

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

10 Jan 2024

HK: BUY

Last Traded Price (9 Jan 2024): HK\$69.75 (HSI : 16,190)
Price Target 12-mth: HK\$133 (90.7% upside) (Prev HK\$138)

US: BUY

Last Traded Price (9 Jan 2024): US\$72.02 (NASDAQ : 14,858)
Price Target 12-mth: US\$134 (86.1% upside) (Prev US\$139)

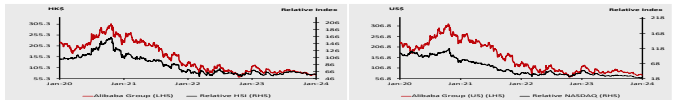
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What's New

- Expect customer management revenue to grow 1% y-o-y in 3QFY3/24, cut from our previous forecast of 3%
- GMV growth is faster than that of CMR, thanks to the successful implementation of low-price strategy
- Revised down FY3/24F-26F earnings by 5%/11%/12%, mainly on higher international investment assumptions
- Maintain BUY, as we expect growth momentum to pick up in FY3/25F with lowered TPs of HK\$133/US\$134

Price Relative



Forecasts and Valuation (H Shares)

FY Mar (RMBm)	2023A	2024F	2025F	2026F
Turnover	868,687	938,569	1,023,658	1,129,223
EBITDA	145,049	180,863	193,572	216,288
Pre-tax Profit	81,122	132,724	147,572	171,288
Net Profit	72,509	110,879	122,758	141,730
Core profit	148,315	165,879	177,758	196,730
Core Profit Gth (%)	3	11	7	11
EPS (RMB)	3.46	5.28	5.85	6.76
EPS (HK\$)	3.77	5.76	6.38	7.37
Diluted EPS (HK\$)	3.74	5.73	6.34	7.32
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	52.57	59.52	67.10	75.70
PE (X)	18.5	12.1	10.9	9.5
P/Cash Flow (X)	6.7	5.9	5.4	4.8
P/Free CF (X)	8.1	7.4	6.6	5.7
EV/EBITDA (X)	7.4	5.2	4.0	2.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.3	1.2	1.0	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	7.5	10.5	10.3	10.5
Core Earnings Rev (%)		(5)	(11)	(12)
Consensus EPS (RMB)		8.08	8.76	9.76
Other Broker Recs:		B:39	S:0	H:2

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

Seeing success beyond China's borders

Investment Thesis

Leading e-commerce player in China with c.45% market share.

Alibaba is the largest e-commerce player in China, operating Taobao and Tmall, with a c.45% market share in terms of gross merchandise volume (GMV) in 2022. The company continues investing in e-commerce ecosystems like livestreaming shopping platform Taobao Live to enhance user engagement. We expect China commerce revenue to grow c.6% from FY3/23 to FY3/26F.

International commerce and cloud are key growth engines. Alibaba is aggressively expanding its international commerce segment (AliExpress, Lazada, and Trendyol), which accounted for c.11% of total revenue. We expect international revenue to grow by 25% p.a. from FY3/23 to FY3/26F. AliCloud leads the cloud services market in China with a c.37% market share, supported by its large client base and robust demand from its e-commerce merchants. We expect cloud revenue to grow by 6% p.a. from FY3/23 to FY3/26F, riding on growing AI demand. The segment has achieved EBITDA breakeven since FY3/22 and the margin continues to trend upward.

CMR is the key share price catalyst. Customer management revenue (CMR) is the key income of Alibaba's e-commerce platform in China. CMR growth has been positive for two consecutive quarters, after four quarters of decline. We anticipate a gradual recovery of CMR growth in the next year, fuelled by an increased number of active merchants and overall macroeconomic improvements.

We recommend BUY on Alibaba with TPs of HK\$133/US\$134 (vs. HK\$138/US\$139 previously), based on SOTP methodology. (1) Core commerce: 12x P/E on FY3/24F core commerce earnings (HK\$106); (2) cloud: 3x P/S on FY3/24F (HK\$13); (3) local services: 3x P/S on FY3/24F (HK\$10); (4) Cainiao: 1x P/S on FY3/24F (HK\$3); and (5) digital media and entertainment: 1x P/S (HK\$2). Potential share price catalysts include: (1) A stronger-than-expected rebound in discretionary spending, (2) positive regulatory developments (e.g., re-launch of Ant IPO) driving a valuation re-rating, and (3) narrower operating losses from its cloud and innovation businesses.

