Alibaba (BABA US)

Cloud remains the key driver amid external headwinds

BUY (Maintain)

Target Price	**US$171.60**
(Previous TP	US$220.10)
Up/Downside	**111.6%**
Current Price	**US$81.08**

Alibaba reported 2QFY27 (March year-end) revenue of RMB271.5bn (+10% YoY), in line with Bloomberg consensus. Adjusted EBITA rose 260% YoY to RMB32.6bn, 19% ahead of consensus, on stronger cloud profitability and a significant quick commerce (QC) loss reduction, while non-GAAP net income (RMB19.9bn, +92% YoY) was 29% below consensus, mainly due to higher tax expenses. Cloud remained the highlight, with external revenue growth accelerating to 64% YoY. Amid external disruptions, management expects FY28 cloud revenue growth of 30-45%, but growth should re-accelerate to over 50% in 2028E as T-Head chip supply ramps up; management also reiterated its CY30 targets of US$100bn in external cloud revenue and a long-term margin above 20%, and targets positive free cash flow (FCF) in 2H28. We cut our SOTP-based TP by 22% to US$171.6 (from US$220.1), mainly on a lower valuation multiple for the e-commerce business. We believe cloud revenue growth remains the key share price driver. Maintain BUY.

- **Cloud growth the key highlight.** AI Cloud and Compute Services (ACCS) revenue grew 53% YoY to RMB61.0bn, with external revenue up 64% and recurring external revenue up 67%. AI-related product revenue of RMB17.9bn (13th consecutive quarter of triple-digit growth) accounted for 49% of recurring external revenue. Adjusted EBITA margin expanded to 14.5% (+4.5ppts YoY) on a richer AI product mix, pricing power amid tight compute supply and scale benefits. FY28 guidance of 30-45% cloud revenue growth factors in tighter compute export controls, while growth should recover to over 50% in 2028E as the Zhenwu V900 chip enters mass production in 1Q27, according to management. We forecast ACCS revenue growth of 57% YoY in 3QFY27E and 52%/38%/50% in FY27E/28E/29E.
- **Clear timeline for FCF turnaround.** FCF outflow narrowed QoQ to RMB34.5bn in 2QFY27 (1QFY27: RMB44.7bn) as capex declined to RMB50.5bn. Management indicated that the 20GW compute target and the overall capex plan may be revised down, expects the investment peak in 2027-1H28, and targets positive FCF in 2H28.
- **AEG: profit recovery led by QC loss reduction.** Alibaba E-commerce Group (AEG) adjusted EBITA rose 243% YoY to RMB38.9bn, mainly driven by QC loss reduction. China E-commerce contributed stable operating profit and Global Wholesale delivered strong profits, while losses in International E-commerce narrowed. CMR declined 5% YoY but grew 1% on a like-for-like basis. Management expects QC losses to halve in FY28 and turn into a profit in FY29, though consumption remains soft in the near team.

Earnings Summary

(YE 31 Mar)	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (RMB mn)	996,347	1,023,670	1,104,997	1,233,791	1,420,268
YoY growth (%)	5.9	2.7	7.9	11.7	15.1
Net profit (RMB mn)	129,470.0	105,904.0	136,311.9	139,333.4	182,229.0
Adjusted net profit (RMB mn)	157,940.0	64,438.0	111,118.0	156,606.4	200,692.5
YoY growth (%)	(0.3)	(59.2)	72.4	40.9	28.2
EPS (Adjusted) (RMB)	67.24	27.76	47.01	65.50	84.28
Consensus EPS (RMB)	na	26.80	43.97	61.25	78.19
P/E (x)	9.8	11.9	9.4	9.3	7.1

Source: Company data, Bloomberg, CMBIGM estimates

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Stock Data

Mkt Cap (US$ mn)	194,946.7
Avg 3 mths t/o (US$ mn)	629.9
52w High/Low (US$)	177.18/81.08
Total Issued Shares (mn)	2404.4

