

Alibaba (BABA US)

Strong cloud business development prospects

Alibaba's 4QFY26 revenue was RMB243.4bn, up 3% YoY, 1% below Bloomberg consensus but 0.4% ahead of our prior forecast. Adjusted EBITA for the quarter was RMB5.1bn, down 84% YoY, mainly due to investments in technology businesses, quick commerce, and user experience, but was 7% ahead of our forecast. For FY26, total revenue grew 3% YoY, while adjusted EBITA declined 56% YoY. Cloud business development remains a bright spot, with YoY revenue growth accelerating to 38% in 4QFY26 from 36% in 3QFY26. We remain positive that Alibaba is one of the key beneficiaries of the AI theme within our coverage universe. Supported by strong demand, we are positive on further acceleration in cloud revenue growth especially Model-as-a-Service (MaaS) related services, as well as margin expansion, which we believe should support a valuation rerating of Alibaba. In addition, the quick commerce (QC) business remains on track to halve its operating loss in FY27E and achieve breakeven in FY29E, which we believe could create more room for Alibaba to invest in AI business deployment. We roll forward our valuation window to FY27E, and our SOTP-based target price rises to US\$220.1 from US\$206.1, implying 23x FY28E non-GAAP P/E. Maintain BUY.

■ **Strong development outlook for cloud business.** Cloud Intelligence Group (CIG) delivered 38% YoY revenue growth in 4QFY26, while cloud revenue excluding Alibaba-consolidated subsidiaries increased by 40% YoY. In 4QFY26, management highlighted that: 1) AI-related revenue accounted for 30% of external cloud revenue, with its annual run rate reaching RMB35.8bn, and management expects AI revenue to exceed 50% of external revenue in about one year; and 2) AI model and application services (mainly MaaS API revenue and AI native SaaS subscription) ARR recently surpassed RMB8bn, with management expecting the figure to reach RMB10bn by June 2026 and RMB30bn by end-2026. CIG's adjusted EBITA margin came in at 9.1% in 4QFY26, up 1.1ppt YoY, driven by an increased revenue contribution from MaaS, which has a higher margin than the segment average, as well as greater scale benefits. Mgmt. expects a notable sequential improvement in the cloud business margin profile in 1HFY27 driven by the aforementioned factors and price hike, and reiterated its medium- to long-term target of a 20% adjusted EBITA margin for CIG.

■ **UE of QC to turn positive in certain months within FY27.** Within Alibaba China E-commerce Group (ACEG), CMR grew 1% YoY in 4QFY26, or 8% on a like-for-like basis excluding the impact from the change in accounting treatment. Although adjusted EBITA for ACEG declined 40% YoY in 4QFY26 due to investment in QC, management noted that EBITA for the conventional e-commerce business was stable YoY excluding the investment impact. Management expects QC UE to turn positive in certain months during FY27. We maintain our forecast that total losses from QC could narrow to RMB44bn in FY27E and further halve in FY28E, driven by optimization of order mix and user subsidies, as well as improvements in operating efficiency, before reaching breakeven in FY29E.

BUY (Maintain)

Target Price	US\$220.10
(Previous TP)	US\$206.10)
Up/Downside	50.9%
Current Price	US\$145.81

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Stock Data

Mkt Cap (US\$ mn)	350,581.9
Avg 3 mths t/o (US\$ mn)	730.2
52w High/Low (US\$)	189.34/103.83
Total Issued Shares (mn)	2404.4

