

# Alibaba (BABA US)

## A recovery year ahead with more to expect

Alibaba's core China marketplace GMV is on stable recovery track, aided by discretionary consumption recovery, macro recovery, and Alibaba's strategy to enhance value proposition for both customers and merchants. With the unveiling of reorganization plan on 28 March ([link](#)), we expect overall business agility and innovative capabilities would be better propelled, and improving shareholder return. Taking into consideration of China e-commerce market and key business segments outlook, we adjust our forecasts and SOTP derived target price accordingly to US\$154.0 (prior US\$155.5), mainly reflecting near term revenue growth headwind on direct sales business due to high-base effect. Maintain BUY.

- **Gap between GMV and revenue growth to narrow.** We forecast Alibaba 4QFY23 (March year-end) customer management revenue (CMR) to reach RMB61.2bn, down 3.5% YoY, largely inline with the rate of decline in China retail marketplace GMV. We expects a narrowing gap between CMR and GMV growth, considering: 1) normalized return rate due to recovery in fulfilment capability; 2) better advertising sentiment of merchants and brands driven by improvement in macro outlook. Aided by low-base effect and constant recovery in macro, a stronger CMR recovery could be expected in 1QFY24, in our view. In addition, for Taobao and Tmall, management's strategic focus to raise user stickiness and time spend, as well as enhancing value proposition should help to retain market share in FY24.
- **Driving for more dynamic growth.** Following the reorganization, we expect business groups and companies will have more flexibility to establish competitive edge, and some businesses could relieve from cost saving limitation and attract capital to fund growth. Cloud and international business remain key strategic areas to drive for long-term development for Alibaba Group. For cloud business, we forecast its revenue to grow 5% YoY in 4QFY23 (3QFY23: 3%) with adjusted EBITA margin of 2%.
- **4QFY23 preview.** We forecast 4QFY23 revenue of RMB208.3bn, 2.7% lower than Bloomberg consensus, as we are estimating lower than consensus revenue generated from direct sales business due to high base effect and the wear-off of positive pandemic impact on Freshippo business. We forecast total adjusted EBITA of RMB22.9bn for 4QFY23, up 45% yoy, thanks to effective cost control and operating efficiency improvement.
- **SOTP based valuation of US\$154.0 per ADS.** Our SOTP based valuation consists of, per ADS: 1) US\$102.4 for core commerce business, based on a DCF valuation (WACC of 11.7% and terminal growth of 2%); 2) US\$24.9 for the cloud business, based on a 6.0x PS multiple on FY23E revenue; 3) US\$6.5 for Cainiao; 4) US\$5.2 for local consumer services, based on a 2.0x PS on FY23 revenue; 5) US\$15.0 ADS for strategic investment. Our target price translates into 18x FY24E PE (non-GAAP).

### Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	717,289	853,062	868,801	967,925	1,058,011
YoY growth (%)	na	18.9	1.8	11.4	9.3
Net profit (RMB mn)	150,308.0	61,959.0	64,127.2	117,099.5	128,707.0
Adjusted net profit (RMB mn)	178,954.0	143,515.0	141,618.9	160,656.1	175,259.5
EPS (Adjusted) (RMB)	66.22	53.26	52.50	59.50	64.84
Consensus EPS (RMB)	66.22	53.26	53.65	60.02	59.54
ROE (%)	na	6.5	6.2	9.8	9.5

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** US\$154.00  
 (Previous TP US\$155.50)  
**Up/Downside** 56.5%  
**Current Price** US\$98.39

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### Stock Data

Mkt Cap (US\$ mn)	268,220.8
Avg 3 mths t/o (US\$ mn)	100.3
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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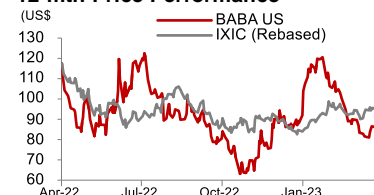
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	9.7%	5.2%
3-mth	7.0%	-8.8%
6-mth	22.3%	8.5%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Changes in forecast and valuation

Figure 1: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	868.8	967.9	1058.0	877.3	980.2	1072.4	-1.0%	-1.3%	-1.3%
Gross Profit	312.8	350.4	384.1	315.8	354.8	389.3	-1.0%	-1.3%	-1.3%
Non-GAAP net profit	141.6	160.7	175.3	141.0	162.7	177.7	0.5%	-1.3%	-1.3%
Gross Margin	36.0%	36.2%	36.3%	36.0%	36.2%	36.3%	0.0 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	16.3%	16.6%	16.6%	16.1%	16.6%	16.6%	0.2 ppt	0.0 ppt	0.0 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB bn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	868.8	967.9	1058.0	875.7	971.7	1068.2	-0.8%	-0.4%	-1.0%
Gross Profit	312.8	350.4	384.1	320.1	358.4	397.5	-2.3%	-2.2%	-3.4%
Adjusted net profit	141.6	160.7	175.3	139.0	157.7	179.7	1.9%	1.9%	-2.4%
Gross Margin	36.0%	36.2%	36.3%	36.6%	36.9%	37.2%	-0.6 ppt	-0.7 ppt	-0.9 ppt
Adjusted net margin	16.3%	16.6%	16.6%	15.9%	16.2%	16.8%	0.4 ppt	0.4 ppt	-0.3 ppt

