

# China / Hong Kong Company Update

# Alibaba Group

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Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 May 2022

## HK: BUY

Last Traded Price (26 May 2022): HK\$81.10 (HSI : 20,116)  
Price Target 12-mth: HK\$157 (93.6% upside) (Prev HK\$182)

## US: BUY

Last Traded Price (26 May 2022): US\$94.48 (NASDAQ : 11,741)  
Price Target 12-mth: US\$161 (70.4% upside) (Prev US\$187)

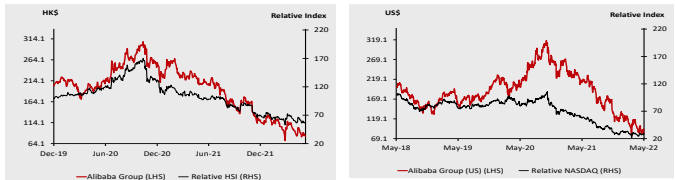
### Analyst

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## What's New

- 4QFY3/22 revenue increased 9% y-o-y to Rmb204bn
- Net-GAAP net profit dropped by 24%, better than consensus due to lower investment losses
- Revised down non-GAAP net profit forecast by 5% and 2% for FY3/23F and FY3/24F due to COVID impact
- Maintain BUY with lower TP of HK\$157/US\$161

## Price Relative



## Forecasts and Valuation (HK Shares)

FY Mar (RMBm)	2021A	2022A	2023F	2024F
Turnover	717,289	853,062	957,665	1,117,980
EBITDA	152,153	169,646	182,928	208,557
Pre-tax Profit	172,562	99,035	112,317	137,946
Net Profit	150,308	87,100	99,208	118,430
Net Pft (Pre Ex) (core profit)	179,009	176,409	149,208	173,430
Net Profit Gth (Pre-ex) (%)	0.7	(42.1)	13.9	19.4
EPS (RMB)	6.95	4.03	4.59	5.48
EPS (HK\$)	8.10	4.69	5.35	6.38
EPS Gth (%)	(2.1)	(42.1)	13.9	19.4
Core EPS Gth (%)	(2.0)	(42.0)	13.8	19.3
Diluted EPS (HK\$)	7.96	4.62	5.26	6.28
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	50.32	50.92	57.31	64.75
PE (X)	10.0	17.3	15.2	12.7
CorePE (X)	10.0	17.2	15.1	12.7
P/Cash Flow (X)	6.5	10.5	7.6	6.4
P/Free CF (X)	8.0	16.6	10.2	8.3
EV/EBITDA (X)	8.4	7.6	6.8	5.5
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.6	1.6	1.4	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	17.8	9.2	9.8	10.4
Core Earnings Rev (%)			(4.6)	(2)
Consensus EPS (RMB)			5.86	6.70
Other Broker Recs:		B:31	S:0	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## High quality growth riding on 1 billion users

### Investment Thesis

**Largest e-commerce platform with marketplaces as a key driver.** Alibaba continues investing in community marketplaces to deepen its penetration into lower-tier cities via multiple consumer touch points in its ecosystem, such as Taobao Deals and Taobao Grocery.

**Cloud leader in China.** Alibaba leads the China cloud services market with a c.37% market share in 2021. Alibaba Cloud has benefited from a larger client base and strong demand from merchants.

**International e-commerce new engine driver.** Alibaba sees robust growth in the international e-commerce market, and it is well positioned to capitalise on the Southeast Asia market by leveraging on its existing supply chain and logistics networks.

### Valuation:

We derive our TP at HK\$157/ US\$161 based on SOTP methodology. (1) Core commerce: 15xP/E FY3/23F core commerce earnings (HK\$122), given slower growth amid weak macro and intensifying competition; (2) Cloud: 5x price-to-sales on FY3/23F (HK\$24); and (3) Digital media and entertainment: (HK\$9).

### Where we differ:

**More positive on earnings growth.** We believe Alibaba will focus more on cost optimisation and slow its investment pace amid weak macro. Our non-GAAP net profit for FY3/23F and FY3/24F is 3% and 1% higher than consensus.

