

Alibaba (BABA US)

Operating efficiency improvement on track

Alibaba announced (23 Feb) its 3QFY23 (March year-end) results: total revenue was RMB247.8bn, up 2% YoY, 1% ahead of both our forecast and Bloomberg consensus, mainly due to better than expected direct sales and international commerce revenue generation. Driven by sustained operating efficiency improvement across business lines, non-GAAP net income grew 12% YoY to RMB49.9bn, 13/12% ahead of our estimate/consensus. Regarding investment strategy for China retail business in 2023, management highlighted three key focusing points: 1) enhance user stickiness and time spend; 2) enhance value for money proposition; and 3) enhance neighbourhood digital retail business deployment. Management is positive on business recovery in 2023, and guided to invest for driving better growth with operating efficiency mindset. Our SOTP based TP was trimmed to US\$155.5, considering mixed impact from a beat in 3QFY23 results and potential investment to drive long-term growth.

■ **Gap between CMR and China retail marketplace GMV growth is narrowing.** Alibaba generated revenue of RMB91.3bn from its customer management revenue (CMR) in 3QFY23, down 9% YoY and equivalent to 36.9% of total revenue, owing to mid-single-digit YoY decline in online physical goods GMV generated on Taobao and Tmall. Management highlighted a narrowing down trend between GMV and CMR growth in 4QFY23 due to the decline in return rate aided by recovery in fulfilment post pandemic impact. In addition, although pandemic and CNY holiday disruptions weighed on recovery of GMV growth in Jan and early Feb, we expect GMV growth to turn positive in Mar driven by the phase out of disrupting factors and recovery in merchant sentiment, and forecast -4.5% YoY growth for CMR for 4QFY23E.

■ **Operating efficiency improvement across business lines sustained in 3QFY23.** Though high margin CMR business is seeing persistent headwind in 3Q, adjusted EBITA for China commerce grew 1% YoY to RMB58.6bn, aided by loss reductions from Taobao Deals, Freshippo, and Taocaicai. Adjusted EBITA loss from international commerce/local consumer services/digital media and entertainment narrowed by RMB2.2bn/1.9bn/1.3bn YoY in 3QFY23. Overall adjusted EBITA grew by 16% YoY to RMB53.8bn, and adjusted EBITA margin was 21.0%, up 2.5pp YoY, 1.4pp better than our forecast. Operating efficiency improvement could sustain in 4QFY23, while Alibaba remains committed to invest to support for long-term development.

■ **Public cloud a focus area for driving long-term cloud revenue growth.** Cloud computing business revenue grew by 3% YoY to RMB20.2bn in 3QFY23, among which revenue from non-internet industries was up 9% YoY, and contributed to 53% of overall cloud revenue (3QFY22: 52%). Management noted a decent recovery on cloud demand for internet industries in 3QFY23, and guided to ensure stability and security feature of its cloud services, and enhance technological capability to drive the long-term growth of its cloud business.

Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	717,289	853,062	877,264	980,244	1,072,446
YoY growth (%)	na	18.9	2.8	11.7	9.4
Net profit (RMB mn)	150,578.0	62,249.0	63,171.8	118,589.9	130,463.1
Adjusted net profit (RMB mn)	178,954.0	143,515.0	140,963.2	162,700.9	177,650.7
EPS (Adjusted) (RMB)	66.22	53.26	52.26	60.26	65.73
Consensus EPS (RMB)	66.22	53.26	53.01	53.28	60.44
P/E (x)	30.1	46.3	27.9	14.9	13.5
ROE (%)	na	6.5	6.1	9.9	9.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$155.50
 (Previous TP US\$156.00)
Up/Downside 64.1%
Current Price US\$94.78

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Stock Data

Mkt Cap (US\$ mn)	258,379.6
Avg 3 mths t/o (US\$ mn)	99.8
52w High/Low (US\$)	122.39/63.15
Total Issued Shares (mn)	2726.1

