

# Alibaba (BABA US)

## China ecommerce to bottom out

BABA delivered upbeat 1QFY23 result, with rev/non-GAAP net profit +0% YoY/-30% YoY, 1%/6% above consensus. China ecommerce rev -1% YoY, in which CMR -10% YoY (ads resilient while commission affected by epidemic) with lower take rate. We view this result as positive, for its better-than-feared GMV trend (GMV improvement in Jul vs. Jun). We expect CMR to achieve positive growth in 2HFY23E, if the epidemic is not worsening. Narrowing loss of TCC and Taobao Deals would continue, coupled with better UE of local services. Cloud deceleration (+10% YoY in 1QFY23) was well anticipated by the market, and we view its guidance of slower growth in 2H22E as acceptable. We slightly revised up its earnings forecast by 0-1% in FY22-24E to reflect better cost control, with TP at US\$151.0. Suggest to buy on dips, given its attractive valuation and recovery in sight.

- **1QFY23 beat on margin.** 1QFY23 rev +0% YoY (1%/1% above consensus/our estimate), in which China commerce /international commerce/ local service/ Cainiao/ Cloud/ DME -1%/+2%/+5%/+5%/+10%/-10% YoY (vs. our estimate of -4%/+5%/+5%/+5%/+10%/+3% YoY). Non-GAAP net profit -30% YoY, 6%/12% above consensus/our estimate. Adj. EBITA margin came out at 16.7% (-3ppts YoY, +9ppts QoQ), above our estimate of 13%.
- **The worst is behind, with better-than-feared CMR trend.** 1QFY23 CMR -10% YoY (vs. 0% in 4QFY22), above our estimate of -11% YoY. GMV declined mid-single-digit YoY in Jun, in which Apr & May GMV declined low-teens YoY and 618 GMV achieved positive growth. Mgmt. stated Jul GMV YoY trend improved from Jun, suggesting better-than-expected recovery. China Ecommerce EBITA margin came out at 31%, above our estimate of 28%. With continuously narrowing loss (QoQ) from TCC and local service, we are positive on margin trend in next few quarters. Local services rev +5% (in line with our estimate), and we suggest to move into 2H22 rebound and UE improvement with lockdowns disruption relaxation. Cloud challenges (rev +10% YoY) were well-anticipated, and 2H22E might see slower growth for shrinking demand from internet verticals.
- **Maintain BUY.** We lifted its earnings forecast by 0-1% in FY22-24E, 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	900,317	997,507	1,117,356
YoY growth (%)	40.7	18.9	5.5	10.8	12.0
Adj. net profit (RMB mn)	178,954	146,864	133,519	152,283	179,741
Adj. EPS (RMB)	65.2	56.2	47.9	54.1	63.2
YoY growth (%)	26.6	(17.9)	(9.1)	14.1	18.0
Consensus EPS (RMB)	NA	NA	49.3	55.2	63.6
P/E (x)	10.1	11.7	13.7	12.1	10.4
P/B (x)	2.4	2.0	1.9	1.7	1.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	18.7	19.1	14.3	11.5	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\$151.0)
Up/Downside	+54.4%
Current Price	US\$97.8

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	239,233
Avg 3 mths t/o (US\$ mn)	2,823.20
52w High/Low (US\$)	203.28/73.28
Total Issued Shares (mn)	2,648

Source: Bloomberg

### Shareholding Structure

Goldman Sachs	0.9%
Primecap Management	0.7%
Govt Pension Inv Fund Jap	0.6%

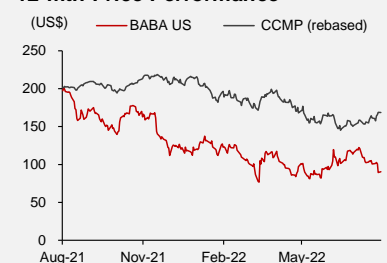
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-22.1%	-29.9%
3-mth	-7.0%	-7.2%
6-mth	-29.0%	-17.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

- Decent 618 with moderate recovery ahead – 8 Jul 2022
- Moderate recovery insight with cost efficiency – 27 May 2022

