

# Alibaba (BABA US)

## Looking beyond short-term pandemic impact

Although pandemic impact will weigh on revenue growth recovery in 1Q23, Alibaba Group (BABA)'s China retail marketplace GMV growth should recover along with overall consumption recovery aided by economic stimulus policy in 2023, in our view. Prudent cost control and strategic move to drive operating efficiency improvement are bearing fruit, and the potential recovery in revenue growth could fuel steady earnings growth in 2023. We remain positive on BABA's long-term development aided by international expansion and cloud business. Leveraging strong supply chain capability and enhancing fulfilment capability, the development of international commerce business is on track. The clearer regulatory guidelines could aid sustainable development of BABA's fintech business arm. Factoring in the pandemic impact, we trim SOTP-based TP by 2% to US\$156.0, translating into 17.9x FY24E PE (non-GAAP; March year-end). Reiterate BUY.

■ **Pandemic brought short-term impact.** Pandemic prevention policy and "first-wave" impact in 4Q22 weigh on recovery trajectory of BABA's China retail marketplace GMV and customer management revenue (CMR) growth. The gaps between GMV and CMR growth are likely to widen given increase in return rate. We estimate CMR to decline 9.4% YoY in 3QFY23 (2QFY23: -6.5%). We also forecast YoY revenue growth for local consumer services to slow down from 21% in 2QFY23 to 10% in 3QFY23, as low base impact on revenue (caused by aggressive subsidy which provided contra-revenue) may wear off in 3QFY23. However, we are expecting a reacceleration in revenue growth for international commerce segment, which we are forecasting 7% YoY revenue growth (2QFY23: 4%), due to easing of disturbing factors (such as VAT impact on Ali Express in Europe, easing foreign exchange headwind on Trendyol business, as well as marginal easing of competition in Southeast Asia market). We forecast BABA's total revenue to grow 1% YoY to RMB244.8bn in 3QFY23.

■ **Remain positive on long-term development prospect of cloud business.** We forecast Ali Cloud's revenue to grow 6% YoY to RMB20.8bn in 3QFY23. Although overall demand recovery is still likely to take time, Alibaba Cloud has established comparative advantage in technological capability, and the move to focus more on customer experience could help drive faster recovery when macro recovers, in our view.

■ **Efficient cost control could drive steady EBITA growth.** BABA's strategic moves to streamline new businesses and drive operating efficiency improvement across business lines are bearing fruit. Although the YoY decline in CMR may drag EBITA growth, narrower combined loss generated from Taobao Deals, Taocaicai and Freshippo could aid solid EBITA growth. For 3QFY23, we forecast BABA's total adjusted EBITA to grow 7% YoY to RMB48.0bn, and non-GAAP net income to reach RMB45.3bn, largely flat YoY.

### Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	717,289	853,062	874,769	980,794	1,074,759
YoY growth (%)	na	18.9	2.5	12.1	9.6
Net profit (RMB mn)	150,578.0	62,249.0	56,542.0	120,157.1	131,281.9
Adjusted net profit (RMB mn)	178,954.0	143,515.0	140,860.3	164,292.8	178,571.3
EPS (Adjusted) (RMB)	66.22	53.26	52.22	60.85	66.07
Consensus EPS (RMB)	66.22	53.26	48.39	56.26	61.81
P/E (x)	30.1	46.3	35.8	16.9	15.5
ROE (%)	na	6.5	5.5	10.1	9.7

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price **US\$156.00**

(Previous TP **US\$158.70**)

Up/Downside **40.8%**

Current Price **US\$110.83**

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#### Stock Data

Mkt Cap (US\$ mn)	302,133.5
Avg 3 mths t/o (US\$ mn)	80.5
52w High/Low (US\$)	137.41/63.15
Total Issued Shares (mn)	2726.1

