

Alibaba (BABA US)

Driving for group improvement

Alibaba's customer management revenue (CMR) growth and cloud revenue growth will take time to recover under current macro backdrop, while the group is trying to revitalize growth via empowering each of the six main units. Taobao and Tmall's "user first" strategy is delivering results, increasing merchants' willingness to invest in advertising. Although Alibaba's near-term domestic business development faces hindrance due to macro uncertainties, operating efficiency improvement across business lines, as well as international business revenue growth likely remain as bright spots. With a more efficient and more agile organization structure, Alibaba is better-positioned to enhance competitiveness of individual business unit in the long term. In view of softened outlook on related consumption demand, we lower SOTP-based TP to US\$155.0 (from US\$156.1). Maintain BUY.

- **2QFY24 preview.** We forecast Alibaba has achieved 2QFY24 (March year-end) revenue of RMB226.9bn, up 9.5% YoY, in line with Bloomberg consensus. Driven by operating efficiency improvement across business lines, we forecast Alibaba has recorded adjusted EBITA of RMB42.4bn, up 17.3% YoY and 0.7% higher than Bloomberg consensus estimate. This translates into 18.7% adjusted EBITA margin (2QFY23: 17.5%).
- **Macro headwinds weigh on domestic revenue growth recovery, while CMR is likely to continue to outgrow GMV.** Alibaba's Taobao and Tmall GMV growth is likely to see some near-term fluctuations as macro uncertainties persist, and recovery still takes time. However, the "user first" strategy is driving user engagement improvement, which in turn improves merchants' willingness to invest in advertising. We forecast Alibaba has recorded CMR growth of 4% YoY in 2QFY24, on the back of 1% YoY growth from Taobao and Tmall GMV. The potential large-scale launch of the new advertising products in November likely drives further monetization improvement.
- **Cloud business revenue growth takes time to recover.** Overall cloud business revenue growth likely takes time to recover given a slow recovery in enterprises' digitalization demand. Public cloud business could sustain healthy growth trajectory while the adjustment on private and hybrid cloud business remains a drag on revenue growth. We forecast cloud business revenue growth of 4% in 2QFY24, flat QoQ.
- **Operating efficiency improvement across business lines remains on track.** On a combined basis, we forecast Alibaba International Digital Commerce Group (AIDC), Local Services Group, Cainiao, Cloud Intelligence Group, and Digital Media and Entertainment Group have seen revenue growth of 19% YoY in 2QFY24, while their combined adjusted EBITA loss to have narrowed to RMB2.0bn (2QFY23: RMB3.9bn), driven by operating efficiency improvement and effective cost control. AIDC likely remains a bright spot among business lines in 2QFY24, thanks to robust revenue growth in both Lazada and Alibaba Express. We estimate AIDC revenue to grow 40% YoY in 2QFY24.

Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	853,062	868,687	965,615	1,078,714	1,175,846
YoY growth (%)	18.9	1.8	11.2	11.7	9.0
Net profit (RMB mn)	61,959.0	72,509.0	135,015.7	154,846.1	170,544.7
Adjusted net profit (RMB mn)	143,515.0	143,991.0	175,056.2	187,207.5	205,820.0
EPS (Adjusted) (RMB)	53.26	54.91	68.67	73.37	80.58
Consensus EPS (RMB)	53.26	54.56	66.54	73.32	82.52
P/E (Adjusted) (x)	10.6	10.8	8.6	8.1	7.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$155.00
(Previous TP US\$156.10)
Up/Downside 82.7%
Current Price US\$84.85

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Stock Data

Mkt Cap (US\$ mn)	217,670.0
Avg 3 mths t/o (US\$ mn)	724.0
52w High/Low (US\$)	120.57/63.15
Total Issued Shares (mn)	2565.4

