

Alibaba (BABA US)

Decent 618 with moderate recovery ahead

We expect BABA's 1QFY23E rev/non-GAAP net profit -1% YoY/-38% YoY, 1%/7% below consensus. We expect China ecommerce rev -4% YoY, in which CMR -11% YoY (ads resilient while commission affected by epidemic) with lower take rate. GMV in Apr & May declined low-teens YoY, but 618 GMV achieved positive growth (narrowing gap with JD), better than buyside expectation. We expect moderate CMR recovery ahead and to achieve positive growth in 2HFY23E. Narrowing loss of Taocaicai and Taobao Deals would continue in Jun quarter, resulting in segment EBITA margin at 28.5%. Cloud deceleration (forecasting +10% YoY in 1QFY23E) was well anticipated by the market. We believe BABA would benefit from both lockdown & regulatory relaxation. We keep our FY22-24E earnings forecast barely changed, with TP at US\$151.0.

- Expecting acceptable 1QFY23E.** We expect 1QFY23 rev -1% YoY, in which China commerce /international commerce/ local service/ Cainiao/ Cloud/ DME -4%/+5%/+5%/+5%/+10%/+3% YoY. Non-GAAP net profit was estimated at -38% YoY. We estimate adj. EBITA margin at 13% (-7ppts YoY, +5ppts QoQ), in which China commerce /international commerce/ local service/ Cainiao/ Cloud/ DME adj. EBITA margin were at +28.5%/-16.5%/-46%/-3%/+1.5%/-13%.
- Solid momentum in 618, to partly offset Apr & May decline.** We expect 1QFY23 CMR -11% YoY (vs. 0% in 4QFY22), largely in line. GMV would decline 10% YoY, in which Apr & May GMV declined low-teens YoY and 618 GMV achieved positive growth. 618 outperformed on recovering demand from reopening, with strong momentum of outdoors and healthcare vertical (despite soft apparel). We expect narrowing loss from TCC & Taobao Deals to continue (loss peaked in Dec 2021). Cloud +10% YoY, in our estimate, mainly on macro pressure, internet clients headwinds and strategy adjustment (shrinking CDN products). Local life would see more epidemic impact than peers, given higher exposure in SH. We expect local life rev +5% YoY, with improving margin.
- Maintain BUY.** We keep our FY22-24E earnings barely changed, with SOTP-based TP at US\$151.0 (21x FY23E P/E). Valuation is attractive, considering its upcoming GMV gradual recovery, better margin outlook and already-low financials expectation.

Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	717,289	853,062	908,768	1,007,429	1,129,809
YoY growth (%)	40.7	18.9	6.5	10.9	12.1
Adj. net profit (RMB mn)	178,954	146,892	132,263	152,056	179,697
Adj. EPS (RMB)	65.2	56.2	47.4	54.0	63.2
YoY growth (%)	26.6	(17.9)	(10.0)	15.0	18.2
Consensus EPS (RMB)	NA	NA	50.2	59.3	66.0
P/E (x)	12.2	14.2	16.8	14.8	12.6
P/B (x)	3.0	2.5	2.3	2.1	1.9
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	18.7	19.1	14.3	11.4	11.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$151.0
(Previous TP)	US\$150.6)
Up/Downside	+26.8%
Current Price	US\$119.1

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	314,466
Avg 3 mths t/o (US\$ mn)	2,811.20
52w High/Low (US\$)	216.60/73.28
Total Issued Shares (mn)	2,711

Source: Bloomberg

Shareholding Structure

Goldman Sachs	0.8%
Primecap Management	0.6%
Govt Pension Inv Fund Jap	0.6%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	24.5%	34.3%
3-mth	5.3%	34.9%
6-mth	-3.6%	37.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Moderate recovery insight with cost efficiency – 27 May 2022
- Factoring in epidemic impact – 19 Apr 2022
- New initiatives net loss to narrow –

