

# Alibaba (BABA US)

## Key takeaways from 2019 Investor Day

With FY20E financial guidance unchanged, mgmt. emphasized on lower-tier cities penetration, synergies and efficiency gains in Alibaba 2019 Investor Day. We are positive to see its robust user metrics, stronger focus on synergies and efficiency gains, with 5-year goal of RMB10tn+ GMV from 1bn+ annual active customers. Maintain BUY with TP and earnings unchanged.

- FY20E topline guidance unchanged.** We attended Alibaba 2019 Investor Day, where mgmt. emphasized on lower-tier cities penetration, synergies and efficiency gains. Mgmt maintained its FY20E revenue guidance (over RMB500bn, 33%+ YoY), and aimed to achieve RMB10tn+ GMV from 1bn+ annual active customers in 5 years. We still keep confident on Alibaba's secular growth driven by robust core commerce and ecosystem synergies with continuous investments.
- 33% Ant Financial acquisition to complete.** Ali announced the acquisition of 33% stake in Ant Financial to complete on the investor day. After that, Alibaba will take 33% of Ant's after-tax income from 37.5% profit sharing, with little financial impact from this transaction. As the global leader in digital finance, Ant financial will leverage its huge user scale (e.g. 900mn Alipay AAU in China), production innovation and cutting-edge technology to fuel strong consumer adoption.
- Key themes: low-tier cities penetration, synergies and efficiency gains.** Alibaba grouped Taobao and Tmall to elaborate the marketplace growth at scale, backed by solid user metrics (e.g. DAU acceleration). Ali emphasized lower-tier cities penetration, with consumers from less-developed areas accounting for 70% of net adds. We are impressed by its 40% user penetration in less-developed countries and new consumers ARPU of over RMB2,000 there in FY18&19, suggesting still ample room for its user expansion and ARPU improvement. Besides, we expect more cross-selling opportunities and ecosystem synergies to unlock its growth potential with stronger user loyalty.
- Maintain BUY.** We kept our financial forecasts unchanged, with SOTP-based TP of **US\$224.1 (26x FY21E P/E)**. We view Alibaba as our top pick, backed by solid earnings growth and reasonable valuation. Further potential catalysts: 1) dual listing in HK; and 2) ecosystem synergies.

### Earnings Summary

(YE 31 Mar)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	250,266	376,844	506,599	652,181	814,903
YoY growth (%)	58.1	50.6	34.4	28.7	25.0
Net income (RMB mn)	83,214	93,407	117,422	156,574	201,101
EPS (RMB)	32.9	38.0	46.7	59.5	70.9
YoY growth (%)	40.3	15.6	23.0	27.2	19.2
P/E (x)	37.4	32.3	26.3	20.7	17.3
P/B (x)	7.3	5.2	4.6	3.9	3.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	19.5	16.2	17.3	18.9	19.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

**BUY (Maintain)**

Target Price	US\$224.1
(Previous TP)	US\$224.1)
Up/Downside	+27.6%
Current Price	US\$175.5

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	457,304
Avg 3 mths t/o (US\$ mn)	2,728.5
52w High/Low (US\$)	196/130
Total Issued Shares (mn)	2,604

Source: Bloomberg

### Shareholding Structure

SoftBank	28.8%
Altaba Inc	14.8%
Ma Jack Yun	5.1%

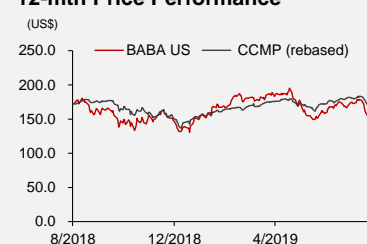
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	6.7%	3.2%
6-mth	5.9%	4.1%
12-mth	-1.7%	-6.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PwC**