Source: FactSet

Shareholding Structure

JPMorgan	2.3%
Parufam Limited	0.8%

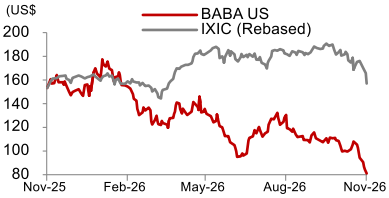
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-25.3%	-12.8%
3-mth	-37.9%	-28.4%
6-mth	-39.7%	-30.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

2QFY27 results review

Alibaba reported 2QFY27 revenue of RMB271.5bn, up 10% YoY, 0.4% ahead of Bloomberg consensus. Revenue growth was mainly driven by ACCS (+53% YoY) and China QC (+22% YoY), partly offset by declines in China E-commerce (-5% YoY), International E-commerce (-8% YoY) and All Others (-5% YoY). Adjusted EBITA increased 260% YoY to RMB32.6bn, 19% ahead of consensus, with adjusted EBITA margin improving to 12.0% from 3.7% in 2QFY26. The beat was mainly attributable to ACCS (adjusted EBITA 19.7%, 0.7ppts ahead of consensus), AEG (4% ahead) and a narrower-than-expected loss at AI Labs and Applications (ALA). GAAP net income attributable to ordinary shareholders rose 207% YoY to RMB64.5bn, mainly driven by net investment income. Non-GAAP net income was RMB19.9bn, up 92% YoY but 29% below consensus.

Key business segment updates

AI Cloud and Compute Services (21.0% of total segment revenue)

Accelerating growth with expanding margins. ACCS revenue grew 53% YoY to RMB61.0bn in 2QFY27, accelerating from 45% in 1QFY27. Revenue from external customers increased 64% YoY to RMB47bn, within which recurring revenue (excluding compute equipment solutions) grew 67% YoY to RMB37bn and compute equipment solutions revenue grew 55% YoY to RMB10bn. Revenue from internal customers grew 23% YoY to RMB14bn. AI-related product revenue was RMB17.9bn, delivering triple-digit YoY growth for the 13th consecutive quarter and accounting for 49% of recurring external revenue.

Adjusted EBITA rose 121% YoY to RMB8.8bn, 20% ahead of consensus, with margin expanding to 14.5% (2QFY26: 10.0%; 1QFY27: 11.6%), driven by a higher contribution from high-margin AI products, stronger pricing power amid tight compute supply and scale benefits from data center expansion.

FY28 guidance factors in external disruptions; CY30 targets reiterated. Given tighter global compute export controls and supply chain uncertainty, management expects ACCS revenue to grow 30-45% in FY28. As T-Head chip supply ramps up, growth is expected to recover to over 50% in 2028E, and management reiterated its targets of US$100bn in external cloud revenue and a long-term margin above 20% by CY30.

We forecast ACCS revenue growth of 57% YoY in 3QFY27E and 52%/38%/50% in FY27E/28E/29E, with our FY28E forecast at the mid-point of management guidance. We forecast ACCS adjusted EBITA margin of 14.3%/13.3%/15.3% in FY27E/28E/29E, as we prudently factor in potential near-term cost pressure from the transition to domestic compute supply, before the margin trends towards 20% over the longer term.

Alibaba E-commerce Group (67.9% of total segment revenue)

Stable revenue with QC as the growth driver. AEG revenue increased 2% YoY to RMB197.2bn in 2QFY27. Revenue from China E-commerce declined 5% YoY to RMB98.5bn, within which customer management revenue (CMR) declined 5% YoY to RMB75.0bn but grew 1% on a like-for-like basis excluding the contra-revenue impact from the new business development program, in line with consensus. China QC revenue grew 22% YoY to RMB58.8bn, mainly driven by Freshippo's robust growth across online and offline channels, 4% ahead of consensus. International E-commerce revenue declined 8% YoY to RMB25.7bn, mainly due to lower AliExpress revenue following the EU Customs Reform, partly offset by growth at Trendyol. Global Wholesale revenue increased 6% YoY to RMB14.3bn; the domestic and international B2B businesses have been integrated to connect domestic supply with overseas demand.