### Key Risks to Our View:

(1) Policy risks from regulators; (2) intense competition from other e-commerce platforms; and (3) earnings drag from investments in new initiatives.

### At A Glance

Issued Capital - HK shares (m shs)	21,689
- Non HK shrs (m shs)	2,711
H shs as a % of Total	89
Total Mkt Cap (HK\$m/US\$m)	2,057,340 / 262,093
Major Shareholders (%)	
Major HK Shareholders (As % of HK shares)	
SoftBank Group Corp	24.6
HK Shares-Free Float (%)	75.4
3m Avg. Daily Val. (US\$m)	668.31
GICS Industry: Information Technology / Software & Services	



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**WHAT'S NEW****4QFY3/22 non-GAAP net income above market expectations, no full year guidance provided****4QFY3/22 results highlights**

- Revenue increased by 9% y-o-y to Rmb204bn, largely in line.
- Segment wise, China commerce retail revenue grew by 7% to Rmb136bn, within which customer management was flat amid macro challenges and intensified competition.
- International commerce revenue grew by 7% to Rmb14bn; cloud segment revenue grew by 12% to Rmb19bn, slower than market expectations due to the slowing demand from internet customers; local consumer services revenue increased by 29% to Rmb12bn.
- Adjusted EBITA decreased by 30% to Rmb15.8bn, due to investments in various growth initiatives.
- Non-GAAP net income declined by 24% to Rmb19.8bn, better than market expectations of a c.35% decline due to lower investment losses in Taobao Deals and Taocaicai.

**Our View:**

- Management did not give a full year guidance for FY3/23 because of the uncertain macro-outlook and COVID headwinds.
- We anticipate a weaker performance in Jun quarter due to the recent round of COVID outbreaks in China. The GMV of the quarter had a low single-digit decline, mainly due to disruptions in supply chain and logistics, as well as demand softening because of COVID-19's impact in March.
- Looking ahead, new growth drivers such as international business and cloud demonstrated certain level of resilience. We expect overall business to pick up along with macro-economic recovery.

-Management expects the operating loss for new business Taobao Deals and Taocaicai to narrow in next few quarters due to slower investment pace and increasing focus on cost optimisation.

In the longer term, growth will be supported by deeper penetration into lower cities areas and Cloud business's overseas expansion.

We revised down our earnings by 5% and 2% for FY3/22F and FY3/24F, as we expect lower core ecommerce growth disrupted by COVID-19

We derive our TP at HK\$157/ US\$161 based on SOTP methodology. (1) Core commerce: 15xP/E FY3/23F core commerce earnings (HK\$122), given slower growth amid weak macro and intensifying competition; (2) Cloud: 5x price-to-sales on FY3/23F (HK\$24); and (3) Digital media and entertainment: (HK\$9).

**Company Background**

Alibaba is China's largest e-commerce platform company, with Taobao and Tmall having monthly active users (MAUs) of over 800m. It has an extensive e-commerce ecosystem including Alipay, Cainiao Logistics, and AliCloud. Its revenue is derived from e-commerce (86%), cloud computing (8%), digital media & entertainment (5%) (i.e., Youku Tudou and UCWeb), and innovation initiatives and others (1%) (i.e., Dingtalk and AutoNavi).