Source: FactSet

Shareholding Structure

JPMorgan	2.3%
Parufam Limited	0.8%

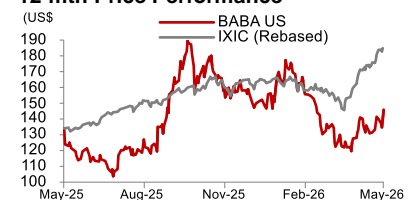
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	11.0%	-0.6%
3-mth	-6.4%	-20.0%
6-mth	-5.2%	-17.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Mar)	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (RMB mn)	996,347	1,023,670	1,116,087	1,238,050	1,376,082
YoY growth (%)	5.9	2.7	9.0	10.9	11.1
Net profit (RMB mn)	129,470.0	105,904.0	77,643.6	130,598.0	176,120.6
Adjusted net profit (RMB mn)	157,940.0	64,438.0	98,224.1	152,189.4	198,743.2
YoY growth (%)	(0.3)	(59.2)	52.4	54.9	30.6
EPS (Adjusted) (RMB)	67.24	27.76	42.75	66.90	88.25
Consensus EPS (RMB)	na	32.43	49.24	68.97	101.38
P/E (x)	18.0	21.7	29.3	17.2	12.7

Source: Company data, Bloomberg, CMBIGM estimates

Key business segment updates

ACEG (46.2% of 4QFY26 revenue)

In 4QFY26, revenue generated from ACEG was RMB122.2bn, up 6% YoY. Within the segment, E-commerce/QC/China Commerce revenue changed by -1%/57%/3% YoY, respectively. Within the E-commerce sub-segment, CMR and Direct Sales, Logistics & Others delivered revenue growth of 1% and -6% YoY, respectively.

For QC, management remained focused on maintaining stable market share while improving unit economics, with an increasing focus on high-value food orders and non-food categories. Both UE and AOV continued to improve. Management expects UE to turn positive in certain months during FY27. We maintain our forecast that total losses from QC could narrow to RMB44bn in FY27E from RMB88bn in FY26E, based on CMBI estimates, and further halve in FY28E, driven by optimization of order mix and user subsidies, as well as improvements in operating efficiency, before reaching breakeven in FY29E.

Adjusted EBITA for the segment was RMB24.0bn in 4QFY26, down 40% YoY, primarily due to investments in quick commerce, user experience, and technology.

AIDC (13.4% of 4QFY26 revenue)

In 4QFY26, revenue generated from Alibaba International Digital Commerce Group (AIDC) was RMB35.4bn, up 6% YoY. International commerce retail revenue increased by 5% YoY, driven by higher revenue contributions from AliExpress and other international businesses, while international commerce wholesale revenue increased by 9% YoY, due to higher revenue generated from cross-border-related value-added services.

Adjusted EBITA for AIDC was a loss of RMB138mn in 4QFY26, improving from a loss of RMB3.6bn in 4QFY25, thanks to significant improvement in AliExpress' operating efficiency and enhanced efficiency across various businesses.

CIG (15.7% of 4QFY26 revenue)

Revenue from CIG came in at RMB41.6bn in 4QFY26, up 38% YoY, primarily driven by public cloud revenue growth, including increasing adoption of AI-related products. Overall revenue excluding Alibaba-consolidated subsidiaries increased by 40% YoY.

Management remains constructive on CIG, citing accelerating external cloud revenue growth and eleven consecutive quarters of triple-digit AI-related revenue growth, while continuing to invest in AI cloud infrastructure and innovation. Management expects AI-related product revenue to exceed 50% of external commercial revenue in FY27, becoming the key growth driver for CIG.

Adjusted EBITA for CIG was RMB3.8bn in 4QFY26, up 57% YoY, driven by revenue growth and improving operating efficiency. Adjusted EBITA margin came in at 9.1%, versus 8.0% in 4QFY25.

All others (24.7% of 4QFY26 revenue)

Revenue from the All Others segment was RMB45.5bn in 4QFY26, down 21% YoY, primarily due to revenue declines following the disposals of Sun Art and Intime, as well as lower revenue from Cainiao, partly offset by higher revenue from Freshippo and Alibaba Health.

Adjusted EBITA from the All Others segment was a loss of RMB21.2bn in 4QFY26, compared with a loss of RMB3.4bn in 4QFY25, primarily due to increased investment in technology businesses, partly offset by improved results from Cainiao, Hujing Digital Media and Entertainment Group, and other businesses.

