

Alibaba (BABA US)

Increasing monetization; remains committed to investment to maintain market share

We expect Alibaba to deliver in-line-with-consensus revenue growth and non-GAAP net income for 2QFY25. Management remains committed to making investment to enhance the user experience for the core 88VIP user base amid tapering consumption sentiment, which should help at least maintain market share and lay a solid foundation for long-term monetization improvement, in our view. Pace of monetization improvement in Taobao and Tmall (T&T) Group in 2QFY25 is likely already better than our expectation driven by better-than-expected merchant adoption, and should ramp up more quickly with further increase in merchant penetration and with potential improvement in consumer sentiment. Development of international business, recovery of cloud business, and loss reduction of non-core business are on track. The stable and predictable shareholder return plan and incremental fund flow from southbound investors post stock connect inclusion both serve as support for valuation. Our SOTP based target price is lifted by 5% to US\$133.8, translating into 13x FY26E PE (non-GAAP). Reiterate BUY.

■ **2QFY25 preview: expecting overall inline top-line and bottom-line results.** We estimate Alibaba achieved 2QFY25 revenue of RMB238.3bn, up 6% YoY, and non-GAAP net profit of RMB36.8bn, down 8% YoY, both in line with Bloomberg consensus. For group-level adjusted EBITA, we forecast it to decline 6% YoY to RMB40.4bn, translating into a 17.0% adjusted EBITA margin (2QFY24: 19.1%), owing to incremental investment in T&T Group to drive user experience improvement of core user base, and wider YoY adjusted EBITA loss of Alibaba International Digital Commerce (AIDC) due to investment to support business expansion.

■ **T&T Group to see improvement in monetization rate.** The tapering consumption likely bring headwind to T&T's GMV growth, while the determined investment in enhancing user experience of core 88VIP user base should help drive core user base expansion and at least sustain market share in industry competition, in our view. We estimate Alibaba recorded customer management revenue (CMR) growth of 2% YoY in 2QFY25 on the back of 5% YoY GMV growth (vs 1QFY25: high-single-digit YoY growth); the narrower gap between growth of CMR and GMV could be driven by: 1) incremental technology service fee charge since 1 Sep 2024; and 2) the increase in penetration of Quanzhantui. We are positive that CMR growth will come in line with GMV growth in the coming 3QFY25. We estimate T&T Group to ink adjusted EBITA of RMB45.1bn in 2Q, down 4% YoY due to incremental investment to enhance user experience, and lighter-than-previous quarter's impact from loss reduction of direct sales & others.

■ **Development of other business pillars on track to meet management's goal.** For 2QFY25, we forecast: 1) 8% YoY revenue growth for Cloud Intelligence Group (2QFY24: 2%; 1QFY25: 6%), driven by solid growth of public cloud business, and incremental revenue contribution from AI Cloud, which in our view is on track to meet management's goal of reaching double-digit revenue growth in 2HFY25; 2) 31% YoY revenue growth for AIDC, with adjusted EBITA loss to narrow sequentially to RMB3.5bn (1QFY25: 3.7bn) driven by improvement in unit economics; 3) we estimate combined losses of Local Services Group, Digital Media and Entertainment Group, and All others to narrow YoY to RMB2.3bn in 2QFY25 (2QFY24: loss of RMB4.2bn), with each of the business segments to see narrower losses YoY, and on track to reach breakeven in the next 1-2 years.

BUY (Maintain)

Target Price US\$133.80
(Previous TP) US\$126.90
Up/Downside 22.4%
Current Price US\$109.28

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Stock Data

Mkt Cap (US\$ mn)	269,760.8
Avg 3 mths t/o (US\$ mn)	392.7
52w High/Low (US\$)	117.52/68.05
Total Issued Shares (mn)	2468.5

Source: FactSet

Shareholding Structure

SoftBank	12.0%
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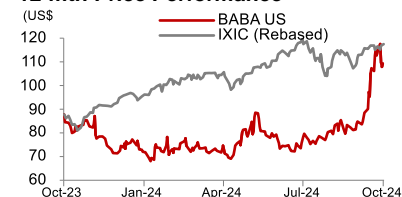
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	28.9%	22.6%
3-mth	39.2%	39.2%
6-mth	46.0%	31.3%