## Alibaba Group

### Quarterly / Interim Income Statement (RMBm)

FY Mar	4Q2021	3Q2022	4Q2022	% chg y-o-y	% chg q-o-q
Revenue	187,395	242,580	204,052	8.9	(15.9)
Cost of Goods Sold	(125,454)	(146,658)	(138,945)	10.8	(5.3)
<b>Gross Profit</b>	<b>61,941</b>	<b>95,922</b>	<b>65,107</b>	<b>5.1</b>	<b>(32.1)</b>
Other Oper. (Exp)/Inc	(69,604)	(88,854)	(48,390)	(30.5)	(45.5)
<b>Operating Profit</b>	<b>(7,663)</b>	<b>7,068</b>	<b>16,717</b>	<b>(318.2)</b>	<b>136.5</b>
Other Non Opg (Exp)/Inc	2,115	5,083	1,620	(23.4)	(68.1)
Associates & JV Inc	5,992	(549)	3,282	(45.2)	(697.8)
Net Interest (Exp)/Inc	(1,049)	17,175	(37,897)	(3,512.7)	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>(605)</b>	<b>28,777</b>	<b>(16,278)</b>	<b>(2,590.6)</b>	<b>nm</b>
Tax	(7,049)	(9,553)	(2,079)	(70.5)	(78.2)
Minority Interest	2,175	1,205	2,116	(2.7)	75.6
<b>Net Profit</b>	<b>(5,479)</b>	<b>20,429</b>	<b>(16,241)</b>	<b>(196.4)</b>	<b>(179.5)</b>
Net profit bef Except.	(5,479)	20,429	(16,241)	(196.4)	(179.5)
EBITDA	29,373	20,981	32,018	9.0	52.6
<b>Margins (%)</b>					
Gross Margins	33.1	39.5	31.9		
Opg Profit Margins	(4.1)	2.9	8.2		
Net Profit Margins	(2.9)	8.4	(8.0)		

Source: Company, DBS HK

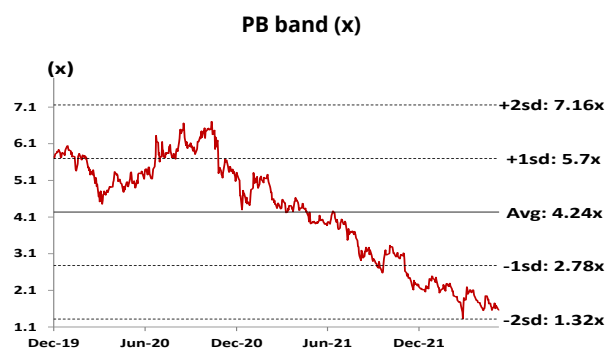
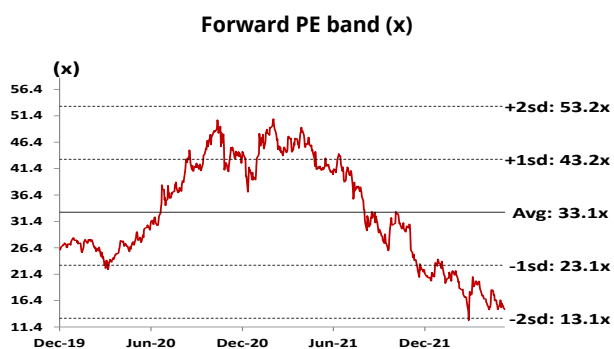
### Income Statement (RMB m)

FY Mar	2021A	2022A	% chg v-o-v
Revenue	717,289	853,062	18.9
Cost of Goods Sold	(421,205)	(539,450)	28.1
<b>Gross Profit</b>	<b>296,084</b>	<b>313,612</b>	<b>5.9</b>
Other Opng (Exp)/Inc	(206,406)	(218,833)	6.0
<b>Operating Profit</b>	<b>89,678</b>	<b>94,779</b>	<b>5.7</b>
Other Non Opg (Exp)/Inc	7,582	10,523	38.8
Associates & JV Inc	6,984	14,344	105.4
Net Interest (Exp)/Inc	68,318	(20,611)	nm
Exceptional Gain/(Loss)	0	0	nm
<b>Pre-tax Profit</b>	<b>172,562</b>	<b>99,035</b>	<b>(42.6)</b>
Tax	(29,278)	(26,815)	(8.4)
Minority Interest	7,294	15,170	108.0
<b>Net Profit</b>	<b>150,308</b>	<b>87,100</b>	<b>(42.1)</b>
Net Profit before Except.	150,578	87,390	(42.1)
EBITDA	152,153	169,646	11.5
<b>Margins &amp; Ratio</b>			
Gross Margins (%)	41.3	36.8	
Opg Profit Margin (%)	12.5	11.1	
Net Profit Margin (%)	21.0	10.2	

