

Alibaba (BABA US)

A big investment year ahead

4QFY21 rev/ adj. net profit +64% YoY/+18% YoY, 3%/2% above our estimates, but +4%/-11% vs. consensus. Mgmt guided FY22E rev >RMB930bn (+29.7% YoY), 0.7% above consensus. Mgmt stated that 2021 would be a big investment year, and incremental profit will be invested into: 1) user acquirement & merchant support; 2) globalization; and 3) cloud & high-tech initiatives. After regulation overhang gone, we believe market needs more fundamental catalysts from its new initiatives. We cut our TP to US\$302.5 to reflect sector de-rating.

- Mixed 4QFY21.** 4QFY21 topline/bottom line grew 64%/18% YoY (+4%/-11% vs. consensus), in which core commerce/ cloud/ DME rev +72%/37%/12% YoY (vs. our estimate of +62%/50%/18% YoY). Cloud missed on rev decline from a top internet customer (a short-video platform to terminate overseas contract, based on our cross-check). Given low client concentration (Top 10 customers account for c. 8% of rev), potential retention risk would be limited.
- Targeting 1bn AACs by FY22E.** 4QFY21 CMR surprised at 40% YoY growth (vs. our estimate of 36% YoY), mainly on low base in 2020. We expect 1QFY22E CMR growth to normalize (forecasting 20% YoY), but there is still ample upside from better targeting and newsfeed contribution. BABA would give more support to merchants, rather than aggressive monetization. BABA targets 1bn AACs by FY22E (vs. 891mn in FY21), with stepping-up investment in low-tier cities penetration and Community Marketplaces roll-out (nationwide expansion with 12 months).
- Margin dilution with reinvestment.** BABA would prioritize on investment in 2021E, especially on community ecommerce, Taobao deal, live streaming and local life. BABA would leverage its advantage in supply chain, logistics and offline stores to expand CGB network. We expect its CGB to generate net loss of RMB25bn/RMB20bn in FY22E/23E. For core commerce, we expect its EBITA in FY22E to be flat YoY, and 1QFY22E & 2QFY22E quarters would see stronger margin drag from investment.
- Maintain BUY.** We barely changed our earnings forecast, as we already adjusted in our preview report. But considering recent sector de-rating, we trimmed our SOTP-based TP to US\$302.5 (31x FY22E P/E) from US\$314.2. Stock price might see short-term pressure on its multi-investment and competition landscape. Suggest to wait for more clear catalysts.

Earnings Summary

(YE 31 Mar)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	509,711	717,289	930,174	1,114,190	1,326,733
YoY growth (%)	35.3	40.7	29.7	19.8	19.1
Adj. net profit (RMB mn)	132,479	171,985	172,217	213,030	257,363
Adj. EPS (RMB)	53.9	65.2	62.6	76.7	91.8
YoY growth (%)	41.8	21.0	-3.8	22.5	19.6
Consensus EPS (RMB)	NA	NA	71.9	88.9	108.0
P/E (x)	25.3	20.9	21.7	17.8	14.8
P/B (x)	4.1	3.4	3.0	2.7	2.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.3	16.6	14.6	15.5	16.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$302.5
(Previous TP)	US\$314.2
Up/Downside	+45.6%
Current Price	US\$207.8

China Internet Sector

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

Miriam Lu
 (852) 3761 8728
 miriamlu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	595,172
Avg 3 mths t/o (US\$ mn)	3,666.08
52w High/Low (US\$)	319.3/ 194.0
Total Issued Shares (mn)	2,711

Source: Bloomberg

Shareholding Structure

BlackRock	3.1%
Vanguard Group	2.3%
T Rowe Price Group	2.2%

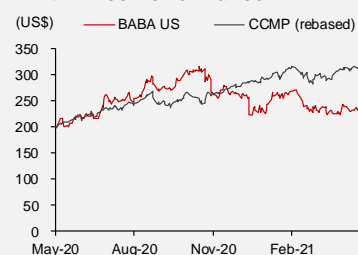
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-1.7%	2.0%
3-mth	-18.0%	-14.5%
6-mth	-17.6%	-29.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Investment for long-term growth – 13 Apr 2021
- Stepping-up reinvestment – 3 Feb 2021
- 2QFY21 beat on margin – 6 Nov 2020

