

# Alibaba (BABA US)

## Quick commerce to drive loss reduction; prioritizing AI business development

For 4QFY26 (March year-end), we anticipate Alibaba Group Holding (Alibaba) will deliver revenue growth of 2% YoY to RMB241.2bn, 3% lower than Bloomberg consensus, owing to the accounting treatment adjustment in customer management revenue (CMR), and we are looking for adj. EBITA of RMB4.7bn, down 86% YoY due to investment in Quick Commerce (QC) and AI related initiatives. However, we expect Cloud Intelligence Group (CIG) to achieve 40% YoY revenue growth in 4QFY26E, accelerating from 36% in 3QFY26, driven by strong digitalization demand and we expect the acceleration trend to continue into 1QFY27, supported by price hikes. We are looking for a QoQ narrowing of losses for QC business to RMB18bn in 4QFY26. While Alibaba continues to prioritize market share, we expect total losses in QC to narrow to RMB44bn in FY27E (FY26E: CMBI estimate of RMB88bn), and to be further halved in FY28E, driven by optimization of order mix and user subsidies, as well as improvements in operating efficiency. We believe CIG revenue growth is a key driver of Alibaba's share price, and the narrowing losses of QC could support a recovery in overall net profit. We remain positive that Alibaba is one of the key beneficiaries of the AI theme within our coverage universe. We fine-tune our SOTP-based target price to US\$206.1 (from US\$203.7). Maintain BUY.

- Core e-commerce business EBITA to remain flat YoY excluding impact from QC investment.** Within Alibaba's China E-commerce Group (ACEG), we are looking for 1% YoY growth for customer management revenue (CMR). Alibaba has made some changes to accounting treatment for CMR from 4QFY26, under which certain marketing investments previously recognized as selling expenses now directly contra revenue. Excluding this impact, we expect CMR to grow 6% YoY in 4QFY26. Also, excluding QC investment impacts, we anticipate core e-commerce adjusted EBITA to be stable YoY in 4QFY26.
- Cloud revenue growth could further accelerate.** We expect 40% YoY revenue growth for CIG in 4QFY26, supported by increased adoption of AI-related products and strong digitalization demand. In addition, we estimate adjusted EBITA of RMB3.8bn for CIG in 4QFY26, translating into a 9.0% adjusted EBITA margin, flat QoQ.
- EBITA loss of All Others to double QoQ, driven by incremental investment to support AI business growth.** We estimate that the adjusted EBITA loss from the All Others segment will widen to RMB20bn in 4QFY26 (3QFY26: RMB9.8bn), due to increased investment in Qwen's promotional activities, particularly during the Spring Festival period. While we do not expect such promotional investment to be sustained, we anticipate that Alibaba will continue its R&D-related investments to enhance model capabilities and support the development of other AI-native applications. We forecast EBITA loss to reach RMB60bn in FY27E (FY26E: RMB34.6bn).

**BUY (Maintain)**

**Target Price** **US\$206.10**  
 (Previous TP) US\$203.70  
**Up/Downside** **61.4%**  
**Current Price** **US\$127.68**

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### Stock Data

Mkt Cap (US\$ mn)	306,543.7
Avg 3 mths t/o (US\$ mn)	1,415.1
52w High/Low (US\$)	189.34/103.83
Total Issued Shares (mn)	2400.9

Source: FactSet

### Shareholding Structure

JPMorgan	2.3%
Parufam Limited	0.8%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-6.7%	-7.2%
3-mth	-15.4%	-12.3%
6-mth	-19.7%	-21.9%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Earnings Summary**

<b>(YE 31 Mar)</b>	<b>FY24A</b>	<b>FY25A</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
<b>Revenue (RMB mn)</b>	941,168	996,347	1,021,507	1,128,492	1,253,780
<b>YoY growth (%)</b>	8.3	5.9	2.5	10.5	11.1
<b>Net profit (RMB mn)</b>	79,741.0	129,470.0	89,183.2	78,989.9	132,775.3
<b>Adjusted net profit (RMB mn)</b>	158,359.0	157,940.0	75,996.6	98,400.0	153,086.5
<b>YoY growth (%)</b>	10.0	(0.3)	(51.9)	29.5	55.6
<b>EPS (Adjusted) (RMB)</b>	62.77	67.24	32.77	42.85	67.34
<b>Consensus EPS (RMB)</b>	na	na	33.72	52.68	69.68