### Related Reports

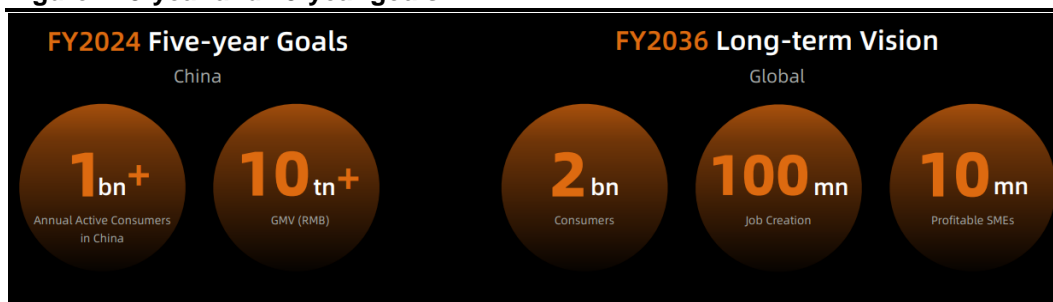
- Another strong quarter with all-round beat – 16 Aug 2019
- 4QFY19 beat; Focusing on lower-tier cities – 16 May 2019
- Solid 3QFY19 with margin surprise – 31 Jan 2019

## FY20E topline guidance unchanged

**FY20E topline guidance unchanged.** We attended Alibaba 2019 Investor Day, where mgmt. reiterated “to make it easy to do business anywhere in the digital era” as company mission. Mgmt maintained its FY20E revenue guidance (over RMB500bn), with organic growth +33% YoY. Despite little financial surprise and macro headwinds, we still keep confident on Alibaba’s secular growth driven by robust core commerce, ecosystem synergies with continuous investments.

**5-year goal targeting RMB10tn+ GMV from 1bn+ annual active customers.** Mgmt elaborated its 5-year goal at RMB10tn+ GMV (at 12% CAGR in FY19-24E) and 1bn+annual active consumers, and 15-year goal at 2bn consumers, 100mn job creation and 10mn profitable SMEs.

**Figure 1: 5-year and 15-year goals**



Source: Alibaba Investor Day 2019

**Figure 2: SOTP valuation**

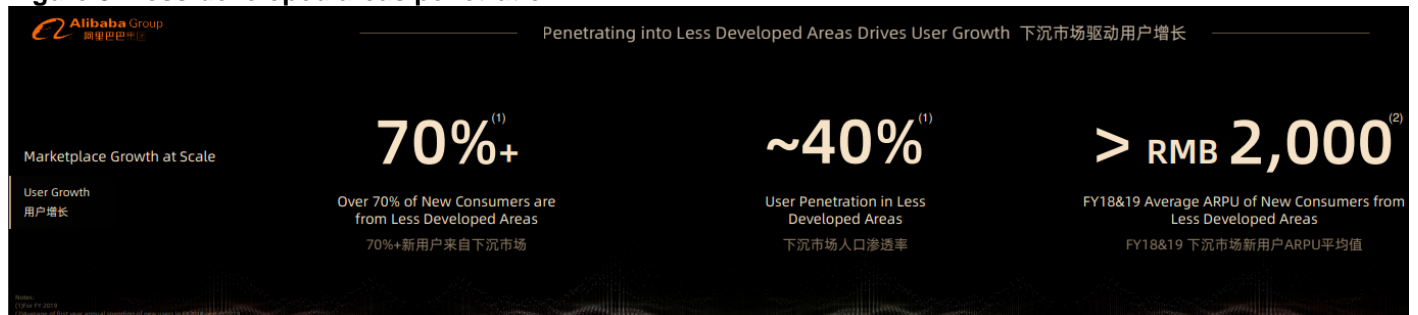
US\$bn	Valuation		Methodology	Multiple Applied	Metrics
	US\$bn	Per share(US\$)			
Core Commerce	456.1	173.0	EV/EBITA	16.0	28.5
Cloud	48.5	18.4	P/S	8.0	6.1
Others	86.2	32.7			
Digital Entertainment	14.4	5.5	P/S	3.5	4.1
Innovations	2.7	1.0	P/S	3.0	0.9
Strategic Investments	60.9	23.1	SoTP for all investments		
Net (Debt)/Cash	8.2	3.1	Cash forecasted on Balance sheet		
<b>Equity Value</b>	<b>591</b>	<b>224.1</b>			

Source: CMBIS estimates

## Key themes: lower-tier cities penetration, synergies and efficiency gains.

**Still ample room for low-tier cities penetration.** Alibaba grouped Taobao and Tmall to elaborate the marketplace growth at scale, backed by solid user metrics (e.g. DAU acceleration). Alibaba emphasized lower-tier cities penetration, with consumers from less-developed areas accounting for 70% of net adds. We are impressed by its 40% user penetration in less-developed countries and new consumers ARPU there in FY18&19 over 2,000, suggesting still ample room for its user expansion and ARPU improvement. Backed by enriched product offerings, multi-channel ways to engage users, and ecosystem partners, mgmt showed confidence in lower-tier cities penetration, despite existing competition.

