

Alibaba (BABA US)

Positive profitability growth of core e-commerce business likely to sustain

We expect Alibaba to deliver in-line-with-consensus revenue growth and adjusted EBITA for 4QFY25 (March year-end). For core domestic e-commerce business, driven by healthy GMV growth and an increase in monetization rate aided by incremental technology service fee charges and the increase in penetration of Quanzhantui, Alibaba could sustain solid customer management revenue (CMR) growth and positive profitability growth of Taobao and Tmall (T&T) Group in 4QFY25, in our view. YoY revenue growth of cloud business could see further acceleration as expected driven by solid public cloud revenue growth and incremental contribution from AI cloud. AIDC is on track to achieve the first quarter of profitability in FY26, and the non-core businesses are on track to achieve profitability in 1-2 years' time. We believe Alibaba is one of the key beneficiaries in the AI era, and could benefit from potential incremental consumption stimulus policy. We fine-tune our SOTP-based target price to US\$157.0 (was US\$157.7), translating into 16.9x FY25E PE (non-GAAP). Maintain BUY.

- **4QFY25 preview: expecting inline top-line and bottom-line results.** We estimate Alibaba achieved 4QFY25 revenue of RMB237.5bn, up 7% YoY and inline with consensus. For group-level adjusted EBITA, we forecast it has increased by 36% YoY to RMB32.6bn, translating into a 13.7% adjusted EBITA margin (4QFY24: 10.8%), driven by positive EBITA growth of T&T Group, as well as YoY loss reduction from non-core businesses.
- **T&T Group to see ongoing increase in monetization rate.** We estimate Alibaba recorded customer management revenue (CMR) growth of 10% YoY in 4QFY25 on the back of GMV growth and increase in monetization rate driven by both incremental technology service fee charges and the increase in penetration of Quanzhantui. For T&T Group, although Alibaba is likely to sustain its investment in enhancing consumer experience and platform ecosystem, we expect the positive profitability growth to sustain in 4QFY25, driven by solid CMR revenue growth. We are looking for 6% YoY revenue growth (4QFY24: 4%; 3QFY25: 5%), and 2% YoY adjusted EBITA growth (4QFY24: -1%; 3QFY25: 2%) for T&T Group in 4QFY25.
- **Sequential acceleration in YoY cloud revenue growth likely to sustain.** For 4QFY25, we are expecting: 1) 18% YoY revenue growth for Cloud Intelligence Group (4QFY24: 3%; 3QFY25: 13%), driven by solid growth of public cloud business, and incremental revenue contribution from AI Cloud; 2) 26% YoY revenue growth for AIDC, and we see manageable impact from the potential rise in tariff as AIDC has a diversified source of revenue generation; 3) we estimate the combined loss of Local Services Group, Digital Media and Entertainment Group, and All others (including Intime and Sun Art Retail) to narrow YoY to RMB3.8bn in 4QFY25 (4QFY24: loss of RMB6.9bn). Alibaba is on track to achieve the first quarter of profitability in FY26 for AIDC business, and the non-core businesses are on track to achieve profitability in 1-2 years' time, in our view.
- **Shareholder return remains solid.** For FY25, Alibaba has repurchased a total of 1.197bn ordinary shares (c.150mn ADS) for a total consideration of US\$11.9bn, which resulted in a net reduction of 5.1% YoY in share base. We expect Alibaba to unveil its annual dividend for FY25 in the coming annual results announcement in May (FY24: US\$4.0bn in aggregate including US\$1.0 per ADS annual regular cash dividend and US\$0.66 per ADS one-time extraordinary cash dividend).

BUY (Maintain)

Target Price **US\$157.00**
(Previous TP) US\$157.70
Up/Downside **49.8%**
Current Price **US\$104.78**

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Stock Data

Mkt Cap (US\$ mn)	251,472.0
Avg 3 mths t/o (US\$ mn)	3,276.1
52w High/Low (US\$)	147.57/68.82
Total Issued Shares (mn)	2400.0

Source: FactSet

Shareholding Structure

Blackrock	5.0%
Softbank	4.9%

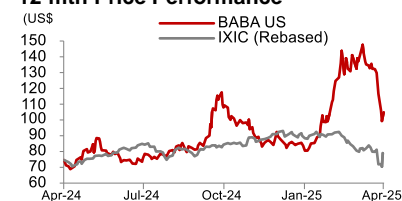
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-20.9%	-19.4%
3-mth	30.1%	45.6%
6-mth	-4.1%	2.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Mar)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	868,687	941,168	996,979	1,090,438	1,173,876
YoY growth (%)	1.8	8.3	5.9	9.4	7.7
Net profit (RMB mn)	72,509.0	79,741.0	138,349.9	154,100.7	178,295.4
Adjusted net profit (RMB mn)	143,991.0	158,359.0	160,355.9	179,726.0	205,294.5
YoY growth (%)	0.3	10.0	1.3	12.1	14.2
EPS (Adjusted) (RMB)	54.91	62.77	65.53	75.72	88.25
Consensus EPS (RMB)	na	na	64.78	73.74	82.58
P/E (x)	27.9	24.4	13.6	11.9	10.0
ROE (%)	7.4	8.0	11.8	10.8	11.0

Source: Company data, Bloomberg, CMBIGM estimates

Revision of forecast and valuation

We nudge down our FY25-27E revenue forecast by 0.4-0.5%, mainly driven by the adjustment in revenue forecast in AIDC, while we lift non-GAAP net profit by 0.3-2.8%, taking into account likely better-than-our previously expected EBITA growth of core T&T Group aided by more efficient-than-expected sales and marketing spend.