Key Risks

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

At A Glance

Issued Capital (m shrs)	20,526
Mkt Cap (HKm/US\$m)	1,422,452 / 181,990
Major Shareholders (%)	
SoftBank Group Corp	13.9
Free Float (%)	86.1
3m Avg. Daily Val. (US\$m)	432.7
GICS Industry: Information Technology / Software & Services	

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WHAT'S NEW

Weaker-than-expected 3QFY3/24 performance; international commerce outlook stays strong

3QFY3/24 preview

We expect Alibaba's revenue to grow by 5% y-o-y to Rmb260bn in 3QFY3/24, revised down from previous forecasts of c.8% growth, largely due to slower growth of 1% y-o-y (vs. 3% y-o-y in 2QFY3/24) in the CMR segment with lower commission rate set for merchant acquisition activities.

Despite the weak consumption sentiment, we expect GMV growth to outpace CMR growth in 3QFY3/24, thanks to the successful implementation of a low-price strategy. Besides, Taobao and Tmall continue to exhibit robust order volume and user growth. In addition, we expect the commission take rate and CMR to gradually pick up with less merchant acquisition activities in FY3/25F.

We expect the international commerce segment will sustain strong growth of c.48% y-o-y in 3QFY3/24, supported by increasing order volume for AliExpress's Choice and Trendyol. Looking ahead, we expect the company will place high priority on its international business to drive revenue growth, with more investments and marketing dollars will be directed towards user acquisition for AliExpress's Choice and Trendyol. We believe robust growth of this segment will sustain over the next few quarters.

On the other hand, we believe the cloud intelligence business still needs more time to see growth accelerate, given ongoing reduction of CDN business and weak cloud demand.

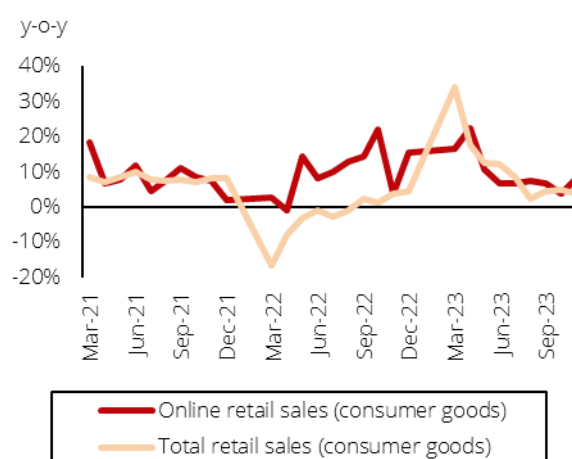
We expect adjusted 3QFY3/24 EBITA to stay relatively flat at Rmb51.8bn (vs. +16% y-o-y growth in 2QFY3/24), below the consensus of Rmb54bn, mainly due to increased investments in its international businesses and slower-than-expected CMR growth.

Earnings revision and recommendation

We revised down our FY3/24F/FY3/25F/FY26F adjusted earnings by 5%/11%/12%, respectively, mainly to reflect increasing investments in international commerce and the moderate revenue outlook for CMR. We now forecast adjusted earnings of Rmb166bn/Rmb178bn/Rmb197bn for FY3/24F/FY3/25F/FY3/26F, representing 12%/7%/11% y-o-y growth, respectively.

We derived our new TPs of HK\$133/US\$134 (previously: HK\$138/US\$139) based on SOTP methodology. (1) Core commerce: 12x P/E on FY3/24F core commerce earnings (HK\$106); (2) cloud: 3x P/S on FY3/24F (HK\$13); (3) local services: 3x P/S on FY3/24F (HK\$10); (4) Cainiao: 1x P/S on FY3/24F (HK\$3); and (5) digital media and entertainment: 1x P/S (HK\$2).

China's online retail sales vs. overall retail sales



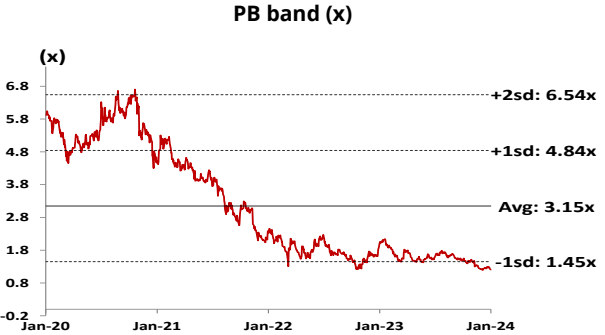
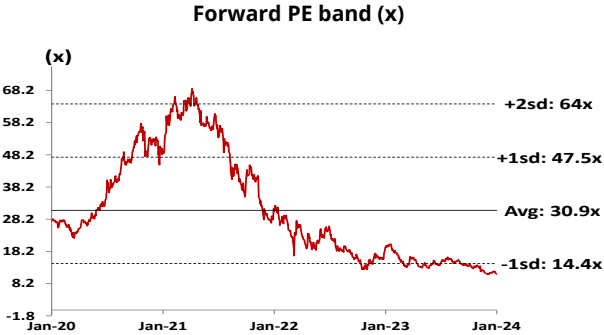
Source: NBS, DBS HK

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).