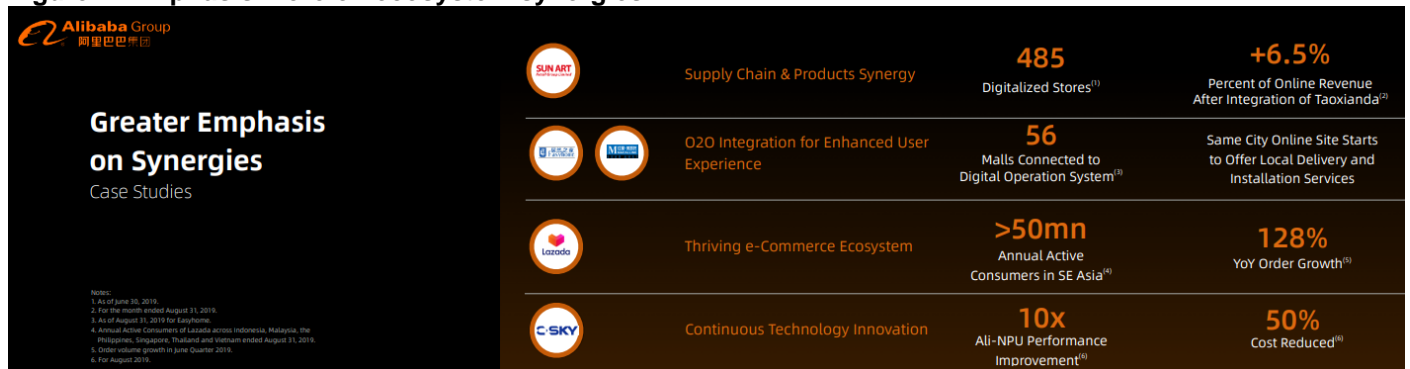
**Figure 3: Less-developed areas penetration**



Source: Alibaba Investor Day 2019

**Emphasis more on ecosystem synergies.** We still see high visibility for its cross-selling and ecosystem synergies to be unlocked, in collaboration with partners and investees. For instance, the overlap of Youku subscribers/local services with China retail marketplace were only 12%/25%. Mgmt expect greater synergies to ensure user loyalty, and thus boost user value and retention.

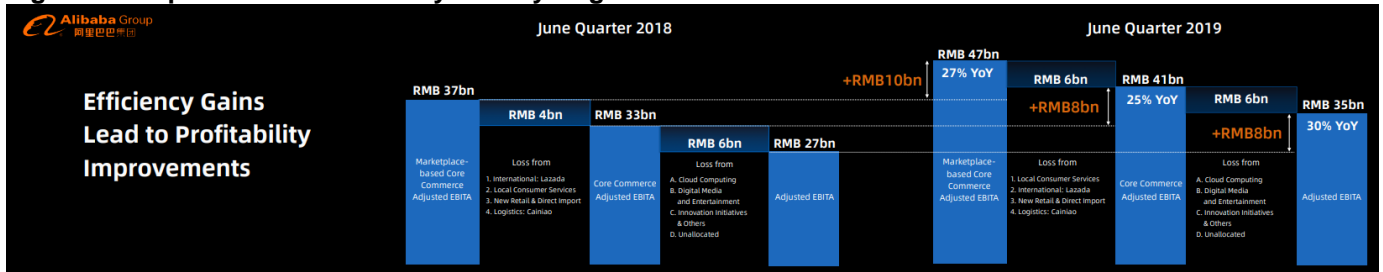
**Figure 4: Emphasis more on ecosystem synergies**



Source: Alibaba Investor Day 2019

**Efficiency gains to improve profitability.** Despite continuous investment ahead, we keep confident on its efficiency improvement on consumer acquisition, productivity and content acquisition, which will drive better profitability growth in the long run. For instance, S&M spending for each dollar of revenue decreased from US\$0.11 in 1QFY19 to US\$0.09 in 1QFY20. Mgmt also stated that margin pressure in the past few quarters mainly came from revenue mix change.

