

# Alibaba (BABA US)

## Prudent on CMR momentum

We expect 2QFY22 rev/ adj. net profit +33%/ -27% YoY, in which core commerce/ cloud/ DME rev +35%/29%/9% YoY and adj. EBITA margin at 14%. 2QFY22E CMR deceleration to continue (forecasting +7% YoY), with soft consumption amid COVID cases, macro moderation and tightening regulation. Taobao deals and Taocaicai users performed well, but meanwhile would dampen core margin with stepping-up investment. We trimmed our FY22-24E earnings forecast by 1%-2%, with lower TP at US\$255. Despite ST weak macro and market sentiment, we view BABA's valuation as relatively defensive.

- Conservative on 2QFY22E growth.** We estimate 2QFY22E topline/bottom line +33%/-27% YoY (1%/3% below consensus), in which core commerce/ cloud/ DME rev +35%/29%/9% YoY, with soft consumption and new retail biz normalization. Cloud growth would continuously moderate given rev decline from the top internet customer. We model adj. EBITA margin at 14% (-6ppts QoQ), mainly on wider loss of Taobao deals & Taocaicai.
- 2QFY22E soft CMR to continue, with macro uncertainty.** We expect 2QFY22 CMR revenue to decelerate to +7% YoY, with soft consumption amid COVID cases, macro moderation and tightening regulation. Noted that online retail sales +8% YoY (below mkt expectation), and Sep data might still see pressure for macro environment. Taobao deals and Taocaicai users performed well, but meanwhile would dampen ecommerce margin with stepping-up investment. We forecast core commerce adj. EBITA margin at 19%, with wider investment in other China retails.
- Walled garden impact needs more time to reflect.** With dismantling walled gardens, we expect BABA (esp. Taobao Deal) to benefit from incremental traffic and improved user experience in the short term. However, we should note that Taobao and WeChat are not fully integrated, creating hurdles to convert WeChat users to Taobao buyers. While WeChat users can open JD/PDD links and shop with their WeChat accounts, they cannot purchase Taobao items without logging into their Taobao accounts. In the long run, there is also tradeoff between incremental traffic and merchants ads into private domain.
- Maintain BUY.** We trimmed our FY22-24E earnings forecast by 1%-2%, with lower SOTP-based TP at US\$255 (27x/23x FY22/23E P/E).

### Earnings Summary

(YE 31 Mar)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	509,711	717,289	930,050	1,112,665	1,322,355
YoY growth (%)	35.3	40.7	29.7	19.6	18.8
Adj. net profit (RMB mn)	132,479	171,985	165,296	196,261	241,640
Adj. EPS (RMB)	53.9	65.2	60.1	70.7	86.2
YoY growth (%)	41.8	21.0	-7.7	17.6	21.9
Consensus EPS (RMB)	NA	NA	61.8	72.1	87.4
P/E (x)	17.3	14.3	15.5	13.2	10.8
P/B (x)	2.8	2.3	2.1	1.8	1.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.3	16.6	14.1	14.6	15.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	US\$255.4
(Previous TP)	US\$284.7)
Up/Downside	+77.0%
Current Price	US\$144.6

### China Internet Sector

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#### Stock Data

Mkt Cap (US\$ mn)	401,149
Avg 3 mths t/o (US\$ mn)	4,369.72
52w High/Low (US\$)	319.3/ 144.4
Total Issued Shares (mn)	2,718

Source: Bloomberg

#### Shareholding Structure

T Rowe Price Group	1.3%
Goldman Sachs	1.1%
Baillie Gifford	1.0%

Source: Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	-7.5%	-3.5%
3-mth	-35.7%	-35.6%
6-mth	-36.3%	-42.7%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

#### Related Reports

- Multi-app strategy in investment cycle – 4 Aug 2021
- A big investment year ahead – 14 May 2021
- Investment for long-term growth 13 Apr 2021

