

Alibaba (BABA US)

2QFY20E Preview: Solid results with strong core commerce

We expect BABA to deliver solid 2QFY20E result in Nov, with in-line topline growth but better-than-expected margin. Core commerce maintained strong momentum, and market eyes on low-tier cities competition and upcoming "11.11" Festival. Maintain BUY with TP and earnings unchanged.

- **Expecting solid 2QFY20E.** We forecast a 36% YoY revenue growth to RMB116.2bn in 2QFY20E, and expect adj. EBITA at RMB30.5bn and adj. EPADS at RMB10.8. We think solid topline growth is well-anticipated, but margin improvement might see upside surprise, mainly on less ecommerce promotion in 3Q19 and manageable investment in new initiatives.
- **Core Commerce: strong momentum to continue.** We expect BABA's OMS revenue to grow 25% YoY in 2QFY20E, in which Customer management rev (CMR)/ commission rev to grow 26%/22% YoY. Given that BABA was not aggressive in feeds monetization expansion, more eyes will focus on its low-tier cities penetration and content features. Despite fierce competition, we keep confidence in BABA's secular growth and share gains, backed by: 1) ample room for its user expansion and ARPU improvement in low-tier cities; and 2) more cross-selling opportunities and ecosystem synergies to unlock its growth potential.
- **Positive on margin outlook.** We expect its adj. EBITA margin at 26% in 2QFY20E (-4ppts QoQ, -1ppts YoY), slightly above consensus, and core commerce EBITA margin will beat expectation (forecasting 39%), for its modest promotion and limited campaigns in 3Q19, coupled with improved efficiency. We expect its cloud EBITA margin to be stable QoQ, and net loss margin of DME and Innovation Initiatives could slightly widen QoQ in 2QFY20E.
- **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) upcoming "11.11" Festival; 2) dual listing in HK; and 3) 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	+26.6%
Current Price	US\$176.9

China Internet Sector

Sophie Huang

(852) 3900 0889

sophiehuang@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	460,442
Avg 3 mths t/o (US\$ mn)	2,533.5
52w High/Low (US\$)	196/130
Total Issued Shares (mn)	2,604
Source: Bloomberg	

Shareholding Structure

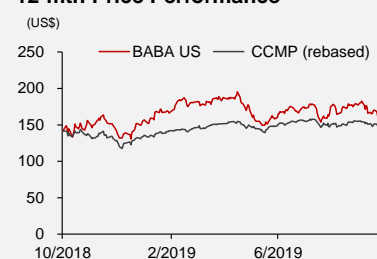
SoftBank	28.8%
Altaba Inc	14.8%
Ma Jack Yun	5.1%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-1.2%	-0.8%
3-mth	1.2%	1.5%
6-mth	-5.7%	-7.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: 2QFY20E financial preview

Rmb mn, Mar-YE	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20E	QoQ	YoY	Consensus	Diff %
Revenue	61,932	80,920	85,148	117,278	93,498	114,924	116,041	1.0%	36.3%	116,701	-1%
Operating Profit	9,221	8,020	13,501	26,798	8,765	24,375	20,322	-16.6%	50.5%	19,123	6%
Net profit	7,561	8,685	20,033	33,052	25,830	19,122	17,602	-7.9%	-12.1%	17,095	3%
Adj Net profit	14,099	20,101	23,453	29,797	20,056	30,949	27,439	-11.3%	17.0%	26,647	3%
Adj. EPS (RMB)	5.73	8.04	9.60	12.19	8.57	12.55	10.80	-13.9%	12.5%	10.60	2%
Margin (%)											
Gross Margin	47.5%	46.0%	45.1%	48.1%	40.5%	47.8%	45.0%			45.1%	
Operating Margin	14.9%	9.9%	15.9%	22.8%	9.4%	21.2%	17.5%			16.4%	
Adj. net Margin	22.8%	24.8%	27.5%	25.4%	21.5%	26.9%	23.6%			22.8%	
Growth (%)											
Revenue (YoY)	60.5%	61.2%	54.5%	41.3%	51.0%	42.0%	36.3%			37.1%	
Revenue (QoQ)	-25.4%	30.7%	5.2%	37.7%	-20.3%	22.9%	1.0%			0.6%	
Operating Profit	-64.5%	-13.0%	68.3%	98.5%	-4.9%	203.9%	-12.1%			41.6%	
Adj. net Profit	-47.8%	42.6%	16.7%	27.0%	42.3%	54.0%	17.0%			13.6%	