Revision of forecast and valuation

We trim our FY27E/28E revenue forecasts by 1% each to factor in the lower CMR forecast due to the change in accounting treatment, as well as lower revenue forecasts for the Direct Sales, Logistics and Others segment. Accordingly, we lower our FY27E/28E non-GAAP net profit forecasts by 0–1%.

Figure 1: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	1,116.1	1,238.0	1,376.1	1,130.1	1,256.0	-	-1.2%	-1.4%	-
Gross profit	444.3	492.9	547.8	461.1	512.5	-	-3.6%	-3.8%	-
Non-GAAP net profit	98.2	152.2	198.7	98.5	153.4	-	-0.3%	-0.8%	-
Gross margin	39.8%	39.8%	39.8%	40.8%	40.8%	-	-1.0 ppt	-1.0 ppt	-
Non-GAAP net margin	8.8%	12.3%	14.4%	8.7%	12.2%	-	0.1 ppt	0.1 ppt	-

Source: CMBIGM estimates

Figure 2: Alibaba: CMBI forecast vs Bloomberg consensus

RMB bn	Current			Consensus			Diff (%)		
	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	1,116.1	1,238.0	1,376.1	1139.6	1277.4	1461.2	-2.1%	-3.1%	-5.8%
Gross Profit	444.3	492.9	547.8	454.9	521.9	630.5	-2.3%	-5.6%	-13.1%
Non-GAAP net profit	98.2	152.2	198.7	113.4	152.6	209.3	-13.4%	-0.3%	-5.0%
Gross Margin	39.8%	39.8%	39.8%	39.9%	40.9%	43.1%	-0.1 ppt	-1.0 ppt	-3.3 ppt
Non-GAAP net margin	8.8%	12.3%	14.4%	9.9%	11.9%	14.3%	-1.1 ppt	0.3 ppt	0.1 ppt

Source: Bloomberg, CMBIGM estimates

Valuation: target price of US\$220.1 per ADS

Our SOTP valuation is raised by 7% to US\$220.1 per ADS from US\$206.1, as we roll forward our valuation base to FY27E. The valuation comprises:

- 1) US\$93.1 per ADS for ACEG, based on 12.0x FY28E EV/adjusted EBITA, discounted back to FY27E at a WACC of 11.0% (vs. US\$78.5 previously, based on 12.0x FY28E EV/adjusted EBITA discounted back to FY26E). The increase in target valuation is mainly driven by the roll-forward of our valuation base to FY27E;
- 2) US\$14.1 per ADS for AIDC, based on an unchanged 1.5x EV/revenue multiple applied to our FY27E revenue forecast (vs. US\$12.5 previously, based on a 1.5x EV/revenue multiple applied to FY26E revenue);
- 3) US\$85.6 per ADS for Cloud Intelligence Group, based on a 6.0x EV/revenue multiple applied to FY27E revenue (vs. US\$89.9 previously, based on a 7.5x EV/revenue multiple applied to FY26E revenue). We lower the target multiple to better align with global peers;
- 4) US\$16.2 per ADS for All Others (vs. US\$14.6 previously), based on an unchanged 1.0x EV/revenue multiple applied to our FY27E revenue forecast;
- 5) US\$11.2 per ADS for strategic investments (was US\$10.6), after applying a 30% holding-company discount.

Our new SOTP-based target price implies 23x FY28E non-GAAP P/E.

Figure 3: Alibaba: SOTP valuation

#	Segment (USDmn)	Valuation method	Rev (USDmn)	Adj. EBITA post tax (USDmn)	P/E (x)	EV/S (x)	Val. Rmb mn	Val. US\$m	\$/share	Value split
1	Alibaba China E-commerce Group	12x FY28E EV/EBITA; assume 20% tax rate on adjusted EBITA; discount back with 11% WACC		20,498	12.0		1,506,871	221,599	93.1	42%
2	International Digital Commerce Group	1.5x FY27E EV/S	22,417			1.5	228,654	33,626	14.1	6%
3	Cloud Intelligence Group	6.0x FY27E EV/S on revenue before intersegment elimination	33,952			6.0	1,385,236	203,711	85.6	39%
4	All others	1.0x FY27E EV/S	38,529			1.0	261,998	38,529	16.2	7%
Total Alibaba business							3,382,760	497,465	209.0	
INVESTMENTS										
1	Ant Group	Last round share buyback valuation; 33% share holding					187,143	27,521	11.6	
2	Others	Market valuation					70,876	10,423	4.4	
Total investment (with 30% holding discount)									11.2	5%
Total									220.1	
#s of diluted ADS (mn)									2,380	