Source: FactSet

#### Shareholding Structure

SoftBank	23.9%
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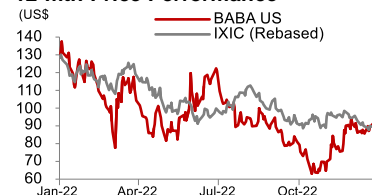
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	21.3%	26.3%
3-mth	36.4%	37.5%
6-mth	-8.3%	0.9%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

## Changes in forecast and valuation

**Figure 1: Alibaba: forecast revision**

RMB bn	Current			Previous			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	874.8	980.8	1074.8	882.0	987.9	1083.3	-0.8%	-0.7%	-0.8%
Gross Profit	314.9	356.0	390.1	322.8	361.6	396.5	-2.5%	-1.5%	-1.6%
Non-GAAP net profit	140.9	164.3	178.6	148.2	167.0	182.4	-5.0%	-1.6%	-2.1%
Gross Margin	36.0%	36.3%	36.3%	36.6%	36.6%	36.6%	-0.6 ppt	-0.3 ppt	-0.3 ppt
Non-GAAP net margin	16.1%	16.8%	16.6%	16.8%	16.9%	16.8%	-0.7 ppt	-0.2 ppt	-0.2 ppt

Source: CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

RMB bn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	874.8	980.8	1074.8	880.6	982.1	1077.1	-0.7%	-0.1%	-0.2%
Gross Profit	314.9	356.0	390.1	322.2	362.3	399.4	-2.3%	-1.7%	-2.3%
Adjusted net profit	140.9	164.3	178.6	137.4	161.2	184.4	2.5%	1.9%	-3.2%
Gross Margin	36.0%	36.3%	36.3%	36.6%	36.9%	37.1%	-0.6 ppt	-0.6 ppt	-0.8 ppt
Adjusted net margin	16.1%	16.8%	16.6%	15.6%	16.4%	17.1%	0.5 ppt	0.3 ppt	-0.5 ppt

Source: Bloomberg, CMBIGM estimates

## Valuation: target price of US\$156.0 per ADS

Our SOTP-based target price is US\$156.0 per ADS, and translates into 17.9x FY24E PE.

- 1) US\$104.1 per ADS for BABA's core commerce business (excluding cloud, local consumer services, and Cainiao), based on a DCF valuation (WACC of 11.7% and terminal growth of 2%);
- 2) US\$25.4 per ADS for the cloud business, based on a 6.0x PS multiple on FY23E revenue. The 6.0x PS multiple is largely in line with that of comparable peers at 5.9x for 2022E.
- 3) US\$6.5 per ADS for Cainiao, based on the transaction in the most recent round of financing and Alibaba's 63% shareholding.
- 4) US\$5.2 per ADS for local consumer services, based on a 2.0x PS on FY23 revenue. The 2.0x PS implies a discount to the current trading 2022E PS of 4.3x for Meituan, as Ele.me has a relatively lower market share.
- 5) US\$14.9 per ADS for strategic investment with 30% holding discount.

**Figure 3: Alibaba: SOTP valuation**

Business	Method	Target PS	Valuation (US\$mn)	Valuation per ADS (US\$)	As % of total valuation
Core business (ex-cloud, Cainiao, and local consumer services)	DCF		283,790	104.1	66.7
Cainiao	Last round financing valuation, 63% shareholding		17,664	6.5	4.2
Local consumer services	PS, based on FY23 revenue	2.0	14,059	5.2	3.3
Alibaba Cloud	PS, based on FY23 revenue	6.0	69,236	25.4	16.3
Strategic investments	Market valuation, 30% holding discount applied to all investment		40,519	14.9	9.5
<b>Total</b>			<b>425,268</b>	<b>156.0</b>	

Source: CMBIGM estimates

**Figure 4: Cloud computing: peers valuation comps**

Companies	Ticker	Price	Revenue growth (YoY%)			PS(x)		
		(US\$)	2022E	2023E	2024E	2022E	2023E	2024E
Microsoft	MSFT US	228.9	12.3	10.1	13.0	8.3	7.5	6.7
Google	GOOG US	89.2	(6.3)	9.7	11.3	4.8	4.3	3.9
Salesforce	CRM US	147.4	17.3	10.7	13.3	4.8	4.3	3.8
<b>Average</b>						<b>5.9</b>	<b>5.4</b>	<b>4.8</b>