Significant profit improvement. AEG adjusted EBITA rose 243% YoY to RMB38.9bn (2QFY26: RMB11.3bn), 4% ahead of consensus, primarily driven by a significant loss reduction in China QC. As management highlighted, the China E-commerce business contributed stable operating profit and the Global Wholesale business delivered strong profits, while losses in the International E-commerce business were reduced. Taobao Instant Commerce continued to improve unit economics QoQ, supported by a higher

average order value, while maintaining a stable market share; online GMV of non-food QC grew 40% YoY in 2QFY27.

AI Labs and Applications (1.5% of revenue)

ALA revenue grew 51% YoY to RMB4.4bn in 2QFY27, primarily driven by rising demand for agentic AI products. The adjusted EBITA loss narrowed QoQ to RMB10.5bn from RMB13.9bn in 1QFY27 (2QFY26: loss of RMB3.4bn), better than the consensus loss of RMB11.5bn, as efficiency improved in both model training and marketing spend on the Qwen App. We forecast the ALA adjusted EBITA loss to narrow to RMB10.0bn in 3QFY27E, and to RMB43.9bn/37.9bn in FY27E/28E.

All Others (9.5% of revenue)

Revenue from All Others declined 5% YoY to RMB27.7bn in 2QFY27, reflecting lower revenue from Cainiao. The segment recorded an adjusted EBITA loss of RMB3.3bn, compared with a loss of RMB1.0bn in 2QFY26, primarily due to increased investment in technology businesses.

Capex and free cash flow

Capex was RMB50.5bn in 2QFY27, up 60% YoY, reflecting accelerated scaling of compute capacity, higher prices across a broader range of chip components, and additional CPU capacity for anticipated growth in AI agent adoption; the QoQ decline from RMB67.7bn reflected fluctuations in procurement cycles, in our view.

Based on its preliminary assessment, management indicated that the long-term 20GW compute target and the overall capex plan may be revised down, while investment in domestic compute and its supply chain will be stepped up. Management expects an investment peak in 2027 and 1H28, and targets positive FCF in 2H28, supported by growing profits from e-commerce and AI + Cloud as well as lower working capital commitments in the e-commerce business.

Revision of forecast and valuation

We trim our FY27E/28E revenue forecasts by 1.0%/0.3%, mainly to factor in lower CMR due to the contra-revenue impact from the new business development program and the soft consumption environment, as well as lower International E-commerce revenue following the EU Customs Reform.

We raise our FY29E revenue forecast by 3.2% on the expected re-acceleration of cloud revenue growth to 50% as T-Head chip supply ramps up. We raise our FY27E/28E/29E non-GAAP net profit forecasts by 13.1%/2.9%/1.0%, mainly to reflect faster-than-expected QC loss reduction (FY27E QC loss forecast of RMB35.5bn vs. RMB44bn previously) and a lower S&M expense ratio, partly offset by higher R&D investment and a lower gross margin.

Figure 1: Alibaba: forecast revision

	Current			Previous			Change (%)		
RMB bn	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	1,105.0	1,233.8	1,420.3	1,116.1	1,238.0	1,376.1	-1.0%	-0.3%	3.2%
Gross profit	425.4	481.2	561.0	444.3	492.9	547.8	-4.3%	-2.4%	2.4%
Non-GAAP net profit	111.1	156.6	200.7	98.2	152.2	198.7	13.1%	2.9%	1.0%
Gross margin	38.5%	39.0%	39.5%	39.8%	39.8%	39.8%	-1.3 ppt	-0.8 ppt	-0.3 ppt
Non-GAAP net margin	10.1%	12.7%	14.1%	8.8%	12.3%	14.4%	1.3 ppt	0.4 ppt	-0.3 ppt