Figure 1: 2QFY22E financial preview

RMB mn, Mar-YE	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22E	QoQ	YoY	Consensus	Diff %
Revenue	119,017	161,456	114,314	153,751	155,059	221,084	187,395	205,740	206,272	0.3%	33.0%	209,372	-1%
Operating Profit	20,364	39,560	7,131	34,705	13,634	49,002	(7,663)	30,847	19,735	-36.0%	44.7%	21,668	-9%
Net profit	72,540	52,309	3,162	46,437	26,524	79,427	(5,479)	42,835	24,084	-43.8%	-9.2%	24,714	-3%
Adj. net profit	32,750	46,493	22,287	39,494	47,088	59,207	26,216	43,441	34,486	-20.6%	-26.8%	35,643	-3%
Adj. EPS (RMB)	13.10	18.19	9.20	14.82	17.97	22.03	10.32	16.60	13.06	-21.3%	-27.3%	13.14	-1%
<b>Margin (%)</b>													
Gross margin	45.0%	47.8%	36.6%	45.0%	42.0%	45.1%	33.1%	39.7%	39.0%			38.6%	
Operating margin	17.1%	24.5%	6.2%	22.6%	8.8%	22.2%	-4.1%	15.0%	9.6%			10.3%	
Adj. net margin	27.5%	28.8%	19.5%	25.7%	30.4%	26.8%	14.0%	21.1%	16.7%			17.0%	
<b>Growth (%)</b>													
Revenue (YoY)	39.8%	37.7%	22.3%	33.8%	30.3%	36.9%	63.9%	33.8%	33.0%			35.0%	
Revenue (QoQ)	3.6%	35.7%	-29.2%	34.5%	0.9%	42.6%	-15.2%	9.8%	0.3%			1.8%	
Operating Profit	50.8%	47.6%	-18.6%	42.4%	-33.0%	23.9%	-207.5%	-11.1%	44.7%			58.9%	
Adj. net profit	39.6%	56.0%	11.1%	27.6%	43.8%	27.3%	17.6%	10.0%	-26.8%			-24.3%	

Source: Company data, CMBIS estimates, Bloomberg

Figure 2: Revenue breakdown

RMB mn, Mar-YE	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22E	QoQ	YoY
<b>Total revenue</b>	<b>119,017</b>	<b>161,456</b>	<b>114,314</b>	<b>153,751</b>	<b>155,059</b>	<b>221,084</b>	<b>187,395</b>	<b>205,740</b>	<b>206,272</b>	<b>0%</b>	<b>33%</b>
Core commerce	101,220	102,843	93,865	133,318	130,922	195,541	161,365	180,241	176,737	-2%	35%
Cloud computing	9,291	10,721	12,217	12,437	14,899	16,115	16,669	16,051	19,152	19%	29%
Digital media and ente	7,296	7,396	5,944	6,994	8,066	8,079	8,047	8,073	8,823	9%	9%
Innovation initiatives ar	1,210	1,864	2,288	1,002	1,172	1,349	1,314	1,375	1,560	13%	33%

Source: Company data, CMBIS estimates

Figure 3: Earnings revision

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	930,050	1,112,665	1,322,355	930,174	1,114,190	1,326,733	0.0%	-0.1%	-0.3%
Gross profit	353,419	425,038	507,784	353,466	428,963	510,792	0.0%	-0.9%	-0.6%
Operating profit	122,014	149,453	182,984	122,962	154,130	184,955	-0.8%	-3.0%	-1.1%
Adj. net profit	165,296	196,261	241,640	166,281	200,762	243,536	-0.6%	-2.2%	-0.8%
EPS (RMB)	60.13	70.69	86.17	60.49	72.31	86.85	-0.6%	-2.2%	-0.8%
Gross margin	38.0%	38.2%	38.4%	38.0%	38.5%	39%	0.0ppts	-0.3ppts	-0.1ppts
Operating margin	13.1%	13.4%	13.8%	13.2%	13.8%	13.9%	-0.1ppts	-0.4ppts	-0.1ppts
Adj. net margin	17.8%	17.6%	18.3%	17.9%	18.0%	18%	-0.1ppts	-0.4ppts	-0.1ppts

