

Alibaba (BABA US)

Earnings back on growth track

Alibaba Group Holding (Alibaba) announced (17 Nov) its 2QFY23 (March year-end) results: total revenue was RMB207.2bn, up 3% YoY, 0.8% shy of both our estimate and Bloomberg consensus, mainly due to lower than expected China commerce revenue generation due to soft macro. However, driven by effective cost control and operating efficiency improvement, non-GAAP net income attributable to ordinary shareholders was RMB34.3bn, up 13% YoY, 5/16% ahead of our forecast/consensus estimates. With strategic move to focus more on both scale and efficiency, we expect steady non-GAAP net profit growth to sustain in the rest of FY23. We lower FY23-25E revenue forecast by 2% each to account for severe than expected macro headwinds, but raise FY23-25E non-GAAP net income forecast by 2-7% on better than expected operating efficiency improvement. Our SOTP based target price was lifted by 3% to US\$158.7, translating into 18.0x FY24E PE. Maintain BUY.

- **Expecting CMR recovery in 2023.** Alibaba generated revenue of RMB66.5bn from its customer management segment in 2QFY23, down 6.5% YoY and equivalent to 32% of total revenue, owing to low single digit YoY decline in online physical goods GMV generated on Taobao and Tmall. Management attributed the gap between decline in GMV and customer management revenue (CMR) to: 1) a higher return rate owing to pandemic resurgence, which impacted fulfilment, as well as an increase in GMV contribution from live streaming channel; and 2) soft advertising demand amid macro headwinds. We expect headwinds on GMV and customer management revenue (CMR) generation to persist in 3QFY23E, and forecast CMR to decline 5.7% YoY, but think a recovery in overall macro and relatively easier comps could support a steady YoY recovery in 2023.
- **Operating efficiency improvement across business lines.** Alibaba's strategic moves to streamline new initiatives and drive for operating efficiency improvement across business lines are bearing fruit. Combined losses narrowed by RMB4.9bn for Taobao Deals, Taocaicai, and Freshippo in 2QFY23. In addition, adjusted EBITA loss from international commerce/local consumer services narrowed by RMB1.5/3.0bn YoY in 2QFY23. Overall adjusted EBITA grew by 29% YoY to RMB36.2bn, and adjusted EBITA margin was 17.5%, up 3.5pp YoY, 1.9pp better than our forecast. We expect steady EBITA growth to continue in 2HFY23, and forecast overall adjusted EBITA to grow 17% YoY to RMB153bn in FY23E.
- **Robust cloud revenue growth in non-internet industries.** Cloud computing business revenue grew by 3.7% YoY to RMB20.8bn in 2QFY23, among which revenue from non-internet industries was 28% YoY, and contributed to 58% of overall cloud revenue (1QFY23: 53%). Given the ongoing deepening digitalization trend in non-internet industries, we remain positive on the long-term revenue growth of Alibaba Cloud.

Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	717,289	853,062	882,040	987,864	1,083,297
YoY growth (%)	na	18.9	3.4	12.0	9.7
Net profit (RMB mn)	150,578.0	62,249.0	61,169.5	122,534.7	134,762.2
Adjusted net profit (RMB mn)	178,954.0	143,515.0	148,226.8	166,988.6	182,427.3
EPS (Adjusted) (RMB)	66.22	53.26	54.95	61.84	67.49
Consensus EPS (RMB)	66.22	53.26	51.80	59.13	66.52
P/E (x)	30.1	46.3	24.8	12.4	11.3
ROE (%)	na	6.5	5.9	10.2	9.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$158.70
 (Previous TP US\$154.5)
Up/Downside 100.1%
Current Price US\$79.30

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Stock Data

Mkt Cap (US\$ mn)	216,179.6
Avg 3 mths t/o (US\$ mn)	80.3
52w High/Low (US\$)	161.58/63.15
Total Issued Shares (mn)	2726.1

Source: FactSet

Shareholding Structure

SoftBank	23.9%
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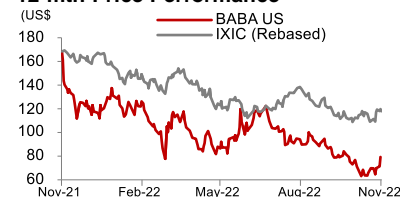
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.6%	-1.3%
3-mth	-14.4%	-1.3%
6-mth	-8.3%	-5.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Key business segment update

Cloud computing (10.0% of 2QFY23 revenue)

Revenue from cloud computing business grew by 3.7% YoY to RMB20.8bn in 2QFY23, 3% shy of our forecast, and accounted for 10% of total revenue. The growth was mainly driven by healthy public cloud growth, but partially offset by declining hybrid cloud revenue, as Alibaba continues to drive high-quality, recurring revenue growth. Management highlighted that revenue growth from non-internet industries was 28% YoY and contributed to 58% of overall cloud revenue, while revenue growth from customer in internet industry declined by 18% YoY. Adjusted EBITA margin for the cloud segment was 2.1% in 2QFY23 (2QFY22: 2.0%).

