

Alibaba (BABA US)

2QFY20 beat again with strong core

Alibaba delivered strong 2QFY20 result, with revenue/Non GAAP net profit +40% YoY/+40% YoY, 2%/22% above consensus (3%/16% above our estimates). Core commerce maintained strong momentum, and market eyes on low-tier cities competition and upcoming “11.11” Festival. Maintain BUY with new TP up to **US\$229.8** (27x FY21E P/E).

- Another strong quarter with all-round beat.** 2QFY20 revenue surged 40% YoY, 2%/3% above consensus/our estimates. Non-GAAP net profit grew 40% YoY, 22%/16% above consensus/our estimates. We think this result is well-anticipated, and consistent with our preview report. Looking ahead, we keep positive on its topline growth and margin trend, for solid core and improving cost efficiency.
- Core commerce: CMR +25% YoY; Eyes on upcoming “11.11”.** 2QFY20 OMS revenue grew 25% YoY, in line with our estimates, in which Customer management rev (CMR)/ Commission grew 25%/24% YoY (vs. our estimate of +26%/22% YoY). Commission outperformance was driven by solid Tmall physical goods GMV (+26%), backed by strong FMCG and consumer electronics. Market focus lies on low-tier cities penetration and upcoming “11.11”. Despite competition, we keep confidence in BABA’s secular growth, backed by: 1) ample room for its user expansion and ARPU improvement in low-tier cities; and 2) more cross-selling opportunities and ecosystem synergies to unlock its growth potential.
- Positive on margin outlook.** 2QFY20 total adj. EBITA margin was 27% (vs. 27.2% in 2QFY19, above our estimate of 26%), in which core commerce/Cloud/DME/ Innovations EBITA margin at 38%/-6%/-30%/-158%. Regarding market focus on 2HFY20E investment, Alibaba restated to reinvest the discretionary profit from marketplace-based business to gain shares, but still with manageable expenses and higher efficiency.
- Maintain BUY.** Given upbeat 2QFY20, we raised our earnings by 2%/2% in FY20/21E, and lifted SOTP-based TP from **US\$224.1** to **US\$229.8** (27x FY21E P/E). We view Alibaba as our top pick, backed by solid earnings growth and reasonable valuation. Further potential catalysts: 1) upcoming “11.11” Festival; 2) dual listing in HK; and 3) ecosystem synergies.

Earnings Summary

(YE 31 Mar)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	250,266	376,844	520,273	672,744	840,167
YoY growth (%)	58.1	50.6	38.1	29.3	24.9
Net income (RMB mn)	83,214	93,407	120,075	159,234	201,196
EPS (RMB)	32.9	38.0	47.8	60.5	70.9
YoY growth (%)	40.3	15.6	25.7	26.6	17.3
P/E (x)	37.6	32.5	25.9	20.4	17.4
P/B (x)	7.3	5.3	4.6	3.9	3.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	19.5	16.2	17.7	19.1	18.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	US\$229.8
(Previous TP)	US\$224.1)
Up/Downside	+30.2%
Current Price	US\$176.5

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	459,426
Avg 3 mths t/o (US\$ mn)	2,433.5
52w High/Low (US\$)	196/130
Total Issued Shares (mn)	2,604
Source: Bloomberg	

Shareholding Structure

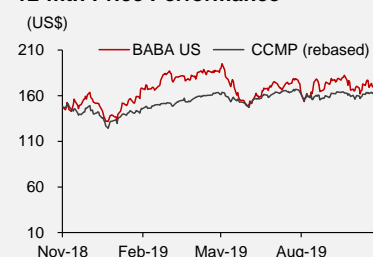
SoftBank	28.8%
Altaba Inc	14.8%
Ma Jack Yun	5.1%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	6.8%	0.8%
3-mth	6.5%	3.0%
6-mth	-6.8%	-10.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- 2QFY20E Preview: Solid results with strong core commerce – 18 Oct 2019
- Key takeaways from 2019 Investor Day – 26 Sep 2019
- Another strong quarter with all-round beat – 16 Aug 2019
- 4QFY19 beat; Focusing on lower-tier cities – 16 May 2019