**Figure 5: Emphasis more on ecosystem synergies**

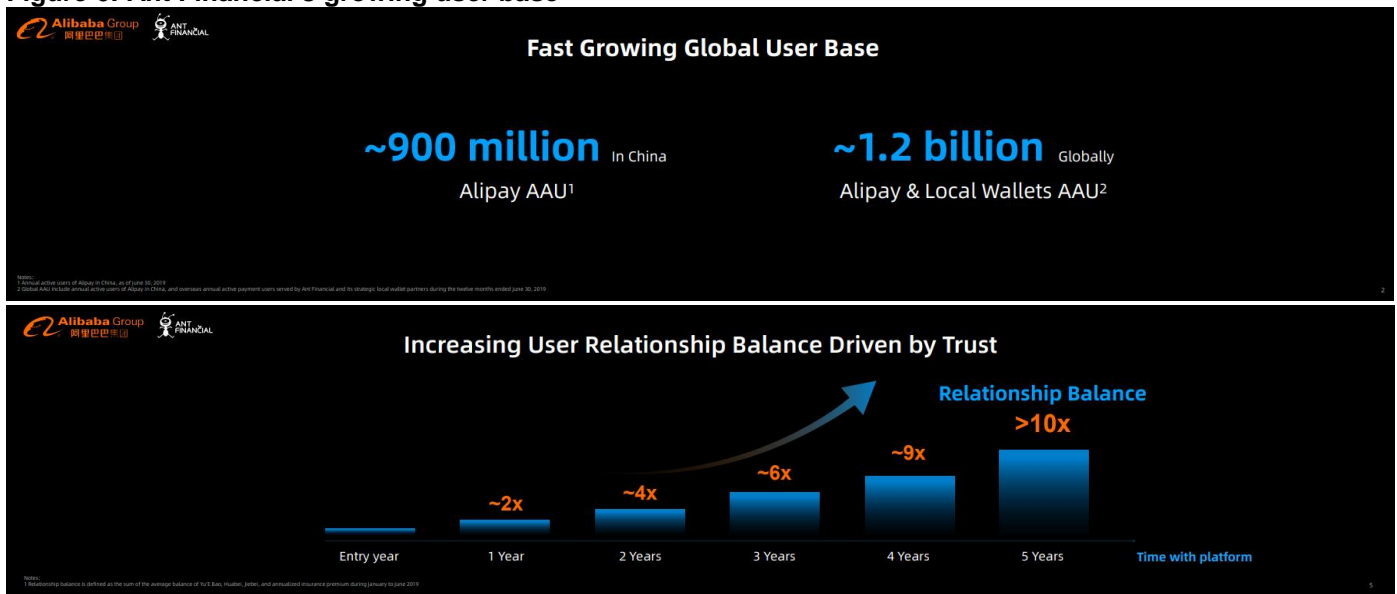


Source: Alibaba Investor Day 2019

## Completion of 33% Ant Financial acquisition

Ali announced the acquisition of 33% stake in Ant Financial to complete on the investor day. After that, Alibaba will take 33% of its Ant's after-tax income from 37.5% profit sharing (cash payment), with little financial impact from this transaction. As the global leader in digital finance, Ant financial will leverage its huge user scale (e.g. 900mn Alipay AAU in China, 740mn consumers of digital finance products), production innovation and cutting-edge technology to fuel strong consumer adoption.

**Figure 6: Ant Financial's growing user base**



Source: Alibaba Investor Day 2019

## Cloud Intelligence: beyond IaaS

**China cloud market: still low penetration.** After strong growth of cloud market in China, mgmt. is still bullish on its growth potential, mainly on: 1) China's public cloud penetration still at 10% in 2018, lower than 22% for US market, and 2) China IT spending/GDP still lagged behind US market, suggesting huge prospects for cloud adoption.

