

# China / Hong Kong Company Update

## Alibaba Group

Bloomberg: 9988 HK Equity | BABA US Equity | Reuters: 9988.HK | BABA.N

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Aug 2022

### HK: BUY

Last Traded Price (4 Aug 2022): HK\$95.00 (HSI : 20,174)  
Price Target 12-mth: HK\$144 (51.6% upside) (Prev HK\$157)

### US: BUY

Last Traded Price (4 Aug 2022): US\$97.43 (NASDAQ : 12,721)  
Price Target 12-mth: US\$154 (58.1% upside) (Prev US\$161)

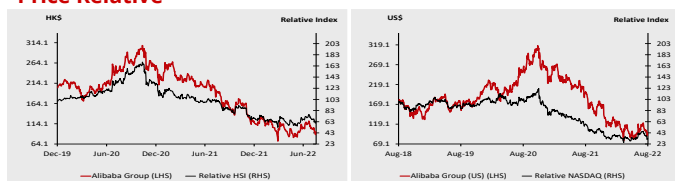
#### Analyst

Tsz Wang Tam +852 36684195 tszwangtam@db.com  
Lilian LV lilianlv@db.com

### What's New

- 1QFY3/23 revenue was flat y-o-y at Rmb206bn
- Non-GAAP net profit dropped by 30%, better than consensus due to lower investment losses
- Reduced non-GAAP net profit forecast for FY3/23-24F by 4-5% on slower recovery pace amid macro uncertainties
- Maintain BUY with lower TP of HK\$144/US\$154

#### Price Relative



#### Forecasts and Valuation (HK Shares)

FY Mar (RMBm)	2021A	2022A	2023F	2024F
Turnover	717,289	853,062	912,592	1,033,046
EBITDA	152,153	142,570	153,331	183,718
Pre-tax Profit	172,562	73,894	113,074	143,461
Net Profit	150,308	61,959	93,852	115,123
Core profit	179,009	143,552	143,852	165,123
Core profit growth (%)	26.6	(19.8)	0.2	14.8
EPS (RMB)	6.95	2.87	4.35	5.34
EPS (HK\$)	8.09	3.34	5.06	6.21
EPS Gth (%)	(2.1)	(58.7)	51.5	22.7
Diluted EPS (HK\$)	7.95	3.31	5.01	6.15
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	50.25	51.65	57.85	65.21
PE (X)	11.8	28.5	18.8	15.3
P/Cash Flow (X)	7.6	12.4	8.9	7.5
P/Free CF (X)	9.4	19.7	13.2	10.3
EV/EBITDA (X)	10.2	10.8	9.6	7.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.9	1.8	1.6	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	17.8	6.6	9.3	10.2
Core Earnings Rev (%)			(3.6)	(4.8)
Consensus EPS (RMB)			6.17	7.04
Other Broker Recs:		B:39	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 China's 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 is the new engine driver.** Alibaba sees robust growth in the international e-commerce market, and 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 of HK\$144/ US\$154 based on SOTP methodology. (1) Core commerce: 15xP/E FY3/23F core commerce earnings (HK\$112); (2) Cloud: 5x price-to-sales on FY3/23F (HK\$23); and (3) Digital media and entertainment: (HK\$9).

### Where we differ:

**More positive on earnings growth.** We believe Alibaba will focus on cost optimisation and slow its investment pace amid weak macro. Our non-GAAP net profit for FY3/23F and FY3/24F are 5% and 2% 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 (m shrs)	21,357
Mkt Cap (HKm/US\$m)	2,028,915 / 258,465
Major Shareholders (%)	
SoftBank Group Corp	24.6
Free Float (%)	75.4
3m Avg. Daily Val. (US\$m)	768.22
GICS Industry: Information Technology / Software & Services	



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**WHAT'S NEW****1QFY3/23 core earnings dropped by 30% y-o-y, better than consensus; expect growth to resume in 2QFY3/23****1QFY3/23 results highlights**

- Revenue growth was flat y-o-y at Rmb206bn, slightly better than market expectations of 1-2% decline.
- Segment wise, China commerce retail revenue declined by 2% to Rmb136bn, within which customer management fell by 10% due to lower GMV caused by logistics disruptions in April and May.
- International commerce revenue grew by 2% to Rmb14bn, slower than market expectations, due to logistics disruptions caused by Russia-Ukraine conflict; Cloud segment revenue grew by 10% to Rmb19bn; Local consumer services revenue increased by 5% to Rmb12bn.
- Adjusted EBITA decreased by 18% to Rmb34.4bn, mainly due to slower core commerce growth and investment on various new business.
- Non-GAAP net income declined by 30% to Rmb30.2bn, better than market expectations of c.35% decline, due to lower investment losses in Taocaicai and local consumer services.