Source: FactSet

Shareholding Structure

SoftBank	23.9%
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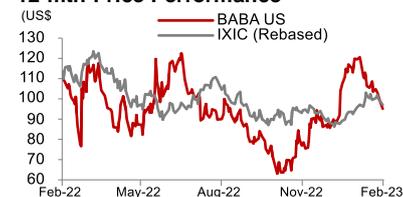
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-20.9%	-23.3%
3-mth	24.7%	21.3%
6-mth	5.3%	13.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Key business segment update

Cloud computing (8.1% of 3QFY23 revenue)

Revenue from cloud computing business grew by 3% YoY to RMB20.2bn in 3QFY23, 3% shy of our forecast, and accounted for 8.1% of total revenue. The growth was mainly driven by healthy double digit public cloud revenue growth, but partially offset by declining hybrid cloud revenue, as Alibaba continues to drive high-quality, recurring revenue growth. Management highlighted that revenue growth from non-internet industries was 9% YoY and contributed to 53% of overall cloud revenue, while revenue growth from customer in internet industry declined by 4% YoY, narrowed from 18% YoY decline in 2QFY23.

Adjusted EBITA margin for the cloud segment was 1.8% in 3QFY23 (3QFY22: 0.7%).

International commerce (7.9% of 3QFY23 revenue)

In 3QFY23, revenue from the international commerce segment was RMB19.5bn, up 18% YoY, within which retail and wholesale recorded revenue of RMB14.6/4.8bn, YoY changes of 26/0% respectively. For retail business, the revenue growth was primarily due to an increase in revenue contributed by Trendyol, driven by robust YoY order growth and more efficient use of subsidies.

The adjusted EBITA margin for the international commerce segment was -3.9% in 3QFY23 (3QFY22: -17.7%), which could be attributable to reduced losses from Lazada and Trendyol.

Cainiao Logistics (6.7% of 3QFY23 revenue)

Revenue from Cainiao Logistics rose 27% YoY in 3QFY23, accounting for 6.7% of total revenue, driven by increase in revenue from domestic consumer logistics services as a result of service model upgrade since late 2021 whereby Cainiao takes on more responsibilities throughout the logistics process to better serve customers and enhance customer experience, as well as the increase in revenue from international fulfilment solution services. Adjusted EBITA for Cainiao was loss of RMB12mn in 3QFY23 with a loss margin of -0.1% (3QFY22: -0.7%).

Figure 1: Alibaba: breakdown of financials of key business segments (3QFY23)

(RMBmn)	China commerce	International commerce	Local consumer services	Cainiao	Cloud	Digital media and entertainment	Innovation initiatives and others	Unallocated	Consolidated
Revenue	169,986	19,465	13,164	16,553	20,179	7,586	823	na	247,756
Income (loss) from operations	53,127	(1,661)	(5,473)	(983)	(1,495)	(1,024)	(1,933)	(5,527)	35,031
Add: Share-based compensation expense	2,390	869	942	717	1,848	522	487	998	8,773
Add: Amortization of intangible assets	3,110	29	1,394	254	3	477	211	52	5,530
Add: Impairment of goodwill								2,714	2,714
Adjusted EBITA	58,627	(763)	(3,137)	(12)	356	(25)	(1,235)	(1,763)	52,048
Adjusted EBITA margin, %	34.5%	-3.9%	-23.8%	-0.1%	1.8%	-0.3%	-150.1%	na	21.0%

Source: Company data, CMBIGM

Figure 2: Alibaba: breakdown of financials of key business segments (3QFY22)

