

# Alibaba (BABA US)

## Driving long-term growth while enhancing shareholder return

We expect Alibaba to deliver in-line-with-consensus revenue growth for 4QFY24. Although escalated investment in international business, cloud, and Taobao and Tmall (T&T) Group, as well as strategically important new businesses is likely to put some short-term pressure on margin expansion, we remain positive on Alibaba's long-term growth potential. Alibaba remains committed to improving shareholder return by achieving loss reduction in non-core business, and enhancing share buyback and dividend payout, which in our view should provide support for near-term valuation. The strategic move to drive an integrated group strategy should enhance its long-term value. We fine-tune our SOTP-based target price to US\$131.9 (was US\$137.1), after considering the change in Cainiao and investment portfolio valuation. Maintain BUY.

- 4QFY24 preview: expect in-line-with-consensus revenue growth.** We estimate Alibaba achieved 4QFY24 revenue of RMB221.4bn, up 6% YoY, in line with Bloomberg consensus. For group-level adjusted EBITA, we forecast it to decline 5% YoY to RMB24.0bn, translating into a 10.8% adjusted EBITA margin (4QFY23: 12.1%), owing to: 1) increased investment to enhance user experience and drive GMV growth in the domestic e-commerce market; and 2) enhanced investment to support international e-commerce business expansion. We expect FY25 to be a year of reinvestment for the core business segments in order to drive long-term growth, while losses from non-core business should see a narrowing trend given efficient cost control.
- Remains committed to drive merchant ROI improvement.** Alibaba is making continued investment to enhance its content ecosystem, to deliver better user experience, as well as a better ROI for merchants, in order to bring its GMV growth back to the industry average level, which in our view has seen some early-stage results. We forecast Alibaba recorded customer management revenue growth of 3% YoY in 4QFY24 on the back of 7% YoY GMV growth from T&T GMV. However, driven by the reinvestment plan, we forecast T&T Group's adjusted EBITA declined 1.5% YoY to RMB38.5bn, implying a margin of 42.1% (4QFY23: 43.4%).
- Efforts to improve shareholder return should provide support for valuation.** In terms of near-term growth strategies, Alibaba is striving for a more integrated group strategy. For international business, Alibaba has been increasing its investment to enhance logistics and fulfilment infrastructure, as well as geographical expansion. For Cloud business, Alibaba is lowering prices in both domestic and international markets in order to achieve more rapid scale expansion. Alibaba's strategic move to enhance group-level ROIC and shareholder return should provide support for its valuation, in our view. The next key thing to watch regarding shareholder return will likely be the announcement of annual fiscal year dividends in May.

### Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	853,062	868,687	940,675	1,027,573	1,117,546
Net profit (RMB mn)	61,959.0	72,509.0	89,880.1	129,417.6	144,431.7
Adjusted net profit (RMB mn)	143,515.0	143,991.0	155,484.8	158,189.7	175,164.2
EPS (Adjusted) (RMB)	53.26	54.91	61.00	62.00	68.58
Consensus EPS (RMB)	na	na	62.80	62.73	71.63
P/E (x)	22.6	18.8	14.7	10.2	9.2

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** US\$131.90  
 (Previous TP) US\$137.10  
**Up/Downside** 81.0%  
**Current Price** US\$72.99

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#### Stock Data

Mkt Cap (US\$ mn)	183,961.3
Avg 3 mths t/o (US\$ mn)	1,213.6
52w High/Low (US\$)	102.16/68.05
Total Issued Shares (mn)	2565.4

Source: FactSet

#### Shareholding Structure

SoftBank	13.9%
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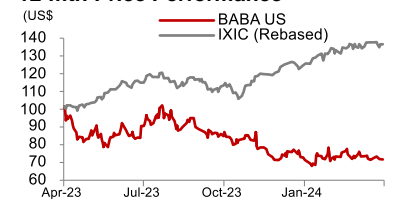
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-2.5%	-3.5%
3-mth	-0.4%	-9.0%
6-mth	-15.5%	-29.9%

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	940.7	1027.6	1117.5	941.7	1043.7	1142.7	-0.1%	-1.5%	-2.2%
Gross profit	356.0	390.1	424.2	357.5	396.2	433.8	-0.4%	-1.5%	-2.2%
Non-GAAP net profit	155.5	158.2	175.2	157.9	172.5	191.0	-1.5%	-8.3%	-8.3%
Gross margin	37.8%	38.0%	38.0%	38.0%	38.0%	38.0%	-0.1 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	16.5%	15.4%	15.7%	16.8%	16.5%	16.7%	-0.2 ppt	-1.1 ppt	-1.0 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	940.7	1027.6	1117.5	939.9	1014.3	1094.8	0.1%	1.3%	2.1%
Gross profit	356.0	390.1	424.2	355.3	379.3	407.0	0.2%	2.8%	4.2%
Non-GAAP net profit	155.5	158.2	175.2	157.9	159.2	175.9	-1.5%	-0.7%	-0.4%
Gross margin	37.8%	38.0%	38.0%	37.8%	37.4%	37.2%	0.0 ppt	0.6 ppt	0.8 ppt
Non-GAAP net margin	16.5%	15.4%	15.7%	16.8%	15.7%	16.1%	-0.3 ppt	-0.3 ppt	-0.4 ppt