**Figure 1: 1QFY23 financial review**

RMB mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QY23E	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	153,751	155,059	221,084	187,395	205,740	200,690	242,580	204,052	205,555	0.7%	-0.1%	203,363	1%	203,543	1%
Operating Profit	34,705	13,634	49,002	(7,663)	30,847	15,006	7,068	16,717	24,943	49.2%	-19.1%	18,994	31%	17,411	43%
Net profit	46,437	26,524	79,427	(5,479)	42,835	3,377	20,429	(16,241)	22,739	-240.0%	-46.9%	17,829	28%	21,305	7%
Adj. net profit	39,494	47,088	60,630	26,216	43,441	28,524	45,803	19,799	30,252	52.8%	-30.4%	28,427	6%	27,006	12%
Adj. EPS	14.82	17.97	22.03	10.32	16.60	11.20	16.87	7.95	11.73	47.5%	-29.3%	10.27	14%	10.43	12%
<b>Margin (%)</b>															
Gross Margin	45.0%	42.0%	45.1%	33.1%	39.7%	35.3%	39.5%	31.9%	36.9%			35.4%		32.9%	
Operating Margin	22.6%	8.8%	22.2%	-4.1%	15.0%	7.5%	2.9%	8.2%	12.1%			9.3%		8.6%	
Adj. net margin	25.7%	30.4%	27.4%	14.0%	21.1%	14.2%	18.9%	9.7%	14.7%			14.0%		13.3%	
<b>Growth (%)</b>															
Revenue (YoY)	33.8%	30.3%	36.9%	63.9%	33.8%	29.4%	9.7%	8.9%	-0.1%			-1.2%		-1.1%	
Revenue (QoQ)	34.5%	0.9%	42.6%	-15.2%	9.8%	-2.5%	20.9%	-15.9%	0.7%			-0.3%		-0.2%	
Operating Profit	42.4%	-33.0%	23.9%	-207.5%	-11.1%	10.1%	-85.6%	NA	-19.1%			-38.4%		-43.6%	
Adj. net profit	27.6%	43.8%	30.4%	17.6%	10.0%	-39.4%	-24.5%	-24.5%	-30.4%			-34.6%		-37.8%	

Source: Company data, CMBIGM estimates, Bloomberg

**Figure 2: Revenue breakdown**

RMB mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QY23E	QoQ	YoY
Total revenue	153,751	125,447	221,084	187,395	205,740	200,690	242,580	204,052	205,555	1%	0%
China Commerce	107,985	102,043	161,328	130,391	144,029	136,120	172,226	140,330	141,935	1%	-1%
International Commerce	10,216	11,299	13,920	13,416	15,202	15,092	16,449	14,335	15,451	8%	2%
Local Consumer Services	7,892	9,824	9,536	8,123	10,099	10,806	12,141	10,445	10,632	2%	5%
Cainiao	7,713	8,226	11,360	9,959	11,601	9,846	13,078	11,582	12,142	5%	5%
Cloud	12,437	15,029	16,227	16,865	16,051	20,007	19,539	18,971	17,685	-7%	10%
Digital media and entertainment	6,994	8,066	8,079	8,047	8,073	8,081	8,113	8,005	7,231	-10%	-10%
Innovation initiatives and others	514	572	634	594	685	738	1,034	384	479	25%	-30%

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	900,317	997,507	1,117,356	908,768	1,007,429	1,129,809	-0.9%	-1.0%	-1.1%
Gross profit	283,629	321,317	371,700	283,260	321,229	372,088	0.1%	0.0%	-0.1%
Operating profit	83,404	108,084	139,979	82,334	107,130	139,180	1.3%	0.9%	0.6%
Adj. net profit	133,519	152,283	179,741	132,263	152,056	179,697	0.9%	0.1%	0.0%
EPS (RMB)	47.87	54.06	63.17	47.42	53.98	63	0.9%	0.1%	0.0%
Gross margin	31.5%	32.2%	33.3%	31.2%	31.9%	32.9%	+0.3ppts	+0.3ppts	+0.4ppts
Operating margin	9.3%	10.8%	12.5%	9.1%	10.6%	12.3%	+0.2ppts	+0.2ppts	+0.2ppts
Adj. net margin	14.8%	15.3%	16.1%	14.6%	15.1%	15.9%	+0.2ppts	+0.2ppts	+0.2ppts