**Our View:**

- The slow revenue growth in the June quarter was mainly due to the Covid disruptions, and should not be an indicator for the rest of the year.
- Looking ahead, we expect core commerce business to gradually recover during the Sep and Dec quarters along with improving economic activities. We expect overall revenue to resume mid-single digit growth in second half of the year, factoring in slower consumption spending and macro uncertainties.
- We expect to see continuous efforts on cost optimization on different businesses lines (Taocaicai, Taobao Deals,

Ele.me) in the next few quarters, offering upside for earnings improvement in 2H22.

- In the longer term, the growth will be supported by (1) gaining more wallet shares from China's consumption upgrades via its multi-layered e-commerce ecosystem; (2) expanding international ecommerce to capture growth opportunities in emerging markets; (3) leveraging cloud leadership to catch the growing digitalisation demand across different industries.

- We revised down our earnings by 4% and 5% for FY3/22F and FY3/24F on more conservative recovery pace in core commerce business amid Covid uncertainties.

- We derive our TP at HK\$144/ US\$154 based on SOTP methodology. (1) Core commerce: 15xP/E FY3/23F core commerce earnings (HK\$112), (2) Cloud: 5x price-to-sales on FY3/23F (HK\$23); 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).

**Quarterly / Interim Income Statement (RMBm)**

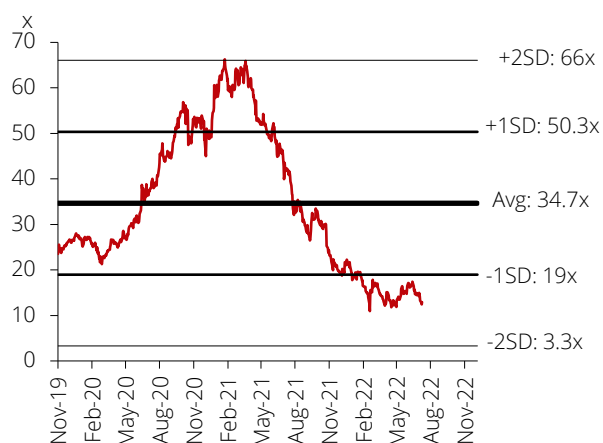
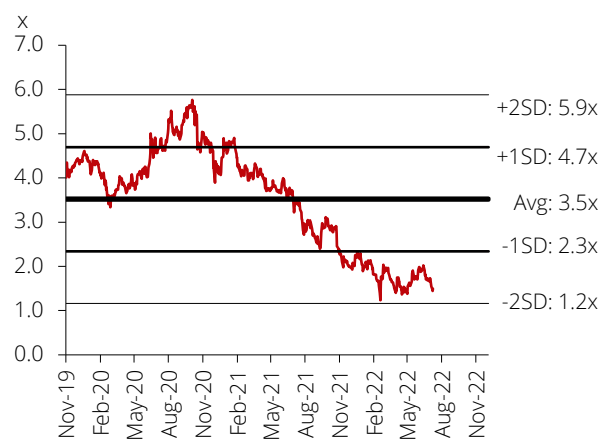
FY Mar	1Q2022	4Q2022	1Q2023	% chg yoy	% chg qoq
Revenue	205,740	204,052	205,555	(0.1)	0.7
Cost of Goods Sold	(124,097)	(138,945)	(129,657)	4.5	(6.7)
<b>Gross Profit</b>	<b>81,643</b>	<b>65,107</b>	<b>75,898</b>	<b>(7.0)</b>	<b>16.6</b>
Other Oper. (Exp)/Inc	(50,796)	(48,390)	(50,955)	0.3	5.3
<b>Operating Profit</b>	<b>30,847</b>	<b>16,717</b>	<b>24,943</b>	<b>(19.1)</b>	<b>49.2</b>
Other Non Opg (Exp)/Inc	2,157	1,620	109	(94.9)	(93.3)
Associates & JV Inc	6,093	3,282	(3,480)	nm	nm
Net Interest (Exp)/Inc	12,834	(37,897)	4,125	(67.9)	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>51,931</b>	<b>(16,278)</b>	<b>25,697</b>	<b>(50.5)</b>	<b>nm</b>
Tax	(9,096)	(2,079)	(5,399)	(40.6)	159.7
Minority Interest	2,306	2,116	2,441	5.9	15.4
<b>Net Profit</b>	<b>45,141</b>	<b>(16,241)</b>	<b>22,739</b>	<b>(49.6)</b>	<b>nm</b>
Net profit bef Except.	45,141	(16,241)	22,739	(49.6)	nm
EBITDA	49,067	32,018	31,018	(36.8)	(3.1)
<b>Margins (%)</b>					
Gross Margins	39.7	31.9	36.9		
Opg Profit Margins	15.0	8.2	12.1		
Net Profit Margins	21.9	(8.0)	11.1		