Figure 1: 1QFY23E financial preview

RMB mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	4QFY23E	QoQ	YoY	Consensus	Diff %
Revenue	153,751	155,059	221,084	187,395	205,740	200,690	242,580	204,052	203,543	-0.2%	-1.1%	205,430	-1%
Operating Profit	34,705	13,634	49,002	(7,663)	30,847	15,006	7,068	16,717	17,411	4.2%	-43.6%	19,181	-9%
Net profit	46,437	26,524	79,427	(5,479)	42,835	3,377	20,429	(16,241)	21,305	-231.2%	-50.3%	16,800	27%
Adj. net profit	39,494	47,088	60,630	26,216	43,441	28,524	45,803	19,799	27,006	36.4%	-37.8%	29,095	-7%
Adj. EPS	14.82	17.97	22.03	10.32	16.60	11.20	16.87	7.95	10.43	31.2%	-37.2%	10.57	-1%
Margin (%)													
Gross Margin	45.0%	42.0%	45.1%	33.1%	39.7%	35.3%	39.5%	31.9%	32.9%			35.8%	
Operating Margin	22.6%	8.8%	22.2%	-4.1%	15.0%	7.5%	2.9%	8.2%	8.6%			9.3%	
Adj. net margin	25.7%	30.4%	27.4%	14.0%	21.1%	14.2%	18.9%	9.7%	13.3%			14.2%	
Growth (%)													
Revenue (YoY)	33.8%	30.3%	36.9%	63.9%	33.8%	29.4%	9.7%	8.9%	-1.1%			-0.2%	
Revenue (QoQ)	34.5%	0.9%	42.6%	-15.2%	9.8%	-2.5%	20.9%	-15.9%	-0.2%			0.7%	
Operating Profit	42.4%	-33.0%	23.9%	-207.5%	-11.1%	10.1%	-85.6%	NA	-43.6%			-37.8%	
Adj. net profit	27.6%	43.8%	30.4%	17.6%	10.0%	-39.4%	-24.5%	-24.5%	-37.8%			-33.0%	

Source: Company data, CMBIGM estimates, Bloomberg

Figure 2: Revenue breakdown

RMB mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	4QFY23E	QoQ	YoY
Total revenue	153,751	125,447	221,084	187,395	205,740	200,690	242,580	204,052	203,543	0%	-1%
China Commerce	107,985	102,043	161,328	130,391	144,029	136,120	172,226	140,330	138,480	-1%	-4%
International Commerce	10,216	11,299	13,920	13,416	15,202	15,092	16,449	14,335	16,038	12%	5%
Local Consumer Services	7,892	9,824	9,536	8,123	10,099	10,806	12,141	10,445	10,604	2%	5%
Cainiao	7,713	8,226	11,360	9,959	11,601	9,846	13,078	11,582	12,181	5%	5%
Cloud	12,437	15,029	16,227	16,865	16,051	20,007	19,539	18,971	17,656	-7%	10%
Digital media and entertainment	6,994	8,066	8,079	8,047	8,073	8,081	8,113	8,005	7,831	-2%	-3%
Innovation initiatives and others	514	572	634	594	685	738	1,034	384	754	96%	10%

Source: Company data, CMBIGM estimates

Figure 3: Earnings revision

RMB mn, Mar-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	908,768	1,007,429	1,129,809	913,552	1,012,828	1,135,742	-0.5%	-0.5%	-0.5%
Gross profit	283,260	321,229	372,088	284,238	321,991	373,158	-0.3%	-0.2%	-0.3%
Operating profit	82,334	107,130	139,180	82,184	106,650	138,916	0.2%	0.4%	0.2%
Adj. net profit	132,263	152,056	179,697	132,375	151,807	179,663	-0.1%	0.2%	0.0%
EPS (RMB)	47.42	53.98	63.16	47.46	53.89	63	-0.1%	0.2%	0.0%
Gross margin	31.2%	31.9%	32.9%	31.1%	31.8%	32.9%	+0.1ppts	+0.1ppts	+0.0ppts
Operating margin	9.1%	10.6%	12.3%	9.0%	10.5%	12.2%	+0.1ppts	+0.1ppts	+0.1ppts
Adj. net margin	14.6%	15.1%	15.9%	14.5%	15.0%	15.8%	+0.1ppts	+0.1ppts	+0.1ppts