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	900,317	997,507	1,117,356	918,269	1,034,306	1,150,748	-2.0%	-3.6%	-2.9%
Gross profit	283,629	321,317	371,700	323,461	368,166	409,521	-12.3%	-12.7%	-9.2%
Operating profit	83,404	108,084	139,979	97,433	119,192	147,837	-14.4%	-9.3%	-5.3%
Adj. net profit	133,519	152,283	179,741	132,730	156,163	183,583	0.6%	-2.5%	-2.1%
EPS (RMB)	47.87	54.06	63.17	49.28	55.23	63.61	-2.9%	-2.1%	-0.7%
Gross margin	31.5%	32.2%	33.3%	35.2%	35.6%	35.6%	-3.7ppts	-3.4ppts	-2.3ppts
Operating margin	9.3%	10.8%	12.5%	10.6%	11.5%	12.8%	-1.3ppts	-0.7ppts	-0.3ppts
Adj. net margin	14.8%	15.3%	16.1%	14.5%	15.1%	16.0%	+0.4ppts	+0.2ppts	+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	9.3	12.0	30.8	23.8
Cloud	50.5	18.3	P/S	4.4	4.0	11.5	12.6
Others	81.0	29.3					
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	38.9	14.1	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
<b>Revenue</b>	<b>717,289</b>	<b>900,317</b>	<b>997,507</b>	<b>1,117,356</b>	<b>900,317</b>
China Commerce	501,683	613,346	670,613	731,575	613,346
International	48,851	67,186	77,264	96,710	67,186
Local Services	35,442	49,797	54,375	57,928	49,797
Cainiao	37,258	52,101	60,963	68,279	52,101
Cloud	60,558	82,025	97,712	125,560	82,025
DME	31,186	32,595	32,921	33,250	32,595
Innovation	2,311	3,267	3,659	4,054	3,267
<b>COSG</b>	<b>(421,205)</b>	<b>(616,688)</b>	<b>(676,190)</b>	<b>(745,656)</b>	<b>(616,688)</b>
<b>Gross profit</b>	<b>296,084</b>	<b>283,629</b>	<b>321,317</b>	<b>371,700</b>	<b>283,629</b>
R&D	(57,236)	(60,987)	(65,489)	(71,084)	(60,987)
S&M	(81,519)	(96,694)	(104,831)	(114,866)	(96,694)
Admin. expense	(55,224)	(35,481)	(37,752)	(40,571)	(35,481)
Other income	(12,427)	(7,063)	(5,160)	(5,200)	(7,063)
<b>Operating profit</b>	<b>89,678</b>	<b>83,404</b>	<b>108,084</b>	<b>139,979</b>	<b>83,404</b>
Interest exp	72,794	14,681	14,309	15,309	14,681
Associates	(4,476)	(4,733)	(4,733)	(4,733)	(4,733)
Others	7,582	12,000	12,000	10,000	12,000
<b>Pre-tax profit</b>	<b>165,578</b>	<b>105,352</b>	<b>129,660</b>	<b>160,555</b>	<b>105,352</b>
Tax	(29,278)	(31,606)	(39,177)	(41,973)	(31,606)
<b>Net profit</b>	<b>150,308</b>	<b>101,579</b>	<b>121,191</b>	<b>149,193</b>	<b>101,579</b>
<b>Non-GAAP NI</b>	<b>178,954</b>	<b>133,519</b>	<b>152,283</b>	<b>179,741</b>	<b>133,519</b>

### Cash flow summary

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Net income</b>	<b>143,284</b>	<b>57,583</b>	<b>93,746</b>	<b>112,484</b>	<b>141,083</b>
D&A	47,909	39,347	39,031	39,375	39,934
Change in WC	50,508	34,047	11,794	21,025	19,153
Others	(9,915)	22,920	32,580	27,248	18,444
<b>Operating CF</b>	<b>231,786</b>	<b>153,897</b>	<b>177,152</b>	<b>200,132</b>	<b>218,614</b>
Capex	(43,185)	(59,532)	(73,935)	(81,914)	(91,654)
Associates	(16,123)	4,351	0	0	0
Others	(204,614)	(66,403)	(50,000)	(50,000)	(50,000)
<b>Investing CF</b>	<b>(263,922)</b>	<b>(121,584)</b>	<b>(123,935)</b>	<b>(131,914)</b>	<b>(141,654)</b>
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
<b>Financing CF</b>	<b>30,082</b>	<b>(13,932)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in cash</b>	<b>(9,241)</b>	<b>18,381</b>	<b>53,217</b>	<b>68,217</b>	<b>76,960</b>
Cash (beg of yr)	330,503	321,262	336,222	389,439	457,657
FX	(7,187)	0	0	0	0
<b>Cash (end of yr)</b>	<b>321,262</b>	<b>339,643</b>	<b>389,439</b>	<b>457,657</b>	<b>534,617</b>

