

# Alibaba (BABA US)

## 2QFY21 beat on margin

Alibaba delivered solid 2QFY21 results, with revenue/Non GAAP net profit +30% YoY/+44% YoY, 0%/23% above consensus. CMR +20% YoY, in line with our estimate. We reiterate our confidence on BABA's secular growth, backed by livestreaming initiatives, Taobao deals penetration and cloud opportunity. We slightly raised its earnings by 4%/5%/5% in FY21/22/23E for Sun Art consolidation and better margin of emerging business, with TP of US\$358.6 (from US\$354.5). Valuation at 24x FY22E P/E is not demanding, and we expect further catalysts to come (e.g. cloud quarterly breakeven, "11.11").

- 2QFY21 beat on margin.** 2QFY21 topline/bottom line grew 30%/44% YoY, 0%/23% above consensus. Adj. EBITA margin came out at 27% (vs. our estimate of 26%), mainly on narrowing loss margin of local service, Cainiao, DME and cloud. Market concern lies on its moderate Tmall GMV (+21% YoY) and core commerce EBITA margin decline (35%, -3ppts YoY, in line with our estimate). We view it as soft seasonality and strategic investment in Taobao deal & Juhuasuan user acquisition, and we suggest to move into 3QFY21E with eye-catching 11.11. Moreover, strong Cloud (topline +60% YoY, adj. EBITA margin narrowing to -1%) and Cainiao rev acceleration strengthened its breakeven insights.
- Solid core commerce, and eyes on "11.11".** 2QFY21 CMR grew 20% YoY, in line with our estimate. Taobao online physical goods GMV saw high-teens yoy growth in 2QFY21. Taobao Live impressed us, with > RMB350bn GMV for 12-m ended on 30 Sep 2020. We expect higher ads performance and stronger engagement ahead, boosted by upgraded model, new brand incubating and enriched ads format, but it would take some time to see meaningful rev contribution. Looking ahead, we are bullish on its 11.11 momentum, backed by: 1) livestreaming to stimulate engagement; 2) prepayment features and festival extension (two periods) to give SMEs more exposure; and 3) enhanced logistics.
- Maintain BUY.** We think BABA is well positioned to capture online consumption recovery and long-term benefit from structural opportunities. Given Sun Art consolidation and better margin of emerging business, we slightly raised its earnings by 4%/5%/5% in FY21/22/23E, with SOTP-based TP of US\$358.6 (31x FY22E P/E).

### Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	376,844	509,711	707,470	957,420	1,152,774
YoY growth (%)	50.6	35.3	38.8	35.3	20.4
Net income (RMB mn)	93,407	132,479	173,794	231,294	281,302
EPS (RMB)	38.0	53.9	63.9	84.1	101.3
YoY growth (%)	15.6	41.8	18.6	31.8	20.4
Consensus EPS (RMB)	NA	NA	63.3	79.3	99.4
P/E (x)	53.1	37.4	31.6	24.0	19.9
P/B (x)	8.6	6.1	5.4	4.5	3.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.2	16.3	17.2	17.8	18.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	US\$358.6
(Previous TP)	US\$354.5)
Up/Downside	+24.9%
Current Price	US\$287.8

### China Internet Sector

#### Sophie Huang

(852) 3900 0889

sophiehuang@cmbi.com.hk

Mkt Cap (US\$ mn)	778,547
Avg 3 mths t/o (US\$ mn)	3,910.8
52w High/Low (US\$)	319/170
Total Issued Shares (mn)	2,706

Source: Bloomberg

#### Shareholding Structure

SoftBank	24.9%
Altaba Inc	14.8%
Ma Jack Yun	4.8%

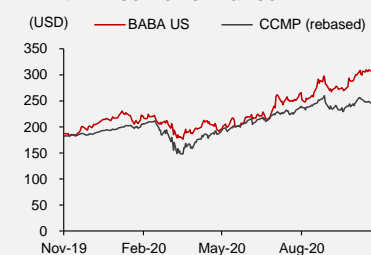
Source: Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	2.6%	-1.9%
3-mth	12.8%	6.5%
6-mth	54.7%	16.3%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