Figure 1: 2QFY20 financial review

Rmb mn, Mar-YE	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	80,920	85,148	117,278	93,498	114,924	119,017	3.6%	39.8%	116,695	2%	116,041	3%
Operating Profit	8,020	13,501	26,798	8,765	24,375	20,364	-16.5%	50.8%	19,342	5%	20,322	0%
Net profit	8,685	20,033	33,052	25,830	19,122	72,540	279.4%	262.1%	17,128	324%	18,602	290%
Adj. net profit	20,101	23,453	29,797	20,056	30,949	32,750	5.8%	39.6%	26,939	22%	28,239	16%
Adj. EPS (RMB)	8.04	9.60	12.19	8.57	12.55	13.10	4.4%	36.5%	10.66	23%	10.80	21%
Margin (%)												
Gross Margin	46.0%	45.1%	48.1%	40.5%	47.8%	45.0%			45.1%		45.0%	
Operating Margin	9.9%	15.9%	22.8%	9.4%	21.2%	17.1%			16.6%		17.5%	
Adj. net Margin	24.8%	27.5%	25.4%	21.5%	26.9%	27.5%			23.1%		24.3%	
Growth (%)												
Revenue (YoY)	61.2%	54.5%	41.3%	51.0%	42.0%	39.8%			37.0%		36.3%	
Revenue (QoQ)	30.7%	5.2%	37.7%	-20.3%	22.9%	50.8%			1.5%		50.5%	
Operating Profit	-13.0%	68.3%	98.5%	-4.9%	203.9%	262.1%			43.3%		-7.1%	
Adj. net Profit	42.6%	16.7%	27.0%	42.3%	54.0%	39.6%			14.9%		20.4%	

Source: Company data, CMBIS estimates, Bloomberg

Figure 2: CMBI estimates vs consensus

Rmb mn, Mar-YE	CMBI			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	520,273	672,744	840,167	515,096	666,631	829,057	1.0%	0.9%	1.3%
Gross Profit	235,423	304,753	380,596	233,890	303,494	378,279	0.7%	0.4%	0.6%
Operating Profit	85,775	111,003	140,231	94,138	128,922	172,151	-8.9%	-13.9%	-18.5%
Net profit	120,075	159,234	201,196	118,244	151,906	189,259	1.5%	4.8%	6.3%
EPS (RMB)	47.77	60.46	70.92	48.78	59.92	74.87	-2.1%	0.9%	-5.3%
Gross Margin	45.3%	45.3%	45.3%	45.4%	45.5%	45.6%	-0.2ppts	-0.2ppts	-0.3ppts
Operating Margin	16.5%	16.5%	16.7%	18.3%	19.3%	20.8%	-1.8ppts	-2.8ppts	-4.1ppts
Net Margin	23.1%	23.7%	23.9%	23.0%	22.8%	22.8%	+0.1ppts	+0.9ppts	+1.1ppts

Source: CMBIS estimates, Bloomberg

Figure 3: Earnings revision

Rmb mn, Mar-YE	CMBI			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	520,273	672,744	840,167	506,599	652,181	814,903	2.7%	3.2%	3.1%
Gross Profit	235,423	304,753	380,596	229,236	296,742	370,781	2.7%	2.7%	2.6%
Operating Profit	85,775	111,003	140,231	83,143	108,338	140,220	3.2%	2.5%	0.0%
Net profit	120,075	159,234	201,196	117,422	156,574	201,101	2.3%	1.7%	0.0%
EPS (RMB)	47.77	60.46	70.92	46.74	59.46	70.88	2.2%	1.7%	0.1%
Gross Margin	45.3%	45.3%	45.3%	45.3%	45.5%	45.5%	-0.1ppts	-0.2ppts	-0.2ppts
Operating Margin	16.5%	16.5%	16.7%	16.4%	16.6%	17.2%	+0.1ppts	-0.1ppts	-0.5ppts
Net Margin	23.1%	23.7%	23.9%	23.2%	24.0%	24.7%	-0.1ppts	-0.3ppts	-0.8ppts

Source: CMBIS estimates

Figure 4: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY19	FY20E	FY19	FY20E
Core Commerce	469.5	178.1	EV/EBITA	21.9	16.0	21.5	29.3
Cloud	49.7	18.9	P/S	14.1	8.0	3.5	6.2
Others	86.4	32.8					
Digital Entertainment	14.4	5.5	P/S	4.2	3.5	3.4	4.1
Innovations	2.7	1.0	P/S	4.0	3.0	0.7	0.9
Strategic Investments	60.9	23.1	SoTP for all investments				
Net (Debt)/Cash	8.5	3.2	Cash forecasted on Balance sheet				
Equity Value	606	229.8					

