

# Alibaba (BABA US)

## Another strong quarter with all-round beat

**SUMMARY.** 1QFY20 achieved all-round beat, with strong core commerce and margin surprise. We view Alibaba as our top pick, backed by solid earnings growth, reasonable valuation and multiple catalysts (incoming investor day, dual listing in HK, share split, etc.). We slightly raised its adj. net profit by 1.2%/1.4%/2.6% in FY20/21/22E, and lifted SOTP-based TP to **US\$224**.

- **1QFY20 strong beat.** 1QFY20 revenue surged 42% YoY, 3% above consensus. Non-GAAP net profit grew 54% YoY, 22% above consensus, for higher-than-expected core commerce margin, less loss from DME, and other income. Alibaba will also see lighter sales pressure from Alibaba (only 22mn ADSs held as of 9 Aug, vs. 261mn disposed plan).
- **Core commerce: solid CMR, with stepping-up low-tier cities penetration.** 1QFY20 OMS revenue grew 26% YoY, in line with our estimates. Customer management rev (CMR)/ commission rev grew 27%/23% YoY, respectively. CMR was slightly above expectation, and commission deceleration has been anticipated by market for Tmall Supermarket 1P business. Market focus lies on recommendation feeds monetization, low-tier cities competition and 1P business outlook. Recommendation feeds are yet to expand, for macro headwinds. We keep confidence in Alibaba's commerce secular growth and gain shares, mainly on 1) stepping-up low-tier cities competition to acquire users; and 2) 1P business expansion as another topline driver (still small portion).
- **More positive on its margin trend.** 1QFY20 total adj. EBITA margin was 30%, in which Core commerce/ Cloud/DME/Innovations EBITA margin was 41%/-5%/-35%/-153%. Margin beat on better-than-expected core commerce and narrowing DME net loss. Looking ahead, we turn more positive on Alibaba's margin outlook, for higher operating leverage, manageable investment in new initiatives and lower content spending.
- **Maintain BUY.** Given solid 1QFY20 results, we slightly raised its adj. net profit by 1.2%/1.4%/2.6% in FY20/21/22E, and lifted SOTP-based TP to **US\$224.1** from US\$218.4. Our new TP represents 35x/26x FY20/21E P/E. Further catalysts: 1) incoming investor day; 2) feeds monetization update; and 3) synergies from sub segments.

### 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)	35.3	30.5	24.8	19.5	16.4
P/B (x)	6.9	4.9	4.3	3.7	3.1
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\$218.4)
Current Price	US\$166.0
Up/Downside	+35.0%

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	432,115
Avg 3 mths t/o (US\$ mn)	3,421.5
52w High/Low (US\$)	196/130
Total Issued Shares (mn)	2,604
Source: Bloomberg	

### Shareholding Structure

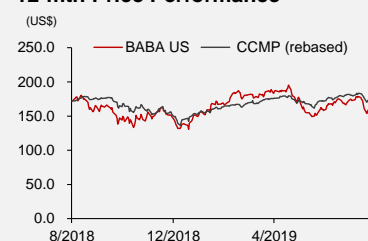
SoftBank	28.8%
Altaba Inc	14.8%
Ma Jack Yun	5.1%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-4.3%	2.0%
6-mth	-6.5%	-5.6%
12-mth	-0.1%	-3.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. 4QFY19 beat; Focusing on lower-tier cities – 16 May 2019
2. Solid 3QFY19 with margin surprise – 31 Jan 2019
3. Guidance pressure on macro headwinds – 6 Nov 2018

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**Figure 1: Earnings revision**