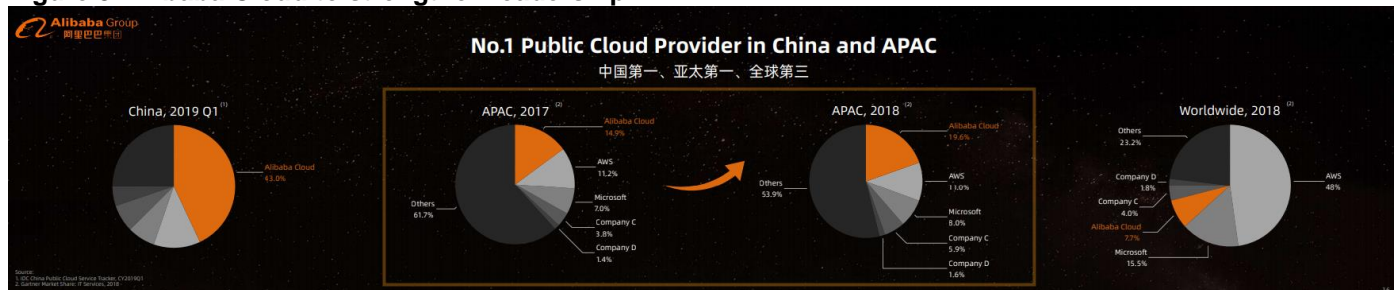
**Figure 7: China cloud market with huge prospects**



Source: Alibaba Investor Day 2019

**Pioneering the cloud market, with four key differentiators.** Alibaba Cloud continuously led China cloud market, with 20% market share in 2018 (vs. 15% in 2017). Looking forward, we see high visibility for it to gain shares, backed by its overseas expansion and competitive edge in infrastructure, decision-making process, business architecture with data and operation platform, and intelligently connected ecosystem. Regarding the competition with Huawei, mgmt. stated that Alibaba Cloud differentiated itself with diversified solutions, rather than IT focus.

**Figure 8: Alibaba Cloud to strengthen leadership**



Source: Alibaba Investor Day 2019

**Beyond IaaS.** Mgmt stated limitations for IaaS, but PaaS and SaaS still at developing stage. With diversified service expansion, we expect AliCloud to attract more customers from a broader spectrum of industries. By leveraging its accumulated user data, Alibaba will also continuously expand its PaaS and SaaS solutions for deeper cooperation in the upcoming IoT era.

## Financial Summary

### Income statement

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>250,266</b>	<b>376,844</b>	<b>506,599</b>	<b>652,181</b>	<b>814,903</b>
Core commerce	214,020	323,400	429,139	542,357	663,178
Cloud	13,390	24,702	42,440	68,345	103,803
DME	19,564	24,077	28,798	33,598	38,357
Others	3,292	4,665	6,222	7,882	9,565
<b>COSG</b>	<b>(107,044)</b>	<b>(206,929)</b>	<b>(277,363)</b>	<b>(355,439)</b>	<b>(444,122)</b>
<b>Gross profit</b>	<b>143,222</b>	<b>169,915</b>	<b>229,236</b>	<b>296,742</b>	<b>370,781</b>
R&D	(22,754)	(37,435)	(48,127)	(61,957)	(77,416)
S&M	(27,299)	(39,780)	(53,193)	(68,479)	(85,565)
Admin. Expense	(16,241)	(24,889)	(30,396)	(39,131)	(44,820)
Other income	(7,614)	(10,727)	(14,378)	(18,837)	(22,761)
<b>Operating profit</b>	<b>69,314</b>	<b>57,084</b>	<b>83,143</b>	<b>108,338</b>	<b>140,220</b>
Interest exp	(3,566)	(5,190)	(5,709)	(6,280)	(6,908)
Associates	30,495	44,106	52,927	63,513	76,215
Others	4,160	221	1,000	1,000	1,000
<b>Pre-tax profit</b>	<b>100,403</b>	<b>96,221</b>	<b>131,361</b>	<b>166,571</b>	<b>210,527</b>
Equity investees	(20,792)	566	566	566	566
Tax	(18,199)	(16,553)	(31,527)	(39,977)	(50,526)
<b>Net profit</b>	<b>61,304</b>	<b>79,948</b>	<b>100,400</b>	<b>127,160</b>	<b>160,566</b>
<b>Non-GAAP NI</b>	<b>83,214</b>	<b>93,407</b>	<b>17,022</b>	<b>29,415</b>	<b>40,535</b>