Source: Company data, Bloomberg, CMBIGM estimates

## Revision of forecast and valuation

We lower FY26-28E revenue by 1% each, mainly to account for the cut in revenue forecast of CMR due to the change in accounting treatment, and the cut in revenue forecast of All Others segment. We lower FY26E non-GAAP net profit forecast by 9% to factor in greater-than-expected impact from investment in QC business, as well as greater-than-expected investment to support the development of AI apps such as Qwen.

**Figure 1: Alibaba: forecast revision**

RMB bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	1,021.5	1,128.5	1,253.8	1,031.2	1,137.6	1,262.8	-0.9%	-0.8%	-0.7%
Gross profit	416.8	460.4	511.5	420.7	464.1	515.2	-0.9%	-0.8%	-0.7%
Non-GAAP net profit	76.0	98.4	153.1	83.1	99.2	154.0	-8.5%	-0.8%	-0.6%
Gross margin	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	0.0 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	7.4%	8.7%	12.2%	8.1%	8.7%	12.2%	-0.6 ppt	0.0 ppt	0.0 ppt

Source: CMBIGM estimates

## Valuation: target price of US\$206.1 per ADS

Our SOTP valuation is adjusted to US\$206.1 per ADS from US\$203.7, which comprises:

- 1) US\$78.5 for ACEG, based on a 12.0x FY28E EV/adj. EBITA and discounted back to FY26 at WACC of 11.0% (was US\$77.2 based on 12.0x FY28E EV/adj. EBITA); the change in target valuation per ADS was mainly due to increase in earnings forecast driven by greater visibility of loss reduction for QC business;
- 2) US\$12.5 for AIDC (unchanged), based on 1.5x EV/revenue multiple on FY26E revenue forecast;
- 3) US\$89.9 for the Cloud Intelligence Group (was US\$88.5), based on an unchanged 7.5x EV/revenue multiple on FY27E revenue and discounted back to FY26E at WACC of 11.0%; the increase in target valuation per ADS was mainly due to the increase in revenue forecast driven by stronger-than-our previously expected digitalization demand;
- 4) US\$14.6 for All Others (was US\$14.8), based on an unchanged 1.0x FY26E EV/revenue multiple; the change in target valuation per ADS was mainly due to fine tuning in revenue forecast;
- 5) US\$10.6 per ADS (was US\$10.7) for strategic investments with a 30% holding discount.

Our new SOTP-based target price translates into 22.8x FY28E PE (non-GAAP).

Figure 2: 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		19,359	12.0		1,357,542	188,547	78.5	38%
2	International Digital Commerce Group	1.5x FY26E EV/S 7.5x FY27E EV/S on revenue before intersegment elimination; discount back with 11% WACC	19,954			1.5	215,506	29,931	12.5	6%
3	Cloud Intelligence Group	1.0x FY26E EV/S	31,957			7.5	1,554,672	215,927	89.9	44%
4	All others		34,970			1.0	251,782	34,970	14.6	7%
	<b>Total Alibaba business</b>						<b>3,379,501</b>	<b>469,375</b>	<b>195.5</b>	
<b>INVESTMENTS</b>										
1	Ant Group	Last round share buyback valuation; 33% share holding					187,143	25,992	10.8	
2	Others	Market valuation					75,337	10,463	4.4	
	<b>Total investment (with 30% holding discount)</b>								<b>10.6</b>	5%
	<b>Total (US\$m)</b>								<b>206.1</b>	
	#s of diluted ADS (mn)									2,401