Source: Bloomberg, CMBIGM estimates

### Valuation: target price of US\$131.9 per ADS

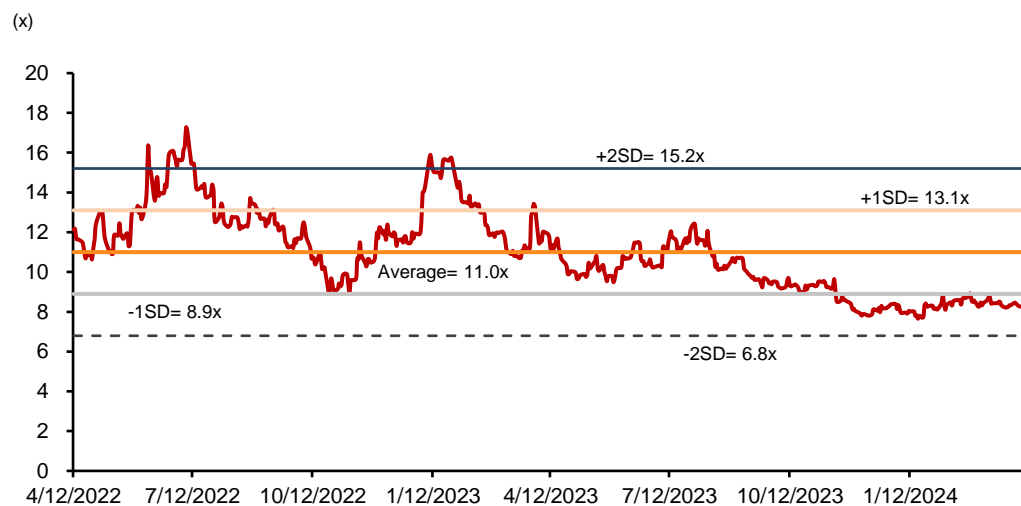
Our SOTP-based target price is US\$131.9 per ADS, and translates into 15.7x FY24E P/E.

- 1) US\$59.1 per ADS (was US\$59.2) for Taobao and Tmall Group, based on 7.0x FY24E EV/adjusted EBITA (unchanged); the lowered target valuation reflects likely slower-than-expected earnings growth owing to a more aggressive-than-expected reinvestment plan;
- 2) US\$16.7 per ADS for AIDC (unchanged), based on 3.0x FY24E EV/revenue; currently we are assuming a 20% net profit margin and 15x PE for the business at steady state;
- 3) US\$5.4 per ADS for local services group (unchanged), based on 1.7x EV/revenue on FY24E revenue;
- 4) US\$2.6 per ADS for Cainiao (was USD7.3), based on the latest valuation given by Alibaba to repurchase Cainiao shares from minority shareholders, and Alibaba's current 63.7% shareholding on a fully diluted basis.
- 5) US\$24.4 per ADS for the Cloud Intelligence Group (unchanged), based on a 4.2x EV/S multiple on FY24E revenue (before intersegment elimination);
- 6) US\$2.0 per ADS for Digital Media and Entertainment Group (unchanged), based on 1.7x FY24 EV/Sales;
- 7) US\$10.3 per ADS for All Others (unchanged), based on 1.0x FY24E EV/Sales.
- 8) US\$11.4 per ADS for strategic investment with a 30% holding discount.

**Figure 3: Alibaba: SOTP valuation**

#	Segment (US\$m)	Valuation method	FY24E Rev (US\$m)	Adj. EBITA post tax	P/E (x)	EV/S (x)	Val. RMB mn	Val. US\$m	\$/share	Value split
1	Taobao and Tmall Group	7.0x FY24E P/E; 20% tax rate on adjusted EBITA	60,141	21,642	7.0		1,090,769	151,496	59.1	45%
2	International Digital Commerce Group	3.0x FY24E EV/S	14,293			3.0	308,723	42,878	16.7	13%
3	Local Services Group	1.7x FY24 EV/S	8,194			1.7	100,291	13,929	5.4	4%
4	Cainiao Smart Logistics Network Limited	Last round transaction value; 63.7% shareholding	13,547				47,380	6,581	2.6	2%
5	Cloud Intelligence Group	4.2x FY24 EV/S on revenue before intersegment elimination	14,805			4.2	450,891	62,624	24.4	19%
6	Digital Media and Entertainment Group	1.7x FY24 EV/S, in line with iQIYI target EV/S	3,026			1.7	37,039	5,144	2.0	2%
7	All others	1.0x FY24 EV/S	26,529			1.0	191,012	26,529	10.3	8%
<b>Total Alibaba business</b>							<b>2,226,104</b>	<b>309,181</b>	<b>120.5</b>	
<b>INVESTMENTS</b>										
1	Ant Group	Last round share buyback valuation; 33% share holding					187,143	25,992	10.1	
2	Others	Market valuation					112,525	15,628	6.1	
<b>Total investment (with 30% holding discount)</b>									<b>11.4</b>	
<b>Total (US\$m)</b>									<b>131.9</b>	
#s of diluted ADS (mn)									2,565	