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs. consensus

Rmb mn, Mar-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	908,768	1,007,429	1,129,809	922,356	1,040,278	1,159,743	-1.5%	-3.2%	-2.6%
Gross profit	283,260	321,229	372,088	323,638	368,496	409,345	-12.5%	-12.8%	-9.1%
Operating profit	82,334	107,130	139,180	92,075	114,594	143,986	-10.6%	-6.5%	-3.3%
Adj. net profit	132,263	152,056	179,697	132,090	158,530	185,331	0.1%	-4.1%	-3.0%
EPS (RMB)	47.42	53.98	63.16	50.23	59.34	66.01	-5.6%	-9.0%	-4.3%
Gross margin	31.2%	31.9%	32.9%	35.1%	35.4%	35.3%	-3.9ppts	-3.5ppts	-2.4ppts
Operating margin	9.1%	10.6%	12.3%	10.0%	11.0%	12.4%	-0.9ppts	-0.4ppts	-0.1ppts
Adj. net margin	14.6%	15.1%	15.9%	14.3%	15.2%	16.0%	+0.2ppts	-0.1ppts	-0.1ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 5: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY22A	FY23E	FY22A	FY23E
Core Commerce	285.4	103.4	EV/EBITA	9.9	12.0	28.9	23.8
Cloud	53.2	19.3	P/S	4.6	4.0	11.5	13.3
Others	78.4	28.4					
Digital Entertainment	10.0	3.6	P/S	2.0	2.0	5.0	5.0
Innovations	1.0	0.4	P/S	3.0	2.0	0.4	0.5
Strategic Investments	36.2	13.1	SoTP for all investments				
Net (Debt)/Cash	31.1	11.3	Cash forecasted on Balance sheet				
Equity Value (US\$)	417	151.0					
TP (HK\$)							

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	717,289	853,062	908,768	1,007,429	1,129,809
China Commerce	501,683	592,705	613,347	670,614	731,575
International	48,851	61,078	70,240	80,776	101,106
Local Services	35,442	43,491	49,797	54,375	57,928
Cainiao	37,258	46,107	53,023	62,042	69,487
Cloud	60,558	74,568	86,499	103,042	132,409
DME	31,186	32,272	32,595	32,921	33,250
Innovation	2,311	2,841	3,267	3,659	4,054
COSG	(421,205)	(539,450)	(625,508)	(686,199)	(757,722)
Gross profit	296,084	313,612	283,260	321,229	372,088
R&D	(57,236)	(55,465)	(60,809)	(65,321)	(70,959)
S&M	(81,519)	(119,799)	(97,486)	(105,788)	(116,091)
Admin. expense	(55,224)	(31,922)	(35,569)	(37,831)	(40,658)
Other income	(12,427)	(35,985)	(7,063)	(5,160)	(5,200)
Operating profit	89,678	70,441	82,334	107,130	139,180
Interest exp	72,794	(9,052)	12,969	14,309	15,309
Associates	(4,476)	(4,977)	(4,733)	(4,733)	(4,733)
Others	7,582	12,000	12,000	12,000	10,000
Pre-tax profit	165,578	68,413	102,570	128,706	159,756
Tax	(29,278)	(21,892)	(30,771)	(39,217)	(42,060)
Net profit	150,308	65,987	99,708	120,286	148,400
Non-GAAP NI	178,954	146,892	132,263	152,056	179,697