Source: Company, DBS HK

## Alibaba Group

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Alibaba Group

### Key Assumptions

FY Mar	2020A	2021A	2022A	2023F	2024F
China GMV (Rmb bn)	6,589.0	7,494.0	8,427.6	9,186.0	9,737.2
China annual active users (m)	726.0	811.0	903.0	984.3	1,043.3

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Mar	2020A	2021A	2022A	2023F	2024F
<b>Revenues (RMB m)</b>					
Core commerce	436,104	623,234	743,381	830,889	970,931
Cloud computing	40,016	60,558	74,568	89,482	107,378
Digital media and entertainment	26,948	31,186	32,272	33,886	35,580
Others	6,643	2,311	2,841	3,409	4,091
<b>Total</b>	<b>509,711</b>	<b>717,289</b>	<b>853,062</b>	<b>957,665</b>	<b>1,117,980</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenue	509,711	717,289	853,062	957,665	1,117,980
Cost of Goods Sold	(282,367)	(421,205)	(539,450)	(617,694)	(715,507)
<b>Gross Profit</b>	<b>227,344</b>	<b>296,084</b>	<b>313,612</b>	<b>339,971</b>	<b>402,473</b>
Other Opng (Exp)/Inc	(135,914)	(206,406)	(218,833)	(231,910)	(268,782)
<b>Operating Profit</b>	<b>91,430</b>	<b>89,678</b>	<b>94,779</b>	<b>108,061</b>	<b>133,690</b>
Other Non Opg (Exp)/Inc	7,439	7,582	10,523	10,523	10,523
Associates & JV Inc	(5,733)	6,984	14,344	14,344	14,344
Net Interest (Exp)/Inc	67,776	68,318	(20,611)	(20,611)	(20,611)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>160,912</b>	<b>172,562</b>	<b>99,035</b>	<b>112,317</b>	<b>137,946</b>
Tax	(20,562)	(29,278)	(26,815)	(28,079)	(34,487)
Minority Interest	9,083	7,294	15,170	15,170	15,170
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>149,263</b>	<b>150,308</b>	<b>87,100</b>	<b>99,208</b>	<b>118,430</b>
Net Profit before Except.	149,433	150,578	87,390	99,408	118,630
EBITDA	135,563	152,153	169,646	182,928	208,557
<b>Growth</b>					
Revenue Gth (%)	35.3	40.7	18.9	12.3	16.7
EBITDA Gth (%)	42.8	12.2	11.5	7.8	14.0
Opg Profit Gth (%)	60.2	(1.9)	5.7	14.0	23.7
Net Profit Gth (%)	70.4	0.7	(42.1)	13.9	19.4
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	44.6	41.3	36.8	35.5	36.0
Opg Profit Margin (%)	17.9	12.5	11.1	11.3	12.0
Net Profit Margin (%)	29.3	21.0	10.2	10.4	10.6
ROAE (%)	23.9	17.8	9.2	9.8	10.4
ROA (%)	13.1	10.0	5.1	5.5	5.9
ROCE (%)	8.6	6.2	5.2	5.9	6.7
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	4.6	5.2	6.5