(RMBmn)	China commerce	International commerce	Local consumer services	Cainiao	Cloud	Digital media and entertainment	Innovation initiatives and others	Unallocated	Consolidated
Revenue	171,901	16,449	12,466	13,078	19,539	8,113	1,034	na	242,580
Income (loss) from operations	54,558	(3,707)	(7,733)	(987)	(2,137)	(2,139)	(2,434)	(28,353)	7,068
Add: Share-based compensation expense	2,740	769	1,158	639	2,267	566	608	1,029	9,776
Add: Amortization of intangible assets	580	21	1,499	256	4	199	217	61	2,837
Add: Impairment of goodwill								25,141	25,141
Adjusted EBITA	57,878	(2,917)	(5,076)	(92)	134	(1,374)	(1,609)	(2,122)	44,822
Adjusted EBITA margin, %	33.7%	-17.7%	-40.7%	-0.7%	0.7%	-16.9%	-155.6%	na	18.5%

Source: Company data, CMBIGM

Revision of forecast and valuation

Figure 3: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	877.3	980.2	1072.4	874.8	980.8	1074.8	0.3%	-0.1%	-0.2%
Gross Profit	315.8	354.8	389.3	314.9	356.0	390.1	0.3%	-0.3%	-0.2%
Non-GAAP net profit	141.0	162.7	177.7	140.9	164.3	178.6	0.1%	-1.0%	-0.5%
Gross Margin	36.0%	36.2%	36.3%	36.0%	36.3%	36.3%	0.0 ppt	-0.1 ppt	0.0 ppt
Non-GAAP net margin	16.1%	16.6%	16.6%	16.1%	16.8%	16.6%	0.0 ppt	-0.2 ppt	-0.1 ppt

Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	877.3	980.2	1072.4	876.2	976.0	1075.4	0.1%	0.4%	-0.3%
Gross Profit	315.8	354.8	389.3	319.5	359.6	401.2	-1.2%	-1.3%	-3.0%
Non-GAAP net profit	141.0	162.7	177.7	137.8	163.1	187.0	2.3%	-0.2%	-5.0%
Gross Margin	36.0%	36.2%	36.3%	36.5%	36.8%	37.3%	-0.5 ppt	-0.6 ppt	-1.0 ppt
Non-GAAP net margin	16.1%	16.6%	16.6%	15.7%	16.7%	17.4%	0.3 ppt	-0.1 ppt	-0.8 ppt

Source: Bloomberg, CMBIGM estimates

Valuation: target price of US\$155.5 per ADS

Our SOTP-based target price is US\$155.5 per ADS, and translates into 18.1x FY24E PE.

1) US\$104.0 (previous: US\$104.1) per ADS for BABA's core commerce business (excluding cloud, local consumer services, and Cainiao), based on a DCF valuation (WACC of 11.7% and terminal growth of 2%);

2) US\$25.1 (previous: US\$25.4) per ADS for the cloud business, based on a 6.0x PS multiple on FY23E revenue. The 6.0x PS multiple is largely in line with that of comparable peers at 5.8x for 2022E.

3) US\$6.5 (previous: US\$6.5) per ADS for Cainiao, based on the transaction in the most recent round of financing and Alibaba's 63% shareholding.

4) US\$5.1 (previous: US\$5.2) per ADS for local consumer services, based on a 2.0x PS on FY23 revenue. The 2.0x PS implies a discount to the current trading 2022E PS of 3.5x for Meituan, as Ele.me has a relatively lower market share.

5) US\$14.8 (previous: US\$14.9) per ADS for strategic investment with 30% holding discount.

Figure 5: Alibaba: SOTP valuation

Business	Method	Target PS	Valuation (US\$mn)	Valuation per ADS (US\$)	As % of total valuation
Core business (ex-cloud, Cainiao, and local consumer services)	DCF		283,601	104.0	66.9
Cainiao	Last round financing valuation, 63% shareholding		17,664	6.5	4.2
Local consumer services	PS, based on FY23 revenue	2.0	13,842	5.1	3.3
Alibaba Cloud	PS, based on FY23 revenue	6.0	68,460	25.1	16.2
Strategic investments	Market valuation, 30% holding discount applied to all investment		40,313	14.8	9.5
Total			423,880	155.5	