International commerce (7.6% of 2QFY23 revenue)

In 2QFY23, revenue from the international commerce segment was RMB15.7bn, up 4% YoY, within which retail and wholesale recorded revenue of RMB10.7/5.0bn, YoY changes of 3.5/6.2% respectively. For retail business, the revenue growth was primarily due to an increase in revenue contributed by Trendyol as a result of strong order growth from its e-commerce business and more efficient use of subsidies, partly offset by the decrease in revenue due to declining orders of AliExpress as a result of the depreciation of the Euro against US Dollar.

The adjusted EBITA margin for the international commerce segment was -6.1% in 2QFY23 (2QFY22: -16.4%), which could be attributable to reduced losses from Lazada and Trendyol.

Cainiao Logistics (6.5% of 2QFY23 revenue)

Revenue from Cainiao Logistics rose 36% YoY in 2QFY23, accounting for 6.5% of total revenue, driven by an increase in revenue from domestic consumer logistic services as a result of service model upgrade since late 2021 where Cainiao takes on more responsibilities throughout the logistics process to better serve customers and enhance consumer experience, as well as increase in revenue from international fulfilment solution services. Adjusted EBITA turned positive for Cainiao to RMB125mn in 2QFY23 with a margin of 0.9% (2QFY22: -3.2%)

Alibaba upsized its share buyback plan

Alibaba shared its progress on share buyback plan. During 2QFY23, Alibaba has purchased c.24.3mn of ADSs for approximately US\$2.1bn under its share repurchase program. As of 16 November 2022, Alibaba had repurchased c. US\$18bn of its shares under existing US\$25bn share repurchase program. In addition, Alibaba's board of directors has approved to increase Alibaba's existing share repurchase program by another US\$15bn and extend the program through the end of March 2025.

Revision of forecast and valuation

Figure 1: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	882.0	987.9	1083.3	896.6	1004.3	1101.4	-1.6%	-1.6%	-1.6%
Gross Profit	322.8	361.6	396.5	319.2	351.5	385.5	1.1%	2.9%	2.9%
Non-GAAP net profit	148.2	167.0	182.4	144.9	156.7	171.0	2.3%	6.6%	6.7%
Gross Margin	36.6%	36.6%	36.6%	35.6%	35.0%	35.0%	1.0 ppt	1.6 ppt	1.6 ppt
Non-GAAP net margin	16.8%	16.9%	16.8%	16.2%	15.6%	15.5%	0.6 ppt	1.3 ppt	1.3 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	882.0	987.9	1083.3	898.9	1002.9	1105.4	-1.9%	-1.5%	-2.0%
Gross Profit	322.8	361.6	396.5	321.6	359.5	397.3	0.4%	0.6%	-0.2%
Adjusted net profit	148.2	167.0	182.4	141.0	161.4	181.5	5.1%	3.4%	0.5%
Gross Margin	36.6%	36.6%	36.6%	35.8%	35.8%	35.9%	0.8 ppt	0.8 ppt	0.7 ppt
Adjusted net margin	16.8%	16.9%	16.8%	15.7%	16.1%	16.4%	1.1 ppt	0.8 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Alibaba: breakdown of financials of key business segments (2QFY23)

(RMBmn)	China commerce	International commerce	Local consumer services	Cainiao	Cloud	Digital media and entertainment	Innovation initiatives and others	Unallocated	Consolidated
Revenue	135,431	15,747	13,073	13,367	20,757	8,392	409	na	207,176
Income (loss) from operations	41,283	(1,652)	(5,702)	(661)	(1,442)	(697)	(2,521)	(3,471)	25,137
Add: SBC	2,107	670	808	533	1,873	394	364	1,038	7,787
Add: Amortization of intangible assets	590	22	1,401	253	3	186	211	63	2,729
Add: Equity-settled donation expense								511	511
Adjusted EBITA	43,980	(960)	(3,493)	125	434	(117)	(1,946)	(1,859)	36,164
Adjusted EBITA margin, %	32.5%	-6.1%	-26.7%	0.9%	2.1%	-1.4%	-475.8%	na	17.5%

Source: Company data, CMBIGM

Figure 4: Alibaba: breakdown of financials of key business segments (2QFY22)

