

Alibaba (BABA US)

Enhancing shareholder return while remaining ambitious on investment to drive growth

Alibaba reported 3QFY24 (March year-end) results: total revenue was RMB260.3bn, up 5% YoY, and non-GAAP net income for the quarter was RMB48.2bn, down 4% YoY, both largely inline with Bloomberg consensus. Management remains committed to investment to drive top-line growth and market share gains for core businesses, as well as to continued loss reduction and exit of non-core business when market conditions improve. Although business transition will likely take time, with an upsizing of the share repurchase program to US\$35.3bn and guidance of at least 3% in annual reduction of total shares outstanding through Mar 2027, management's determination in enhancing shareholder return remains firm. Reiterate BUY with SOTP-based TP of US\$137.1 (previous: US\$137.0).

- Enhancing shareholder return in progress.** Management highlighted that its share repurchase program has resulted in a net reduction of 3.3% in outstanding shares in 2023 after accounting for shares issued under the ESOP, and it guided for at least 3% in annual reduction of total shares outstanding for the next three fiscal years. Management targeted to improve group-level return on invested capital (ROIC) to a double-digit range through profitability improvement and monetization of non-core assets.
- Remains committed to investment to drive long-term growth.** Management stressed that investment for future growth and for market share gains in core business remains a priority in 2024, and incremental investment in Taobao, cloud business, and international commerce business will sustain. However, for non-core business, management aims to achieve continued loss reduction, and guided that it will find a proper time to exit the businesses when market conditions improve. Management noted that for 3QFY24, if excluding Sun Art, Freshippo, and Intime which have physical operations, group revenue would have increased by 8% YoY, and consolidated EBITA margin would have been 4ppt higher.
- GMV growth of T&T on track to catch up with industry.** Alibaba generated RMB92.1bn of customer management revenue (CMR) in 3QFY24, up 0.5% YoY, thanks to healthy growth in online GMV generated on Taobao and Tmall (T&T), which was partly offset by a decline in overall take rate owing to an increase in GMV contribution from the relatively low-take-rate Taobao business. However, management noted that Tmall's take rate remains flat YoY and that of Taobao increased YoY, and it believes that it is on the right track to drive T&T GMV growth back in line with industry growth through incremental investment in enhancing supply chain capabilities and improving user stickiness.

Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	853,062	868,687	941,726	1,043,745	1,142,744
Adjusted net profit (RMB mn)	143,515.0	143,991.0	157,901.1	172,515.5	190,998.2
EPS (Adjusted) (RMB)	53.26	54.91	61.94	67.61	74.78
Consensus EPS (RMB)	na	na	63.63	67.43	74.93
P/E (x)	7.9	9.7	9.9	9.1	8.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$137.10
 (Previous TP US\$137.00)
Up/Downside 75.3%
Current Price US\$78.23

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn) 200,687.4
 Avg 3 mths t/o (US\$ mn) 1,657.9
 52w High/Low (US\$) 108.46/68.05
 Total Issued Shares (mn) 2565.4

Source: FactSet

Shareholding Structure

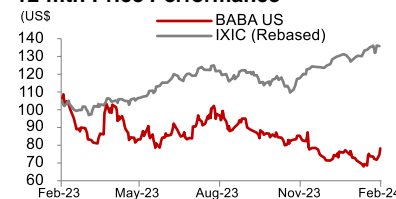
SoftBank 13.9%
 Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.1%	-0.3%
3-mth	-8.4%	-20.0%
6-mth	-19.0%	-27.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

- **Adjusted EBITA margin of cloud business reached new high on quality growth strategy.** Revenue of the Cloud Intelligence Group (CIG) came in at RMB28.1bn in 3QFY24, up 3% YoY, within which Alibaba highlighted healthy YoY revenue growth for public cloud products and services. Due to an improving product mix through focusing on public cloud and operating efficiency, adjusted EBITA margin for CIG reached 8.4% in 3QFY24, up 3.8ppt YoY.

Key business segment update

Taobao and Tmall Group (45.9% of 3QFY24 revenue)

In 3QFY24, revenue generated from T&T Group was RMB129.1bn, up 1.6% YoY, among which revenue generated from CMR came in at RMB92.1bn, up 0.5% YoY.

Adjusted EBITA for the segment was RMB59.9bn in 3QFY24, up 1% YoY, driven by narrowing losses for certain retail businesses, partly offset by an increase in investment in content, user acquisition and retention of Taobao app, as well as technological innovation.

