

# Alibaba (9988 HK)

## 2QFY21 beat on margin

Alibaba delivered solid 2QFY21 results, with revenue/Non GAAP net profit +30% YoY/+44% YoY, 0%/23% above consensus. CMR +20% YoY, in line with our estimate. We reiterate our confidence on BABA's secular growth, backed by livestreaming initiatives, Taobao deals penetration and cloud opportunity. We slightly raised its earnings by 4%/5%/5% in FY21/22/23E for Sun Art consolidation and better margin of emerging business, with TP of HK\$349.4 (from HK\$345.0). Valuation at 24x FY22E P/E is not demanding, and we expect further catalysts to come (e.g. cloud quarterly breakeven, "11.11").

- 2QFY21 beat on margin.** 2QFY21 topline/bottom line grew 30%/44% YoY, 0%/23% above consensus. Adj. EBITA margin came out at 27% (vs. our estimate of 26%), mainly on narrowing loss margin of local service, Cainiao, DME and cloud. Market concern lies on its moderate Tmall GMV (+21% YoY) and core commerce EBITA margin decline (35%, -3ppts YoY, in line with our estimate). We view it as soft seasonality and strategic investment in Taobao deal & Juhuasuan user acquisition, and we suggest to move into 3QFY21E with eye-catching 11.11. Moreover, strong Cloud (topline +60% YoY, adj. EBITA margin narrowing to -1%) and Cainiao rev acceleration strengthened its breakeven insights.
- Solid core commerce, and eyes on "11.11".** 2QFY21 CMR grew 20% YoY, in line with our estimate. Taobao online physical goods GMV saw high-teens yoy growth in 2QFY21. Taobao Live impressed us, with > RMB350bn GMV for 12-m ended on 30 Sep 2020. We expect higher ads performance and stronger engagement ahead, boosted by upgraded model, new brand incubating and enriched ads format, but it would take some time to see meaningful rev contribution. Looking ahead, we are bullish on its 11.11 momentum, backed by: 1) livestreaming to stimulate engagement; 2) prepayment features and festival extension (two periods) to give SMEs more exposure; and 3) enhanced logistics.
- Maintain BUY.** We think BABA is well positioned to capture online consumption recovery and long-term benefit from structural opportunities. Given Sun Art consolidation and better margin of emerging business, we slightly raised its earnings by 4%/5%/5% in FY21/22/23E, with SOTP-based TP of HK\$349.4 (31x FY22E P/E).

### Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	376,844	509,711	707,470	957,420	1,152,774
YoY growth (%)	50.6	35.3	38.8	35.3	20.4
Net income (RMB mn)	93,407	132,479	173,794	231,294	281,302
EPS (RMB)	38.0	53.9	63.9	84.1	101.3
YoY growth (%)	15.6	41.8	18.6	31.8	20.4
Consensus EPS (RMB)	NA	NA	63.3	79.3	99.4
P/E (x)	53.1	37.4	31.6	24.0	19.9
P/B (x)	8.6	6.1	5.4	4.5	3.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.2	16.3	17.2	17.8	18.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$349.4
(Previous TP)	HK\$345.0
Up/Downside	+18.3%
Current Price	HK\$295

### China Internet Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	6,376,644
Avg 3 mths t/o (HK\$ mn)	6,747.4
52w High/Low (HK\$)	309/168
Total Issued Shares (mn)	21,645

Source: Bloomberg

#### Shareholding Structure

SoftBank	24.9%
Altaba Inc	14.8%
Ma Jack Yun	4.8%

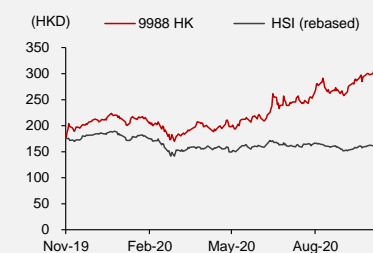
Source: HKEX

#### Share Performance

	Absolute	Relative
1-mth	0.6%	-5.2%
3-mth	9.2%	9.5%
6-mth	46.1%	38.7%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

#### Related Reports

- Expecting solid 2QFY21E -19 Oct 2020
- Key takeaways from 2020 Investor Day - 6 Oct 2020
- A strong start in FY21 - 21 Aug 2020