(RMBmn)	China commerce	International commerce	Local consumer services	Cainiao	Cloud	Digital media and entertainment	Innovation initiatives and others	Unallocated	Consolidated
Revenue	136,120	15,092	10,806	9,846	20,007	8,081	738	na	200,690
Income (loss) from operations	37,676	(3,298)	(9,133)	(1,219)	(1,985)	(1,700)	(2,313)	(3,022)	15,006
Add: SBC	2,857	793	1,089	630	2,377	566	664	1,145	10,121
Add: Amortization of intangible assets	821	24	1,509	274	4	203	14	57	2,906
Adjusted EBITA	41,354	(2,481)	(6,535)	(315)	396	(931)	(1,635)	(1,820)	28,033
Adjusted EBITA margin, %	30.4%	-16.4%	-60.5%	-3.2%	2.0%	-11.5%	-221.5%	na	14.0%

Source: Company data, CMBIGM

Valuation: target price of US\$158.7 per ADS

Our SOTP-based target price was US\$158.7 per ADS, and translates into 18.0x FY24E PE.

1) US\$106.9 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\$25.5 per ADS for the cloud business, based on a 6.0x PS multiple on FY23E revenue. The 6.0x PS multiple is slightly lower than that of comparable peers at 6.4x for 2022E, as Alibaba Cloud's revenue growth was dampened in the near term due to soft macro, and strict pandemic prevention policy, which may cause a delay in deployment of hybrid cloud projects. But we are still positive on the long-term development of Alibaba Cloud, given its industry-leading technological capability, which helped established leading position in China Cloud market.

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\$5.4 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 3.9x for Meituan, as Ele.me has a relatively lower market share.

5) US\$14.4 per ADS for strategic investment with 30% holding discount.

Figure 5: 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		291,459	106.9	67.4
Cainiao	Last round financing valuation, 63% shareholding		17,664	6.5	4.1
Local consumer services	PS, based on FY23 revenue	2.0	14,747	5.4	3.4
Alibaba Cloud	PS, based on FY23 revenue	6.0	69,502	25.5	16.1
Strategic investments	Market valuation, 30% holding discount applied to all investment		39,203	14.4	9.1
Total			432,576	158.7	

Source: CMBIGM estimates

Figure 6: Cloud computing: peers valuation comps

Companies	Ticker	Price	Revenue growth (YoY%)			PS(x)		
		(US\$)	2022E	2023E	2024E	2022E	2023E	2024E
Microsoft	MSFT US	241.7	12.7	10.5	13.0	8.7	7.9	7.0
Google	GOOG US	99.0	(7.3)	12.6	12.8	5.4	4.8	4.2
Salesforce	CRM US	155.1	17.4	14.5	16.7	5.0	4.4	3.7
Average						6.4	5.7	5.0

Source: Bloomberg, CMBIGM

Note: data as of 17 November 2022

Figure 7: Food delivery: peers valuation comps

Companies	Ticker	Revenue growth (YoY%)			PS (x)		
		2022E	2023E	2024E	2022E	2023E	2024E
Meituan	3690 HK	12.6	29.2	24.4	3.9	3.0	2.4
DoorDash	DASH US	32.7	22.4	18.9	3.6	3.0	2.5
Delivery Hero	DSHE GR	20.3	25.7	23.5	1.3	1.0	0.8
Just Eat Takeaway	TKWY NA	10.6	9.0	6.3	0.8	0.8	0.7
Average					2.4	1.9	1.6

Source: Bloomberg, CMBIGM

Note: data as of 17 November 2022

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (RMB mn)						
Revenue	na	717,289	853,062	882,040	987,864	1,083,297
Cost of goods sold	na	(421,205)	(539,450)	(559,213)	(626,306)	(686,811)
Gross profit	na	296,084	313,612	322,827	361,558	396,487
Operating expenses	na	(206,406)	(243,974)	(210,808)	(237,087)	(256,200)
SG&A expense	na	(136,743)	(151,721)	(143,331)	(162,998)	(176,036)
R&D expense	na	(57,236)	(55,465)	(56,451)	(63,223)	(68,248)
Others	na	(12,427)	(36,788)	(11,025)	(10,867)	(11,916)
Operating profit	na	89,678	69,638	112,019	124,471	140,287
Interest income	na	72,794	(15,702)	(33,518)	8,891	8,666
Interest expense	na	(4,476)	(4,909)	(5,292)	(5,927)	(6,283)
Other income/expense	na	7,582	10,523	6,174	6,915	5,958
Pre-tax profit	na	165,578	59,550	79,384	134,350	148,628
Income tax	na	(29,278)	(26,815)	(18,655)	(31,572)	(37,157)
Others	na	6,984	14,344	(7,938)	11,854	14,083
After tax profit	na	143,284	47,079	52,790	114,632	125,554
Minority interest	na	7,294	15,170	8,379	7,903	9,208
Net profit	na	150,578	62,249	61,169	122,535	134,762
Adjusted net profit	na	178,954	143,515	148,227	166,989	182,427