### Cash flow summary

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net income</b>	<b>61,412</b>	<b>80,234</b>	<b>100,400</b>	<b>127,160</b>	<b>160,566</b>
D&A	34,316	60,337	60,668	74,292	86,095
Change in WC	38,936	50,241	23,542	28,251	33,901
Others	(9,493)	(39,837)	(4,092)	(3,987)	(4,140)
<b>Operating CF</b>	<b>125,171</b>	<b>150,975</b>	<b>180,519</b>	<b>225,716</b>	<b>276,423</b>
Capex	(118,582)	(215,995)	(226,810)	(238,707)	(251,794)
Associates	38,529	67,212	0	0	0
Others	(3,837)	(2,277)	0	0	0
<b>Investing CF</b>	<b>(83,890)</b>	<b>(151,060)</b>	<b>(226,810)</b>	<b>(238,707)</b>	<b>(251,794)</b>
Equity raised	0	0	0	0	0
Change of Debts	(17,818)	31,548	0	0	0
Dividend paid	0	0	0	0	0
Others	38,177	(40,796)	0	0	0
<b>Financing CF</b>	<b>20,359</b>	<b>(9,248)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in cash</b>	<b>61,640</b>	<b>(9,333)</b>	<b>(46,292)</b>	<b>(12,992)</b>	<b>24,628</b>
Cash (beg of yr)	143,736	199,309	189,976	143,684	130,693
FX	(6,067)	3,245	0	0	0
<b>Cash (end of yr)</b>	<b>199,309</b>	<b>193,221</b>	<b>143,684</b>	<b>130,693</b>	<b>155,321</b>

### Balance sheet

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>NC assets</b>	<b>460,269</b>	<b>694,803</b>	<b>883,439</b>	<b>1,073,385</b>	<b>1,266,491</b>
Fixed asset	66,489	92,030	160,179	196,630	229,738
Associates	139,700	84,454	84,454	84,454	84,454
Land use-right	9,377	28,018	0	0	0
Intangible assets	189,614	333,211	481,716	635,211	795,209
Others	55,089	157,090	157,090	157,090	157,090
<b>Current assets</b>	<b>256,855</b>	<b>270,273</b>	<b>235,699</b>	<b>236,769</b>	<b>278,272</b>
Cash	199,309	189,976	143,684	130,693	155,321
Account receivable	46,645	67,108	78,826	92,888	109,762
Other	10,901	13,189	13,189	13,189	13,189
<b>Current liabilities</b>	<b>135,810</b>	<b>207,669</b>	<b>231,211</b>	<b>259,462</b>	<b>293,363</b>
Borrowings	6,028	22,466	22,466	22,466	22,466
Trade & payables	84,218	125,961	149,503	177,754	211,655
Income tax	13,689	17,685	17,685	17,685	17,685
Other	31,875	41,557	41,557	41,557	41,557
<b>NC liabilities</b>	<b>141,875</b>	<b>142,005</b>	<b>142,005</b>	<b>142,005</b>	<b>142,005</b>
Borrowings	34,153	35,427	35,427	35,427	35,427
Deferred taxation	19,312	22,517	22,517	22,517	22,517
Other	88,410	84,061	84,061	84,061	84,061
Mezzanine equity	3,001	6,819	6,819	6,819	6,819
<b>Total Equity</b>	<b>436,438</b>	<b>608,583</b>	<b>704,001</b>	<b>831,664</b>	<b>997,270</b>
MI	70,616	116,326	110,544	108,810	119,308
<b>S/H equity</b>	<b>365,822</b>	<b>492,257</b>	<b>593,457</b>	<b>722,854</b>	<b>877,963</b>

### Key ratios

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Core commerce	85.5	85.8	84.7	83.2	81.4
Cloud	5.4	6.6	8.4	10.5	12.7
DME	7.8	6.4	5.7	5.2	4.7
Others	1.3	1.2	1.2	1.2	1.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profitability (%)</b>					
Gross margin	57.2	45.1	45.3	45.5	45.5
PreTax margin	40.1	25.5	25.9	25.5	25.8
Tax rate	-7.3	-4.4	-6.2	-6.1	-6.2
Adj. net margin	34.3	26.4	24.3	24.3	23.4
<b>Balance sheet</b>					
Current ratio (x)	1.9	1.3	1.0	0.9	0.9
Debtors turnover	52.7	49.3	46.4	43.3	41.6
Creditors turnover	218.8	175.4	170.4	159.6	153.2
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROE	19.5	16.2	17.3	18.9	19.0
ROA	11.6	9.7	10.5	12.0	13.0
<b>Per share data</b>					
Adj. EPS (RMB)	32.9	38.0	46.7	59.5	70.9
DPS (RMB)		0.0	0.0	0.0	0.0
BVPS (RMB)	168.4	234.6	269.6	314.9	373.4

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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