Source: CMBIGM estimates

**Figure 4: Alibaba: two-year average one-year forward PE**

Source: Bloomberg, CMBIGM

**Risks**

- 1) Slower-than-expected international business revenue growth;
- 2) Slower-than-expected margin recovery dragged by greater-than-expected reinvestment to aid long-term business development.

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (RMB mn)						
<b>Revenue</b>	<b>717,289</b>	<b>853,062</b>	<b>868,687</b>	<b>940,675</b>	<b>1,027,573</b>	<b>1,117,546</b>
Cost of goods sold	(421,205)	(539,450)	(549,695)	(584,724)	(637,506)	(693,326)
<b>Gross profit</b>	<b>296,084</b>	<b>313,612</b>	<b>318,992</b>	<b>355,951</b>	<b>390,067</b>	<b>424,221</b>
<b>Operating expenses</b>	<b>(206,406)</b>	<b>(243,974)</b>	<b>(218,641)</b>	<b>(242,224)</b>	<b>(251,755)</b>	<b>(267,094)</b>
SG&A expense	(136,743)	(151,721)	(145,679)	(158,033)	(183,936)	(194,453)
R&D expense	(57,236)	(55,465)	(56,744)	(52,207)	(57,544)	(61,465)
Others	(12,427)	(36,788)	(16,218)	(31,983)	(10,276)	(11,175)
<b>Operating profit</b>	<b>89,678</b>	<b>69,638</b>	<b>100,351</b>	<b>113,728</b>	<b>138,311</b>	<b>157,127</b>
Interest income	72,794	(15,702)	(11,071)	(2,822)	2,055	2,012
Interest expense	(4,476)	(4,909)	(5,918)	(8,090)	(7,810)	(8,493)
Other income/expense	7,582	10,523	5,823	3,763	5,652	6,147
<b>Pre-tax profit</b>	<b>165,578</b>	<b>59,550</b>	<b>89,185</b>	<b>106,578</b>	<b>138,209</b>	<b>156,792</b>
Income tax	(29,278)	(26,815)	(15,549)	(19,610)	(26,260)	(31,358)
Others	6,984	14,344	(8,063)	(4,703)	9,248	10,058
<b>After tax profit</b>	<b>143,284</b>	<b>47,079</b>	<b>65,573</b>	<b>82,265</b>	<b>121,197</b>	<b>135,491</b>
Minority interest	7,294	15,170	7,210	7,525	8,221	8,940
Others	(270)	(290)	(274)	90	0	0
<b>Net profit</b>	<b>150,308</b>	<b>61,959</b>	<b>72,509</b>	<b>89,880</b>	<b>129,418</b>	<b>144,432</b>
<b>Adjusted net profit</b>	<b>178,954</b>	<b>143,515</b>	<b>143,991</b>	<b>155,485</b>	<b>158,190</b>	<b>175,164</b>
<b>BALANCE SHEET</b>						
YE 31 Mar (RMB mn)						
<b>Current assets</b>	<b>643,360</b>	<b>638,535</b>	<b>697,966</b>	<b>867,312</b>	<b>941,796</b>	<b>1,071,014</b>
Cash & equivalents	321,262	189,898	193,086	356,521	418,824	535,574
Restricted cash	35,207	37,455	36,424	36,424	36,424	36,424
Prepayment	124,708	145,995	137,072	142,983	155,163	167,632
Financial assets at FVTPL	162,183	265,187	331,384	331,384	331,384	331,384
<b>Non-current assets</b>	<b>1,046,858</b>	<b>1,057,018</b>	<b>1,055,078</b>	<b>1,126,893</b>	<b>1,195,358</b>	<b>1,265,468</b>
PP&E	147,412	171,806	176,031	265,822	313,090	362,262
Investment in JVs & assos	200,189	219,642	207,380	190,415	187,401	185,197
Intangibles	70,833	59,231	46,913	98,506	119,385	139,363
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	58,322	61,654	64,818
<b>Total assets</b>	<b>1,690,218</b>	<b>1,695,553</b>	<b>1,753,044</b>	<b>1,994,205</b>	<b>2,137,154</b>	<b>2,336,482</b>
<b>Current liabilities</b>	<b>377,358</b>	<b>383,784</b>	<b>385,351</b>	<b>413,999</b>	<b>411,667</b>	<b>449,151</b>
Short-term borrowings	3,606	8,841	7,466	7,942	8,659	9,417
Tax payable	25,275	21,753	12,543	17,257	22,321	25,714
Other current liabilities	87,337	81,730	89,392	89,983	98,105	106,695
Accrued expenses	261,140	271,460	275,950	298,818	282,582	307,325