Cash flow summary

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	143,284	57,583	91,799	111,489	140,196
D&A	47,909	39,347	39,137	39,602	40,310
Change in WC	50,508	34,047	13,053	22,063	19,677
Others	(9,915)	22,920	31,472	29,707	19,291
Operating CF	231,786	153,897	175,460	202,862	219,473
Capex	(43,185)	(59,532)	(75,029)	(83,176)	(93,190)
Associates	(16,123)	4,351	0	0	0
Others	(204,614)	(66,403)	(50,000)	(50,000)	(50,000)
Investing CF	(263,922)	(121,584)	(125,029)	(133,176)	(143,190)
Equity raised	175	0	0	0	0
Change of Debts	(659)	(11,175)	0	0	0
Dividend paid	0	0	0	0	0
Others	30,566	(2,757)	0	0	0
Financing CF	30,082	(13,932)	0	0	0
Change in cash	(9,241)	18,381	50,431	69,686	76,283
Cash (beg of yr)	330,503	321,262	339,643	390,074	459,759
FX	(7,187)	0	0	0	0
Cash (end of yr)	321,262	339,643	390,074	459,759	536,042

Balance sheet

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
NC assets	1,046,858	1,089,252	1,172,884	1,272,092	1,384,362
Fixed asset	147,412	168,536	191,587	220,416	258,591
Associates	200,189	206,900	226,900	248,900	271,400
Land use-right	0	0	0	0	0
Intangible assets	292,771	267,630	267,630	267,630	267,630
Others	406,486	446,186	486,767	535,146	586,740
Current assets	643,360	741,241	847,151	964,806	1,092,265
Cash	321,262	339,643	390,074	459,759	536,042
Account receivable	124,708	159,717	185,197	203,166	224,342
Other	197,390	241,881	271,881	301,881	331,881
Current liabilities	377,358	454,502	500,433	553,571	610,679
Borrowings	3,606	3,490	3,490	3,490	3,490
Trade & payables	261,140	342,402	375,540	411,407	453,939
Income tax	25,275	18,899	26,564	33,855	36,309
Other	87,337	89,710	94,839	104,818	116,940
NC liabilities	229,226	210,804	229,123	246,750	253,076
Borrowings	38,335	37,107	37,107	37,107	37,107
Deferred taxation	59,598	44,563	62,637	79,829	85,617
Other	131,293	129,134	129,379	129,813	130,352
Mezzanine equity	8,673	8,673	8,673	8,673	8,673
Total equity	1,074,961	1,156,515	1,281,806	1,427,905	1,604,199
MI	137,491	128,816	120,637	111,571	103,097
S/H equity	937,470	1,027,698	1,161,169	1,316,335	1,501,102

Key ratios

YE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
China Commerce	69.9	69.5	67.5	66.6	64.8
International	6.8	7.2	7.7	8.0	8.9
Local Services	4.9	5.1	5.5	5.4	5.1
Cainiao	5.2	5.4	5.8	6.2	6.2
Cloud	8.4	8.7	9.5	10.2	11.7
DME	4.3	3.8	3.6	3.3	2.9
Innovation	0.3	0.3	0.4	0.4	0.4
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	40.7	18.9	6.5	10.9	12.1
Gross profit	30.2	5.9	-9.7	13.4	15.8
EBIT	-1.9	-21.5	16.9	30.1	29.9
Net profit	26.6	-17.9	-10.0	15.0	18.2
P&L ratios (%)					
Operating margin	12.5	8.3	9.1	10.6	12.3
Pre-tax margin	23.1	8.0	11.3	12.8	14.1
Adj. net margin	24.9	17.2	14.6	15.1	15.9
Effective tax rate	(17.7)	(32.0)	(30.0)	(30.5)	(26.3)
Returns (%)					
ROE	18.7	19.1	14.3	11.4	11.6
ROA	10.8	10.6	8.0	6.5	6.8
Per share data					
Adj. EPS (RMB)	65.2	56.2	47.4	54.0	63.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	341.2	372.1	416.3	467.3	527.6

Source: Company data, CMBIGM estimates

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