#### Related Reports

- Expecting solid 2QFY21E -19 Oct 2020
- Key takeaways from 2020 Investor Day - 6 Oct 2020
- A strong start in FY21 - 21 Aug 2020

**Figure 1: 2QFY21 financial review**

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	114,924	119,017	161,456	114,314	153,751	155,059	0.9%	30.3%	154,841	0%	153,542	1%
Operating Profit	24,375	20,364	39,560	7,131	34,705	13,634	-60.7%	-33.0%	28,073	-51%	29,231	-53%
Net profit	19,122	72,540	52,309	3,162	46,437	26,524	-42.9%	-63.4%	25,303	5%	27,910	-5%
Adj. net profit	30,949	32,750	46,493	22,287	39,494	47,088	19.2%	43.8%	38,400	23%	38,332	23%
Adj. EPS (RMB)	12.55	13.10	18.19	9.20	14.82	17.97	21.3%	37.2%	13.87	30%	14.10	27%
<b>Margin (%)</b>												
Gross margin	47.8%	45.0%	47.8%	36.6%	45.0%	42.0%			43.6%		43.5%	
Operating margin	21.2%	17.1%	24.5%	6.2%	22.6%	8.8%			18.1%		19.0%	
Adj. net margin	26.9%	27.5%	28.8%	19.5%	25.7%	30.4%			24.8%		25.0%	
<b>Growth (%)</b>												
Revenue (YoY)	42.0%	39.8%	37.7%	22.3%	33.8%	30.3%			30.1%		29.0%	
Revenue (QoQ)	22.9%	3.6%	35.7%	-29.2%	34.5%	0.9%			0.7%		-0.1%	
Operating Profit	203.9%	50.8%	47.6%	-18.6%	42.4%	-33.0%			37.9%		43.5%	
Adj. net profit	54.0%	39.6%	56.0%	11.1%	27.6%	43.8%			17.3%		17.0%	

Source: Company data, CMBIS estimates, Bloomberg

**Figure 2: Revenue breakdown**

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	QoQ	YoY
<b>Total revenue</b>	<b>114,924</b>	<b>119,017</b>	<b>161,456</b>	<b>114,314</b>	<b>153,751</b>	<b>155,059</b>	<b>1%</b>	<b>30%</b>
Core commerce	99,544	101,220	102,843	93,865	133,318	130,922	-2%	29%
Cloud computing	7,787	9,291	10,721	12,217	12,345	14,899	18%	60%
Digital media and entertainment	6,312	7,296	7,396	5,944	6,994	8,066	12%	11%
Innovation initiatives and others	1,281	1,210	1,864	2,288	1,094	1,172	141%	-3%

Source: Company data

**Figure 3: Earnings revision**

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	707,470	957,420	1,152,774	665,470	852,020	1,042,774	6.3%	12.4%	10.5%
Gross profit	309,164	409,776	493,387	297,465	380,853	466,120	3.9%	7.6%	5.8%
Operating profit	111,337	149,575	187,049	106,271	139,975	176,084	4.8%	6.9%	6.2%
Net profit	173,794	231,294	281,302	167,267	219,719	267,986	3.9%	5.3%	5.0%
EPS (Rmb)	63.86	84.14	101.32	61.46	79.93	96.52	3.9%	5.3%	5.0%
Gross margin	43.7%	42.8%	42.8%	44.7%	44.7%	44.7%	-1.0ppts	-1.9ppts	-1.9ppts
Operating margin	15.7%	15.6%	16.2%	16.0%	16.4%	16.9%	-0.2ppts	-0.8ppts	-0.7ppts
Net margin	24.6%	24.2%	24.4%	25.1%	25.8%	25.7%	-0.6ppts	-1.6ppts	-1.3ppts

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	647.1	237.8	EV/EBITA	21.7	16.0	29.9	40.4
Cloud	159.9	58.7	P/S	17.8	12.0	9.0	13.3
Others	169.1	62.1					
Digital Entertainment	16.1	5.9	P/S	3.8	3.5	4.2	4.6
Innovations	4.8	1.8	P/S	3.8	3.0	1.3	1.6
Strategic Investments	120.4	44.2	SoTP for all investments				
Net (Debt)/Cash	27.7	10.2	Cash forecasted on Balance sheet				
<b>Equity Value (US\$)</b>	<b>976</b>	<b>358.6</b>					