Source: Company, DBS HK

**Income Statement (RMB m)**

FY Mar	2021A	2022A	% chg yoy
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)	(243,974)	18.2
<b>Operating Profit</b>	<b>89,678</b>	<b>69,638</b>	<b>(22.3)</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>73,894</b>	<b>(57.2)</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>61,959</b>	<b>(58.8)</b>
Net Profit before Except.	150,578	62,249	(58.8)
EBITDA	152,153	142,570	(6.3)
<b>Margins &amp; Ratio</b>			
Gross Margins (%)	41.3	36.8	
Opg Profit Margin (%)	12.5	8.2	
Net Profit Margin (%)	21.0	7.3	

Source: Company, DBS HK

**Alibaba Group****Historical PE and PB band****Forward PE band (x)****PB band (x)**

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	7,976.0	7,947.3	8,344.7
Annual active users (m)	726.0	811.0	903.0	957.2	1,005.0
Monetisation rate (%)	3.7	4.1	3.9	3.9	4.0

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	790,657	891,614
Cloud computing	40,016	60,558	74,568	86,499	103,799
Digital media and entertainment	26,948	31,186	32,272	32,595	34,224
Others	6,643	2,311	2,841	2,841	3,409
<b>Total</b>	<b>509,711</b>	<b>717,289</b>	<b>853,062</b>	<b>912,592</b>	<b>1,033,046</b>

Source: Company, DBS HK

## Alibaba Group

## Income Statement (RMB m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenue	509,711	717,289	853,062	912,592	1,033,046
Cost of Goods Sold	(282,367)	(421,205)	(539,450)	(588,622)	(661,149)
<b>Gross Profit</b>	<b>227,344</b>	<b>296,084</b>	<b>313,612</b>	<b>323,970</b>	<b>371,897</b>
Other Opng (Exp)/Inc	(135,914)	(206,406)	(243,974)	(236,896)	(254,435)
<b>Operating Profit</b>	<b>91,430</b>	<b>89,678</b>	<b>69,638</b>	<b>87,074</b>	<b>117,461</b>
Other Non Opng (Exp)/Inc	7,439	7,582	10,523	6,000	6,000
Associates & JV Inc	(5,733)	6,984	14,344	10,000	10,000
Net Interest (Exp)/Inc	67,776	68,318	(20,611)	10,000	10,000
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>73,894</b>	<b>113,074</b>	<b>143,461</b>
Tax	(20,562)	(29,278)	(26,815)	(33,922)	(43,038)
Minority Interest	9,083	7,294	15,170	15,000	15,000
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>149,263</b>	<b>150,308</b>	<b>61,959</b>	<b>93,852</b>	<b>115,123</b>
Net Profit before Except.	149,433	150,578	62,249	94,152	115,423
EBITDA	135,563	152,153	142,570	153,331	183,718
<b>Growth</b>					
Revenue Gth (%)	35.3	40.7	18.9	7.0	13.2
EBITDA Gth (%)	42.8	12.2	(6.3)	7.5	19.8
Opg Profit Gth (%)	60.2	(1.9)	(22.3)	25.0	34.9
Net Profit Gth (%)	70.4	0.7	(58.8)	51.5	22.7
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	44.6	41.3	36.8	35.5	36.0
Opg Profit Margin (%)	17.9	12.5	8.2	9.5	11.4
Net Profit Margin (%)	29.3	21.0	7.3	10.3	11.1
ROAE (%)	23.9	17.8	6.6	9.3	10.2
ROA (%)	13.1	10.0	3.7	5.2	5.8
ROCE (%)	8.6	6.2	3.4	4.4	5.6
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	3.4	NM	NM