AIDC (10.1% of 3QFY24 revenue)

In 3QFY24, revenue generated from Alibaba International Digital Commerce Group (AIDC) was RMB28.5bn, up 43.8% YoY, among which international commerce retail revenue was up 55.5% YoY and international commerce wholesale was up 7.9% YoY. The strong revenue growth in commerce retail business was primarily due to solid combined order growth driven by the strong performance of all its major retail platforms, the revenue contribution from AE Choice, as well as improvement in monetization.

Adjusted EBITA loss for AIDC increased from RMB645mn in 3QFY23 to RMB3.1bn in 3QFY24, as Alibaba has ramped up investment for AliExpress Choice and Trendyol's international business, partly offset by improvement in monetization.

Local Services Group (5.4% of 3QFY24 revenue)

Revenue from Local Services Group (LSG) was RMB15.2bn in 3QFY24, up 13% YoY, thanks to order growth in both Ele.me and Amap businesses. LSG's adjusted EBITA loss narrowed to RMB2.1bn in 3QFY24 (3QFY23: loss of RMB2.9bn), thanks to the continued narrowing of losses from "To-Home" business driven by Ele.me's improved unit economics and increasing scale.

Cainiao (10.1% of 3QFY24 revenue)

Revenue from Cainiao came in at RMB28.5bn in 3QFY24, up 24% YoY, thanks to the increase in revenue from cross-border fulfilment solutions. Adjusted EBITA margin for Cainiao reached 3.4% in 3QFY24 (3QFY23: -0.1%), which management attributed to economies of scale that leads to cost optimization as well as optimized operating expenditure spending.

Figure 1: Alibaba: summary of quarterly results

(RMBbn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	CMBI estimates	Diff%
Taobao and Tmall Group	102.5	93.7	127.1	89.9	115.0	97.7	129.1	129.1	-0.1%
YoY %					12.1%	4.2%	1.6%	1.6%	
- CMR	72.4	66.9	91.7	59.4	79.7	68.7	92.1	92.6	-0.6%
YoY %					10.0%	2.7%	0.5%	1.0%	
- Direct sales and others	25.0	22.6	31.0	26.8	30.2	23.9	31.6	31.6	
YoY %					20.7%	5.9%	2.0%	1.8%	
Alibaba International Digital Commerce Group	15.7	16.0	19.8	18.9	22.1	24.5	28.5	27.8	2.7%
YoY %					40.7%	52.8%	43.8%	40.0%	
Local Services Group	11.1	13.4	13.4	12.3	14.5	15.6	15.2	15.4	-1.6%
YoY %					29.8%	16.3%	13.2%	15.0%	
Cainiao Smart Logistics Network Limited	17.3	18.3	23.0	18.9	23.2	22.8	28.5	28.1	1.4%
YoY %					34.0%	24.8%	23.7%	22.0%	
Cloud Intelligence Group	24.1	27.0	27.4	24.8	25.1	27.6	28.1	27.2	3.2%
YoY %					4.1%	2.3%	2.6%	1.0%	
Digital Media and Entertainment Group	4.0	5.2	4.3	5.0	5.4	5.8	5.0	4.9	2.0%
YoY %					35.7%	10.5%	18.3%	16.0%	
All others	45.2	48.1	50.3	53.0	45.5	48.1	47.0	47.6	-1.2%
YoY %					0.9%	-0.2%	-6.6%	-5.0%	
Consolidated revenue	205.6	207.2	247.8	208.2	234.2	224.8	260.3	261.7	-0.5%
YoY %	-0.1%	3.2%	2.1%	2.0%	13.9%	8.5%	5.1%	5.6%	
Gross profit	75.9	76.0	97.8	69.4	91.8	85.1	104.1	103.9	0.2%
Operating profit	24.9	25.1	35.0	15.2	42.5	33.6	22.5	41.7	46.0%
Net profit	22.7	-20.6	46.8	23.5	34.3	27.7	14.4	36.3	60.3%
Adjusted net profit	31.4	34.3	50.3	28.0	44.7	40.1	48.2	46.3	4.1%
YoY %	-31.5%	12.6%	9.9%	30.3%	42.7%	16.8%	-4.3%	-8.0%	
Gross profit margin (%)	36.9%	36.7%	39.5%	33.3%	39.2%	37.9%	40.0%	39.7%	0.3 ppt
G&A expense ratio (%)	4.1%	5.1%	4.2%	6.2%	3.1%	4.2%	4.3%	4.6%	-0.3 ppt
R&D expense ratio (%)	6.9%	7.3%	5.5%	6.7%	4.5%	6.3%	5.2%	5.0%	0.1 ppt
S&M expense ratio (%)	12.4%	10.8%	12.4%	12.0%	11.6%	11.3%	13.0%	13.2%	-0.2 ppt
Operating margin (%)	12.1%	12.1%	14.1%	7.3%	18.1%	14.9%	8.6%	15.9%	-7.3 ppt
NPM (%)	11.1%	-9.9%	18.9%	11.3%	14.7%	12.3%	5.5%	13.9%	-8.3 ppt
Non-IFRS NPM (%)	15.3%	16.6%	20.3%	13.4%	19.1%	17.8%	18.5%	17.7%	0.8 ppt