Source: Company data, CMBIS estimates, Bloomberg

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	513,953	665,196	823,900	-1.4%	-2.0%	-1.1%
Gross Profit	229,236	296,742	370,781	233,664	303,098	375,847	-1.9%	-2.1%	-1.3%
Operating Profit	83,143	108,338	140,220	93,925	128,505	166,813	-11.5%	-15.7%	-15.9%
Net profit	117,422	156,574	201,101	118,260	152,932	191,300	-0.7%	2.4%	5.1%
EPS (RMB)	46.74	59.46	70.88	48.78	60.64	75.91	-4.2%	-1.9%	-6.6%
Gross Margin	45.3%	45.5%	45.5%	45.5%	45.6%	45.6%	-0.2ppts	-0.1ppts	-0.1ppts
Operating Margin	16.4%	16.6%	17.2%	18.3%	19.3%	20.2%	-1.9ppts	-2.7ppts	-3.0ppts
Net Margin	23.2%	24.0%	24.7%	23.0%	23.0%	23.2%	+0.2ppts	+1.0ppts	+1.5ppts

Source: Company data, CMBIS estimates, 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

Financial Summary

Income statement

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	250,266	376,844	506,599	652,181	814,903
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
COSG	(107,044)	(206,929)	(277,363)	(355,439)	(444,122)
Gross profit	143,222	169,915	229,236	296,742	370,781
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)
Operating profit	69,314	57,084	83,143	108,338	140,220
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
Pre-tax profit	100,403	96,221	131,361	166,571	210,527
Equity investees	(20,792)	566	566	566	566
Tax	(18,199)	(16,553)	(31,527)	(39,977)	(50,526)
Net profit	61,304	79,948	100,400	127,160	160,566
Non-GAAP NI	83,214	93,407	117,422	156,574	201,101

Cash flow summary

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	61,412	80,234	100,400	127,160	160,566
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)
Operating CF	125,171	150,975	180,519	225,716	276,423
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
Investing CF	(83,890)	(151,060)	(226,810)	(238,707)	(251,794)
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
Financing CF	20,359	(9,248)	0	0	0
Change in cash	61,640	(9,333)	(46,292)	(12,992)	24,628
Cash (beg of yr)	143,736	199,309	189,976	143,684	130,693
FX	(6,067)	3,245	0	0	0
Cash (end of yr)	199,309	193,221	143,684	130,693	155,321

Balance sheet

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
NC assets	460,269	694,803	883,439	1,073,385	1,266,491
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
Current assets	256,855	270,273	235,699	236,769	278,272
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
Current liabilities	135,810	207,669	231,211	259,462	293,363
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
NC liabilities	141,875	142,005	142,005	142,005	142,005
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
Total Equity	436,438	608,583	704,001	831,664	997,270
MI	70,616	116,326	110,544	108,810	119,308
S/H equity	365,822	492,257	593,457	722,854	877,963

Key ratios

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
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
Total	100.0	100.0	100.0	100.0	100.0
Profitability (%)					
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
Balance sheet					
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
Returns (%)					
ROE	19.5	16.2	17.3	18.9	19.0
ROA	11.6	9.7	10.5	12.0	13.0
Per share data					
Adj. EPS (RMB)	32.9	38.0	46.7	59.5	70.9
DPS (RMB)	0.0	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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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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