**Figure 1: 2QFY21 financial review**

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	114,924	119,017	161,456	114,314	153,751	155,059	0.9%	30.3%	154,841	0%	153,542	1%
Operating Profit	24,375	20,364	39,560	7,131	34,705	13,634	-60.7%	-33.0%	28,073	-51%	29,231	-53%
Net profit	19,122	72,540	52,309	3,162	46,437	26,524	-42.9%	-63.4%	25,303	5%	27,910	-5%
Adj. net profit	30,949	32,750	46,493	22,287	39,494	47,088	19.2%	43.8%	38,400	23%	38,332	23%
Adj. EPS (RMB)	12.55	13.10	18.19	9.20	14.82	17.97	21.3%	37.2%	13.87	30%	14.10	27%
<b>Margin (%)</b>												
Gross margin	47.8%	45.0%	47.8%	36.6%	45.0%	42.0%			43.6%		43.5%	
Operating margin	21.2%	17.1%	24.5%	6.2%	22.6%	8.8%			18.1%		19.0%	
Adj. net margin	26.9%	27.5%	28.8%	19.5%	25.7%	30.4%			24.8%		25.0%	
<b>Growth (%)</b>												
Revenue (YoY)	42.0%	39.8%	37.7%	22.3%	33.8%	30.3%			30.1%		29.0%	
Revenue (QoQ)	22.9%	3.6%	35.7%	-29.2%	34.5%	0.9%			0.7%		-0.1%	
Operating Profit	203.9%	50.8%	47.6%	-18.6%	42.4%	-33.0%			37.9%		43.5%	
Adj. net profit	54.0%	39.6%	56.0%	11.1%	27.6%	43.8%			17.3%		17.0%	

Source: Company data, CMBIS estimates, Bloomberg

**Figure 2: Revenue breakdown**

RMB mn, Mar-YE	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	QoQ	YoY
<b>Total revenue</b>	<b>114,924</b>	<b>119,017</b>	<b>161,456</b>	<b>114,314</b>	<b>153,751</b>	<b>155,059</b>	<b>1%</b>	<b>30%</b>
Core commerce	99,544	101,220	102,843	93,865	133,318	130,922	-2%	29%
Cloud computing	7,787	9,291	10,721	12,217	12,345	14,899	18%	60%
Digital media and entertainment	6,312	7,296	7,396	5,944	6,994	8,066	12%	11%
Innovation initiatives and others	1,281	1,210	1,864	2,288	1,094	1,172	141%	-3%

Source: Company data

**Figure 3: Earnings revision**

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	707,470	957,420	1,152,774	665,470	852,020	1,042,774	6.3%	12.4%	10.5%
Gross profit	309,164	409,776	493,387	297,465	380,853	466,120	3.9%	7.6%	5.8%
Operating profit	111,337	149,575	187,049	106,271	139,975	176,084	4.8%	6.9%	6.2%
Net profit	173,794	231,294	281,302	167,267	219,719	267,986	3.9%	5.3%	5.0%
EPS (Rmb)	63.86	84.14	101.32	61.46	79.93	96.52	3.9%	5.3%	5.0%
Gross margin	43.7%	42.8%	42.8%	44.7%	44.7%	44.7%	-1.0ppts	-1.9ppts	-1.9ppts
Operating margin	15.7%	15.6%	16.2%	16.0%	16.4%	16.9%	-0.2ppts	-0.8ppts	-0.7ppts
Net margin	24.6%	24.2%	24.4%	25.1%	25.8%	25.7%	-0.6ppts	-1.6ppts	-1.3ppts

Source: CMBIS estimates

**Figure 4: SOTP valuation**

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY21E	FY22E	FY21E	FY22E
Core Commerce	647.1	237.8	EV/EBITA	21.7	16.0	29.9	40.4
Cloud	159.9	58.7	P/S	17.8	12.0	9.0	13.3
Others	169.1	62.1					
Digital Entertainment	16.1	5.9	P/S	3.8	3.5	4.2	4.6
Innovations	4.8	1.8	P/S	3.8	3.0	1.3	1.6
Strategic Investments	120.4	44.2	SoTP for all investments				
Net (Debt)/Cash	27.7	10.2	Cash forecasted on Balance sheet				
<b>Equity Value (US\$)</b>	<b>976</b>	<b>358.6</b>					
<b>TP (HK\$)</b>		<b>349.4</b>					

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	376,844	509,711	707,470	957,420	1,152,774
Core commerce	323,400	436,104	606,069	820,609	974,998
Cloud	24,702	40,016	62,825	93,264	129,413
DME	24,077	26,948	29,679	32,236	34,597
Others	4,665	6,643	8,896	11,311	13,766
<b>COSG</b>	(206,929)	(282,367)	(398,305)	(547,644)	(659,387)
<b>Gross profit</b>	169,915	227,344	309,164	409,776	493,387
R&D	(37,435)	(43,080)	(65,795)	(86,168)	(100,291)
S&M	(39,780)	(50,673)	(74,284)	(100,529)	(121,041)
Admin. Expense	(24,889)	(28,197)	(38,911)	(50,743)	(58,791)
Other income	(10,727)	(13,964)	(18,837)	(22,761)	(26,214)
<b>Operating profit</b>	57,084	91,430	111,337	149,575	187,049
Interest exp	(5,190)	(5,180)	(5,698)	(6,268)	(6,895)
Associates	44,106	72,956	87,547	105,057	126,068
Others	221	7,439	1,000	1,000	1,000
<b>Pre-tax profit</b>	96,221	166,645	194,187	249,363	307,222
Equity investees	566	(5,733)	(11,057)	(11,057)	(11,057)
Tax	(16,553)	(20,562)	(23,302)	(29,924)	(36,867)
<b>Net profit</b>	79,948	140,180	159,827	208,383	259,299
<b>Non-GAAP NI</b>	93,407	132,479	173,794	231,294	281,302