Source: FactSet

Shareholding Structure

SoftBank	13.9%
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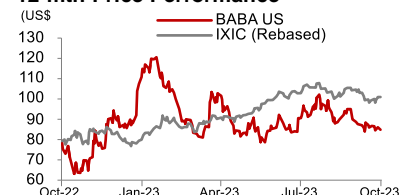
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.8%	-3.5%
3-mth	-6.3%	-4.5%
6-mth	-16.4%	-24.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Revision of forecast and valuation

Figure 1: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	965.6	1078.7	1175.8	985.2	1108.7	1215.5	-2.0%	-2.7%	-3.3%
Gross Profit	365.0	403.4	439.8	371.4	414.7	454.6	-1.7%	-2.7%	-3.3%
Non-GAAP net profit	175.1	187.2	205.8	176.8	194.2	220.5	-1.0%	-3.6%	-6.7%
Gross Margin	37.8%	37.4%	37.4%	37.7%	37.4%	37.4%	0.1 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	18.1%	17.4%	17.5%	17.9%	17.5%	18.1%	0.2 ppt	-0.2 ppt	-0.6 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	965.6	1078.7	1175.8	964.6	1059.6	1164.5	0.1%	1.8%	1.0%
Gross Profit	365.0	403.4	439.8	365.0	400.8	438.9	0.0%	0.7%	0.2%
Non-GAAP net profit	175.1	187.2	205.8	171.7	183.8	205.4	1.9%	1.9%	0.2%
Gross Margin	37.8%	37.4%	37.4%	37.8%	37.8%	37.7%	0.0 ppt	-0.4 ppt	-0.3 ppt
Non-GAAP net margin	18.1%	17.4%	17.5%	17.8%	17.3%	17.6%	0.3 ppt	0.0 ppt	-0.1 ppt

Source: Bloomberg, CMBIGM estimates

Valuation: target price of US\$155.0 per ADS

Our SOTP-based target price is US\$155.0 per ADS, and translates into 15.7x FY24E PE.

- 1) US\$72.2 per ADS (was US\$73.3) for Taobao and Tmall Group, based on 8.0x FY24E EV/adjusted EBITA;
- 2) US\$16.6 per ADS for AIDC (unchanged), based on 3.0x FY24E EV/revenue, currently we are assuming 20% net profit margin and 15x PE for the business at steady state;
- 3) US\$6.0 per ADS for local consumer services (was US\$6.1), based on 1.7x EV/revenue on FY24E revenue;
- 4) US\$7.6 per ADS for Cainiao, based on the transaction in the most recent round of financing and Alibaba's 69.54% shareholding.
- 5) US\$25.8 per ADS for the Cloud Intelligence Group (unchanged), based on a 4.2x PS multiple on FY24E revenue (before intersegment elimination);
- 6) US\$2.1 per ADS for Digital Media and Entertainment Group (unchanged), based on 1.7x FY24 EV/S;
- 7) US\$10.9 per ADS for All Others (was US\$11.2), based on 1.0x FY24E EV/Sales.
- 8) US\$13.8 per ADS for strategic investment with 30% holding discount (was US\$14.1).

Figure 3: Alibaba: SOTP valuation

#	Segment (US\$mn)	Valuation method	FY24E Rev (US\$mn)	Adj. EBITA post tax	P/E (x)	EV/S (x)	Val. RMB mn	Val. US\$m	\$/share	Value split
1	Taobao and Tmall Group	8.0x FY24E P/E; 20% tax rate on adjusted EBITA	65,097	23,157	8.0		1,282,913	185,258	72.2	47%
2	International Digital Commerce Group	3.0x FY24E EV/S	14,224			3.0	295,513	42,673	16.6	11%
3	Local Services Group	1.7x FY24 EV/S	9,036			1.7	106,379	15,362	6.0	4%
4	Cainiao Smart Logistics Network Limited	Last round transaction value; 63% shareholding	14,074				135,024	19,498	7.6	5%
5	Cloud Intelligence Group	4.2x FY24 EV/S on revenue before intersegment elimination	15,625			4.2	457,706	66,095	25.8	17%
6	Digital Media and Entertainment Group	1.7x FY24 EV/S, inline with iQIYI target EV/S	3,137			1.7	36,933	5,333	2.1	1%
7	All others	1.0x FY24 EV/PS	27,977			1.0	193,743	27,977	10.9	7%
Total Alibaba business							2,508,210	362,196	141.2	
INVESTMENTS										
1	Ant Group	Last round share buyback valuation; 33% shareholding					187,143	27,024	10.5	
2	Others	Market valuation					162,987	23,536	9.2	
Total investment (with 30% holding discount)										13.8
Total (US\$mn)									155.0	
#s of diluted ADS (mn)										2,565