Source: Bloomberg, CMBIGM estimates

## Valuation: target price of US\$154.0 per ADS

Our SOTP-based target price is US\$154.0 per ADS, which translates into 18x FY24E PE.

- 1) US\$102.4 (previous: US\$104.0) per ADS for BABA's core commerce business (excluding local consumer services, and Cainiao), based on a DCF valuation (WACC of 11.7% and terminal growth of 2%). The lowered valuation was mainly due to a cut of revenue growth forecast for direct sales and others business.
- 2) US\$24.9 (previous: US\$25.1) per ADS for the cloud business, based on a 6.0x PS multiple on FY23E revenue.
- 3) US\$6.5 (unchanged) per ADS for Cainiao, based on the transaction in the most recent round of financing and Alibaba's 63% shareholding.
- 4) US\$5.2 (previous: US\$5.1) per ADS for local consumer services, based on a 2.0x PS on FY23 revenue.
- 5) US\$15.0 (previous: USD14.8) per ADS for strategic investment with 30% holding discount.

Figure 3: 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		279,081	102.4	66.5
Cainiao	Last round financing valuation, 63% shareholding		17,664	6.5	4.2
Local consumer services	PS, based on FY23 revenue	2.0	14,059	5.2	3.3
Alibaba Cloud	PS, based on FY23 revenue	6.0	67,967	24.9	16.2
Strategic investments	Market valuation, 30% holding discount applied to all investment		41,127	15.0	9.8
<b>Total</b>			<b>419,898</b>	<b>154.0</b>	

Source: CMBIGM estimates

**Figure 4: Cloud computing: peers valuation comps**

Companies	Ticker	Price	Revenue growth (YoY%)				PS(x)			
		(US\$)	2022	2023E	2024E	2025E	2022	2023E	2024E	2025E
Microsoft	MSFT US	287.2	11.2	8.4	11.7	13.3	10.5	9.7	8.7	7.6
Google	GOOG US	104.9	(9.2)	17.5	7.6	10.2	5.7	4.9	4.5	4.1
Salesforce	CRM US	196.5	17.3	11.7	11.1	13.0	6.3	5.7	5.1	4.5
<b>Average</b>							<b>7.5</b>	<b>6.7</b>	<b>6.1</b>	<b>5.4</b>

Source: Bloomberg, CMBIGM

Note: data as of 4 April 2023

**Figure 5: Food delivery: peers valuation comps**

Companies	Ticker	Revenue growth (YoY%)			PS (x)			
		2023E	2024E	2025E	2022	2023E	2024E	2025E
Meituan	3690 HK	28.3	24.1	20.6	3.4	2.6	2.1	1.8
DoorDash	DASH US	21.8	17.4	15.2	3.8	3.2	2.7	2.3
Delivery Hero	DHER GR	23.5	22.2	17.8	0.9	0.8	0.6	0.5
Just Eat Takeaway	TKWY NA	5.5	9.6	11.2	0.7	0.6	0.6	0.5
<b>Average</b>					<b>2.2</b>	<b>1.8</b>	<b>1.5</b>	<b>1.3</b>

Source: Bloomberg, CMBIGM

Note: data as of 4 April 2023

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (RMB mn)						
Revenue	na	717,289	853,062	868,801	967,925	1,058,011
Cost of goods sold	na	(421,205)	(539,450)	(556,033)	(617,536)	(673,953)
Gross profit	na	296,084	313,612	312,768	350,389	384,058
Operating expenses	na	(206,406)	(243,974)	(214,594)	(231,334)	(250,220)
SG&A expense	na	(136,743)	(151,721)	(143,005)	(158,740)	(171,927)
R&D expense	na	(57,236)	(55,465)	(55,343)	(61,947)	(66,655)
Others	na	(12,427)	(36,788)	(16,247)	(10,647)	(11,638)
Operating profit	na	89,678	69,638	98,175	119,055	133,838
Interest income	na	72,794	(15,702)	(19,114)	7,743	8,464
Interest expense	na	(4,476)	(4,909)	(5,734)	(5,808)	(6,136)
Other income/expense	na	7,582	10,523	6,082	6,775	5,819
Pre-tax profit	na	165,578	59,550	79,408	127,766	141,985
Income tax	na	(29,278)	(26,815)	(13,658)	(30,025)	(35,496)
Others	na	6,984	14,344	(8,427)	11,615	13,754
After tax profit	na	143,284	47,079	57,323	109,356	120,243
Minority interest	na	7,294	15,170	6,950	7,743	8,464
Others	na	(270)	(290)	(146)	0	0
Net profit	na	150,308	61,959	64,127	117,100	128,707
Adjusted net profit	na	178,954	143,515	141,619	160,656	175,259