Figure 1: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	997.0	1,090.4	1,173.9	1001.6	1095.5	1179.0	-0.5%	-0.5%	-0.4%
Gross Profit	393.0	429.6	462.5	393.6	427.2	456.3	-0.2%	0.6%	1.4%
Non-GAAP net profit	160.4	179.7	205.3	159.9	177.1	199.8	0.3%	1.5%	2.8%
Gross Margin	39.4%	39.4%	39.4%	39.3%	39.0%	38.7%	0.1 ppt	0.4 ppt	0.7 ppt
Non-GAAP net margin	16.1%	16.5%	17.5%	16.0%	16.2%	16.9%	0.1 ppt	0.3 ppt	0.5 ppt

Source: CMBIGM estimates

Valuation: target price of US\$157.0 per ADS

Our new SOTP-based target price of US\$157.0 (was US\$157.7) translates into 16.9x/14.6x FY25E/FY26E PE (non-GAAP). Our new target price comprises:

- 1) US\$80.8 per ADS (was US\$80.7) for Taobao and Tmall Group, based on an unchanged 9.0x EV/adjusted EBITA;
- 2) US\$11.6 per ADS for AIDC (was US\$11.7), based on an unchanged 1.5x FY25E EV/revenue multiple;
- 3) US\$6.0 per ADS for Local Services Group (unchanged), based on an unchanged 1.5x FY25E EV/revenue multiple;
- 4) US\$2.7 per ADS for Cainiao (unchanged), based on the latest valuation given by Alibaba to repurchase Cainiao shares from minority shareholders, and Alibaba's current 63.7% shareholding on a fully diluted basis;
- 5) US\$33.1 per ADS for the Cloud Intelligence Group (was US\$33.2), based on an unchanged 4.0x EV/revenue multiple on FY26E revenue;
- 6) US\$0.9 per ADS for Digital Media and Entertainment Group (unchanged) based on an unchanged 0.7x FY25E EV/revenue multiple;
- 7) US\$11.4 per ADS for All Others (was US\$11.5), based on an unchanged 1.0x FY25E EV/revenue multiple;
- 8) US\$10.6 per ADS (was US\$10.9) for strategic investments with a 30% holding discount.

Figure 2: Alibaba: SOTP valuation

#	Segment (US\$mn)	Valuation method	Rev (USDmn)	Adj. EBITA post tax	P/E (x)	EV/S (x)	Val. Rmb mn	Val. US\$m	\$/share	Value split
1	Taobao and Tmall Group	9.0x FY25E P/E; 20% tax rate on adjusted EBITA	62,177	21,538	9.0		1,395,665	193,842	80.8	51%
2	International Digital Commerce Group	1.5x FY25E EV/S	18,511			1.5	199,923	27,767	11.6	7%
3	Local Services Group	1.5x FY25E EV/S	9,303			1.5	103,146	14,326	6.0	4%
4	Cainiao Smart Logistics Network Limited	Last round transaction value; 63.7% shareholding	14,468				47,380	6,581	2.7	2%
5	Cloud Intelligence Group	4.0x FY26E EV/S on revenue before intersegment elimination	19,843			4.0	571,484	79,373	33.1	21%
6	Digital Media and Entertainment Group	0.7x FY25E EV/S, inline with iQIYI trading EV/S	2,996			0.7	15,098	2,097	0.9	1%
7	All others	1.0x FY25E EV/S	28,850			1.0	197,332	27,407	11.4	7%
Total Alibaba business							2,530,027	351,393	146.4	
INVESTMENTS										
1	Ant Group	Last round share buyback valuation; 33% shareholding					187,143	25,992	10.8	
2	Others	Market valuation					74,895	10,402	4.3	
Total investment (with 30% holding discount)									10.6	7%
Total (US\$mn)								376,869	157.0	
#s of diluted ADS (mn)									2,400	