Source: CMBIGM estimates

Figure 6: Cloud computing: peers valuation comps

Companies	Ticker	Price (US\$)	Revenue growth (YoY%)			PS(x)		
			2022E	2023E	2024E	2022E	2023E	2024E
Microsoft	MSFT US	251.5	11.4	8.4	11.5	9.2	8.5	7.6
Google	GOOG US	91.8	(9.2)	17.5	7.4	5.0	4.3	4.0
Salesforce	CRM US	163.4	17.3	10.1	12.0	5.3	4.8	4.3
Average						6.5	5.8	5.3

Source: Bloomberg, CMBIGM

Note: data as of 22 Feb 2023

Figure 7: Food delivery: peers valuation comps

Companies	Ticker	Revenue growth (YoY%)			PS (x)		
		2022E	2023E	2024E	2022E	2023E	2024E
Meituan	3690 HK	14.0	27.0	24.5	3.5	2.7	2.2
DoorDash	DASH US	33.3	21.8	17.8	3.4	2.8	2.4
Delivery Hero	DSSE GR	20.7	22.7	21.8	1.2	1.0	0.8
Just Eat Takeaway	TKWY NA	12.5	6.3	9.7	0.8	0.7	0.7
Average					2.2	1.8	1.5

Source: Bloomberg, CMBIGM

Note: data as of 22 Feb 2023

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (RMB mn)						
Revenue	na	717,289	853,062	877,264	980,244	1,072,446
Cost of goods sold	na	(421,205)	(539,450)	(561,449)	(625,396)	(683,148)
Gross profit	na	296,084	313,612	315,815	354,848	389,298
Operating expenses	na	(206,406)	(243,974)	(217,035)	(234,278)	(253,634)
SG&A expense	na	(136,743)	(151,721)	(144,749)	(160,760)	(174,273)
R&D expense	na	(57,236)	(55,465)	(55,882)	(62,736)	(67,564)
Others	na	(12,427)	(36,788)	(16,405)	(10,783)	(11,797)
Operating profit	na	89,678	69,638	98,780	120,570	135,664
Interest income	na	72,794	(15,702)	(19,300)	7,842	8,580
Interest expense	na	(4,476)	(4,909)	(5,790)	(5,881)	(6,220)
Other income/expense	na	7,582	10,523	6,141	6,862	5,898
Pre-tax profit	na	165,578	59,550	79,831	129,392	143,922
Income tax	na	(29,278)	(26,815)	(15,168)	(30,407)	(35,981)
Others	na	6,984	14,344	(8,509)	11,763	13,942
After tax profit	na	143,284	47,079	56,154	110,748	121,884
Minority interest	na	7,294	15,170	7,018	7,842	8,580
Net profit	na	150,578	62,249	63,172	118,590	130,463
Adjusted net profit	na	178,954	143,515	140,963	162,701	177,651
BALANCE SHEET						
YE 31 Mar (RMB mn)						
Current assets	na	643,360	638,535	695,473	808,118	933,557
Cash & equivalents	na	321,262	189,898	258,609	356,479	468,975
Restricted cash	na	35,207	37,455	37,455	37,455	37,455
Prepayment	na	124,708	145,995	134,221	148,997	161,939
Financial assets at FVTPL	na	162,183	265,187	265,187	265,187	265,187
Non-current assets	na	1,046,858	1,057,018	1,093,796	1,181,171	1,262,910
PP&E	na	147,412	171,806	213,849	245,883	271,298
Investment in JVs & assos	na	200,189	219,642	230,586	261,801	295,196
Intangibles	na	70,833	59,231	99,148	119,519	138,877
Goodwill	na	292,771	269,581	269,581	269,581	269,581
Financial assets at FVTPL	na	237,221	223,611	223,611	223,611	223,611
Other non-current assets	na	98,432	113,147	57,022	60,775	64,347
Total assets	na	1,690,218	1,695,553	1,789,269	1,989,289	2,196,467
Current liabilities	na	377,358	383,784	342,577	393,298	436,788
Short-term borrowings	na	3,606	8,841	9,202	10,250	11,196
Tax payable	na	25,275	21,753	14,258	26,758	30,583
Other current liabilities	na	87,337	81,730	82,256	91,624	100,085
Accrued expenses	na	261,140	271,460	236,861	264,666	294,923
Non-current liabilities	na	229,226	229,576	205,806	211,028	217,442
Long-term borrowings	na	38,335	38,244	38,244	38,244	37,407
Deferred income	na	3,158	3,490	3,632	4,046	4,420
Other non-current liabilities	na	187,733	187,842	163,930	168,738	175,616
Total liabilities	na	606,584	613,360	548,383	604,327	654,230
Share capital	na	1	1	1	1	1
Capital surplus	na	394,308	410,506	520,479	553,808	589,198
Retained earnings	na	554,924	563,557	626,729	745,319	875,782
Other reserves	na	(3,090)	(15,930)	(23,364)	(23,364)	(23,364)
Total shareholders equity	na	946,143	958,134	1,123,845	1,275,763	1,441,617
Minority interest	na	137,491	124,059	117,041	109,199	100,619
Total equity and liabilities	na	1,690,218	1,695,553	1,789,269	1,989,289	2,196,467

