

Alibaba (9988 HK)

A strong start in FY21

Alibaba delivered solid 1QFY21 results, with revenue/Non GAAP net profit +34% YoY/+28% YoY, 4%/9% above consensus. We reiterate our confidence on BABA's secular growth, backed by livestreaming initiatives, Taobao deals penetration and overseas opportunity. We keep our forecast unchanged, with SOTP-based TP of **HK\$290**. Valuation at 23x FY22E P/E is not demanding, with further catalysts to come (e.g. investor day on 28-30 Sep, potential stock connect).

- 1QFY21 beat.** Alibaba released upbeat 1QFY21, with revenue/Non GAAP net profit +34% YoY/+28% YoY, 4%/9% above consensus. By segment, ecommerce/ Cloud/ DME grew at 34%/59%/9% YoY. Adj. EBITA margin came in at 30% (vs. our estimate of 27%), mainly on improving ecommerce profitability and DME narrowing loss margin.
- Decent recovery with multi-engine approach.** 1QFY21 OMS revenue grew 21% YoY, slightly above our estimate of 20%. Customer management rev (CMR) +23% YoY while commission rev +17% YoY (vs. our estimate of 22%/17%). BABA's GMV has fully recovered, with 618 promotions and enhanced feeds monetization. Noted that China online sales in Jul still grew 24.5% YoY, suggesting strong momentum post festival. Looking ahead, we expect core commerce to see multiple engines, backed by: 1) Taobao deals <淘宝特价版> to continuously strengthen its lower-tier cities penetration; 2) live streaming initiatives to stimulate engagement (GMV doubled YoY in 1QFY21); 3) international business (e.g. Lazada) to benefit from global COVID-19, by leveraging its tech edge and well-positioned supply chain. Regarding geographic risks, we expect limited impact from India & US issues, for < 2% rev contribution in our estimate.
- Cloud & Ant still undervalued.** BABA's cloud surged 59% YoY in 1QFY20, with long-term beneficiary from COVID-19. Given its higher growth and TAM, we think AliCloud is still undervalued (8x FY22E P/S) at 30% discount of AWS. On top of that, we believe potential stock connect & Ant Financial listing ahead would unlock its group valuation.
- Maintain BUY.** We think BABA is well positioned to capture online consumption recovery and long term benefit from structural opportunities. We keep our forecast unchanged, with SOTP-based TP of HK\$290 (26.5x FY22E P/E).

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	376,844	509,711	665,470	852,020	1,042,774
YoY growth (%)	50.6	35.3	30.6	28.0	22.4
Net income (RMB mn)	93,407	132,479	166,520	217,851	265,701
EPS (RMB)	38.0	53.9	61.2	79.3	95.7
YoY growth (%)	15.6	41.8	13.6	29.5	20.8
Consensus EPS (RMB)	NA	NA	60.4	76.6	97.4
P/E (x)	45.5	32.1	29.3	22.6	18.7
P/B (x)	7.4	5.2	4.6	4.0	3.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.2	16.3	16.6	16.9	17.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$290.0
(Previous TP)	HK\$290.0)
Up/Downside	+14.0%
Current Price	HK\$255.0

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	5,482,244
Avg 3 mths t/o (HK\$ mn)	6,190.5
52w High/Low (HK\$)	264/168
Total Issued Shares (mn)	21,462

Source: Bloomberg

Shareholding Structure

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

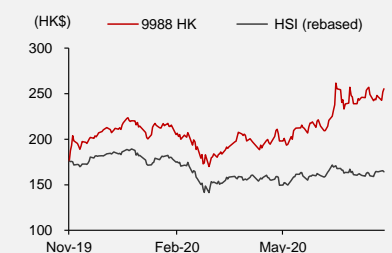
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.5%	4.4%
3-mth	24.1%	17.1%
6-mth	17.8%	27.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: 1QFY21 financial preview