Source: CMBIGM estimates

Risks

- 1) Investments for driving business growth pose a more severe impact on margin than we expect;
- 2) Consumption recovery takes longer than we expect.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (RMB mn)						
Revenue	853,062	868,687	941,168	996,979	1,090,438	1,173,876
Cost of goods sold	(539,450)	(549,695)	(586,323)	(603,970)	(660,805)	(711,369)
Gross profit	313,612	318,992	354,845	393,009	429,632	462,507
Operating expenses	(243,974)	(218,641)	(241,495)	(254,768)	(248,620)	(246,514)
SG&A expense	(151,721)	(145,679)	(157,126)	(185,139)	(181,013)	(176,081)
R&D expense	(55,465)	(56,744)	(52,256)	(56,828)	(59,974)	(62,215)
Others	(36,788)	(16,218)	(32,113)	(12,801)	(7,633)	(8,217)
Operating profit	69,638	100,351	113,350	138,241	181,013	215,993
Interest income	(15,702)	(11,071)	(9,964)	29,909	4,362	4,461
Interest expense	(4,909)	(5,918)	(7,947)	(9,571)	(10,468)	(10,682)
Other income/expense	10,523	5,823	6,157	3,988	5,997	5,869
Pre-tax profit	59,550	89,185	101,596	162,567	180,904	215,641
Income tax	(26,815)	(15,549)	(22,529)	(33,326)	(36,181)	(47,441)
Others	14,344	(8,063)	(7,735)	5,982	5,452	5,869
After tax profit	47,079	65,573	71,332	135,223	150,175	174,069
Minority interest	15,170	7,210	8,677	3,589	3,926	4,226
Others	(290)	(274)	(268)	(462)	0	0
Net profit	61,959	72,509	79,741	138,350	154,101	178,295
Adjusted net profit	143,515	143,991	158,359	160,356	179,726	205,295
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (RMB mn)						
Current assets	638,535	697,966	752,864	888,004	947,813	1,031,393
Cash & equivalents	189,898	193,086	248,125	376,257	423,045	495,283
Restricted cash	37,455	36,424	38,299	38,299	38,299	38,299
Prepayment	145,995	137,072	143,536	150,544	163,566	174,908
Financial assets at FVTPL	265,187	331,384	322,904	322,904	322,904	322,904
Non-current assets	1,057,018	1,055,078	1,011,965	1,204,780	1,358,331	1,514,507
PP&E	171,806	176,031	185,161	343,594	468,995	598,121
Investment in JVs & assos	219,642	207,380	203,131	204,864	206,067	207,687
Intangibles	59,231	46,913	26,950	115,882	139,403	162,340
Goodwill	269,581	268,091	259,679	259,679	259,679	259,679
Financial assets at FVTPL	223,611	245,737	220,942	220,942	220,942	220,942
Other non-current assets	113,147	110,926	116,102	59,819	63,245	65,737
Total assets	1,695,553	1,753,044	1,764,829	2,092,783	2,306,144	2,545,900
Current liabilities	383,784	385,351	421,507	403,759	440,330	479,564
Short-term borrowings	8,841	7,466	12,749	13,133	14,369	15,468
Tax payable	21,753	12,543	9,068	28,327	29,668	37,478
Other current liabilities	81,730	89,392	101,807	88,130	96,423	103,801
Accrued expenses	271,460	275,950	297,883	274,169	299,870	322,816
Non-current liabilities	229,576	244,772	230,723	232,563	241,185	248,856
Long-term borrowings	38,244	52,023	55,686	54,849	54,849	54,849
Deferred income	3,490	3,560	4,069	4,191	4,586	4,937
Other non-current liabilities	187,842	189,189	170,968	173,523	181,750	189,070
Total liabilities	613,360	630,123	652,230	636,322	681,515	728,419
Share capital	1	1	1	1	1	1
Capital surplus	410,506	416,880	397,999	524,961	542,953	561,735
Retained earnings	563,557	599,028	597,897	817,849	971,950	1,150,245
Other reserves	(15,930)	(16,394)	1,375	2,511	2,511	2,511
Total shareholders equity	958,134	999,515	997,272	1,345,322	1,517,415	1,714,492
Minority interest	124,059	123,406	115,327	111,140	107,214	102,988
Total equity and liabilities	1,695,553	1,753,044	1,764,829	2,092,783	2,306,144	2,545,900

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	59,550	89,185	101,596	162,567	180,904	215,641
Depreciation & amortization	48,065	46,938	44,504	7,477	7,633	8,217
Tax paid	(26,815)	(15,549)	(22,529)	(33,326)	(36,181)	(47,441)
Change in working capital	(18,150)	13,482	(13,749)	49,114	24,420	29,223
Others	80,109	65,696	72,771	24,079	21,081	21,530
Net cash from operations	142,759	199,752	182,593	209,911	197,857	227,170
Investing						
Capital expenditure	(53,309)	(34,330)	(32,087)	(92,719)	(125,400)	(129,126)
Acquisition of subsidiaries/ investments	(15)	(22)	(842)	(31,154)	(31,154)	(31,154)
Net proceeds from disposal of short-term investments	(106,984)	(61,086)	71,426	0	0	0
Others	(38,284)	(40,068)	(60,321)	4,249	4,249	4,249
Net cash from investing	(198,592)	(135,506)	(21,824)	(119,624)	(152,306)	(156,032)
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	109	11	843	0	0	0
Share repurchases	(61,225)	(74,746)	(88,745)	0	0	0
Others	(3,333)	9,116	(20,342)	(454)	1,236	1,099
Net cash from financing	(64,449)	(65,619)	(108,244)	(454)	1,236	1,099
Net change in cash						
Cash at the beginning of the year	356,469	227,353	229,510	286,424	376,257	423,045
Exchange difference	(8,834)	3,530	4,389	0	0	0
Cash at the end of the year	227,353	229,510	286,424	376,257	423,045	495,283

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

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