Source: Bloomberg, CMBIGM

Note: data as of 11 January 2023

**Figure 5: Food delivery: peers valuation comps**

Companies	Ticker	Revenue growth (YoY%)			PS (x)		
		2022E	2023E	2024E	2022E	2023E	2024E
Meituan	3690 HK	14.7	26.7	24.8	4.3	3.4	2.7
DoorDash	DASH US	33.3	22.1	18.5	2.9	2.3	2.0
Delivery Hero	DHER GR	22.8	24.6	22.7	1.4	1.1	0.9
Just Eat Takeaway	TKWY NA	13.8	8.1	10.1	0.9	0.8	0.7
<b>Average</b>					<b>2.4</b>	<b>1.9</b>	<b>1.6</b>

Source: Bloomberg, CMBIGM

Note: data as of 11 January 2023

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (RMB mn)						
Revenue	na	717,289	853,062	874,769	980,794	1,074,759
Cost of goods sold	na	(421,205)	(539,450)	(559,852)	(624,766)	(684,622)
Gross profit	na	296,084	313,612	314,917	356,028	390,138
Operating expenses	na	(206,406)	(243,974)	(208,982)	(234,410)	(254,181)
SG&A expense	na	(136,743)	(151,721)	(142,062)	(160,850)	(174,648)
R&D expense	na	(57,236)	(55,465)	(55,985)	(62,771)	(67,710)
Others	na	(12,427)	(36,788)	(10,935)	(10,789)	(11,822)
Operating profit	na	89,678	69,638	105,935	121,618	135,957
Interest income	na	72,794	(15,702)	(33,241)	8,827	8,598
Interest expense	na	(4,476)	(4,909)	(5,249)	(5,885)	(6,234)
Other income/expense	na	7,582	10,523	6,123	6,866	5,911
Pre-tax profit	na	165,578	59,550	73,568	131,426	144,233
Income tax	na	(29,278)	(26,815)	(17,288)	(30,885)	(36,058)
Others	na	6,984	14,344	(7,610)	11,770	13,972
After tax profit	na	143,284	47,079	48,669	112,311	122,146
Minority interest	na	7,294	15,170	7,873	7,846	9,135
Net profit	na	150,578	62,249	56,542	120,157	131,282
Adjusted net profit	na	178,954	143,515	140,860	164,293	178,571
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (RMB mn)						
Current assets	na	643,360	638,535	681,270	794,790	921,080
Cash & equivalents	na	321,262	189,898	244,789	343,068	456,150
Restricted cash	na	35,207	37,455	37,455	37,455	37,455
Prepayment	na	124,708	145,995	133,840	149,081	162,289
Financial assets at FVTPL	na	162,183	265,187	265,187	265,187	265,187
Non-current assets	na	1,046,858	1,057,018	1,099,876	1,187,494	1,269,461
PP&E	na	147,412	171,806	213,722	245,802	271,336
Investment in JVs & assos	na	200,189	219,642	231,485	262,707	296,132
Intangibles	na	70,833	59,231	104,618	124,984	144,315
Goodwill	na	292,771	269,581	269,581	269,581	269,581
Financial assets at FVTPL	na	237,221	223,611	223,611	223,611	223,611
Other non-current assets	na	98,432	113,147	56,860	60,809	64,486
Total assets	na	1,690,218	1,695,553	1,781,147	1,982,284	2,190,541
Current liabilities	na	377,358	383,784	343,636	393,765	437,730
Short-term borrowings	na	3,606	8,841	9,175	10,239	11,220
Tax payable	na	25,275	21,753	16,251	27,179	30,649
Other current liabilities	na	87,337	81,730	82,022	91,532	100,301
Accrued expenses	na	261,140	271,460	236,188	264,814	295,559
Non-current liabilities	na	229,226	229,576	205,598	210,949	217,627
Long-term borrowings	na	38,335	38,244	38,244	38,244	37,407
Deferred income	na	3,158	3,490	3,622	4,042	4,429
Other non-current liabilities	na	187,733	187,842	163,732	168,663	175,792
Total liabilities	na	606,584	613,360	549,234	604,714	655,357
Share capital	na	1	1	1	1	1
Capital surplus	na	394,308	410,506	518,991	552,338	587,805
Retained earnings	na	554,924	563,557	620,099	740,256	871,538
Other reserves	na	(3,090)	(15,930)	(23,364)	(23,364)	(23,364)
Total shareholders equity	na	946,143	958,134	1,115,727	1,269,231	1,435,980
Minority interest	na	137,491	124,059	116,186	108,340	99,204
Total equity and liabilities	na	1,690,218	1,695,553	1,781,147	1,982,284	2,190,541