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	250,266	376,844	520,273	672,744	840,167
Core commerce	214,020	323,400	441,770	561,332	688,281
Cloud	13,390	24,702	43,484	69,933	103,963
DME	19,564	24,077	28,798	33,598	38,357
Others	3,292	4,665	6,222	7,882	9,565
COSG	(107,044)	(206,929)	(284,849)	(367,991)	(459,571)
Gross profit	143,222	169,915	235,423	304,753	380,596
R&D	(22,754)	(37,435)	(49,426)	(63,911)	(79,816)
S&M	(27,299)	(39,780)	(54,629)	(70,638)	(88,218)
Admin. Expense	(16,241)	(24,889)	(31,216)	(40,365)	(49,570)
Other income	(7,614)	(10,727)	(14,378)	(18,837)	(22,761)
Operating profit	69,314	57,084	85,775	111,003	140,231
Interest exp	(3,566)	(5,190)	(5,709)	(6,280)	(6,908)
Associates	30,495	44,106	52,927	63,513	76,215
Others	4,160	221	1,000	1,000	1,000
Pre-tax profit	100,403	96,221	133,993	169,236	210,539
Equity investees	(20,792)	566	566	566	566
Tax	(18,199)	(16,553)	(32,158)	(40,617)	(50,529)
Net profit	61,304	79,948	102,401	129,185	160,575
Non-GAAP NI	83,214	93,407	120,075	159,234	201,196

Cash flow summary

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	61,412	80,234	102,401	129,185	160,575
D&A	34,316	60,337	61,322	74,920	86,164
Change in WC	38,936	50,241	23,542	28,251	33,901
Others	(9,493)	(39,837)	(4,040)	(3,920)	(4,056)
Operating CF	125,171	150,975	183,225	228,436	276,584
Capex	(118,582)	(215,995)	(226,810)	(238,707)	(251,794)
Associates	38,529	67,212	0	0	0
Others	(3,837)	(2,277)	0	0	0
Investing CF	(83,890)	(151,060)	(226,810)	(238,707)	(251,794)
Equity raised	0	0	0	0	0
Change of Debts	(17,818)	31,548	0	0	0
Dividend paid	0	0	0	0	0
Others	38,177	(40,796)	0	0	0
Financing CF	20,359	(9,248)	0	0	0
Change in cash	61,640	(9,333)	(43,585)	(10,272)	24,790
Cash (beg of yr)	143,736	199,309	190,075	146,490	136,218
FX	(6,067)	3,245	0	0	0
Cash (end of yr)	199,309	193,221	146,490	136,218	161,009

Balance sheet

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
NC assets	460,269	694,803	883,333	1,073,151	1,266,107
Fixed asset	66,489	92,030	160,125	196,515	229,557
Associates	139,700	84,454	84,454	84,454	84,454
Land use-right	9,377	28,018	0	0	0
Intangible assets	189,614	333,211	481,664	635,092	795,006
Others	55,089	157,090	157,090	157,090	157,090
Current assets	256,855	270,273	238,505	242,295	283,959
Cash	199,309	189,976	146,490	136,218	161,009
Account receivable	46,645	67,108	78,826	92,888	109,762
Other	10,901	13,189	13,189	13,189	13,189
Current liabilities	135,810	207,669	231,211	259,462	293,363
Borrowings	6,028	22,466	22,466	22,466	22,466
Trade & payables	84,218	125,961	149,503	177,754	211,655
Income tax	13,689	17,685	17,685	17,685	17,685
Other	31,875	41,557	41,557	41,557	41,557
NC liabilities	141,875	142,005	142,005	142,005	142,005
Borrowings	34,153	35,427	35,427	35,427	35,427
Deferred taxation	19,312	22,517	22,517	22,517	22,517
Other	88,410	84,061	84,061	84,061	84,061
Mezzanine equity	3,001	6,819	6,819	6,819	6,819
Total Equity	436,438	608,583	706,602	836,857	1,002,474
MI	70,616	116,326	110,464	108,730	119,228
S/H equity	365,822	492,257	596,138	728,127	883,246

Key ratios

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Core commerce	85.5	85.8	84.9	83.4	81.9
Cloud	5.4	6.6	8.4	10.4	12.4
DME	7.8	6.4	5.5	5.0	4.6
Others	1.3	1.2	1.2	1.2	1.1
Total	100.0	100.0	100.0	100.0	100.0
Profitability (%)					
Gross margin	57.2	45.1	45.3	45.3	45.3
PreTax margin	40.1	25.5	25.8	25.2	25.1
Tax rate	-7.3	-4.4	-6.2	-6.0	-6.0
Adj. net margin	34.3	26.4	24.2	23.9	22.7
Balance sheet					
Current ratio (x)	1.9	1.3	1.0	0.9	1.0
Debtors turnover	52.7	49.3	45.2	42.0	40.3
Creditors turnover	218.8	175.4	165.9	154.1	148.1
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROE	19.5	16.2	17.7	19.1	18.9
ROA	11.6	9.7	10.7	12.1	13.0
Per share data					
Adj. EPS (RMB)	32.9	38.0	47.8	60.5	70.9
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	168.4	234.6	270.6	316.9	375.3

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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