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	1,004,870	1,086,466	1,148,508
YoY growth (%)	1.8	8.3	6.8	8.1	5.7
Net profit (RMB mn)	72,509.0	79,741.0	116,845.8	144,326.2	154,632.8
Adjusted net profit (RMB mn)	143,991.0	158,359.0	154,041.9	172,357.0	183,690.0
YoY growth (%)	0.3	10.0	(2.7)	11.9	6.6
EPS (Adjusted) (RMB)	54.91	62.77	62.95	72.61	78.97
Consensus EPS (RMB)			63.55	71.41	75.12
P/E (x)	28.0	24.5	16.2	12.7	11.6
ROE (%)	7.4	8.0	10.1	10.2	9.8

Source: Company data, Bloomberg, CMBIGM estimates

Revision of forecast and valuation

Figure 1: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,004.9	1,086.5	1,148.5	1028.2	1115.7	1189.4	-2.3%	-2.6%	-3.4%
Gross profit	384.4	415.6	439.3	393.3	426.7	454.9	-2.3%	-2.6%	-3.4%
Non-GAAP net profit	154.0	172.4	183.7	147.0	171.1	182.2	4.8%	0.7%	0.8%
Gross margin	38.3%	38.3%	38.3%	38.3%	38.3%	38.3%	0.0 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	15.3%	15.9%	16.0%	14.3%	15.3%	15.3%	1.0 ppt	0.5 ppt	0.7 ppt

Source: CMBIGM estimates

Valuation: target price of US\$133.8 per AD

We fine-tuned our RMB: USD exchange rate assumption to 7.025:1 (was 7.23) according to our macro research team's latest forecast. Our new SOTP-based target price of US\$133.8 (was US\$126.9) translates into 15.1/13.1x FY25E/FY26E PE (non-GAAP). Our new target price comprises:

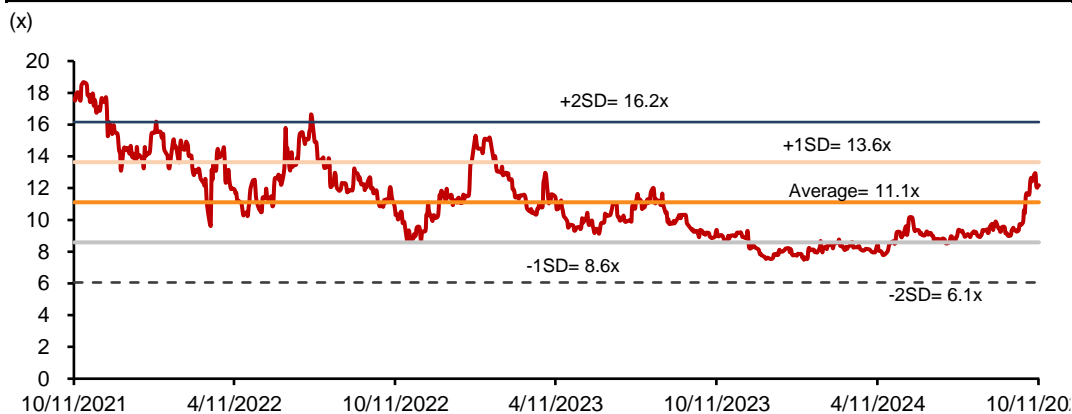
- 1) US\$63.1 per ADS (was US\$60.7) for Taobao and Tmall Group, based on unchanged 7.0x EV/adjusted EBITA;
- 2) US\$11.8 per ADS for AIDC (was US\$11.1), based on a 1.5x FY25E EV/revenue multiple. Currently, we are assuming a 10% net profit margin and 15x PE for the business at steady state;
- 3) US\$6.0 per ADS for Local Services Group (was US\$5.6), based on an unchanged 1.5x FY25E EV/revenue multiple;
- 4) US\$2.7 per ADS for Cainiao (was US\$2.6), 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\$25.7 per ADS for the Cloud Intelligence Group (was US\$24.3), based on an unchanged 3.9x FY25E EV/revenue multiple;
- 6) US\$1.3 per ADS for Digital Media and Entertainment Group (was US\$1.2), based on a 1.0x FY25E EV/revenue multiple;
- 7) US\$10.7 per ADS for All Others (was US\$10.1), based on an unchanged 1.0x FY25E EV/revenue multiple;
- 8) US\$12.5 per ADS (was US\$11.3) for strategic investments with a 30% holding discount.