Source: CMBIGM estimates

Figure 2: Alibaba: CMBI forecast vs Bloomberg consensus

	CMBI estimates			Consensus			Diff (%)		
RMB bn	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	1,105.0	1,233.8	1,420.3	1123.0	1267.5	1450.5	-1.6%	-2.7%	-2.1%
Gross profit	425.4	481.2	561.0	441.3	508.4	595.5	-3.6%	-5.3%	-5.8%
Non-GAAP net profit	111.1	156.6	200.7	110.3	153.1	193.7	0.8%	2.3%	3.6%
Gross margin	38.5%	39.0%	39.5%	39.3%	40.1%	41.1%	-0.8 ppt	-1.1 ppt	-1.6 ppt
Non-GAAP net margin	10.1%	12.7%	14.1%	9.8%	12.1%	13.4%	0.2 ppt	0.6 ppt	0.8 ppt

Source: Bloomberg, CMBIGM estimates

Valuation: target price of US$171.6 per ADS

We cut our SOTP-based target price by 22% to US$171.6 per ADS from US$220.1, mainly due to a lower valuation for the e-commerce business. We have also updated our SOTP to reflect the new segment reporting structure. Our valuation comprises:

1) US$54.0 per ADS for AEG, based on 7.0x FY28E EV/adjusted EBITA (assuming a 20% tax rate on adjusted EBITA, and discount back to FY27E based on 11% WACC). Previously, we valued the former China E-commerce Group at US$93.1 (12.0x FY28E EV/adjusted EBITA) and the former International Digital Commerce Group at US$14.1 (1.5x EV/sales), or US$107.2 combined. We lower the target multiple to reflect the macro headwind;

2) US$86.6 per ADS for ACCS, based on an unchanged 6.0x FY27E EV/sales multiple (vs. US$85.6 for Cloud Intelligence Group previously), implying 37.5x steady-state P/E assuming a 20% operating margin;

3) US$13.3 per ADS for ALA, based on 13.0x FY27E EV/sales (previously included in All Others);

4) US$7.2 per ADS for All Others, based on an unchanged 1.0x FY27E EV/sales multiple (vs. US$16.2 previously, mainly due to the segment reclassification);

5) US$10.5 per ADS for strategic investments (vs. US$11.2 previously), including Ant Group and other investments at market value, after a 30% holding-company discount.

Our new TP implies 18.4x FY28E non-GAAP P/E. We believe cloud revenue growth, which hinges on the pace of T-Head chip supply ramp-up, remains the key driver of the share price. Maintain BUY.

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	$/share	Value split
1	Alibaba E-commerce Group	7x FY28E EV/EBITA; assume 20% tax rate on adjusted EBITA; discount back at 11% WACC		20,957	7.0		898,689	132,160	54.0	31%
2	AI Cloud and Compute Services	6.0x FY27E EV/S	35,323			6.0	1,441,198	211,941	86.6	50%
3	AI Labs and Applications	13.0x FY27E EV/S	2,498			13.0	220,805	32,471	13.3	8%
4	All others	1.0x FY27E EV/S	17,623			1.0	119,835	17,623	7.2	4%
	Total Alibaba business						**2,680,527**	**394,195**	**161.1**	
	INVESTMENTS									
1	Ant Group	Last round share buy back valuation; 33% share holding					187,143	27,521	11.2	
2	Others	Market valuation					62,086	9,130	3.7	
	Total investment (with 30% holding discount)								**10.5**	6%
	Total (US$)								**171.6**	
	#s of diluted ADS (mn)								2,447	

Source: CMBIGM estimates

Risks

1) Slower-than-expected cloud revenue growth;

2) Weaker-than-expected consumption recovery and more intensified-than-expected competition in e-commerce and quick commerce;

3) Higher-than-expected AI investment weighing on margins and delaying the FCF turnaround.