<b>Non-current liabilities</b>	<b>229,226</b>	<b>229,576</b>	<b>244,772</b>	<b>220,273</b>	<b>225,861</b>	<b>232,657</b>
Long-term borrowings	38,335	38,244	52,023	52,023	51,186	51,186
Deferred income	3,158	3,490	3,560	3,787	4,129	4,490
Other non-current liabilities	187,733	187,842	189,189	164,463	170,547	176,981
<b>Total liabilities</b>	<b>606,584</b>	<b>613,360</b>	<b>630,123</b>	<b>634,273</b>	<b>637,528</b>	<b>681,808</b>
Share capital	1	1	1	1	1	1
Capital surplus	394,308	410,506	416,880	552,721	571,217	590,774
Retained earnings	554,924	563,557	599,028	688,818	818,236	962,667
Other reserves	(3,090)	(15,930)	(16,394)	2,511	2,511	2,511
<b>Total shareholders equity</b>	<b>946,143</b>	<b>958,134</b>	<b>999,515</b>	<b>1,244,051</b>	<b>1,391,965</b>	<b>1,555,954</b>
Minority interest	137,491	124,059	123,406	115,881	107,660	98,720
<b>Total equity and liabilities</b>	<b>1,690,218</b>	<b>1,695,553</b>	<b>1,753,044</b>	<b>1,994,205</b>	<b>2,137,153</b>	<b>2,336,481</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>165,578</b>	<b>59,550</b>	<b>89,185</b>	<b>106,578</b>	<b>138,209</b>	<b>156,792</b>
Depreciation & amortization	47,909	48,065	46,938	21,636	10,276	11,175
Tax paid	(29,278)	(26,815)	(15,549)	(19,610)	(26,260)	(31,358)
Change in working capital	50,297	(18,150)	13,482	53,231	(15,054)	24,805
Others	(2,720)	80,109	65,696	30,626	21,413	22,642
<b>Net cash from operations</b>	<b>231,786</b>	<b>142,759</b>	<b>199,752</b>	<b>192,462</b>	<b>128,584</b>	<b>184,056</b>
<b>Investing</b>						
Capital expenditure	(41,450)	(53,309)	(34,330)	(47,034)	(47,268)	(49,172)
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
<b>Net cash from investing</b>	<b>(244,194)</b>	<b>(198,592)</b>	<b>(135,506)</b>	<b>(65,926)</b>	<b>(66,161)</b>	<b>(68,064)</b>
<b>Financing</b>						
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	476	(121)	758
<b>Net cash from financing</b>	<b>30,082</b>	<b>(64,449)</b>	<b>(65,619)</b>	<b>476</b>	<b>(121)</b>	<b>758</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	345,982	356,469	227,353	229,510	356,521	418,824
Exchange difference	(7,187)	(8,834)	3,530	0	0	0
<b>Cash at the end of the year</b>	<b>356,469</b>	<b>227,353</b>	<b>229,510</b>	<b>356,521</b>	<b>418,824</b>	<b>535,574</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
Revenue	na	18.9%	1.8%	8.3%	9.2%	8.8%
Gross profit	na	5.9%	1.7%	11.6%	9.6%	8.8%
Operating profit	na	(22.3%)	44.1%	13.3%	21.6%	13.6%
Net profit	na	(58.8%)	17.0%	24.0%	44.0%	11.6%
Adj. net profit	na	(19.8%)	0.3%	8.0%	1.7%	10.7%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
Gross profit margin	41.3%	36.8%	36.7%	37.8%	38.0%	38.0%
Operating margin	12.5%	8.2%	11.6%	12.1%	13.5%	14.1%
Adj. net profit margin	24.9%	16.8%	16.6%	16.5%	15.4%	15.7%
Return on equity (ROE)	na	6.5%	7.4%	8.0%	9.8%	9.8%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.4)	(0.5)
Current ratio (x)	1.7	1.7	1.8	2.1	2.3	2.4
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
P/E	9.3	22.6	18.8	14.7	10.2	9.2
P/E (diluted)	9.5	22.8	18.9	14.8	10.3	9.2
P/B	1.5	1.5	1.4	1.1	1.0	0.9
P/CFPS	7.5	15.8	8.3	9.2	16.4	9.9

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

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**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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