Source: Bloomberg, company data, CMBIGM

Figure 2: Alibaba: adjusted EBITA and margin summary

Adjusted EBITA (RMBmn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	CMBI estimates	Diff%
Taobao and Tmall Group	45,219	45,635	59,245	39,041	49,319	47,077	59,930	59,408	0.9%
Alibaba International Digital Commerce Group	-1,380	-748	-645	-2,171	-420	-384	-3,146	-2,545	
Local Services Group	-2,834	-3,328	-2,923	-4,063	-1,982	-2,564	-2,068	-2,071	
Cainiao Smart Logistics Network Limited	-185	125	-12	-319	877	906	961	983	
Cloud Intelligence Group	188	981	1,269	396	387	1,409	2,364	1,414	
Digital Media and Entertainment Group	-907	-362	-391	-1,129	63	-201	-517	-336	
All others	-2,275	-2,884	-1,698	-1,264	-1,204	-1,437	-3,172	-3,037	
Consolidated EBITA	34,419	36,164	52,048	25,280	45,371	42,845	52,843	51,653	2.3%
Adjusted EBITA margin									
Margin (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	CMBI estimates	Diff%
Taobao and Tmall Group	44.1%	48.7%	46.6%	43.4%	42.9%	48.2%	46.4%	46.0%	0.4 ppt
Alibaba International Digital Commerce Group	-8.8%	-4.7%	-3.3%	-11.5%	-1.9%	-1.6%	-11.0%	-9.2%	-1.9 ppt
Local Services Group	-25.5%	-24.9%	-21.8%	-32.9%	-13.7%	-16.5%	-13.6%	-13.4%	-0.2 ppt
Cainiao Smart Logistics Network Limited	-1.1%	0.7%	-0.1%	-1.7%	3.8%	4.0%	3.4%	3.5%	-0.1 ppt
Cloud Intelligence Group	0.8%	3.6%	4.6%	1.6%	1.5%	5.1%	8.4%	5.2%	3.2 ppt
Digital Media and Entertainment Group	-22.9%	-6.9%	-9.2%	-22.6%	1.2%	-3.5%	-10.3%	-6.8%	-3.5 ppt
All others	-5.0%	-6.0%	-3.4%	-2.4%	-2.6%	-3.0%	-6.7%	-6.4%	-0.4 ppt
Consolidated EBITA margin	16.7%	17.5%	21.0%	12.1%	19.4%	19.1%	20.3%	19.7%	0.6 ppt

Source: Bloomberg, Company data, CMBIGM

Revision of forecast and valuation

Figure 3: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	941.7	1043.7	1142.7	945.1	1043.3	1127.0	-0.4%	0.0%	1.4%
Gross Profit	357.5	396.2	433.8	358.2	395.4	427.1	-0.2%	0.2%	1.6%
Non-GAAP net profit	157.9	172.5	191.0	162.6	173.5	191.0	-2.9%	-0.5%	0.0%
Gross margin	38.0%	38.0%	38.0%	37.9%	37.9%	37.9%	0.1 ppt	0.1 ppt	0.1 ppt
Non-GAAP net margin	16.8%	16.5%	16.7%	17.2%	16.6%	16.9%	-0.4 ppt	-0.1 ppt	-0.2 ppt

Source: CMBIGM estimates

Valuation: target price of US\$137.1 per ADS

Our SOTP-based target price is US\$137.1 per ADS, and translates into 14.7x FY25E PE.

- 1) US\$59.2 per ADS (was US\$59.3) for Taobao and Tmall Group, based on 7.0x FY24E EV/adjusted EBITA;
- 2) US\$16.7 per ADS for AIDC (was US\$16.4), based on 3.0x FY24E EV/revenue; currently we are assuming a 20% net profit margin and 15x PE for the business at steady state;
- 3) US\$5.4 per ADS for local services group (was US\$5.5), based on 1.7x EV/revenue on FY24E revenue;
- 4) US\$7.3 per ADS for Cainiao (unchanged), based on the transaction in the most recent round of financing and Alibaba's 69.54% shareholding.
- 5) US\$24.4 per ADS for the Cloud Intelligence Group (was US\$24.0), based on a 4.2x PS multiple on FY24E revenue (before intersegment elimination);
- 6) US\$2.0 per ADS for Digital Media and Entertainment Group (was US\$2.0), based on 1.7x FY24 EV/S;
- 7) US\$10.3 per ADS for All Others (was US\$10.5), based on 1.0x FY24E EV/Sales.
- 8) US\$11.8 per ADS for strategic investment with a 30% holding discount.