Source: Company, DBS HK

## Alibaba Group

### Quarterly Income Statement (RMB m)

FY Mar	4Q2021	1Q2022	2Q2022	3Q2022	4Q2022
Revenue	187,395	205,740	200,690	242,580	204,052
Cost of Goods Sold	(125,454)	(124,097)	(129,750)	(146,658)	(138,945)
<b>Gross Profit</b>	<b>61,941</b>	<b>81,643</b>	<b>70,940</b>	<b>95,922</b>	<b>65,107</b>
Other Oper. (Exp)/Inc	(69,604)	(50,796)	(55,934)	(88,854)	(48,390)
<b>Operating Profit</b>	<b>(7,663)</b>	<b>30,847</b>	<b>15,006</b>	<b>7,068</b>	<b>16,717</b>
Other Non Opg (Exp)/Inc	2,115	2,157	1,663	5,083	1,620
Associates & JV Inc	5,992	6,093	5,518	(549)	3,282
Net Interest (Exp)/Inc	(1,049)	12,834	(12,723)	17,175	(37,897)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>(605)</b>	<b>51,931</b>	<b>9,464</b>	<b>28,777</b>	<b>(16,278)</b>
Tax	(7,049)	(9,096)	(6,087)	(9,553)	(2,079)
Minority Interest	2,175	2,306	1,990	1,205	2,116
<b>Net Profit</b>	<b>(5,479)</b>	<b>45,141</b>	<b>5,367</b>	<b>20,429</b>	<b>(16,241)</b>
Net profit bef Except.	(5,479)	45,141	5,367	20,429	(16,241)
EBITDA	49,067	49,067	31,384	20,981	32,018

### Growth (QoQ)

Revenue Gth (%)	(15.2)	9.8	(2.5)	20.9	(15.9)
EBITDA Gth (%)	(49.8)	67.0	(36.0)	(33.1)	52.6
Opg Profit Gth (%)	(115.6)	(502.5)	(51.4)	(52.9)	136.5
Net Profit Gth (%)	(106.9)	(923.9)	(88.1)	280.6	(179.5)

### Growth (YoY)

Revenue Gth (%)	N/A	33.8	29.4	9.7	8.9
EBITDA Gth (%)	N/A	8.6	11.2	(64.2)	9.0
Opg Profit Gth (%)	N/A	(11.1)	10.1	(85.6)	(318.2)
Net Profit Gth (%)	N/A	(5.1)	(81.3)	(74.3)	(196.4)

### Margins

Gross Margins (%)	33.1	39.7	35.3	39.5	31.9
Opg Profit Margins (%)	(4.1)	15.0	7.5	2.9	8.2
Net Profit Margins (%)	(2.9)	21.9	2.7	8.4	(8.0)

Source: Company, DBS HK

## Alibaba Group

### Balance Sheet (RMB m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	103,387	147,412	171,806	181,806	191,806
Invt in Associates & JVs	189,632	200,189	219,642	263,986	308,330
Other LT Assets	557,043	699,257	665,570	737,570	809,570
Cash & ST Invt	378,694	518,652	492,540	529,532	601,981
Inventory	0	0	0	0	0
Debtors	84,229	124,708	145,995	175,194	210,233
Other Current Assets	0	0	0	0	0
<b>Total Assets</b>	<b>1,312,985</b>	<b>1,690,218</b>	<b>1,695,553</b>	<b>1,888,088</b>	<b>2,121,920</b>
ST Debt	5,154	13,437	8,841	8,841	8,841
Creditors	161,536	261,140	271,460	339,325	424,156
Other Current Liab	75,182	102,781	103,483	123,916	149,456
LT Debt	120,276	135,716	132,503	132,503	132,503
Other LT Liabilities	71,186	93,510	97,073	97,073	97,073
Shareholder's Equity	764,504	946,143	958,134	1,077,542	1,216,172
Minority Interests	115,147	137,491	124,059	108,889	93,719
<b>Total Cap. &amp; Liab.</b>	<b>1,312,985</b>	<b>1,690,218</b>	<b>1,695,553</b>	<b>1,888,088</b>	<b>2,121,920</b>
Non-Cash Wkg. Capital	(152,489)	(239,213)	(228,948)	(288,047)	(363,380)
Net Cash/(Debt)	253,264	369,499	351,196	388,188	460,637
Debtors Turn (avg days)	51.1	53.2	57.9	61.2	62.9
Creditors Turn (avg days)	212.4	206.6	198.6	196.4	209.4
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.4	0.5	0.5	0.5	0.6
Current Ratio (x)	1.9	1.7	1.7	1.5	1.4
Quick Ratio (x)	1.9	1.7	1.7	1.5	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	36.2	29.0	36.8	36.8	36.8
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