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Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Mar	2022A	2023A	2024F	2025F	2026F
China GMV (Rmb bn)	7,976.0	7,662.9	8,208.5	8,623.9	8,972.3
Annual active users (m)	903.0	948.2	986.1	1,015.7	1,036.0
Monetisation rate	3.9	3.8	3.6	3.5	3.6

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Revenues (RMB m)					
China commerce	592,705	582,731	599,729	638,608	695,658
Cloud computing	74,568	77,203	78,747	85,834	92,701
International commerce	61,078	69,204	97,446	115,679	135,634
Others	124,711	139,549	162,648	183,536	205,230
Total	853,062	868,687	938,569	1,023,658	1,129,223

Source: Company, DBS HK

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Income Statement (RMB m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Revenue	853,062	868,687	938,569	1,023,658	1,129,223
Cost of Goods Sold	(539,450)	(549,695)	(581,913)	(634,668)	(695,602)
Gross Profit	313,612	318,992	356,656	388,990	433,622
Other Opg (Exp)/Inc	(243,974)	(218,641)	(229,932)	(249,418)	(271,334)
Operating Profit	69,638	100,351	126,724	139,572	162,288
Other Non Opg (Exp)/Inc	10,523	5,823	6,000	5,000	5,000
Associates & JV Inc	14,344	(8,063)	(1,000)	(1,000)	(1,000)
Net Interest (Exp)/Inc	(20,611)	(16,989)	1,000	4,000	5,000
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	73,894	81,122	132,724	147,572	171,288
Tax	(26,815)	(15,549)	(26,545)	(29,514)	(34,258)
Minority Interest	15,170	7,210	5,000	5,000	5,000
Preference Dividend	0	0	0	0	0
Net Profit	61,959	72,509	110,879	122,758	141,730
Net Profit before Except.	62,249	72,783	111,179	123,058	142,030
EBITDA	142,570	145,049	180,863	193,572	216,288
Growth					
Revenue Gth (%)	18.9	1.8	8.0	9.1	10.3
EBITDA Gth (%)	(6.3)	1.7	24.7	7.0	11.7
Opg Profit Gth (%)	(22.3)	44.1	26.3	10.1	16.3
Net Profit Gth (%)	(58.8)	17.0	52.9	10.7	15.5
Margins & Ratio					
Gross Margins (%)	36.8	36.7	38.0	38.0	38.4
Opg Profit Margin (%)	8.2	11.6	13.5	13.6	14.4
Net Profit Margin (%)	7.3	8.3	11.8	12.0	12.6
ROAE (%)	6.6	7.5	10.5	10.3	10.5
ROA (%)	3.7	4.2	6.0	6.0	6.2
ROCE (%)	3.4	6.0	7.0	7.1	7.5
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	3.4	5.9	NM	NM	NM

Source: Company, DBS HK

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Balance Sheet (RMB m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Net Fixed Assets	171,806	176,031	180,361	184,691	189,021
Invt in Associates & JVs	219,642	207,380	236,380	265,380	294,380
Other LT Assets	665,570	671,667	682,346	692,164	701,982
Cash & ST Invt	492,540	560,894	693,282	849,349	1,037,655
Inventory	0	0	0	0	0
Debtors	145,995	137,072	157,633	181,278	208,469
Other Current Assets	0	0	0	0	0
Total Assets	1,695,553	1,753,044	1,950,002	2,172,861	2,431,507
ST Debt	8,841	12,266	12,266	12,266	12,266
Creditors	271,460	275,950	331,140	397,368	476,842
Other Current Liab	103,483	97,135	112,724	131,297	153,439
LT Debt	132,503	149,088	149,088	149,088	149,088
Other LT Liabilities	97,073	95,684	95,684	95,684	95,684
Shareholder's Equity	958,134	999,515	1,130,694	1,273,752	1,435,783
Minority Interests	124,059	123,406	118,406	113,406	108,406
Total Cap. & Liab.	1,695,553	1,753,044	1,950,002	2,172,861	2,431,507
Non-Cash Wkg. Capital	(228,948)	(236,013)	(286,231)	(347,387)	(421,811)
Net Cash/(Debt)	351,196	399,540	531,928	687,995	876,301
Debtors Turn (avg days)	57.9	59.5	57.3	60.4	63.0
Creditors Turn (avg days)	197.8	198.7	208.0	227.4	247.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.5	0.5	0.5	0.5	0.5
Current Ratio (x)	1.7	1.8	1.9	1.9	1.9
Quick Ratio (x)	1.7	1.8	1.9	1.9	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	37.7	21.3	28.7	28.7	28.7
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