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (RMB mn)						
Current assets	na	643,360	638,535	689,599	807,304	940,050
Cash & equivalents	na	321,262	189,898	252,005	354,507	473,831
Restricted cash	na	35,207	37,455	37,455	37,455	37,455
Prepayment	na	124,708	145,995	134,952	150,155	163,578
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	1,098,977	1,184,869	1,265,025
PP&E	na	147,412	171,806	212,769	243,150	266,782
Investment in JVs & assos	na	200,189	219,642	231,157	262,464	296,000
Intangibles	na	70,833	59,231	104,527	124,815	144,053
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	57,333	61,248	64,998
Total assets	na	1,690,218	1,695,553	1,788,577	1,992,173	2,205,075
Current liabilities	na	377,358	383,784	346,780	396,529	441,368
Short-term borrowings	na	3,606	8,841	9,165	10,264	11,256
Tax payable	na	25,275	21,753	17,536	27,783	31,584
Other current liabilities	na	87,337	81,730	81,928	91,758	100,622
Accrued expenses	na	261,140	271,460	238,151	266,723	297,907
Non-current liabilities	na	229,226	229,576	205,515	211,143	217,902
Long-term borrowings	na	38,335	38,244	38,244	38,244	37,407
Deferred income	na	3,158	3,490	3,618	4,052	4,443
Other non-current liabilities	na	187,733	187,842	163,653	168,847	176,052
Total liabilities	na	606,584	613,360	552,294	607,672	659,271
Share capital	na	1	1	1	1	1
Capital surplus	na	394,308	410,506	519,239	552,827	588,575
Retained earnings	na	554,924	563,557	624,726	747,261	882,023
Other reserves	na	(3,090)	(15,930)	(23,364)	(23,364)	(23,364)
Total shareholders equity	na	946,143	958,134	1,120,603	1,276,725	1,447,236
Minority interest	na	137,491	124,059	115,680	107,777	98,569
Total equity and liabilities	na	1,690,218	1,695,553	1,788,577	1,992,173	2,205,075

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	na	165,578	59,550	79,384	134,350	148,628
Depreciation & amortization	na	47,909	48,065	29,291	32,842	41,366
Tax paid	na	(29,278)	(26,815)	(18,655)	(31,572)	(37,157)
Change in working capital	na	50,297	(18,150)	4,300	31,195	30,697
Others	na	(2,720)	80,109	31,334	37,552	39,324
Net cash from operations	na	231,786	142,759	125,653	204,366	222,858
Investing						
Capital expenditure	na	(41,450)	(3,412)	(3,087)	(2,964)	(3,250)
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)	(67,083)	(68,846)	(69,285)
Net cash from investing	na	(244,194)	(198,592)	(101,324)	(102,964)	(103,689)
Financing						
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)	324	1,100	154
Net cash from financing	na	30,082	(64,449)	324	1,100	154
Net change in cash						
Cash at the beginning of the year	na	345,982	356,469	227,353	252,005	354,507
Exchange difference	na	(7,187)	(8,834)	0	0	0
Cash at the end of the year	na	356,469	227,353	252,005	354,507	473,831
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Revenue	na	na	18.9%	3.4%	12.0%	9.7%
Gross profit	na	na	5.9%	2.9%	12.0%	9.7%
Operating profit	na	na	(22.3%)	60.9%	11.1%	12.7%
Net profit	na	na	(58.7%)	(1.7%)	100.3%	10.0%
Adj. net profit	na	na	(19.8%)	3.3%	12.7%	9.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Gross profit margin	na	41.3%	36.8%	36.6%	36.6%	36.6%
Operating margin	na	12.5%	8.2%	12.7%	12.6%	13.0%
Adj. net profit margin	na	24.9%	16.8%	16.8%	16.9%	16.8%
Return on equity (ROE)	na	na	6.5%	5.9%	10.2%	9.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
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
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
P/E	na	30.1	46.3	24.8	12.4	11.3
P/E (diluted)	na	30.6	46.8	25.0	12.5	11.4
P/B	na	4.9	3.0	1.4	1.2	1.1
P/CFPS	na	24.2	20.9	12.5	7.6	7.0

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

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