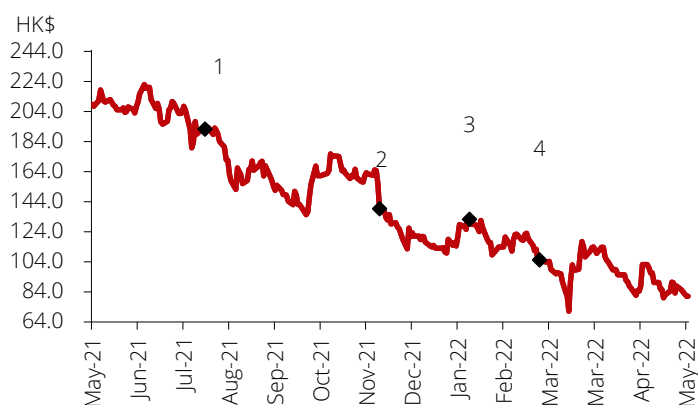
### Cash Flow Statement (RMB m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	160,912	172,562	99,035	112,317	137,946
Dep. & Amort.	42,427	47,909	50,000	50,000	50,000
Tax Paid	(20,562)	(29,278)	(26,815)	(28,079)	(34,487)
Assoc. & JV Inc/(loss)	5,733	(6,984)	(14,344)	(14,344)	(14,344)
(Pft)/ Loss on disposal of FAs	(77,165)	(58,957)	0	0	0
Chg in Wkg.Cap.	21,418	50,508	(10,265)	59,099	75,333
Other Operating CF	47,844	56,026	45,148	20,000	20,000
<b>Net Operating CF</b>	<b>180,607</b>	<b>231,786</b>	<b>142,759</b>	<b>198,992</b>	<b>234,449</b>
Capital Exp.(net)	(45,386)	(43,185)	(52,000)	(52,000)	(52,000)
Other Invt.(net)	(36,053)	(165,060)	(184,138)	(80,000)	(80,000)
Invt in Assoc. & JV	(24,410)	(16,123)	(30,000)	(30,000)	(30,000)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(2,223)	(19,826)	67,546	0	0
<b>Net Investing CF</b>	<b>(108,072)</b>	<b>(244,194)</b>	<b>(198,592)</b>	<b>(162,000)</b>	<b>(162,000)</b>
Div Paid	0	0	0	0	0
Chg in Gross Debt	(15,953)	31,349	(91)	0	0
Capital Issues	91,506	(598)	0	0	0
Other Financing CF	(4,700)	(669)	(64,358)	0	0
<b>Net Financing CF</b>	<b>70,853</b>	<b>30,082</b>	<b>(64,449)</b>	<b>0</b>	<b>0</b>
Currency Adjustments	4,100	(7,187)	(8,834)	0	0
Chg in Cash	147,488	10,487	(129,116)	36,992	72,449
Opg CFPS (RMB)	7.57	8.39	7.08	6.47	7.36
Free CFPS (RMB)	6.43	8.72	4.20	6.80	8.44

Source: Company, DBS HK

## Alibaba Group

### HK Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	4-Aug-21	HK\$193.50	HK\$293.00	Buy
2:	19-Nov-21	HK\$156.00	HK\$228.00	Buy
3:	13-Jan-22	HK\$133.00	HK\$211.00	Buy
4:	25-Feb-22	HK\$104.90	HK\$182.00	Buy

Source: DBS HK

Analyst: Tsz Wang Tam

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### US Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	4-Aug-21	US\$197.38	US\$301.00	Buy
2:	19-Nov-21	US\$143.60	US\$234.00	Buy
3:	13-Jan-22	US\$137.41	US\$216.00	Buy
4:	25-Feb-22	US\$109.72	US\$187.00	Buy

Source: DBS HK

Analyst: Tsz Wang Tam

Lilian Lv



## Alibaba Group

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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