	12,543	19,613	25,224	28,519
Other current liabilities	87,337	81,730	89,392	90,323	99,707	107,700
Accrued expenses	261,140	271,460	275,950	300,237	286,920	309,921
Non-current liabilities	229,226	229,576	244,772	220,542	227,129	233,452
Long-term borrowings	38,335	38,244	52,023	52,023	51,186	51,186
Deferred income	3,158	3,490	3,560	3,801	4,196	4,532
Other non-current liabilities	187,733	187,842	189,189	164,718	171,747	177,734
Total liabilities	606,584	613,360	630,123	638,687	647,781	689,097
Share capital	1	1	1	1	1	1
Capital surplus	394,308	410,506	416,880	553,281	574,148	596,687
Retained earnings	554,924	563,557	599,028	717,926	860,089	1,017,236
Other reserves	(3,090)	(15,930)	(16,394)	2,511	2,511	2,511
Total shareholders equity	946,143	958,134	999,515	1,273,719	1,436,749	1,616,435
Minority interest	137,491	124,059	123,406	118,680	112,420	104,531
Total equity and liabilities	1,690,218	1,695,553	1,753,044	2,031,086	2,196,950	2,410,064

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Mar (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	165,578	59,550	89,185	139,295	156,189	173,894
Depreciation & amortization	47,909	48,065	46,938	9,451	10,433	11,270
Tax paid	(29,278)	(26,815)	(15,549)	(22,287)	(29,676)	(34,779)
Change in working capital	50,297	(18,150)	13,482	56,537	(12,152)	23,474
Others	(2,720)	80,109	65,696	22,965	24,237	25,410
<b>Net cash from operations</b>	<b>231,786</b>	<b>142,759</b>	<b>199,752</b>	<b>205,961</b>	<b>149,031</b>	<b>199,268</b>
<b>Investing</b>						
Capital expenditure	(41,450)	(53,309)	(34,330)	(47,257)	(47,994)	(49,587)
Acquisition of subsidiaries/ investments	(1,735)	(15)	(22)	(31,154)	(31,154)	(31,154)
Net proceeds from disposal of short-term investments	(114,826)	(106,984)	(61,086)	0	0	0
Others	(86,183)	(38,284)	(40,068)	12,262	12,262	12,262
<b>Net cash from investing</b>	<b>(244,194)</b>	<b>(198,592)</b>	<b>(135,506)</b>	<b>(66,149)</b>	<b>(66,886)</b>	<b>(68,479)</b>
<b>Financing</b>						
Net borrowings	32,008	0	0	0	0	0
Proceeds from share issues	175	109	11	0	0	0
Share repurchases	(773)	(61,225)	(74,746)	0	0	0
Others	(1,328)	(3,333)	9,116	506	(9)	705
<b>Net cash from financing</b>	<b>30,082</b>	<b>(64,449)</b>	<b>(65,619)</b>	<b>506</b>	<b>(9)</b>	<b>705</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	345,982	356,469	227,353	229,510	369,828	451,964
Exchange difference	(7,187)	(8,834)	3,530	0	0	0
<b>Cash at the end of the year</b>	<b>356,469</b>	<b>227,353</b>	<b>229,510</b>	<b>369,828</b>	<b>451,964</b>	<b>583,458</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Mar</b>						
Revenue	na	18.9%	1.8%	8.8%	10.4%	8.0%
Gross profit	na	5.9%	1.7%	12.3%	10.4%	8.0%
Operating profit	na	(22.3%)	44.1%	40.2%	9.7%	11.7%
Net profit	na	(58.8%)	17.0%	64.1%	19.5%	10.5%
Adj. net profit	na	(19.8%)	0.3%	13.0%	6.7%	10.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Mar</b>						
Gross profit margin	41.3%	36.8%	36.7%	37.9%	37.9%	37.9%
Operating margin	12.5%	8.2%	11.6%	14.9%	14.8%	15.3%
Adj. net profit margin	24.9%	16.8%	16.6%	17.2%	16.6%	16.9%
Return on equity (ROE)	na	6.5%	7.4%	10.5%	10.5%	10.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Mar</b>						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.7	1.7	1.8	2.1	2.3	2.5
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Mar</b>						
P/E	30.2	46.5	23.0	11.2	9.4	8.5
P/E (diluted)	30.7	47.0	23.2	11.3	9.4	8.5
P/B	4.9	3.0	1.7	1.1	0.9	0.8
P/CFPS	24.2	32.6	10.1	8.4	13.3	9.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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