Financial Summary

INCOME STATEMENT	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar (RMB mn)						
Revenue	**941,168**	**996,347**	**1,023,670**	**1,104,997**	**1,233,791**	**1,420,268**
Cost of goods sold	(586,323)	(598,285)	(616,136)	(679,573)	(752,612)	(859,262)
Gross profit	**354,845**	**398,062**	**407,534**	**425,424**	**481,178**	**561,006**
Operating expenses	**(241,495)**	**(257,157)**	**(357,384)**	**(317,704)**	**(334,234)**	**(357,055)**
SG&A expense	(157,126)	(188,260)	(278,105)	(219,673)	(229,362)	(237,753)
R&D expense	(52,256)	(57,151)	(66,533)	(91,715)	(101,171)	(115,042)
Others	(32,113)	(11,746)	(12,746)	(6,315)	(3,701)	(4,261)
Operating profit	**113,350**	**140,905**	**50,150**	**107,720**	**146,944**	**203,950**
Interest income	(9,964)	20,759	87,512	100,113	37,014	36,927
Interest expense	(7,947)	(9,596)	(9,793)	(9,834)	(10,611)	(12,214)
Other income/expense	6,157	3,387	1,518	2,210	1,851	2,130
Pre-tax profit	**101,596**	**155,455**	**129,387**	**200,208**	**175,198**	**230,793**
Income tax	(22,529)	(35,445)	(30,045)	(69,192)	(43,800)	(57,698)
Others	(7,735)	5,966	2,785	4,420	6,169	7,101
After tax profit	**71,332**	**125,976**	**102,127**	**135,436**	**137,568**	**180,196**
Minority interest	8,677	4,133	1,465	994	1,766	2,033
Others	(268)	(639)	2,312	(119)	0	0
Net profit	**79,741**	**129,470**	**105,904**	**136,312**	**139,333**	**182,229**
Adjusted net profit	**158,359**	**157,940**	**64,438**	**111,118**	**156,606**	**200,693**

BALANCE SHEET	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar (RMB mn)						
Current assets	**752,864**	**674,049**	**610,769**	**596,149**	**621,569**	**741,222**
Cash & equivalents	248,125	145,487	131,530	96,902	90,638	164,414
Restricted cash	38,299	43,781	42,038	42,038	42,038	42,038
Prepayment	143,536	202,175	251,837	271,845	303,530	349,406
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**	**1,571,758**	**1,723,630**	**1,860,132**
PP&E	185,161	203,348	282,699	411,128	530,918	623,466
Investment in JVs & assos	203,131	210,169	206,803	211,223	217,392	224,493
Intangibles	26,950	20,911	16,983	16,512	22,461	30,410
Goodwill	259,679	255,501	247,378	247,378	247,378	247,378
Financial assets at FVTPL	220,942	356,818	449,942	514,243	514,243	514,243
Other non-current assets	116,102	83,431	94,996	171,275	191,238	220,141
Total assets	**1,764,829**	**1,804,227**	**1,909,570**	**2,167,907**	**2,345,199**	**2,601,354**
Current liabilities	**421,507**	**435,346**	**476,398**	**521,175**	**578,422**	**667,173**
Short-term borrowings	12,749	22,562	28,224	31,130	34,476	39,361
Tax payable	9,068	11,638	10,630	15,914	15,330	20,194
Other current liabilities	101,807	68,609	77,651	85,646	94,851	108,292
Accrued expenses	297,883	332,537	359,893	388,485	433,765	499,325
Non-current liabilities	**230,723**	**278,775**	**306,902**	**338,965**	**347,872**	**360,876**
Long-term borrowings	55,686	49,909	47,450	47,450	47,450	47,450
Deferred income	4,069	4,536	4,885	5,388	5,967	6,813
Other non-current liabilities	170,968	224,330	254,567	286,127	294,455	306,614
Total liabilities	**652,230**	**714,121**	**783,300**	**860,141**	**926,293**	**1,028,049**
Share capital	1	1	1	1	1	1
Capital surplus	397,999	381,379	385,086	471,146	484,718	498,920
Retained earnings	597,897	645,478	708,382	804,813	904,146	1,046,375
Other reserves	1,375	(5,287)	(24,738)	(24,738)	(24,738)	(24,738)
Total shareholders equity	**997,272**	**1,021,571**	**1,068,731**	**1,251,222**	**1,364,127**	**1,520,559**
Minority interest	115,327	68,535	57,539	56,545	54,779	52,746
Total equity and liabilities	**1,764,829**	**1,804,227**	**1,909,570**	**2,167,907**	**2,345,199**	**2,601,354**