Figure 2: Alibaba: SOTP valuation

#	Segment (USDmn)	Valuation method	FY25E 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	7.0x FY25E P/E; 20% tax rate on adjusted EBITA	63,912	22,241	7.0		1,093,718	155,689	63.1	47%
2	International Digital Commerce Group	1.5x FY25E EV/S	19,379			1.5	204,210	29,069	11.8	9%
3	Local Services Group	1.5x FY25E EV/S	9,560			1.5	103,423	14,722	6.0	4%
4	Cainiao Smart Logistics Network Limited	Last round transaction value; 63.7% shareholding	16,308				46,229	6,581	2.7	2%
5	Cloud Intelligence Group	3.9x FY25E EV/S on revenue before intersegment elimination	16,505			3.9	446,398	63,544	25.7	19%
6	Digital Media and Entertainment Group	1.0x FY25E EV/S, inline with iQIYI trading EV/S	3,121			1.0	22,804	3,246	1.3	1%
7	All others	1.0x FY25E EV/S	27,926			1.0	186,369	26,529	10.7	8%
Total Alibaba business							2,103,151	299,381	121.3	
INVESTMENTS										
1	Ant Group	Last round share buy back valuation; 33% share holding					187,143	26,640	10.8	
2	Others	Market valuation					122,091	17,379	7.0	
Total investment (with 30% holding discount)									12.5	9%
Total (US\$m)									133.8	
# of diluted ADS (mn)									2,469	

Source: CMBIGM estimates

Alibaba is trading at 12x FY25E PE, which has already surpassed its three-year average one-year forward PE of 11.1x. However, we see further rerating potential from: 1) improving fundamentals, especially the potential better-than-market expected increase in monetization rate driven by the incremental charge of technology services fees and the increase in penetration of Quanzhantui; 2) incremental fund flow from southbound investors post the inclusion in stock connect since Sep 2024. Per Wind, the percentage of shares held by southbound investors has accounted for 2.86% of the total as of 10 Oct 2024, which compared to that of 9.78% for Tencent and 12.5% for Meituan, and in our view indicate that there is still potential for incremental fund flow, which should provide support for valuation, in our view.

Figure 3: Alibaba: average one-year forward PE over the past three years

Source: Bloomberg, CMBIGM

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	1,004,870	1,086,466	1,148,508
Cost of goods sold	(539,450)	(549,695)	(586,323)	(620,507)	(670,893)	(709,203)
Gross profit	313,612	318,992	354,845	384,363	415,573	439,304
Operating expenses	(243,974)	(218,641)	(241,495)	(238,154)	(245,541)	(253,820)
SG&A expense	(151,721)	(145,679)	(157,126)	(175,852)	(180,353)	(187,207)
R&D expense	(55,465)	(56,744)	(52,256)	(55,268)	(57,583)	(58,574)
Others	(36,788)	(16,218)	(32,113)	(7,034)	(7,605)	(8,040)
Operating profit	69,638	100,351	113,350	146,209	170,032	185,484
Interest income	(15,702)	(11,071)	(9,964)	(6,029)	(6,736)	(7,350)
Interest expense	(4,909)	(5,918)	(7,947)	(8,541)	(9,235)	(9,188)
Other income/expense	10,523	5,823	6,157	2,010	5,976	5,743
Pre-tax profit	59,550	89,185	101,596	133,648	160,037	174,688
Income tax	(26,815)	(15,549)	(22,529)	(26,730)	(32,007)	(38,431)
Others	14,344	(8,063)	(7,735)	6,029	7,605	9,188
After tax profit	47,079	65,573	71,332	112,947	135,634	145,445
Minority interest	15,170	7,210	8,677	4,019	8,692	9,188
Others	(290)	(274)	(268)	(121)	0	0
Net profit	61,959	72,509	79,741	116,846	144,326	154,633
Adjusted net profit	143,515	143,991	158,359	154,042	172,357	183,690