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	506,599	652,181	814,903	503,284	641,119	787,914	0.7%	1.7%	3.4%
Gross Profit	229,236	296,742	370,781	226,925	291,709	358,501	1.0%	1.7%	3.4%
Operating Profit	83,143	108,338	140,220	81,694	106,181	134,822	1.8%	2.0%	4.0%
Net profit	117,422	156,574	201,101	115,991	154,476	195,973	1.2%	1.4%	2.6%
Adj. EPS (RMB)	46.74	59.46	70.88	46.18	58.67	68.97	1.2%	1.3%	2.8%
Gross Margin	45.3%	45.5%	45.5%	45.1%	45.5%	45.5%	+0.2ppts	+0.0ppts	+0.0ppts
Operating Margin	16.4%	16.6%	17.2%	16.2%	16.6%	17.1%	+0.2ppts	+0.0ppts	+0.1ppts
Net Margin	23.2%	24.0%	24.7%	23.0%	24.1%	24.9%	+0.1ppts	-0.1ppts	-0.2ppts

Source: Company data, CMBIS estimates

**Figure 2: CMBI estimates vs consensus**

Rmb mn, Mar-YE	CMBI			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	506,599	652,181	814,903	506,273	657,022	825,083	0.1%	-0.7%	-1.2%
Gross Profit	229,236	296,742	370,781	223,576	294,124	364,962	2.5%	0.9%	1.6%
Operating Profit	83,143	108,338	140,220	84,184	117,986	155,327	-1.2%	-8.2%	-9.7%
Net profit	117,422	156,574	201,101	117,948	154,166	196,625	-0.4%	1.6%	2.3%
EPS (RMB)	46.74	59.46	70.88	46.76	58.82	74.84	-0.1%	1.1%	-5.3%
Gross Margin	45.3%	45.5%	45.5%	44.2%	44.8%	44.2%	+1.1ppts	+0.7ppts	+1.3ppts
Operating Margin	16.4%	16.6%	17.2%	16.6%	18.0%	18.8%	-0.2ppts	-1.3ppts	-1.6ppts
Net Margin	23.2%	24.0%	24.7%	23.3%	23.5%	23.8%	-0.1ppts	+0.5ppts	+0.8ppts

Source: Company data, Bloomberg

**Figure 3: SOTP valuation**

US\$bn	Valuation		Methodology	Multiple Applied	Metrics
	US\$bn	Per share(US\$)		FY20E	FY20E
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		
Equity Value	591	224.1			

Source: CMBIS estimates

Figure 4: 1QFY20 review

Rmb mn, Mar-YE	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ	YoY	Consensus	Diff %
Revenue	61,932	80,920	85,148	117,278	93,498	114,924	22.9%	42.0%	111,590	3%
Operating Profit	9,221	8,020	13,501	26,798	8,765	24,375	178.1%	203.9%	17,512	39%
Net profit	7,561	8,685	20,033	33,052	25,830	19,122	-26.0%	120.2%	14,933	28%
Adj Net profit	14,099	20,101	23,453	29,797	20,056	30,949	54.3%	54.0%	25,310	22%
Adj. EPS (RMB)	5.73	8.04	9.60	12.19	8.57	12.55	46.4%	56.1%	10.28	22%
<b>Margin (%)</b>										
Gross Margin	47.5%	46.0%	45.1%	48.1%	40.5%	47.8%			44.2%	
Operating Margin	14.9%	9.9%	15.9%	22.8%	9.4%	21.2%			15.7%	
Adj. net Margin	22.8%	24.8%	27.5%	25.4%	21.5%	26.9%			22.7%	
<b>Growth (%)</b>										
Revenue (YoY)	60.5%	61.2%	54.5%	41.3%	51.0%	42.0%			37.9%	
Revenue (QoQ)	-25.4%	30.7%	5.2%	37.7%	-20.3%	22.9%			19.4%	
Operating Profit	-64.5%	-13.0%	68.3%	98.5%	-4.9%	203.9%			118.4%	
Adj. net Profit	-47.8%	42.6%	16.7%	27.0%	42.3%	54.0%			25.9%	