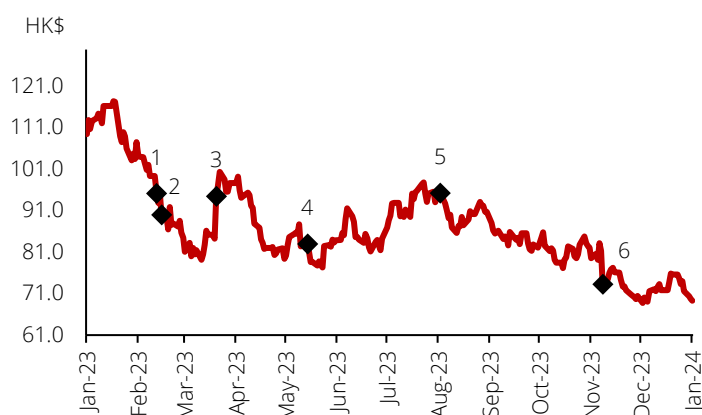
Cash Flow Statement (RMB m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Pre-Tax Profit	73,894	81,122	132,724	147,572	171,288
Dep. & Amort.	48,065	46,938	49,139	50,000	50,000
Tax Paid	(26,815)	(15,549)	(26,545)	(29,514)	(34,258)
Assoc. & JV Inc/(loss)	(14,344)	8,063	1,000	1,000	1,000
(Pft)/ Loss on disposal of FAs	19,348	14,969	0	0	0
Chg in Wkg.Cap.	(18,150)	13,482	50,218	61,157	74,424
Other Operating CF	60,761	50,727	20,000	20,000	20,000
Net Operating CF	142,759	199,752	226,536	250,214	282,454
Capital Exp.(net)	(53,324)	(34,352)	(46,330)	(46,330)	(46,330)
Other Invt.(net)	(131,819)	(57,166)	(17,818)	(17,818)	(17,818)
Invt in Assoc. & JV	(8,447)	(3,551)	(30,000)	(30,000)	(30,000)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(5,002)	(40,437)	0	0	0
Net Investing CF	(198,592)	(135,506)	(94,148)	(94,148)	(94,148)
Div Paid	0	0	0	0	0
Chg in Gross Debt	(7,286)	11,342	0	0	0
Capital Issues	(61,116)	(74,735)	0	0	0
Other Financing CF	3,953	(2,226)	0	0	0
Net Financing CF	(64,449)	(65,619)	0	0	0
Currency Adjustments	(8,834)	3,530	0	0	0
Chg in Cash	(129,116)	2,157	132,388	156,066	188,306
Opg CFPS (RMB)	7.46	8.88	8.40	9.01	9.92
Free CFPS (RMB)	4.15	7.88	8.59	9.72	11.25

Source: Company, DBS HK

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HK Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	21-Feb-23	HK\$99.45	HK\$147.00	BUY
2	24-Feb-23	HK\$95.15	HK\$167.00	BUY
3	29-Mar-23	HK\$84.25	HK\$167.00	BUY
4	23-May-23	HK\$83.60	HK\$162.00	BUY
5	11-Aug-23	HK\$94.30	HK\$169.00	BUY
6	17-Nov-23	HK\$81.35	HK\$138.00	BUY

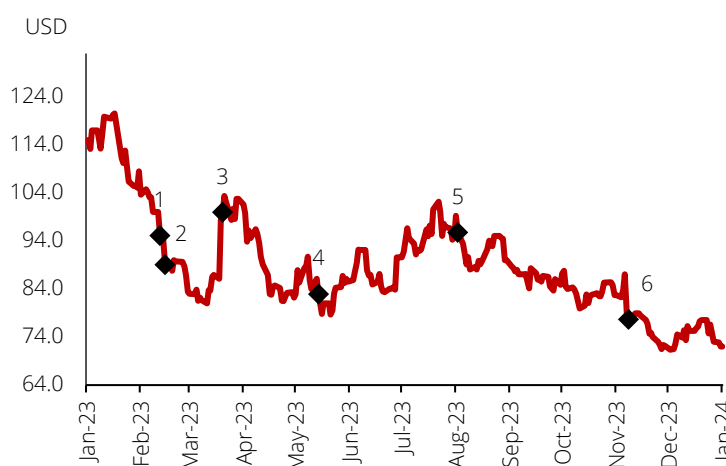
Source: DBS HK

Analyst: Tsz Wang Tam

Lilian Lv

Andy Yu

US Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	21-Feb-23	US\$100.01	US\$151.00	BUY
2	24-Feb-23	US\$94.16	US\$172.00	BUY
3	29-Mar-23	US\$98.40	US\$172.00	BUY
4	23-May-23	US\$86.10	US\$166.00	BUY
5	11-Aug-23	US\$99.21	US\$171.00	BUY
6	17-Nov-23	US\$79.11	US\$139.00	BUY

Source: DBS HK

Analyst: Tsz Wang Tam

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Andy Yu

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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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