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	na	165,578	59,550	73,568	131,426	144,233
Depreciation & amortization	na	47,909	48,065	29,141	32,652	41,101
Tax paid	na	(29,278)	(26,815)	(17,288)	(30,885)	(36,058)
Change in working capital	na	50,297	(18,150)	2,776	31,390	30,078
Others	na	(2,720)	80,109	31,123	37,183	39,004
<b>Net cash from operations</b>	<b>na</b>	<b>231,786</b>	<b>142,759</b>	<b>119,320</b>	<b>201,766</b>	<b>218,358</b>
<b>Investing</b>						
Capital expenditure	na	(41,450)	(3,412)	(4,374)	(4,904)	(5,374)
Acquisition of subsidiaries/ investments	na	(1,735)	(15)	(31,154)	(31,154)	(31,154)
Net proceeds from disposal of short-term investments	na	(114,826)	(106,984)	0	0	0
Others	na	(86,183)	(88,181)	(66,691)	(68,493)	(68,892)
<b>Net cash from investing</b>	<b>na</b>	<b>(244,194)</b>	<b>(198,592)</b>	<b>(102,219)</b>	<b>(104,551)</b>	<b>(105,420)</b>
<b>Financing</b>						
Net borrowings	na	32,008	0	0	0	0
Proceeds from share issues	na	175	109	0	0	0
Share repurchases	na	(773)	(61,225)	0	0	0
Others	na	(1,328)	(3,333)	334	1,064	143
<b>Net cash from financing</b>	<b>na</b>	<b>30,082</b>	<b>(64,449)</b>	<b>334</b>	<b>1,064</b>	<b>143</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	na	345,982	356,469	227,353	244,789	343,068
Exchange difference	na	(7,187)	(8,834)	0	0	0
<b>Cash at the end of the year</b>	<b>na</b>	<b>356,469</b>	<b>227,353</b>	<b>244,789</b>	<b>343,068</b>	<b>456,150</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
Revenue	na	na	18.9%	2.5%	12.1%	9.6%
Gross profit	na	na	5.9%	0.4%	13.1%	9.6%
Operating profit	na	na	(22.3%)	52.1%	14.8%	11.8%
Net profit	na	na	(58.7%)	(9.2%)	112.5%	9.3%
Adj. net profit	na	na	(19.8%)	(1.8%)	16.6%	8.7%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
Gross profit margin	na	41.3%	36.8%	36.0%	36.3%	36.3%
Operating margin	na	12.5%	8.2%	12.1%	12.4%	12.7%
Adj. net profit margin	na	24.9%	16.8%	16.1%	16.8%	16.6%
Return on equity (ROE)	na	na	6.5%	5.5%	10.1%	9.7%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
Net debt to equity (x)	na	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio (x)	na	1.7	1.7	2.0	2.0	2.1
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
P/E	na	30.1	46.3	35.8	16.9	15.5
P/E (diluted)	na	30.6	46.8	36.2	17.0	15.6
P/B	na	4.9	3.0	1.8	1.6	1.4
P/CFPS	na	24.2	20.9	17.8	10.4	9.6

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

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