Source: Company, DBS HK

**Balance Sheet (RMB m)**

FY Mar	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	103,387	147,412	171,806	195,115	218,424
Invt in Associates & JVs	189,632	200,189	219,642	259,642	299,642
Other LT Assets	557,043	699,257	665,570	696,691	727,812
Cash & ST Invt	378,694	518,652	492,540	556,360	657,686
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>1,883,002</b>	<b>2,113,797</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	1,072,286	1,207,709
Minority Interests	115,147	137,491	124,059	109,059	94,059
<b>Total Cap. &amp; Liab.</b>	<b>1,312,985</b>	<b>1,690,218</b>	<b>1,695,553</b>	<b>1,883,002</b>	<b>2,113,797</b>
Non-Cash Wkg. Capital	(152,489)	(239,213)	(228,948)	(288,047)	(363,380)
Net Cash/(Debt)	253,264	369,499	351,196	415,016	516,342
Debtors Turn (avg days)	51.1	53.2	57.9	64.2	68.1
Creditors Turn (avg days)	212.4	206.6	197.8	207.0	228.1
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	0.5
Current Ratio (x)	1.9	1.7	1.7	1.5	1.5
Quick Ratio (x)	1.9	1.7	1.7	1.5	1.5
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	37.7	46.2	46.2
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	73,894	113,074	143,461
Dep. & Amort.	42,427	47,909	48,065	50,257	50,257
Tax Paid	(20,562)	(29,278)	(26,815)	(33,922)	(43,038)
Assoc. & JV Inc/(loss)	5,733	(6,984)	(14,344)	(10,000)	(10,000)
(Pft)/ Loss on disposal of FAs	(77,165)	(58,957)	19,348	0	0
Chg in Wkg.Cap.	21,418	50,508	(18,150)	59,099	75,333
Other Operating CF	47,844	56,026	60,761	20,000	20,000
<b>Net Operating CF</b>	<b>180,607</b>	<b>231,786</b>	<b>142,759</b>	<b>198,507</b>	<b>236,013</b>
Capital Exp.(net)	(45,386)	(43,185)	(53,324)	(65,309)	(65,309)
Other Invt.(net)	(36,053)	(165,060)	(131,819)	(39,378)	(39,378)
Invt in Assoc. & JV	(24,410)	(16,123)	(8,447)	(30,000)	(30,000)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(2,223)	(19,826)	(5,002)	0	0
<b>Net Investing CF</b>	<b>(108,072)</b>	<b>(244,194)</b>	<b>(198,592)</b>	<b>(134,687)</b>	<b>(134,687)</b>
Div Paid	0	0	0	0	0
Chg in Gross Debt	(15,953)	31,349	(7,286)	0	0
Capital Issues	91,506	(598)	(61,116)	0	0
Other Financing CF	(4,700)	(669)	3,953	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)	63,820	101,326
Opg CFPS (RMB)	7.57	8.39	7.46	6.47	7.45
Free CFPS (RMB)	6.43	8.72	4.15	6.18	7.92

Source: Company, DBS HK

## Alibaba Group

### HK Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	19-Nov-21	HK\$156.00	HK\$228.00	Buy
2:	13-Jan-22	HK\$133.00	HK\$211.00	Buy
3:	25-Feb-22	HK\$104.90	HK\$182.00	Buy
4:	27-May-22	HK\$81.10	HK\$157.00	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:	19-Nov-21	US\$143.60	US\$234.00	Buy
2:	13-Jan-22	US\$137.41	US\$216.00	Buy
3:	25-Feb-22	US\$109.72	US\$187.00	Buy
4:	27-May-22	US\$94.48	US\$161.00	Buy

Source: DBS HK

Analyst: Tsz Wang Tam

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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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**DBS Bank (Hong Kong) Limited**

13<sup>th</sup> Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

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**DBS Regional Research Offices**

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**HONG KONG**

**DBS Bank (Hong Kong) Ltd**

**Contact: Dennis Lam**

13th Floor One Island East,  
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: [dbsvhk@dbs.com](mailto:dbsvhk@dbs.com)

**SINGAPORE**

**DBS Bank Ltd**

**Contact: Paul Yong**

12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: [groupresearch@dbs.com](mailto:groupresearch@dbs.com)

Company Regn. No. 196800306E

**INDONESIA**

**PT DBS Vickers Sekuritas (Indonesia)**

**Contact: Maynard Priajaya Arif**

DBS Bank Tower  
Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: [indonesiaresearch@dbs.com](mailto:indonesiaresearch@dbs.com)

**THAILAND**

**DBS Vickers Securities (Thailand) Co Ltd**

**Contact: Chanpen Sirithanarattanakul**

989 Siam Piwat Tower Building,  
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: [research@th.dbs.com](mailto:research@th.dbs.com)

Company Regn. No 0105539127012

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