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	376,844	509,711	707,470	957,420	1,152,774
Core commerce	323,400	436,104	606,069	820,609	974,998
Cloud	24,702	40,016	62,825	93,264	129,413
DME	24,077	26,948	29,679	32,236	34,597
Others	4,665	6,643	8,896	11,311	13,766
<b>COSG</b>	(206,929)	(282,367)	(398,305)	(547,644)	(659,387)
<b>Gross profit</b>	169,915	227,344	309,164	409,776	493,387
R&D	(37,435)	(43,080)	(65,795)	(86,168)	(100,291)
S&M	(39,780)	(50,673)	(74,284)	(100,529)	(121,041)
Admin. Expense	(24,889)	(28,197)	(38,911)	(50,743)	(58,791)
Other income	(10,727)	(13,964)	(18,837)	(22,761)	(26,214)
<b>Operating profit</b>	57,084	91,430	111,337	149,575	187,049
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
<b>Pre-tax profit</b>	96,221	166,645	194,187	249,363	307,222
Equity investees	566	(5,733)	(11,057)	(11,057)	(11,057)
Tax	(16,553)	(20,562)	(23,302)	(29,924)	(36,867)
<b>Net profit</b>	79,948	140,180	159,827	208,383	259,299
<b>Non-GAAP NI</b>	93,407	132,479	173,794	231,294	281,302

### Cash flow summary

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	80,234	140,350	159,827	208,383	259,299
D&A	60,377	62,344	83,500	98,116	117,338
Change in WC	50,241	46,132	32,307	38,769	46,522
Others	(39,801)	(15,083)	(6,704)	(7,397)	(8,529)
<b>Operating CF</b>	151,051	233,743	268,930	337,870	414,630
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
<b>Investing CF</b>	(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
<b>Financing CF</b>	(9,248)	(23,980)	2,202	0	0
<b>Change in cash</b>	(9,256)	(154,402)	32,425	86,076	148,440
Cash (beg of yr)	199,331	190,075	35,673	68,098	154,174
FX	3,245	0	0	0	0
<b>Cash (end of yr)</b>	193,320	35,673	68,098	154,174	302,614

### Balance sheet

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>NC assets</b>	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
<b>Current assets</b>	270,273	462,923	217,364	323,655	496,353
Cash	189,976	330,503	68,098	154,174	302,614
Account receivable	67,108	99,708	116,554	136,769	161,027
Other	13,189	32,712	32,712	32,712	32,712
<b>Current liabilities</b>	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
<b>NC liabilities</b>	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
<b>Total Equity</b>	608,583	870,548	1,015,363	1,211,077	1,450,437
MI	116,326	115,147	113,122	127,697	145,813
<b>S/H equity</b>	492,257	755,401	902,241	1,083,381	1,304,624

### Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Core commerce	85.8	85.6	85.7	85.7	84.6
Cloud	6.6	7.9	8.9	9.7	11.2
DME	6.4	5.3	4.2	3.4	3.0
Others	1.2	1.3	1.3	1.2	1.2
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Profitability (%)</b>					
Gross margin	45.1	44.6	43.7	42.8	42.8
PreTax margin	25.5	32.7	27.4	26.0	26.7
Tax rate	-4.4	-4.0	-3.3	-3.1	-3.2
Adj. net margin	26.4	28.2	24.9	22.6	22.8
<b>Balance sheet</b>					
Current ratio (x)	1.3	1.9	0.8	1.0	1.4
Debtors turnover	49.3	51.1	47.8	42.4	42.2
Creditors turnover	175.4	180.5	162.8	142.1	141.6
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROE	16.2	16.3	17.2	17.8	18.0
ROA	9.7	10.1	12.4	13.6	13.6
<b>Per share data</b>					
Adj. EPS (RMB)	38.0	53.9	63.9	84.1	101.3
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	234.6	329.7	376.4	443.9	525.7

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.