Figure 1: 4QFY21 financial review

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	114,924	119,017	161,456	114,314	153,751	155,059	221,084	187,395	-15.2%	63.9%	180,397	4%	181,222	3%
Operating Profit	24,375	20,364	39,560	7,131	34,705	13,634	49,002	(7,663)	-115.6%	-207.5%	9,433	-181%	14,667	-152%
Net profit	19,122	72,540	52,309	3,162	46,437	26,524	79,427	(5,479)	-106.9%	-273.3%	10,891	-150%	8,030	-168%
Adj. net profit	30,949	32,750	46,493	22,287	39,494	47,088	59,207	26,216	-55.7%	17.6%	29,603	-11%	25,761	2%
Adj. EPS (RMB)	12.55	13.10	18.19	9.20	14.82	17.97	22.03	10.32	-53.2%	12.2%	11.67	-12%	8.21	26%
Margin (%)														
Gross margin	47.8%	45.0%	47.8%	36.6%	45.0%	42.0%	45.1%	33.1%			36.6%		33.1%	
Operating margin	21.2%	17.1%	24.5%	6.2%	22.6%	8.8%	22.2%	-4.1%			5.2%		8.1%	
Adj. net margin	26.9%	27.5%	28.8%	19.5%	25.7%	30.4%	26.8%	14.0%			16.4%		14.2%	
Growth (%)														
Revenue (YoY)	42.0%	39.8%	37.7%	22.3%	33.8%	30.3%	36.9%	63.9%			57.8%		58.5%	
Revenue (QoQ)	22.9%	3.6%	35.7%	-29.2%	34.5%	0.9%	42.6%	-15.2%			-18.4%		-18.0%	
Operating Profit	203.9%	50.8%	47.6%	-18.6%	42.4%	-33.0%	23.9%	-207.5%			32.3%		105.7%	
Adj. net profit	54.0%	39.6%	56.0%	11.1%	27.6%	43.8%	27.3%	17.6%			32.8%		15.6%	

Source: Company data, CMBIS estimates, Bloomberg

Figure 2: Revenue breakdown

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	QoQ	YoY
Total revenue	114,924	119,017	161,456	114,314	153,751	155,059	221,084	187,395	-15%	64%
Core commerce	99,544	101,220	102,843	93,865	133,318	130,922	195,541	151,880	-22%	62%
Cloud computing	7,787	9,291	10,721	12,217	12,345	14,899	16,115	18,666	16%	53%
Digital media and entertainment	6,312	7,296	7,396	5,944	6,994	8,066	8,079	7,582	-6%	28%
Innovation initiatives and others	1,281	1,210	1,864	2,288	1,094	1,172	1,349	3,094	129%	35%

Source: Company data, CMBIS estimates

Figure 3: Earnings revision

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	930,174	1,114,190	1,326,733	930,484	1,113,793	NA	0.0%	0.0%	NA
Gross profit	353,466	428,963	510,792	353,584	426,583	NA	0.0%	0.6%	NA
Operating profit	110,498	144,102	173,014	110,308	142,283	NA	0.2%	1.3%	NA
Adj. net profit	172,217	213,030	257,363	172,620	213,469	NA	-0.2%	-0.2%	NA
EPS (RMB)	62.65	76.73	91.78	62.80	76.89	NA	-0.2%	-0.2%	NA
Gross margin	38.0%	38.5%	38.5%	38.0%	38.3%	NA	0.0ppts	+0.2ppts	NA
Operating margin	11.9%	12.9%	13.0%	11.9%	12.8%	NA	+0.0ppts	+0.2ppts	NA
Adj. net margin	18.5%	19.1%	19.4%	18.6%	19.2%	NA	-0.0ppts	-0.0ppts	NA

Source: Company data, CMBIS estimates

Figure 4: CMBI estimates vs. consensus

Rmb mn, Mar-YE	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	930,174	1,114,190	1,326,733	923,857	1,097,420	1,315,898	0.7%	1.5%	0.8%
Gross profit	353,466	428,963	510,792	381,508	454,095	559,174	-7.4%	-5.5%	-8.7%
Operating profit	110,498	144,102	173,014	142,358	188,251	249,724	-22.4%	-23.5%	-30.7%
Adj. net profit	172,217	213,030	257,363	204,746	250,830	302,980	-15.9%	-15.1%	-15.1%
EPS (RMB)	62.65	76.73	91.78	71.9	88.9	108.0	-12.9%	-13.7%	-15.0%
Gross margin	38.0%	38.5%	38.5%	41.3%	41.4%	42.5%	-3.3ppts	-2.9ppts	-4.0ppts
Operating margin	11.9%	12.9%	13.0%	15.4%	17.2%	19.0%	-3.5ppts	-4.2ppts	-5.9ppts
Adj. net margin	18.5%	19.1%	19.4%	22.2%	22.9%	23.0%	-3.6ppts	-3.7ppts	-3.6ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 5: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY21E	FY22E	FY21E	FY22E
Core Commerce	590.0	214.6	EV/EBITA	20.7	16.0	28.4	36.9
Cloud	128.5	46.7	P/S	14.0	10.0	9.2	12.9
Others	112.9	41.1					
Digital Entertainment	18.9	6.9	P/S	4.0	3.5	4.8	5.4
Innovations	2.5	0.9	P/S	3.5	3.0	0.7	0.8
Strategic Investments	61.9	22.5	SoTP for all investments				
Net (Debt)/Cash	29.6	10.8	Cash forecasted on Balance sheet				
Equity Value (US\$)	831	302.5					

