

# Alibaba (BABA US)

## User first strategy delivered early-stage results

Alibaba announced (10 Aug) its 1QFY24 (March year-end) results: total revenue was RMB234.2bn, up 13.9% YoY, 4/5% ahead of our forecast/Bloomberg consensus estimates, mainly driven by better-than-expected revenue growth in customer management revenue (CMR) and Cainiao. Fueled by operating efficiency improvement across business lines and a beat in relatively high-margin CMR, non-GAAP net income grew 48% YoY to RMB44.9bn, 13/17% ahead of our estimates/consensus. The results, in our view, demonstrated BAB's early-stage success in Taobao and Tmall business transformation to focus on quality user growth and better user retention through product supply and merchants ROI enhancement, which in turn improved number of daily active paying merchants for CMR business. Maintain BUY.

■ **CMR growth came in better than expected in 1QFY24.** Alibaba generated revenue of RMB79.7bn from its customer management revenue (CMR) in 1QFY24, up 10% YoY, 2% better than our forecast, driven by increase in merchants' willingness to invest in advertising and increase in online physical goods GMV generated on Taobao and Tmall. Management highlighted that average daily active user (DAU) for Taobao app grew 6.5% YoY in June 2023, and trended up further to over 7% in July, aided by the implementation of user first strategy. Looking into 2QFY24, although management remains cautious on the pace of consumption recovery amid current macro backdrop, it is optimistic that the increase in merchants' willingness to invest will sustain given Taobao and Tmall are continuously growing DAU base and enhancing merchants ROI.

■ **Achieved good balance between reinvestment and profitability improvement.** Alibaba has updated its segment reporting to reflect business organization. In 1QFY24, overall adjusted EBITA grew 32% YoY to RMB45.4bn, 15% ahead of our forecast, thanks to: 1) better-than-expected CMR growth; and 2) better-than-expected loss reduction from other business lines, aided by operating efficiency improvement. International Digital Commerce Group, Local Services Group, Cainiao Smart Logistics, Cloud Intelligence Group, and Digital Media and Entertainment Group, on a combined basis, saw total revenue growth of 26% YoY, while narrowed adjusted EBITA loss by RMB4.0bn at the same time, which in our view demonstrated Alibaba's ability to strike a good balance between reinvestment and profitability improvement. Management guided to continue driving business scale expansion in an efficient way in FY24.

■ **Recovery in revenue growth of cloud business still takes time.** Revenue of Cloud Intelligence group came in at RMB25.1bn in 1QFY24, up 4% YoY, in line with our estimates, we attribute the mild recovery in revenue growth to soft demand recovery amid macro headwinds, and normalization of CDN demand compared to the same period last year.

### Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	853,062	868,687	963,125	1,048,813	1,122,311
YoY growth (%)	18.9	1.8	10.9	8.9	7.0
Net profit (RMB mn)	61,959.0	72,509.0	119,042.2	128,332.7	137,864.7
Adjusted net profit (RMB mn)	143,515.0	143,991.0	163,345.9	175,529.3	187,246.4
EPS (Adjusted) (RMB)	53.26	54.91	62.22	66.80	71.19
Consensus EPS (RMB)	53.26	53.41	59.11	66.51	79.96
P/E (x)	46.5	23.0	15.1	14.0	13.0
ROE (%)	6.5	7.4	10.4	9.4	9.0

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price US\$156.60  
Up/Downside 57.8%  
Current Price US\$99.21

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#### Stock Data

Mkt Cap (US\$ mn)	250,583.2
Avg 3 mths t/o (US\$ mn)	1,483.9
52w High/Low (US\$)	120.57/63.15
Total Issued Shares (mn)	2641.9

Source: FactSet

#### Shareholding Structure

SoftBank	23.9%
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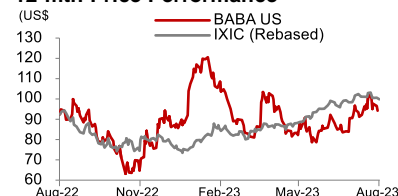
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	4.7%	3.2%
3-mth	14.3%	1.4%
6-mth	-8.5%	-22.8%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Revenue	717,289	853,062	868,687	963,125	1,048,813	1,122,311
Cost of goods sold	(421,205)	(539,450)	(549,695)	(612,547)	(668,094)	(716,034)
Gross profit	296,084	313,612	318,992	350,577	380,719	406,277
Operating expenses	(206,406)	(243,974)	(218,641)	(233,076)	(250,666)	(265,988)
SG&A expense	(136,743)	(151,721)	(145,679)	(159,879)	(172,005)	(181,814)
R&D expense	(57,236)	(55,465)	(56,744)	(61,640)	(66,075)	(70,706)
Others	(12,427)	(36,788)	(16,218)	(11,557)	(12,586)	(13,468)
Operating profit	89,678	69,638	100,351	117,501	130,053	140,289
Interest income	72,794	(15,702)	(11,071)	7,705	8,391	8,754
Interest expense	(4,476)	(4,909)	(5,918)	(6,742)	(6,083)	(6,734)
Other income/expense	7,582	10,523	5,823	6,742	5,768	6,173
Pre-tax profit	165,578	59,550	89,185	125,206	138,129	148,482
Income tax	(29,278)	(26,815)	(15,549)	(22,537)	(27,626)	(29,696)
Others	6,984	14,344	(8,063)	8,668	9,439	10,101
After tax profit	143,284	47,079	65,573	111,337	119,942	128,886
Minority interest	7,294	15,170	7,210	7,705	8,391	8,978
Others	(270)	(290)	(274)	0	0	0
Net profit	150,308	61,959	72,509	119,042	128,333	137,865
Adjusted net profit	178,954	143,515	143,991	163,346	175,529	187,246