Source: CMBIGM estimates

Risks

- 1) Investments for driving business growth pose a more severe impact on margin than we expect;
- 2) Consumption recovery takes longer than we expect.

Financial Summary

INCOME STATEMENT	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar (RMB mn)						
Revenue	941,168	996,347	1,023,670	1,116,087	1,238,050	1,376,082
Cost of goods sold	(586,323)	(598,285)	(616,136)	(671,761)	(745,169)	(828,249)
Gross profit	354,845	398,062	407,534	444,326	492,881	547,833
Operating expenses	(241,495)	(257,157)	(357,384)	(371,046)	(348,452)	(346,020)
SG&A expense	(157,126)	(188,260)	(278,105)	(279,376)	(248,002)	(235,746)
R&D expense	(52,256)	(57,151)	(66,533)	(70,313)	(76,759)	(83,941)
Others	(32,113)	(11,746)	(12,746)	(21,357)	(23,691)	(26,332)
Operating profit	113,350	140,905	50,150	73,280	144,428	201,814
Interest income	(9,964)	20,759	87,512	27,902	28,475	31,650
Interest expense	(7,947)	(9,596)	(9,793)	(10,119)	(11,225)	(12,476)
Other income/expense	6,157	3,387	1,518	1,655	1,836	2,041
Pre-tax profit	101,596	155,455	129,387	92,718	163,515	223,028
Income tax	(22,529)	(35,445)	(30,045)	(22,252)	(40,879)	(55,757)
Others	(7,735)	5,966	2,785	5,580	6,190	6,880
After tax profit	71,332	125,976	102,127	76,046	128,826	174,151
Minority interest	8,677	4,133	1,465	1,597	1,772	1,969
Others	(268)	(639)	2,312	0	0	0
Net profit	79,741	129,470	105,904	77,644	130,598	176,121
Adjusted net profit	158,359	157,940	64,438	98,224	152,189	198,743
BALANCE SHEET						
YE 31 Mar (RMB mn)						
Current assets	752,864	674,049	610,769	643,771	752,406	900,405
Cash & equivalents	248,125	145,487	131,530	250,072	341,773	470,719
Restricted cash	38,299	43,781	42,038	42,038	42,038	42,038
Prepayment	143,536	202,175	251,837	166,297	183,231	202,284
Financial assets at FVTPL	322,904	282,606	185,364	185,364	185,364	185,364
Non-current assets	1,011,965	1,130,178	1,298,801	1,480,733	1,592,929	1,715,889
PP&E	185,161	203,348	282,699	513,668	633,234	762,484
Investment in JVs & assos	203,131	210,169	206,803	209,017	211,842	215,356
Intangibles	26,950	20,911	16,983	(1,774)	(16,322)	(30,827)
Goodwill	259,679	255,501	247,378	247,378	247,378	247,378
Financial assets at FVTPL	220,942	356,818	449,942	449,942	449,942	449,942
Other non-current assets	116,102	83,431	94,996	62,501	66,855	71,556
Total assets	1,764,829	1,804,227	1,909,570	2,124,503	2,345,335	2,616,294
Current liabilities	421,507	435,346	476,398	439,937	499,579	561,449
Short-term borrowings	12,749	22,562	28,224	30,772	34,135	37,941
Tax payable	9,068	11,638	10,630	17,579	31,068	40,703
Other current liabilities	101,807	68,609	77,651	84,661	93,913	104,383
Accrued expenses	297,883	332,537	359,893	306,924	340,464	378,423
Non-current liabilities	230,723	278,775	306,902	319,719	336,633	355,776
Long-term borrowings	55,686	49,909	47,450	47,450	47,450	47,450
Deferred income	4,069	4,536	4,885	5,326	5,908	6,567
Other non-current liabilities	170,968	224,330	254,567	266,943	283,275	301,759
Total liabilities	652,230	714,121	783,300	759,656	836,212	917,225
Share capital	1	1	1	1	1	1
Capital surplus	397,999	381,379	385,086	264,421	279,869	295,664
Retained earnings	597,897	645,478	708,382	990,382	1,120,980	1,297,100
Other reserves	1,375	(5,287)	(24,738)	2,511	2,511	2,511
Total shareholders equity	997,272	1,021,571	1,068,731	1,257,314	1,403,361	1,595,277
Minority interest	115,327	68,535	57,539	107,534	105,762	103,793
Total equity and liabilities	1,764,829	1,804,227	1,909,570	2,124,503	2,345,335	2,616,295