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	509,711	717,289	930,174	1,114,190	1,326,733
Core commerce	436,104	621,146	805,089	952,266	1,122,657
Cloud	40,016	60,120	84,168	116,489	154,510
DME	26,948	31,186	35,355	39,372	43,175
Others	6,643	4,837	5,563	6,063	6,391
COSG	(282,367)	(421,205)	(576,708)	(685,227)	(815,941)
Gross profit	227,344	296,084	353,466	428,963	510,792
R&D	(43,080)	(57,236)	(83,158)	(98,049)	(116,752)
S&M	(50,673)	(81,519)	(100,459)	(119,218)	(141,960)
Admin. Expense	(28,197)	(55,224)	(49,299)	(56,824)	(67,663)
Other income	(13,964)	(12,427)	(10,053)	(10,770)	(11,402)
Operating profit	91,430	89,678	110,498	144,102	173,014
Interest exp	(5,180)	(4,476)	(4,924)	(5,416)	(5,958)
Associates	72,956	72,794	87,353	104,823	115,306
Others	7,439	7,582	7,000	7,000	7,000
Pre-tax profit	166,645	165,578	199,927	250,509	289,362
Equity investees	(5,733)	6,984	(11,057)	(11,057)	(11,057)
Tax	(20,562)	(29,278)	(31,988)	(40,081)	(46,298)
Net profit	140,180	143,014	156,882	199,371	232,007
Non-GAAP NI	132,479	171,985	172,217	213,030	257,363

Cash flow summary

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	140,350	143,284	156,882	199,371	232,007
D&A	74,169	79,510	88,566	87,352	98,989
Change in WC	59,388	120,741	52,186	62,623	75,148
Others	(93,300)	(111,749)	(74,567)	(76,884)	(79,964)
Operating CF	180,607	231,786	223,066	272,462	326,179
Capex	(180,406)	(192,679)	(204,577)	(217,664)	(232,059)
Associates	(105,178)	(10,557)	0	0	0
Others	177,512	(40,958)	0	0	0
Investing CF	(108,072)	(244,194)	(204,577)	(217,664)	(232,059)
Equity raised	0	0	0	0	0
Change of Debts	(32,422)	(1,548)	3,750	0	0
Dividend paid	0	0	0	0	0
Others	103,275	31,630	0	0	0
Financing CF	70,853	30,082	3,750	0	0
Change in cash	143,388	17,674	22,239	54,798	94,120
Cash (beg of yr)	189,976	345,982	321,262	343,501	398,299
FX	0	(7,187)	0	0	0
Cash (end of yr)	333,364	356,469	343,501	398,299	492,419

Balance sheet

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
NC assets	850,062	1,046,858	1,252,431	1,419,539	1,594,659
Fixed asset	103,387	147,412	232,964	263,900	291,990
Associates	189,632	200,189	200,189	200,189	200,189
Land use-right	57,985	98,432	0	0	0
Intangible assets	337,729	363,604	582,056	718,229	865,260
Others	161,329	237,221	237,221	237,221	237,221
Current assets	462,923	643,360	690,541	775,269	905,305
Cash	330,503	321,262	343,501	398,299	492,419
Account receivable	99,708	159,915	184,857	214,787	250,702
Other	32,712	162,183	162,183	162,183	162,183
Current liabilities	241,872	377,358	423,463	486,086	561,233
Borrowings	5,154	13,437	7,356	7,356	7,356
Trade & payables	164,550	261,140	313,326	375,949	451,096
Income tax	20,190	25,275	25,275	25,275	25,275
Other	51,978	77,506	77,506	77,506	77,506
NC liabilities	191,462	229,226	229,226	229,226	229,226
Borrowings	39,660	38,335	38,335	38,335	38,335
Deferred taxation	43,898	59,598	59,598	59,598	59,598
Other	107,904	131,293	131,293	131,293	131,293
Mezzanine equity	9,103	8,673	8,673	8,673	8,673
Total Equity	870,548	1,074,961	1,226,751	1,415,965	1,645,973
MI	115,147	137,491	129,481	121,352	113,542
S/H equity	755,401	937,470	1,097,270	1,294,612	1,532,432

Key ratios

YE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Core commerce	85.6	86.6	86.6	85.5	84.6
Cloud	7.9	8.4	9.0	10.5	11.6
DME	5.3	4.3	3.8	3.5	3.3
Others	1.3	0.7	0.6	0.5	0.5
Total	100.0	100.0	100.0	100.0	100.0
Profitability (%)					
Gross margin	44.6	41.3	38.0	38.5	38.5
PreTax margin	32.7	23.1	21.5	22.5	21.8
Tax rate	(4.0)	(4.1)	(3.4)	(3.6)	(3.5)
Adj. net margin	28.2	25.0	19.4	19.8	20.0
Balance sheet					
Current ratio (x)	1.9	1.7	1.6	1.6	1.6
Debtors turnover	51.1	53.2	53.8	53.9	54.3
Creditors turnover	180.5	183.0	181.7	183.5	184.9
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROE	16.3	16.6	14.6	15.5	16.0
ROA	10.1	10.2	8.9	9.7	10.3
Per share data					
Adj. EPS (RMB)	53.9	65.2	62.6	76.7	91.8
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	329.7	398.1	449.4	513.1	590.1

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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