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Revenue	717,289	853,062	868,687	965,615	1,078,714	1,175,846
Cost of goods sold	(421,205)	(539,450)	(549,695)	(600,613)	(675,275)	(736,079)
Gross profit	296,084	313,612	318,992	365,003	403,439	439,766
Operating expenses	(206,406)	(243,974)	(218,641)	(215,352)	(234,081)	(251,631)
SG&A expense	(136,743)	(151,721)	(145,679)	(152,567)	(167,201)	(179,904)
R&D expense	(57,236)	(55,465)	(56,744)	(51,178)	(56,093)	(59,968)
Others	(12,427)	(36,788)	(16,218)	(11,607)	(10,787)	(11,758)
Operating profit	89,678	69,638	100,351	149,651	169,358	188,135
Interest income	72,794	(15,702)	(11,071)	(5,601)	2,157	2,117
Interest expense	(4,476)	(4,909)	(5,918)	(6,759)	(6,257)	(7,055)
Other income/expense	7,582	10,523	5,823	5,794	5,933	6,467
Pre-tax profit	165,578	59,550	89,185	143,085	171,192	189,664
Income tax	(29,278)	(26,815)	(15,549)	(23,609)	(32,526)	(37,933)
Others	6,984	14,344	(8,063)	10,622	9,708	10,583
After tax profit	143,284	47,079	65,573	130,098	148,374	162,314
Minority interest	7,294	15,170	7,210	4,828	6,472	8,231
Others	(270)	(290)	(274)	90	0	0
Net profit	150,308	61,959	72,509	135,016	154,846	170,545
Adjusted net profit	178,954	143,515	143,991	175,056	187,208	205,820
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Current assets	643,360	638,535	697,966	893,656	1,008,848	1,169,503
Cash & equivalents	321,262	189,898	193,086	379,075	478,154	625,318
Restricted cash	35,207	37,455	36,424	36,424	36,424	36,424
Prepayment	124,708	145,995	137,072	146,774	162,886	176,377
Financial assets at FVTPL	162,183	265,187	331,384	331,384	331,384	331,384
Non-current assets	1,046,858	1,057,018	1,055,078	1,165,387	1,237,676	1,310,606
PP&E	147,412	171,806	176,031	267,069	316,690	368,427
Investment in JVs & assos	200,189	219,642	207,380	205,740	203,186	201,507
Intangibles	70,833	59,231	46,913	118,882	139,249	158,645
Goodwill	292,771	269,581	268,091	268,091	268,091	268,091
Financial assets at FVTPL	237,221	223,611	245,737	245,737	245,737	245,737
Other non-current assets	98,432	113,147	110,926	59,868	64,723	68,199
Total assets	1,690,218	1,695,553	1,753,044	2,059,043	2,246,524	2,480,109
Current liabilities	377,358	383,784	385,351	428,102	437,383	477,734
Short-term borrowings	3,606	8,841	7,466	8,158	9,172	9,997
Tax payable	25,275	21,753	12,543	20,776	27,647	31,105
Other current liabilities	87,337	81,730	89,392	92,428	103,917	113,275
Accrued expenses	261,140	271,460	275,950	306,741	296,646	323,358
Non-current liabilities	229,226	229,576	244,772	222,208	230,459	237,862
Long-term borrowings	38,335	38,244	52,023	52,023	51,186	51,186
Deferred income	3,158	3,490	3,560	3,890	4,373	4,767
Other non-current liabilities	187,733	187,842	189,189	166,295	174,901	181,909
Total liabilities	606,584	613,360	630,123	650,309	667,842	715,596
Share capital	1	1	1	1	1	1
Capital surplus	394,308	410,506	416,880	553,690	575,264	598,781
Retained earnings	554,924	563,557	599,028	733,954	888,800	1,059,345
Other reserves	(3,090)	(15,930)	(16,394)	2,511	2,511	2,511
Total shareholders equity	946,143	958,134	999,515	1,290,156	1,466,576	1,660,638
Minority interest	137,491	124,059	123,406	118,578	112,106	103,875
Total equity and liabilities	1,690,218	1,695,553	1,753,044	2,059,043	2,246,524	2,480,109