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (RMB mn)						
Current assets	na	643,360	638,535	691,786	802,727	925,551
Cash & equivalents	na	321,262	189,898	256,217	352,960	463,150
Restricted cash	na	35,207	37,455	37,455	37,455	37,455
Prepayment	na	124,708	145,995	132,927	147,125	159,760
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	1,093,056	1,179,688	1,260,820
PP&E	na	147,412	171,806	213,418	244,935	269,875
Investment in JVs & assos	na	200,189	219,642	230,668	261,736	294,943
Intangibles	na	70,833	59,231	99,306	119,813	139,329
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	56,472	60,011	63,481
Total assets	na	1,690,218	1,695,553	1,784,842	1,982,415	2,186,371
Current liabilities	na	377,358	383,784	337,990	388,355	430,908
Short-term borrowings	na	3,606	8,841	9,113	10,121	11,045
Tax payable	na	25,275	21,753	12,839	26,422	30,172
Other current liabilities	na	87,337	81,730	81,462	90,473	98,738
Accrued expenses	na	261,140	271,460	234,576	261,340	290,953
Non-current liabilities	na	229,226	229,576	205,099	210,042	216,288
Long-term borrowings	na	38,335	38,244	38,244	38,244	37,407
Deferred income	na	3,158	3,490	3,597	3,995	4,360
Other non-current liabilities	na	187,733	187,842	163,258	167,802	174,521
Total liabilities	na	606,584	613,360	543,089	598,397	647,196
Share capital	na	1	1	1	1	1
Capital surplus	na	394,308	410,506	520,176	553,086	588,000
Retained earnings	na	554,924	563,557	627,830	744,930	873,637
Other reserves	na	(3,090)	(15,930)	(23,364)	(23,364)	(23,364)
Total shareholders equity	na	946,143	958,134	1,124,644	1,274,653	1,438,274
Minority interest	na	137,491	124,059	117,109	109,365	100,901
Total equity and liabilities	na	1,690,218	1,695,553	1,784,842	1,982,415	2,186,371

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	na	165,578	59,550	79,408	127,766	141,985
Depreciation & amortization	na	47,909	48,065	31,798	32,366	40,657
Tax paid	na	(29,278)	(26,815)	(13,658)	(30,025)	(35,496)
Change in working capital	na	50,297	(18,150)	(1,779)	32,928	29,274
Others	na	(2,720)	80,109	34,689	36,544	38,248
<b>Net cash from operations</b>	<b>na</b>	<b>231,786</b>	<b>142,759</b>	<b>130,459</b>	<b>199,578</b>	<b>214,668</b>
<b>Investing</b>						
Capital expenditure	na	(41,450)	(3,412)	(4,344)	(4,840)	(5,290)
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)	(66,368)	(67,849)	(68,121)
<b>Net cash from investing</b>	<b>na</b>	<b>(244,194)</b>	<b>(198,592)</b>	<b>(101,866)</b>	<b>(103,843)</b>	<b>(104,566)</b>
<b>Financing</b>						
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)	272	1,008	87
<b>Net cash from financing</b>	<b>na</b>	<b>30,082</b>	<b>(64,449)</b>	<b>272</b>	<b>1,008</b>	<b>87</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	na	345,982	356,469	227,353	256,217	352,960
Exchange difference	na	(7,187)	(8,834)	0	0	0
<b>Cash at the end of the year</b>	<b>na</b>	<b>356,469</b>	<b>227,353</b>	<b>256,217</b>	<b>352,960</b>	<b>463,150</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
Revenue	na	na	18.9%	1.8%	11.4%	9.3%
Gross profit	na	na	5.9%	(0.3%)	12.0%	9.6%
Operating profit	na	na	(22.3%)	41.0%	21.3%	12.4%
Net profit	na	na	(58.8%)	3.5%	82.6%	9.9%
Adj. net profit	na	na	(19.8%)	(1.3%)	13.4%	9.1%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
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%	16.3%	16.6%	16.6%
Return on equity (ROE)	na	na	6.5%	6.2%	9.8%	9.5%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
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
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
P/E	na	30.2	46.5	28.5	15.6	14.2
P/E (diluted)	na	30.7	47.0	28.8	15.8	14.4
P/B	na	4.9	3.0	1.6	1.5	1.3
P/CFPS	na	24.2	20.9	14.7	9.5	8.8

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

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