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (RMB mn)						
Current assets	638,535	697,966	752,864	909,378	1,030,062	1,151,195
Cash & equivalents	189,898	193,086	248,125	396,439	505,889	618,864
Restricted cash	37,455	36,424	38,299	38,299	38,299	38,299
Prepayment	145,995	137,072	143,536	151,735	162,970	171,128
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	1,165,420	1,242,852	1,321,593
PP&E	171,806	176,031	185,161	297,099	344,904	394,290
Investment in JVs & assos	219,642	207,380	203,131	204,911	208,267	213,207
Intangibles	59,231	46,913	26,950	122,496	146,045	169,160
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	60,292	63,015	64,316
Total assets	1,695,553	1,753,044	1,764,829	2,074,798	2,272,914	2,472,788
Current liabilities	383,784	385,351	421,507	403,095	437,507	465,107
Short-term borrowings	8,841	7,466	12,749	13,492	14,588	15,421
Tax payable	21,753	12,543	9,068	22,720	26,246	30,361
Other current liabilities	81,730	89,392	101,807	90,543	97,895	103,485
Accrued expenses	271,460	275,950	297,883	276,339	298,778	315,840
Non-current liabilities	229,576	244,772	230,723	235,071	242,715	248,527
Long-term borrowings	38,244	52,023	55,686	54,849	54,849	54,849
Deferred income	3,490	3,560	4,069	4,306	4,656	4,922
Other non-current liabilities	187,842	189,189	170,968	175,917	183,211	188,757
Total liabilities	613,360	630,123	652,230	638,166	680,223	713,634
Share capital	1	1	1	1	1	1
Capital surplus	410,506	416,880	397,999	527,406	547,832	568,850
Retained earnings	563,557	599,028	597,897	796,004	940,330	1,094,963
Other reserves	(15,930)	(16,394)	1,375	2,511	2,511	2,511
Total shareholders equity	958,134	999,515	997,272	1,325,922	1,490,674	1,666,324
Minority interest	124,059	123,406	115,327	110,710	102,018	92,830
Total equity and liabilities	1,695,553	1,753,044	1,764,829	2,074,798	2,272,914	2,472,788

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	59,550	89,185	101,596	133,648	160,037	174,688
Depreciation & amortization	48,065	46,938	44,504	7,034	7,605	8,040
Tax paid	(26,815)	(15,549)	(22,529)	(26,730)	(32,007)	(38,431)
Change in working capital	(18,150)	13,482	(13,749)	48,035	24,265	21,037
Others	80,109	65,696	72,771	21,252	23,164	23,100
Net cash from operations	142,759	199,752	182,593	183,239	183,064	188,433
Investing						
Capital expenditure	(53,309)	(34,330)	(32,087)	(46,224)	(47,805)	(49,386)
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)	(73,129)	(74,710)	(76,291)
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)	(94)	1,096	833
Net cash from financing	(64,449)	(65,619)	(108,244)	(94)	1,096	833
Net change in cash						
Cash at the beginning of the year	356,469	227,353	229,510	286,424	396,439	505,889
Exchange difference	(8,834)	3,530	4,389	0	0	0
Cash at the end of the year	227,353	229,510	286,424	396,439	505,889	618,864
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Revenue	18.9%	1.8%	8.3%	6.8%	8.1%	5.7%
Gross profit	5.9%	1.7%	11.2%	8.3%	8.1%	5.7%
Operating profit	(22.3%)	44.1%	13.0%	29.0%	16.3%	9.1%
Net profit	(58.8%)	17.0%	10.0%	46.5%	23.5%	7.1%
Adj. net profit	(19.8%)	0.3%	10.0%	(2.7%)	11.9%	6.6%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Gross profit margin	36.8%	36.7%	37.7%	38.3%	38.2%	38.3%
Operating margin	8.2%	11.6%	12.0%	14.6%	15.7%	16.2%
Adj. net profit margin	16.8%	16.6%	16.8%	15.3%	15.9%	16.0%
Return on equity (ROE)	6.5%	7.4%	8.0%	10.1%	10.2%	9.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
Current ratio (x)	1.7	1.8	1.8	2.3	2.4	2.5
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
P/E	33.6	28.0	24.5	16.2	12.7	11.6
P/E (diluted)	34.0	28.2	24.7	16.3	12.8	11.7
P/B	2.2	2.0	2.0	1.4	1.2	1.1
P/CFPS	23.6	12.3	13.1	13.9	13.7	13.1

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

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