### Balance sheet

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>NC assets</b>	<b>1,046,858</b>	<b>1,089,252</b>	<b>1,174,091</b>	<b>1,272,063</b>	<b>1,382,825</b>
Fixed asset	147,412	168,536	190,598	218,392	255,408
Associates	200,189	206,900	230,256	252,256	274,756
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	485,608	533,785	585,031
<b>Current assets</b>	<b>643,360</b>	<b>741,241</b>	<b>843,906</b>	<b>959,740</b>	<b>1,087,267</b>
Cash	321,262	339,643	389,439	457,657	534,617
Account receivable	124,708	159,717	182,586	200,203	220,770
Other	197,390	241,881	271,881	301,881	331,881
<b>Current liabilities</b>	<b>377,358</b>	<b>454,502</b>	<b>495,429</b>	<b>546,981</b>	<b>602,620</b>
Borrowings	3,606	3,490	3,490	3,490	3,490
Trade & payables	261,140	342,402	370,551	405,716	447,040
Income tax	25,275	18,899	27,284	33,820	36,234
Other	87,337	89,710	94,103	103,954	115,855

### Key ratios

YE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
China Commerce	69.9	69.5	68.1	67.2	65.5
International	6.8	7.2	7.5	7.7	8.7
Local Services	4.9	5.1	5.5	5.5	5.2
Cainiao	5.2	5.4	5.8	6.1	6.1
Cloud	8.4	8.7	9.1	9.8	11.2
DME	4.3	3.8	3.6	3.3	3.0
Innovation	0.3	0.3	0.4	0.4	0.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth rate (%)</b>					
Revenue	40.7	18.9	5.5	10.8	12.0
Gross profit	30.2	5.9	-9.6	13.3	15.7
EBIT	-1.9	-21.5	18.4	29.6	29.5
Net profit	26.6	-17.9	-9.1	14.1	18.0
<b>P&amp;L ratios (%)</b>					

						Operating margin	12.5	8.3	9.3	10.8	12.5
<b>NC liabilities</b>	<b>229,226</b>	<b>210,804</b>	<b>230,785</b>	<b>246,625</b>	<b>252,844</b>	Pre-tax margin	23.1	8.0	11.7	13.0	14.4
Borrowings	38,335	37,107	37,107	37,107	37,107	Adj. net margin	24.9	17.2	14.8	15.3	16.1
Deferred taxation	59,598	44,563	64,336	79,748	85,439	Effective tax rate	(17.7)	(32.0)	(30.0)	(30.2)	(26.1)
Other	131,293	129,134	129,342	129,770	130,297						
Mezzanine equity	8,673	8,673	8,673	8,673	8,673	<b>Returns (%)</b>					
						ROE	18.7	19.1	14.3	11.5	11.6
<b>Total equity</b>	<b>1,074,961</b>	<b>1,156,515</b>	<b>1,283,110</b>	<b>1,429,525</b>	<b>1,605,956</b>	ROA	10.8	10.6	8.0	6.6	6.8
MI	137,491	128,816	120,713	111,736	103,356						
<b>S/H equity</b>	<b>937,470</b>	<b>1,027,698</b>	<b>1,162,396</b>	<b>1,317,789</b>	<b>1,502,600</b>	<b>Per share data</b>					
						Adj. EPS (RMB)	65.2	56.2	47.9	54.1	63.2
						DPS (RMB)	0.0	0.0	0.0	0.0	0.0
						BVPS (RMB)	341.2	372.1	416.7	467.8	528.1

Source: Company data, CMBIGM estimates

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