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	2023A	2024A	2025A	2026E	2027E	2028E
<b>YE 31 Mar (RMB mn)</b>						
<b>Revenue</b>	<b>868,687</b>	<b>941,168</b>	<b>996,347</b>	<b>1,021,507</b>	<b>1,128,492</b>	<b>1,253,780</b>
Cost of goods sold	(549,695)	(586,323)	(598,285)	(604,732)	(668,067)	(742,238)
<b>Gross profit</b>	<b>318,992</b>	<b>354,845</b>	<b>398,062</b>	<b>416,775</b>	<b>460,425</b>	<b>511,542</b>
<b>Operating expenses</b>	<b>(218,641)</b>	<b>(241,495)</b>	<b>(257,157)</b>	<b>(365,065)</b>	<b>(383,800)</b>	<b>(362,468)</b>
SG&A expense	(145,679)	(157,126)	(188,260)	(291,130)	(299,050)	(269,563)
R&D expense	(56,744)	(52,256)	(57,151)	(63,333)	(71,095)	(77,734)
Others	(16,218)	(32,113)	(11,746)	(10,602)	(13,655)	(15,171)
<b>Operating profit</b>	<b>100,351</b>	<b>113,350</b>	<b>140,905</b>	<b>51,710</b>	<b>76,625</b>	<b>149,074</b>
Interest income	(11,071)	(9,964)	20,759	67,419	28,212	28,837
Interest expense	(5,918)	(7,947)	(9,596)	(10,011)	(10,495)	(11,660)
Other income/expense	5,823	6,157	3,387	1,022	1,128	1,254
<b>Pre-tax profit</b>	<b>89,185</b>	<b>101,596</b>	<b>155,455</b>	<b>110,140</b>	<b>95,470</b>	<b>167,505</b>
Income tax	(15,549)	(22,529)	(35,445)	(28,196)	(22,913)	(41,876)
Others	(8,063)	(7,735)	5,966	4,086	5,642	6,269
<b>After tax profit</b>	<b>65,573</b>	<b>71,332</b>	<b>125,976</b>	<b>86,030</b>	<b>78,200</b>	<b>131,898</b>
Minority interest	7,210	8,677	4,133	715	790	878
Others	(274)	(268)	(639)	2,438	0	0
<b>Net profit</b>	<b>72,509</b>	<b>79,741</b>	<b>129,470</b>	<b>89,183</b>	<b>78,990</b>	<b>132,775</b>
<b>Adjusted net profit</b>	<b>143,991</b>	<b>158,359</b>	<b>157,940</b>	<b>75,997</b>	<b>98,400</b>	<b>153,087</b>
<b>BALANCE SHEET</b>						
<b>YE 31 Mar (RMB mn)</b>						
<b>Current assets</b>	<b>697,966</b>	<b>752,864</b>	<b>674,049</b>	<b>745,103</b>	<b>747,874</b>	<b>817,103</b>
Cash & equivalents	193,086	248,125	145,487	265,490	253,342	305,156
Restricted cash	36,424	38,299	43,781	43,781	43,781	43,781
Prepayment	137,072	143,536	202,175	153,226	168,145	185,559
Financial assets at FVTPL	331,384	322,904	282,606	282,606	282,606	282,606
<b>Non-current assets</b>	<b>1,055,078</b>	<b>1,011,965</b>	<b>1,130,178</b>	<b>1,338,988</b>	<b>1,475,540</b>	<b>1,627,188</b>
PP&E	176,031	185,161	203,348	428,929	555,798	697,702
Investment in JVs & assos	207,380	203,131	210,169	221,293	233,973	247,280
Intangibles	46,913	26,950	20,911	17,200	10,254	2,183
Goodwill	268,091	259,679	255,501	255,501	255,501	255,501
Financial assets at FVTPL	245,737	220,942	356,818	356,818	356,818	356,818
Other non-current assets	110,926	116,102	83,431	59,247	63,196	67,704
<b>Total assets</b>	<b>1,753,044</b>	<b>1,764,829</b>	<b>1,804,227</b>	<b>2,084,091</b>	<b>2,223,414</b>	<b>2,444,291</b>
<b>Current liabilities</b>	<b>385,351</b>	<b>421,507</b>	<b>435,346</b>	<b>396,188</b>	<b>430,241</b>	<b>489,723</b>
Short-term borrowings	7,466	12,749	22,562	22,805	25,194	27,991
Tax payable	12,543	9,068	11,638	23,121	18,101	31,826
Other current liabilities	89,392	101,807	68,609	69,348	76,611	85,117
Accrued expenses	275,950	297,883	332,537	280,914	310,335	344,789
<b>Non-current liabilities</b>	<b>244,772</b>	<b>230,723</b>	<b>278,775</b>	<b>279,922</b>	<b>291,193</b>	<b>304,392</b>
Long-term borrowings	52,023	55,686	49,909	49,909	49,909	49,909
Deferred income	3,560	4,069	4,536	4,585	5,065	5,627
Other non-current liabilities	189,189	170,968	224,330	225,428	236,219	248,856
<b>Total liabilities</b>	<b>630,123</b>	<b>652,230</b>	<b>714,121</b>	<b>676,111</b>	<b>721,435</b>	<b>794,115</b>
Share capital	1	1	1	1	1	1
Capital surplus	416,880	397,999	381,379	399,696	415,495	431,794
Retained earnings	599,028	597,897	645,478	895,891	974,881	1,107,656
Other reserves	(16,394)	1,375	(5,287)	2,511	2,511	2,511
<b>Total shareholders equity</b>	<b>999,515</b>	<b>997,272</b>	<b>1,021,571</b>	<b>1,298,099</b>	<b>1,392,888</b>	<b>1,541,963</b>
Minority interest	123,406	115,327	68,535	109,881	109,091	108,213
<b>Total equity and liabilities</b>	<b>1,753,044</b>	<b>1,764,829</b>	<b>1,804,227</b>	<b>2,084,091</b>	<b>2,223,414</b>	<b>2,444,291</b>