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	165,578	59,550	89,185	143,085	171,192	189,664
Depreciation & amortization	47,909	48,065	46,938	9,656	10,787	11,758
Tax paid	(29,278)	(26,815)	(15,549)	(23,609)	(32,526)	(37,933)
Change in working capital	50,297	(18,150)	13,482	62,837	(7,737)	26,601
Others	(2,720)	80,109	65,696	24,077	25,700	26,877
Net cash from operations	231,786	142,759	199,752	216,046	167,416	216,967
Investing						
Capital expenditure	(41,450)	(53,309)	(34,330)	(48,281)	(49,621)	(51,737)
Acquisition of subsidiaries/ investments	(1,735)	(15)	(22)	(31,154)	(31,154)	(31,154)
Net proceeds from disposal of short-term investments	(114,826)	(106,984)	(61,086)	0	0	0
Others	(86,183)	(38,284)	(40,068)	12,262	12,262	12,262
Net cash from investing	(244,194)	(198,592)	(135,506)	(67,173)	(68,513)	(70,629)
Financing						
Net borrowings	32,008	0	0	0	0	0
Proceeds from share issues	175	109	11	0	0	0
Share repurchases	(773)	(61,225)	(74,746)	0	0	0
Others	(1,328)	(3,333)	9,116	692	177	826
Net cash from financing	30,082	(64,449)	(65,619)	692	177	826
Net change in cash						
Cash at the beginning of the year	345,982	356,469	227,353	229,510	379,075	478,154
Exchange difference	(7,187)	(8,834)	3,530	0	0	0
Cash at the end of the year	356,469	227,353	229,510	379,075	478,154	625,318
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Revenue	na	18.9%	1.8%	11.2%	11.7%	9.0%
Gross profit	na	5.9%	1.7%	14.4%	10.5%	9.0%
Operating profit	na	(22.3%)	44.1%	49.1%	13.2%	11.1%
Net profit	na	(58.8%)	17.0%	86.2%	14.7%	10.1%
Adj. net profit	na	(19.8%)	0.3%	21.6%	6.9%	9.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Gross profit margin	41.3%	36.8%	36.7%	37.8%	37.4%	37.4%
Operating margin	12.5%	8.2%	11.6%	15.5%	15.7%	16.0%
Adj. net profit margin	24.9%	16.8%	16.6%	18.1%	17.4%	17.5%
Return on equity (ROE)	na	6.5%	7.4%	11.8%	11.2%	10.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.7	1.7	1.8	2.1	2.3	2.4
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
P/E	30.2	46.5	23.0	11.7	10.2	9.3
P/E (diluted)	30.7	47.0	23.2	11.8	10.3	9.3
P/B	4.9	3.0	1.7	1.2	1.1	1.0
P/CFPS	24.2	32.6	10.1	9.5	13.5	9.6

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

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