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	na	165,578	59,550	79,831	129,392	143,922
Depreciation & amortization	na	47,909	48,065	32,000	32,662	41,076
Tax paid	na	(29,278)	(26,815)	(15,168)	(30,407)	(35,981)
Change in working capital	na	50,297	(18,150)	1,261	32,588	29,868
Others	na	(2,720)	80,109	35,338	37,107	38,803
Net cash from operations	na	231,786	142,759	133,262	201,342	217,689
Investing						
Capital expenditure	na	(41,450)	(3,412)	(4,386)	(4,901)	(5,362)
Acquisition of subsidiaries/ investments	na	(1,735)	(15)	(31,154)	(31,154)	(31,154)
Net proceeds from disposal of short-term investments	na	(114,826)	(106,984)	0	0	0
Others	na	(86,183)	(88,181)	(66,825)	(68,465)	(68,786)
Net cash from investing	na	(244,194)	(198,592)	(102,366)	(104,521)	(105,302)
Financing						
Net borrowings	na	32,008	0	0	0	0
Proceeds from share issues	na	175	109	0	0	0
Share repurchases	na	(773)	(61,225)	0	0	0
Others	na	(1,328)	(3,333)	361	1,048	109
Net cash from financing	na	30,082	(64,449)	361	1,048	109
Net change in cash						
Cash at the beginning of the year	na	345,982	356,469	227,353	258,609	356,479
Exchange difference	na	(7,187)	(8,834)	0	0	0
Cash at the end of the year	na	356,469	227,353	258,609	356,479	468,975
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Revenue	na	na	18.9%	2.8%	11.7%	9.4%
Gross profit	na	na	5.9%	0.7%	12.4%	9.7%
Operating profit	na	na	(22.3%)	41.8%	22.1%	12.5%
Net profit	na	na	(58.7%)	1.5%	87.7%	10.0%
Adj. net profit	na	na	(19.8%)	(1.8%)	15.4%	9.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Gross profit margin	na	41.3%	36.8%	36.0%	36.2%	36.3%
Operating margin	na	12.5%	8.2%	11.3%	12.3%	12.7%
Adj. net profit margin	na	24.9%	16.8%	16.1%	16.6%	16.6%
Return on equity (ROE)	na	na	6.5%	6.1%	9.9%	9.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Net debt to equity (x)	na	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio (x)	na	1.7	1.7	2.0	2.1	2.1
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
P/E	na	30.1	46.3	27.9	14.9	13.5
P/E (diluted)	na	30.6	46.8	28.2	15.0	13.7
P/B	na	4.9	3.0	1.6	1.4	1.2
P/CFPS	na	24.2	20.9	13.8	9.1	8.4

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

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