CASH FLOW	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	**101,596**	**155,455**	**129,387**	**200,208**	**175,198**	**230,793**
Depreciation & amortization	44,504	42,459	47,118	61,622	75,260	87,503
Tax paid	(22,529)	(35,445)	(30,045)	(69,192)	(43,800)	(57,698)
Change in working capital	(13,749)	(23,988)	(22,547)	(49,169)	8,292	17,904
Others	72,771	25,028	(47,700)	(19,803)	16,439	18,389
Net cash from operations	**182,593**	**163,509**	**76,213**	**123,666**	**231,390**	**296,891**
Investing						
Capital expenditure	(32,087)	(85,972)	(126,063)	(180,000)	(185,000)	(170,000)
Acquisition of subsidiaries/ investments	(842)	0	(874)	(14,000)	(16,000)	(18,000)
Net proceeds from disposal of short-term investments	71,426	23,395	42,235	0	0	0
Others	(60,321)	(122,838)	17,366	0	0	0
Net cash from investing	**(21,824)**	**(185,415)**	**(67,336)**	**(194,000)**	**(201,000)**	**(188,000)**
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	843	10	1,042	72,800	0	0
Share repurchases	(88,745)	(86,662)	(7,638)	(10,000)	(10,000)	(10,000)
Others	(20,342)	10,437	(13,977)	(27,094)	(26,654)	(25,115)
Net cash from financing	**(108,244)**	**(76,215)**	**(20,573)**	**35,706**	**(36,654)**	**(35,115)**
Net change in cash						
Cash at the beginning of the year	229,510	286,424	189,268	173,568	138,940	132,676
Exchange difference	4,389	965	(4,004)	0	0	0
Cash at the end of the year	**286,424**	**189,268**	**173,568**	**138,940**	**132,676**	**206,452**

GROWTH	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar						
Revenue	8.3%	5.9%	2.7%	7.9%	11.7%	15.1%
Gross profit	11.2%	12.2%	2.4%	4.4%	13.1%	16.6%
Operating profit	13.0%	24.3%	(64.4%)	114.8%	36.4%	38.8%
Net profit	10.0%	62.4%	(18.2%)	28.7%	2.2%	30.8%
Adj. net profit	10.0%	(0.3%)	(59.2%)	72.4%	40.9%	28.2%

PROFITABILITY	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar						
Gross profit margin	37.7%	40.0%	39.8%	38.5%	39.0%	39.5%
Operating margin	12.0%	14.1%	4.9%	9.7%	11.9%	14.4%
Adj. net profit margin	16.8%	15.9%	6.3%	10.1%	12.7%	14.1%
Return on equity (ROE)	8.0%	12.8%	10.1%	11.8%	10.7%	12.6%

GEARING/LIQUIDITY/ACTIVITIES	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar						
Net debt to equity (x)	(0.4)	(0.2)	(0.1)	(0.0)	(0.0)	(0.1)
Current ratio (x)	1.8	1.5	1.3	1.1	1.1	1.1

VALUATION	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Mar						
P/E	17.1	9.8	11.9	9.4	9.3	7.1
P/E (diluted)	17.3	10.1	12.3	9.7	9.6	7.3
P/B	1.4	1.3	1.2	1.1	1.0	0.9
P/CFPS	9.1	16.9	ns	ns	28.9	10.5

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

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