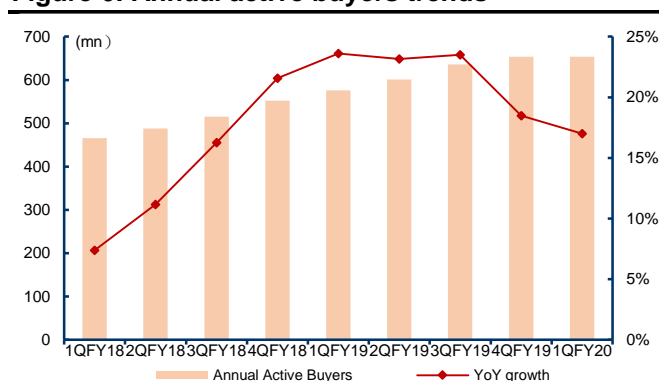
Source: Company data, Bloomberg

Figure 5: 1QFY20 revenue breakdown

Rmb mn, Mar-YE	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ	YoY
<b>Total revenue</b>	<b>61,932</b>	<b>80,920</b>	<b>85,148</b>	<b>117,278</b>	<b>93,498</b>	<b>114,924</b>	<b>23%</b>	<b>42%</b>
Core commerce	51,287	69,188	72,475	102,843	78,894	99,544	26%	44%
Cloud computing	4,385	4,698	5,667	6,611	7,726	7,787	1%	66%
Digital media and entertainment	5,272	5,975	5,940	6,491	5,671	6,312	11%	6%
Innovation initiatives and others	988	1,059	1,066	1,333	1,207	1,281	6%	21%