<b>CASH FLOW</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Mar (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>89,185</b>	<b>101,596</b>	<b>155,455</b>	<b>110,140</b>	<b>95,470</b>	<b>167,505</b>
Depreciation & amortization	46,938	44,504	42,459	11,819	12,161	12,562
Tax paid	(15,549)	(22,529)	(35,445)	(28,196)	(22,913)	(41,876)
Change in working capital	13,482	(13,749)	(23,988)	92,844	18,407	41,331
Others	65,696	72,771	25,028	24,990	31,504	34,088
<b>Net cash from operations</b>	<b>199,752</b>	<b>182,593</b>	<b>163,509</b>	<b>211,597</b>	<b>134,629</b>	<b>213,609</b>
<b>Investing</b>						
Capital expenditure	(34,330)	(32,087)	(85,972)	(122,581)	(135,419)	(150,454)
Acquisition of subsidiaries/ investments	(22)	(842)	0	(6,000)	(6,708)	(7,100)
Net proceeds from disposal of short-term investments	(61,086)	71,426	23,395	0	0	0
Others	(40,068)	(60,321)	(122,838)	(7,038)	(7,038)	(7,038)
<b>Net cash from investing</b>	<b>(135,506)</b>	<b>(21,824)</b>	<b>(185,415)</b>	<b>(135,619)</b>	<b>(149,165)</b>	<b>(164,592)</b>
<b>Financing</b>						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	11	843	10	0	0	0
Share repurchases	(74,746)	(88,745)	(86,662)	0	0	0
Others	9,116	(20,342)	10,437	243	2,388	2,797
<b>Net cash from financing</b>	<b>(65,619)</b>	<b>(108,244)</b>	<b>(76,215)</b>	<b>243</b>	<b>2,388</b>	<b>2,797</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	227,353	229,510	286,424	189,268	265,490	253,342
Exchange difference	3,530	4,389	965	0	0	0
<b>Cash at the end of the year</b>	<b>229,510</b>	<b>286,424</b>	<b>189,268</b>	<b>265,490</b>	<b>253,342</b>	<b>305,156</b>

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

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