Source: Company data, CMBIS estimates

Figure 4: CMBI estimates vs. consensus

Rmb mn, Mar-YE	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	930,050	1,112,665	1,322,355	921,421	1,110,325	1,326,961	0.9%	0.2%	-0.3%
Gross profit	353,419	425,038	507,784	360,537	436,395	522,046	-2.0%	-2.6%	-2.7%
Operating profit	122,014	149,453	182,984	114,685	153,655	194,406	6.4%	-2.7%	-5.9%
Adj. net profit	165,296	196,261	241,640	169,289	200,649	241,238	-2.4%	-2.2%	0.2%
EPS (RMB)	60.13	70.69	86.17	61.8	72.1	87.4	-2.7%	-1.9%	-1.4%
Gross margin	38.0%	38.2%	38.4%	39.1%	39.3%	39.3%	-1.1ppts	-1.1ppts	-0.9ppts
Operating margin	13.1%	13.4%	13.8%	12.4%	13.8%	14.7%	+0.7ppts	-0.4ppts	-0.8ppts
Adj. net margin	17.8%	17.6%	18.3%	18.4%	18.1%	18.2%	-0.6ppts	-0.4ppts	+0.1ppts

Source: Company data, Bloomberg, CMBIS estimates

**Figure 5: SOTP valuation**

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY21A	FY22E	FY21A	FY22E
Core Commerce	499.1	181.6	EV/EBITA	19.5	15.0	25.6	33.3
Cloud	99.1	36.1	P/S	10.8	8.0	9.2	12.4
Others	103.8	37.8					
Digital Entertainment	19.0	6.9	P/S	4.0	3.5	4.8	5.4
Innovations	2.8	1.0	P/S	3.8	3.0	0.7	0.9
Strategic Investments	52.4	19.1	SoTP for all investments				
Net (Debt)/Cash	29.6	10.8	Cash forecasted on Balance sheet				
<b>Equity Value (US\$)</b>	<b>702</b>	<b>255.4</b>					

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>509,711</b>	<b>717,289</b>	<b>930,050</b>	<b>1,112,665</b>	<b>1,322,355</b>
Core commerce	436,104	621,146	807,242	957,397	1,131,414
Cloud	40,016	60,120	81,162	108,432	139,401
DME	26,948	31,186	35,600	39,883	43,962
Others	6,643	4,837	6,046	6,953	7,579
<b>COSG</b>	<b>(282,367)</b>	<b>(421,205)</b>	<b>(576,631)</b>	<b>(687,627)</b>	<b>(814,571)</b>
<b>Gross profit</b>	<b>227,344</b>	<b>296,084</b>	<b>353,419</b>	<b>425,038</b>	<b>507,784</b>
R&D	(43,080)	(57,236)	(74,404)	(89,013)	(105,788)
S&M	(50,673)	(81,519)	(100,445)	(120,168)	(141,492)
Admin. Expense	(28,197)	(55,224)	(46,503)	(55,633)	(66,118)
Other income	(13,964)	(12,427)	(10,053)	(10,770)	(11,402)
<b>Operating profit</b>	<b>91,430</b>	<b>89,678</b>	<b>122,014</b>	<b>149,453</b>	<b>182,984</b>
Interest exp	(5,180)	(4,476)	(4,924)	(5,416)	(5,958)
Associates	72,956	72,794	87,353	104,823	115,306
Others	7,439	7,582	7,000	7,000	7,000
<b>Pre-tax profit</b>	<b>166,645</b>	<b>165,578</b>	<b>211,443</b>	<b>255,861</b>	<b>299,332</b>
Equity investees	(5,733)	6,984	(11,057)	(11,057)	(11,057)
Tax	(20,562)	(29,278)	(48,632)	(58,848)	(68,846)
<b>Net profit</b>	<b>140,180</b>	<b>143,014</b>	<b>151,754</b>	<b>185,956</b>	<b>219,429</b>
<b>Non-GAAP NI</b>	<b>132,479</b>	<b>171,985</b>	<b>165,296</b>	<b>196,261</b>	<b>241,640</b>