CASH FLOW	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	101,596	155,455	129,387	92,718	163,515	223,028
Depreciation & amortization	44,504	42,459	42,000	42,000	42,000	42,000
Tax paid	(22,529)	(35,445)	(30,045)	(22,252)	(40,879)	(55,757)
Change in working capital	(13,749)	(23,988)	(47,724)	162,009	41,061	41,179
Others	72,771	25,028	61,880	39,080	43,842	47,573
Net cash from operations	182,593	163,509	155,498	313,555	249,539	298,024
Investing						
Capital expenditure	(32,087)	(85,972)	(122,840)	(133,930)	(148,566)	(158,249)
Acquisition of subsidiaries/ investments	(842)	0	(3,877)	(14,000)	(16,000)	(18,000)
Net proceeds from disposal of short-term investments	71,426	23,395	(73,516)	0	0	0
Others	(60,321)	(122,838)	(64,289)	3,366	3,366	3,366
Net cash from investing	(21,824)	(185,415)	(264,522)	(144,564)	(161,200)	(172,883)
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	843	10	0	0	0	0
Share repurchases	(88,745)	(86,662)	0	0	0	0
Others	(20,342)	10,437	(1,710)	2,548	3,363	3,806
Net cash from financing	(108,244)	(76,215)	(1,710)	2,548	3,363	3,806
Net change in cash						
Cash at the beginning of the year	229,510	286,424	189,268	78,533	250,072	341,773
Exchange difference	4,389	965	0	0	0	0
Cash at the end of the year	286,424	189,268	78,533	250,072	341,773	470,719
GROWTH	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar						
Revenue	8.3%	5.9%	2.7%	9.0%	10.9%	11.1%
Gross profit	11.2%	12.2%	2.4%	9.0%	10.9%	11.1%
Operating profit	13.0%	24.3%	(64.4%)	46.1%	97.1%	39.7%
Net profit	10.0%	62.4%	(18.2%)	(26.7%)	68.2%	34.9%
Adj. net profit	10.0%	(0.3%)	(59.2%)	52.4%	54.9%	30.6%
PROFITABILITY	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar						
Gross profit margin	37.7%	40.0%	39.8%	39.8%	39.8%	39.8%
Operating margin	12.0%	14.1%	4.9%	6.6%	11.7%	14.7%
Adj. net profit margin	16.8%	15.9%	6.3%	8.8%	12.3%	14.4%
Return on equity (ROE)	8.0%	12.8%	10.1%	6.7%	9.8%	11.7%
GEARING/LIQUIDITY/ACTIVITIES	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar						
Net debt to equity (x)	(0.4)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Current ratio (x)	1.8	1.5	1.3	1.5	1.5	1.6
VALUATION	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar						
P/E	31.3	18.0	21.7	29.3	17.2	12.7
P/E (diluted)	31.6	18.5	22.5	30.4	17.9	13.1
P/B	2.5	2.3	2.2	1.9	1.7	1.4
P/CFPS	16.7	30.8	72.9	13.1	23.1	16.5

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

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