### Cash flow summary

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	80,234	140,350	159,827	208,383	259,299
D&A	60,377	62,344	83,500	98,116	117,338
Change in WC	50,241	46,132	32,307	38,769	46,522
Others	(39,801)	(15,083)	(6,704)	(7,397)	(8,529)
<b>Operating CF</b>	151,051	233,743	268,930	337,870	414,630
Capex	(215,995)	(226,810)	(238,707)	(251,794)	(266,190)
Associates	67,212	(105,178)	0	0	0
Others	(2,277)	(32,177)	0	0	0
<b>Investing CF</b>	(151,060)	(364,165)	(238,707)	(251,794)	(266,190)
Equity raised	0	0	0	0	0
Change of Debts	31,548	(32,422)	2,202	0	0
Dividend paid	0	0	0	0	0
Others	(40,796)	8,442	0	0	0
<b>Financing CF</b>	(9,248)	(23,980)	2,202	0	0
<b>Change in cash</b>	(9,256)	(154,402)	32,425	86,076	148,440
Cash (beg of yr)	199,331	190,075	35,673	68,098	154,174
FX	3,245	0	0	0	0
<b>Cash (end of yr)</b>	193,320	35,673	68,098	154,174	302,614

### Balance sheet

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>NC assets</b>	694,803	850,062	1,182,568	1,375,524	1,573,471
Fixed asset	92,030	103,387	196,515	229,557	259,559
Associates	84,454	189,632	189,632	189,632	189,632
Land use-right	28,018	57,985	0	0	0
Intangible assets	333,211	337,729	635,092	795,006	962,952
Others	157,090	161,329	161,329	161,329	161,329
<b>Current assets</b>	270,273	462,923	217,364	323,655	496,353
Cash	189,976	330,503	68,098	154,174	302,614
Account receivable	67,108	99,708	116,554	136,769	161,027
Other	13,189	32,712	32,712	32,712	32,712
<b>Current liabilities</b>	207,669	241,872	276,381	315,150	361,672
Borrowings	22,466	5,154	7,356	7,356	7,356
Trade & payables	125,961	164,550	196,857	235,626	282,148
Income tax	17,685	20,190	20,190	20,190	20,190
Other	41,557	51,978	51,978	51,978	51,978
<b>NC liabilities</b>	142,005	191,462	191,462	191,462	191,462
Borrowings	35,427	39,660	39,660	39,660	39,660
Deferred taxation	22,517	43,898	43,898	43,898	43,898
Other	84,061	107,904	107,904	107,904	107,904
Mezzanine equity	6,819	9,103	9,103	9,103	9,103
<b>Total Equity</b>	608,583	870,548	1,015,363	1,211,077	1,450,437
MI	116,326	115,147	113,122	127,697	145,813
<b>S/H equity</b>	492,257	755,401	902,241	1,083,381	1,304,624

### Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Core commerce	85.8	85.6	85.7	85.7	84.6
Cloud	6.6	7.9	8.9	9.7	11.2
DME	6.4	5.3	4.2	3.4	3.0
Others	1.2	1.3	1.3	1.2	1.2
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Profitability (%)</b>					
Gross margin	45.1	44.6	43.7	42.8	42.8
PreTax margin	25.5	32.7	27.4	26.0	26.7
Tax rate	-4.4	-4.0	-3.3	-3.1	-3.2
Adj. net margin	26.4	28.2	24.9	22.6	22.8
<b>Balance sheet</b>					
Current ratio (x)	1.3	1.9	0.8	1.0	1.4
Debtors turnover	49.3	51.1	47.8	42.4	42.2
Creditors turnover	175.4	180.5	162.8	142.1	141.6
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROE	16.2	16.3	17.2	17.8	18.0
ROA	9.7	10.1	12.4	13.6	13.6
<b>Per share data</b>					
Adj. EPS (RMB)	38.0	53.9	63.9	84.1	101.3
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	234.6	329.7	376.4	443.9	525.7

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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