### Cash flow summary

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	<b>140,350</b>	<b>143,284</b>	<b>151,754</b>	<b>185,956</b>	<b>219,429</b>
D&A	74,169	79,510	86,771	83,998	95,844
Change in WC	59,388	120,741	52,186	62,623	75,148
Others	(93,300)	(111,749)	(74,567)	(76,884)	(79,964)
<b>Operating CF</b>	<b>180,607</b>	<b>231,786</b>	<b>216,144</b>	<b>255,693</b>	<b>310,457</b>
Capex	(180,406)	(192,679)	(204,577)	(217,664)	(232,059)
Associates	(105,178)	(10,557)	0	0	0
Others	177,512	(40,958)	0	0	0
<b>Investing CF</b>	<b>(108,072)</b>	<b>(244,194)</b>	<b>(204,577)</b>	<b>(217,664)</b>	<b>(232,059)</b>
Equity raised	0	0	0	0	0
Change of Debts	(32,422)	(1,548)	3,750	0	0
Dividend paid	0	0	0	0	0
Others	103,275	31,630	0	0	0
<b>Financing CF</b>	<b>70,853</b>	<b>30,082</b>	<b>3,750</b>	<b>0</b>	<b>0</b>
<b>Change in cash</b>	<b>143,388</b>	<b>17,674</b>	<b>15,318</b>	<b>38,029</b>	<b>78,397</b>
Cash (beg of yr)	189,976	345,982	321,262	336,580	374,609
FX	0	(7,187)	0	0	0
<b>Cash (end of yr)</b>	<b>333,364</b>	<b>356,469</b>	<b>336,580</b>	<b>374,609</b>	<b>453,006</b>

### Balance sheet

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>NC assets</b>	<b>850,062</b>	<b>1,046,858</b>	<b>1,252,431</b>	<b>1,419,539</b>	<b>1,594,659</b>
Fixed asset	103,387	147,412	232,964	263,900	291,990
Associates	189,632	200,189	200,189	200,189	200,189
Land use-right	57,985	98,432	0	0	0
Intangible assets	337,729	363,604	582,056	718,229	865,260
Others	161,329	237,221	237,221	237,221	237,221
<b>Current assets</b>	<b>462,923</b>	<b>643,360</b>	<b>683,619</b>	<b>751,578</b>	<b>865,892</b>
Cash	330,503	321,262	336,580	374,609	453,006
Account receivable	99,708	159,915	184,857	214,787	250,702
Other	32,712	162,183	162,183	162,183	162,183
<b>Current liabilities</b>	<b>241,872</b>	<b>377,358</b>	<b>423,463</b>	<b>486,086</b>	<b>561,233</b>
Borrowings	5,154	13,437	7,356	7,356	7,356
Trade & payables	164,550	261,140	313,326	375,949	451,096
Income tax	20,190	25,275	25,275	25,275	25,275
Other	51,978	77,506	77,506	77,506	77,506
<b>NC liabilities</b>	<b>191,462</b>	<b>229,226</b>	<b>229,226</b>	<b>229,226</b>	<b>229,226</b>
Borrowings	39,660	38,335	38,335	38,335	38,335
Deferred taxation	43,898	59,598	59,598	59,598	59,598
Other	107,904	131,293	131,293	131,293	131,293
Mezzanine equity	9,103	8,673	8,673	8,673	8,673
<b>Total Equity</b>	<b>870,548</b>	<b>1,074,961</b>	<b>1,219,829</b>	<b>1,392,274</b>	<b>1,606,560</b>
MI	115,147	137,491	129,481	121,352	113,542
<b>S/H equity</b>	<b>755,401</b>	<b>937,470</b>	<b>1,090,348</b>	<b>1,270,922</b>	<b>1,493,019</b>

### Key ratios

YE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Core commerce	85.6	86.6	86.8	86.0	85.6
Cloud	7.9	8.4	8.7	9.7	10.5
DME	5.3	4.3	3.8	3.6	3.3
Others	1.3	0.7	0.7	0.6	0.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profitability (%)</b>					
Gross margin	44.6	41.3	38.0	38.2	38.4
PreTax margin	32.7	23.1	22.7	23.0	22.6
Tax rate	(12.3)	(17.7)	(23.0)	(23.0)	(23.0)
Adj. net margin	28.2	25.0	18.6	18.4	18.9
<b>Balance sheet</b>					
Current ratio (x)	1.9	1.7	1.6	1.5	1.5
Debtors turnover	51.1	53.2	53.8	54.0	54.5
Creditors turnover	180.5	183.0	181.7	182.8	185.2
Net gearing (%)	Net Cash				
<b>Returns (%)</b>					
ROE	16.3	16.6	14.1	14.6	15.4
ROA	10.1	10.2	8.5	9.0	9.8
<b>Per share data</b>					
Adj. EPS (RMB)	53.9	65.2	60.1	70.7	86.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	329.7	398.1	446.9	504.6	576.0

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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