Figure 4: Alibaba: SOTP valuation

#	Segment (US\$m)	Valuation method	FY24E Rev (US\$m)	Adj. EBITA post tax	P/E (x)	EV/S (x)	Val. RMB mn	Val. US\$m	\$/share	Value split
1	Taobao and Tmall Group	7.0x FY24E P/E; 20% tax rate on adjusted EBITA	60,180	21,645	7.0		1,090,910	151,515	59.2	43%
2	International Digital Commerce Group	3.0x FY24E EV/S	14,293			3.0	308,723	42,878	16.7	12%
3	Local Services Group	1.7x FY24 EV/S	8,194			1.7	100,291	13,929	5.4	4%
4	Cainiao Smart Logistics Network Limited	Last round transaction value; 63% shareholding	13,573				135,024	18,753	7.3	5%
5	Cloud Intelligence Group	4.2x FY24 EV/S on revenue before intersegment elimination	14,777			4.2	450,053	62,507	24.4	18%
6	Digital Media and Entertainment Group	1.7x FY24 EV/S, inline with iQIYI target EV/S	3,033			1.7	37,124	5,156	2.0	1%
7	All others	1.0x FY24 EV/PS	26,529			1.0	191,012	26,529	10.3	8%
Total Alibaba business							2,313,135	321,269	125.2	
INVESTMENTS										
1	Ant Group	Last round share buyback valuation; 33% share holding					187,143	25,992	10.1	
2	Others	Market valuation					124,900	17,347	6.8	
Total investment (with 30% holding discount)										11.8
Total (US\$m)									137.1	
#s of diluted ADS (mn)									2,565	

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Revenue	717,289	853,062	868,687	941,726	1,043,745	1,142,744
Cost of goods sold	(421,205)	(539,450)	(549,695)	(584,247)	(647,540)	(708,958)
Gross profit	296,084	313,612	318,992	357,479	396,206	433,786
Operating expenses	(206,406)	(243,974)	(218,641)	(236,091)	(241,105)	(258,260)
SG&A expense	(136,743)	(151,721)	(145,679)	(155,385)	(176,393)	(188,553)
R&D expense	(57,236)	(55,465)	(56,744)	(50,853)	(54,275)	(58,280)
Others	(12,427)	(36,788)	(16,218)	(29,853)	(10,437)	(11,427)
Operating profit	89,678	69,638	100,351	121,388	155,101	175,525
Interest income	72,794	(15,702)	(11,071)	(3,767)	2,087	2,057
Interest expense	(4,476)	(4,909)	(5,918)	(8,099)	(7,932)	(8,685)
Other income/expense	7,582	10,523	5,823	3,767	5,741	6,285
Pre-tax profit	165,578	59,550	89,185	113,290	154,996	175,183
Income tax	(29,278)	(26,815)	(15,549)	(20,845)	(29,449)	(35,037)
Others	6,984	14,344	(8,063)	(4,709)	9,394	10,285
After tax profit	143,284	47,079	65,573	87,736	134,941	150,431
Minority interest	7,294	15,170	7,210	7,534	8,350	9,142
Others	(270)	(290)	(274)	90	0	0
Net profit	150,308	61,959	72,509	95,359	143,291	159,573
Adjusted net profit	178,954	143,515	143,991	157,901	172,515	190,998
BALANCE SHEET						
YE 31 Mar (RMB mn)						
Current assets	643,360	638,535	697,966	870,901	966,565	1,113,995
Cash & equivalents	321,262	189,898	193,086	359,951	441,151	574,775
Restricted cash	35,207	37,455	36,424	36,424	36,424	36,424
Prepayment	124,708	145,995	137,072	143,142	157,606	171,412
Financial assets at FVTPL	162,183	265,187	331,384	331,384	331,384	331,384
Non-current assets	1,046,858	1,057,018	1,055,078	1,129,135	1,199,234	1,270,918
PP&E	147,412	171,806	176,031	265,875	313,887	364,168
Investment in JVs & assos	200,189	219,642	207,380	190,409	187,541	185,564
Intangibles	70,833	59,231	46,913	100,636	121,353	141,080
Goodwill	292,771	269,581	268,091	268,091	268,091	268,091
Financial assets at FVTPL	237,221	223,611	245,737	245,737	245,737	245,737
Other non-current assets	98,432	113,147	110,926	58,387	62,625	66,279
Total assets	1,690,218	1,695,553	1,753,044	2,000,037	2,165,799	2,384,913
Current liabilities	377,358	383,784	385,351	415,340	420,506	461,714
Short-term borrowings	3,606	8,841	7,466	7,935	8,795	9,629
Tax payable	25,275	21,753	12,543	18,344	25,032	28,730
Other current liabilities	87,337	81,730	89,392	89,909	99,649	109,101
Accrued expenses	261,140	271,460	275,950	299,152	287,030	314,255
Non-current liabilities	229,226	229,576	244,772	220,215	227,083	234,560
Long-term borrowings	38,335	38,244	52,023	52,023	51,186	51,186
Deferred income	3,158	3,490	3,560	3,784	4,194	4,591
Other non-current liabilities	187,733	187,842	189,189	164,408	171,704	178,783
Total liabilities	606,584	613,360	630,123	635,555	647,589	696,275
Share capital	1	1	1	1	1	1
Capital surplus	394,308	410,506	416,880	551,800	570,587	590,585
Retained earnings	554,924	563,557	599,028	694,297	837,588	997,161
Other reserves	(3,090)	(15,930)	(16,394)	2,511	2,511	2,511
Total shareholders equity	946,143	958,134	999,515	1,248,610	1,410,687	1,590,258
Minority interest	137,491	124,059	123,406	115,872	107,522	98,380
Total equity and liabilities	1,690,218	1,695,553	1,753,044	2,000,037	2,165,798	2,384,913