RMB mn, Mar-YE	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	93,498	114,924	119,017	161,456	114,314	153,751	34.5%	33.8%	148,055	4%	149,654	3%
Operating Profit	8,765	24,375	20,364	39,560	7,131	34,705	386.7%	42.4%	27,359	27%	28,177	23%
Net profit	25,830	19,122	72,540	52,309	3,162	46,437	1368.6%	142.8%	24,500	90%	22,448	107%
Adj. net profit	20,056	30,949	32,750	46,493	22,287	39,494	77.2%	27.6%	36,159	9%	36,031	10%
Adj. EPS (RMB)	8.57	12.55	13.10	18.19	9.20	14.82	61.1%	18.1%	13.79	7%	14.17	5%
Margin (%)												
Gross margin	40.5%	47.8%	45.0%	47.8%	36.6%	45.0%			45.0%		45.0%	
Operating margin	9.4%	21.2%	17.1%	24.5%	6.2%	22.6%			18.5%		18.8%	
Adj. net margin	21.5%	26.9%	27.5%	28.8%	19.5%	25.7%			24.4%		24.1%	
Growth (%)												
Revenue (YoY)	51.0%	42.0%	39.8%	37.7%	22.3%	33.8%			28.8%		30.2%	
Revenue (QoQ)	-20.3%	22.9%	50.8%	47.6%	-18.6%	42.4%			29.5%		15.6%	
Operating Profit	-4.9%	203.9%	262.1%	58.3%	-87.8%	142.8%			12.2%		17.4%	
Adj. net profit	42.3%	54.0%	39.6%	56.0%	11.1%	27.6%			16.8%		16.4%	

Source: Company data, CMBIS estimates, Bloomberg

Figure 2: Revenue breakdown

RMB mn, Mar-YE	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	QoQ	YoY		
Total revenue	93,498	114,924	119,017	161,456	114,314	153,751	34%	34%		
Core commerce			78,894	99,544	101,220	102,843	93,865	133,318	42%	34%
Cloud computing			7,726	7,787	9,291	10,721	12,217	12,345	1%	59%
Digital media and entertainment			5,671	6,426	7,296	7,396	5,944	6,994	18%	9%
Innovation initiatives and others			1,207	1,167	1,210	1,864	2,288	1,094	-52%	-6%

Source: Company data

Figure 3: CMBIS estimates vs consensus

Rmb mn, Mar-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	665,470	852,020	1,042,774	663,985	836,873	1,005,414	0.2%	1.8%	3.7%
Gross Profit	297,465	380,853	466,120	296,746	379,643	454,758	0.2%	0.3%	2.5%
Operating Profit	105,606	138,271	173,998	128,877	174,726	228,582	-18.1%	-20.9%	-23.9%
Adj. Net profit	166,520	217,851	265,701	166,749	214,698	264,286	-0.1%	1.5%	0.5%
EPS (RMB)	61.18	79.25	95.70	60.40	76.61	97.36	1.3%	3.5%	-1.7%
Gross Margin	44.7%	44.7%	44.7%	44.7%	45.4%	45.2%	+0.0ppts	-0.7ppts	-0.5ppts
Operating Margin	15.9%	16.2%	16.7%	19.4%	20.9%	22.7%	-3.5ppts	-4.6ppts	-6.0ppts
Adj. Net Margin	25.0%	25.6%	25.5%	25.1%	25.7%	26.3%	-0.1ppts	-0.1ppts	-0.8ppts

Source: CMBIS estimates, Bloomberg

Figure 4: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY21E	FY22E	FY21E	FY22E
Core Commerce	582.4	214.0	EV/EBITA	19.0	15.0	30.6	38.8
Cloud	106.6	39.2	P/S	11.9	8.0	9.0	13.3
Others	126.1	46.3					
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	77.4	28.4	SoTP for all investments				
Net (Debt)/Cash	27.7	10.2	Cash forecasted on Balance sheet				
Equity Value	815	299.5					
TP (HK\$)		290.0					