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Current assets	643,360	638,535	697,966	909,096	1,021,467	1,177,434
Cash & equivalents	321,262	189,898	193,086	394,893	495,289	641,279
Restricted cash	35,207	37,455	36,424	36,424	36,424	36,424
Prepayment	124,708	145,995	137,072	146,395	158,371	168,347
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	1,140,962	1,184,494	1,228,274
PP&E	147,412	171,806	176,031	244,702	269,274	295,363
Investment in JVs & assos	200,189	219,642	207,380	203,786	200,963	198,802
Intangibles	70,833	59,231	46,913	118,932	137,500	155,186
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	59,714	62,929	65,094
Total assets	1,690,218	1,695,553	1,753,044	2,050,058	2,205,961	2,405,708
Current liabilities	377,358	383,784	385,351	428,366	423,792	452,902
Short-term borrowings	3,606	8,841	7,466	8,320	9,074	9,725
Tax payable	25,275	21,753	12,543	19,833	23,482	24,351
Other current liabilities	87,337	81,730	89,392	94,264	102,812	110,190
Accrued expenses	261,140	271,460	275,950	305,949	288,423	308,636
Non-current liabilities	229,226	229,576	244,772	223,660	229,585	235,422
Long-term borrowings	38,335	38,244	52,023	52,023	51,186	51,186
Deferred income	3,158	3,490	3,560	3,967	4,327	4,637
Other non-current liabilities	187,733	187,842	189,189	167,670	174,073	179,599
Total liabilities	606,584	613,360	630,123	652,026	653,377	688,323
Share capital	1	1	1	1	1	1
Capital surplus	394,308	410,506	416,880	561,748	596,359	632,273
Retained earnings	554,924	563,557	599,028	718,070	846,403	984,268
Other reserves	(3,090)	(15,930)	(16,394)	2,511	2,511	2,511
Total shareholders equity	946,143	958,134	999,515	1,282,330	1,445,274	1,619,052
Minority interest	137,491	124,059	123,406	115,701	107,311	98,332
Total equity and liabilities	1,690,218	1,695,553	1,753,044	2,050,058	2,205,961	2,405,708

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	165,578	59,550	89,185	125,206	138,129	148,482
Depreciation & amortization	47,909	48,065	31,661	33,239	41,504	42,372
Tax paid	(29,278)	(26,815)	(15,549)	(22,537)	(27,626)	(29,696)
Change in working capital	50,297	(18,150)	9,395	64,266	(16,827)	19,504
Others	(2,720)	80,109	85,060	36,220	37,681	38,563
<b>Net cash from operations</b>	<b>231,786</b>	<b>142,759</b>	<b>199,752</b>	<b>236,393</b>	<b>172,861</b>	<b>219,225</b>
<b>Investing</b>						
Capital expenditure	(41,450)	(3,412)	(4,343)	(4,816)	(5,244)	(5,612)
Acquisition of subsidiaries/ investments	(1,735)	(15)	(29,664)	(31,154)	(31,154)	(31,154)
Net proceeds from disposal of short-term investments	(114,826)	(106,984)	69,978	0	0	0
Others	(86,183)	(88,181)	(171,476)	(35,894)	(35,983)	(37,120)
<b>Net cash from investing</b>	<b>(244,194)</b>	<b>(198,592)</b>	<b>(135,506)</b>	<b>(71,864)</b>	<b>(72,382)</b>	<b>(73,885)</b>
<b>Financing</b>						
Net borrowings	32,008	0	0	0	0	0
Proceeds from share issues	175	109	6,374	0	0	0
Share repurchases	(773)	(61,225)	0	0	0	0
Others	(1,328)	(3,333)	(71,993)	854	(83)	651
<b>Net cash from financing</b>	<b>30,082</b>	<b>(64,449)</b>	<b>(65,619)</b>	<b>854</b>	<b>(83)</b>	<b>651</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	345,982	356,469	227,353	229,510	394,893	495,289
Exchange difference	(7,187)	(8,834)	3,530	0	0	0
<b>Cash at the end of the year</b>	<b>356,469</b>	<b>227,353</b>	<b>229,510</b>	<b>394,893</b>	<b>495,289</b>	<b>641,279</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
Revenue	na	18.9%	1.8%	10.9%	8.9%	7.0%
Gross profit	na	5.9%	1.7%	9.9%	8.6%	6.7%
Operating profit	na	(22.3%)	44.1%	17.1%	10.7%	7.9%
Net profit	na	(58.8%)	17.0%	64.2%	7.8%	7.4%
Adj. net profit	na	(19.8%)	0.3%	13.4%	7.5%	6.7%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
Gross profit margin	41.3%	36.8%	36.7%	36.4%	36.3%	36.2%
Operating margin	12.5%	8.2%	11.6%	12.2%	12.4%	12.5%
Adj. net profit margin	24.9%	16.8%	16.6%	17.0%	16.7%	16.7%
Return on equity (ROE)	na	6.5%	7.4%	10.4%	9.4%	9.0%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
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	2.4	2.6
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
P/E	30.2	46.5	23.0	15.1	14.0	13.0
P/E (diluted)	30.7	47.0	23.2	15.2	14.1	13.1
P/B	4.9	3.0	1.7	1.4	1.2	1.1
P/CFPS	24.2	20.9	8.6	7.8	10.8	8.5

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

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