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	165,578	59,550	89,185	113,290	154,996	175,183
Depreciation & amortization	47,909	48,065	46,938	19,494	10,437	11,427
Tax paid	(29,278)	(26,815)	(15,549)	(20,845)	(29,449)	(35,037)
Change in working capital	50,297	(18,150)	13,482	54,322	(10,187)	26,997
Others	(2,720)	80,109	65,696	29,690	22,285	23,392
Net cash from operations	231,786	142,759	199,752	195,950	148,083	201,963
Investing						
Capital expenditure	(41,450)	(53,309)	(34,330)	(47,086)	(48,012)	(50,281)
Acquisition of subsidiaries/ investments	(1,735)	(15)	(22)	(31,154)	(31,154)	(31,154)
Net proceeds from disposal of short-term investments	(114,826)	(106,984)	(61,086)	0	0	0
Others	(86,183)	(38,284)	(40,068)	12,262	12,262	12,262
Net cash from investing	(244,194)	(198,592)	(135,506)	(65,978)	(66,904)	(69,173)
Financing						
Net borrowings	32,008	0	0	0	0	0
Proceeds from share issues	175	109	11	0	0	0
Share repurchases	(773)	(61,225)	(74,746)	0	0	0
Others	(1,328)	(3,333)	9,116	469	22	834
Net cash from financing	30,082	(64,449)	(65,619)	469	22	834
Net change in cash						
Cash at the beginning of the year	345,982	356,469	227,353	229,510	359,951	441,151
Exchange difference	(7,187)	(8,834)	3,530	0	0	0
Cash at the end of the year	356,469	227,353	229,510	359,951	441,151	574,775
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Revenue	na	18.9%	1.8%	8.4%	10.8%	9.5%
Gross profit	na	5.9%	1.7%	12.1%	10.8%	9.5%
Operating profit	na	(22.3%)	44.1%	21.0%	27.8%	13.2%
Net profit	na	(58.8%)	17.0%	31.5%	50.3%	11.4%
Adj. net profit	na	(19.8%)	0.3%	9.7%	9.3%	10.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Gross profit margin	41.3%	36.8%	36.7%	38.0%	38.0%	38.0%
Operating margin	12.5%	8.2%	11.6%	12.9%	14.9%	15.4%
Adj. net profit margin	24.9%	16.8%	16.6%	16.8%	16.5%	16.7%
Return on equity (ROE)	na	6.5%	7.4%	8.5%	10.8%	10.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.7	1.7	1.8	2.1	2.3	2.4
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
P/E	30.2	46.5	23.0	15.0	10.0	9.0
P/E (diluted)	30.7	47.0	23.2	15.1	10.1	9.1
P/B	4.9	3.0	1.7	1.2	1.0	0.9
P/CFPS	24.2	32.6	10.1	9.7	14.4	9.5

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

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

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