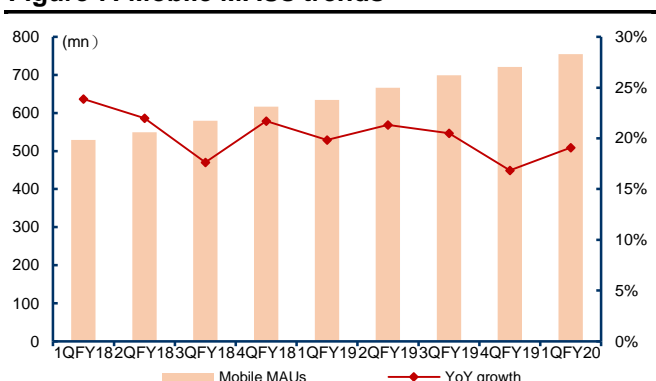
Source: Company data

Figure 6: Annual active buyers trends

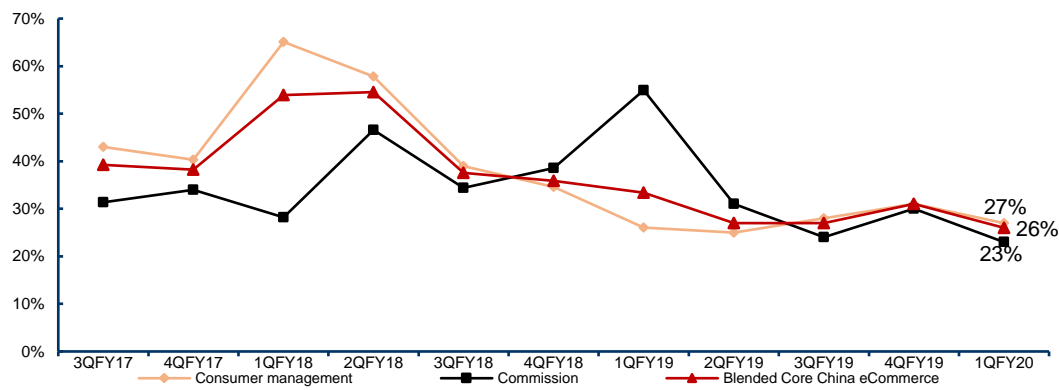


Source: Company data, CMBIS

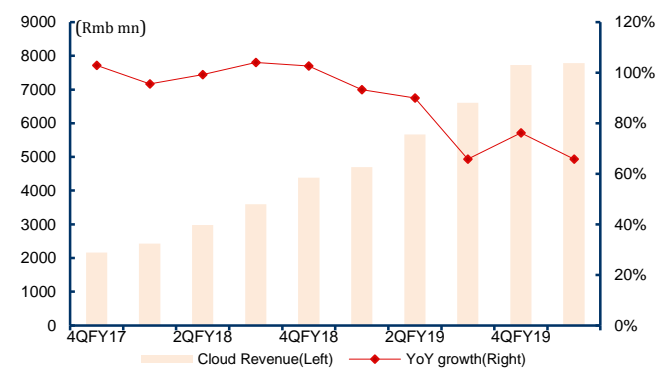
Figure 7: Mobile MAUs trends



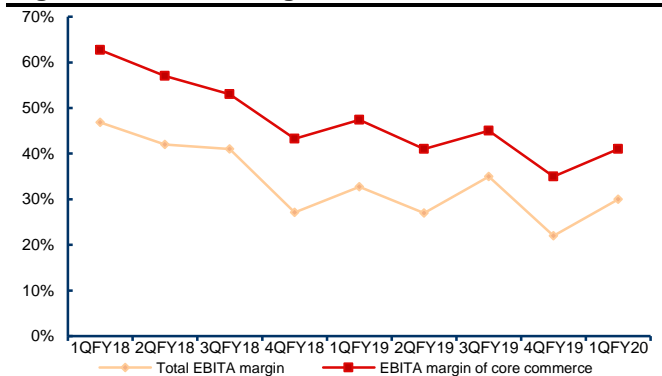
Source: Company data, CMBIS

**Figure 8: Customer management & commission trends**

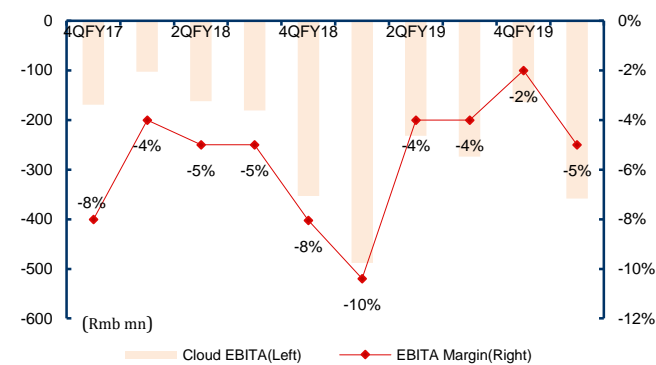
Source: Company data, CMBIS

**Figure 9: AliCloud revenue**

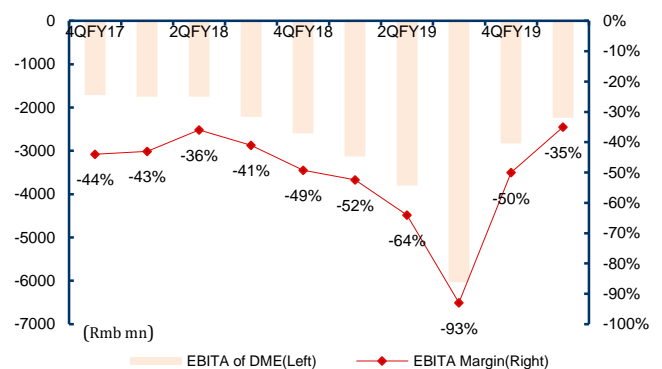
Source: Company data, CMBIS

**Figure 10: EBITA margin of core commerce**

Source: Company data, CMBIS

**Figure 11: AliCloud's adjusted EBITA**

Source: Company data, CMBIS

**Figure 12: Adjusted EBITA of DME**

Source: Company data, CMBIS

## 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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