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	376,844	509,711	665,470	852,020	1,042,774
Core commerce	323,400	436,104	564,069	715,209	864,998
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
COSG	(206,929)	(282,367)	(368,005)	(471,167)	(576,654)
Gross profit	169,915	227,344	297,465	380,853	466,120
R&D	(37,435)	(43,080)	(63,220)	(79,238)	(93,850)
S&M	(39,780)	(50,673)	(69,874)	(89,462)	(109,491)
Admin. Expense	(24,889)	(28,197)	(39,928)	(51,121)	(62,566)
Other income	(10,727)	(13,964)	(18,837)	(22,761)	(26,214)
Operating profit	57,084	91,430	105,606	138,271	173,998
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
Pre-tax profit	96,221	166,645	188,455	238,060	294,172
Equity investees	566	(5,733)	(11,057)	(11,057)	(11,057)
Tax	(16,553)	(20,562)	(23,253)	(29,374)	(36,297)
Net profit	79,948	140,180	154,145	197,629	246,817
Non-GAAP NI	93,407	132,479	166,520	217,851	265,701

Cash flow summary

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	80,234	140,350	154,145	197,629	246,817
D&A	60,377	62,344	81,909	95,427	114,218
Change in WC	50,241	46,132	32,307	38,769	46,522
Others	(39,801)	(15,083)	(6,704)	(7,397)	(8,529)
Operating CF	151,051	233,743	261,657	324,428	399,028
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
Investing CF	(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
Financing CF	(9,248)	(23,980)	2,202	0	0
Change in cash	(9,256)	(154,402)	25,152	72,634	132,839
Cash (beg of yr)	199,331	190,075	35,673	60,824	133,458
FX	3,245	0	0	0	0
Cash (end of yr)	193,320	35,673	60,824	133,458	266,297

Balance sheet

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
NC assets	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
Current assets	270,273	462,923	210,090	302,939	460,035
Cash	189,976	330,503	60,824	133,458	266,297
Account receivable	67,108	99,708	116,554	136,769	161,027
Other	13,189	32,712	32,712	32,712	32,712
Current liabilities	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	0	0	0	0	0
Other	41,557	51,978	51,978	51,978	51,978
NC liabilities	142,005	191,462	191,462	191,462	191,462
Borrowings	142,005	191,462	191,462	191,462	191,462
Deferred taxation	35,427	39,660	39,660	39,660	39,660
Other	22,517	43,898	43,898	43,898	43,898
Other	84,061	107,904	107,904	107,904	107,904
Mezzanine equity					
Total Equity	6,819	9,103	9,103	9,103	9,103
MI	608,583	870,548	1,008,090	1,190,362	1,414,119
S/H equity	116,326	115,147	113,122	127,697	145,813

Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Core commerce	85.8	85.6	84.8	83.9	83.0
Cloud	6.6	7.9	9.4	10.9	12.4
DME	6.4	5.3	4.5	3.8	3.3
Others	1.2	1.3	1.3	1.3	1.3
Total	100.0	100.0	100.0	100.0	100.0
Profitability (%)					
Gross margin	45.1	44.6	44.7	44.7	44.7
PreTax margin	25.5	32.7	28.3	27.9	28.2
Tax rate	-4.4	-4.0	-3.5	-3.4	-3.5
Adj. net margin	26.4	28.2	25.3	23.9	23.7
Balance sheet					
Current ratio (x)	1.3	1.9	0.8	1.0	1.3
Debtors turnover	49.3	51.1	50.8	47.6	46.7
Creditors turnover	175.4	180.5	176.2	165.2	162.0
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROE	16.2	16.3	16.6	16.9	17.4
ROA	9.7	10.1	12.0	13.0	13.1
Per share data					
Adj. EPS (RMB)	38.0	53.9	61.2	79.3	95.7
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	234.6	329.7	373.7	436.3	512.6

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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