

Alibaba (BABA US)

FY22E rev guiding down to 20%-23% YoY

2QFY22 results missed already-low expectation, with rev/ adj. net profit +29% YoY/-39% YoY (3%/14% below consensus), in which core commerce/ cloud/ DME rev +31%/34%/0% YoY and adj. EBITA margin was 14% (-6ppts QoQ; in line). 2QFY22 CMR decelerated to +3% YoY (vs. our estimate of +7% YoY) due to soft consumption amid COVID cases, macro moderation and tightening regulation. Taobao deals and Taocaicai performed well, but meanwhile dampening core margin with stepping-up investment. We are conservative on next few quarters' momentum, given tough base and macro challenge. We trimmed our FY22-24E earnings forecast by 14%-19%, and lower TP to US\$213.3.

- 2QFY22 missed.** 2QFY22E topline/bottom line +29%/-39% YoY (3%/14% below consensus), in which core commerce/ cloud/ DME rev +31%/34%/0% YoY (vs. our estimate of +35%/29%/9%), dragged by soft consumption and new retail biz normalization. Cloud growth was better-than-feared. Adj. EBITA margin came in at 14% (-6ppts QoQ), in line with our estimate, mainly on wider loss of Taobao deals & Taocaicai.
- Prudent on CMR growth, amid challenging macro.** 2QFY22 CMR decelerated to +3% YoY (vs. 14% in 1QFY22), below our estimate of +7% YoY, for soft consumption amid COVID cases, macro moderation and tightening regulation. We keep conservative on its CMR in next few quarters, considering soft NBS & "11.11" data (on apparels weakness) with multiple headwinds to linger. Mgmt. expected 3QFY22E CMR growth to slightly rebound, but still lower than GMV growth. Taobao deals and Taocaicai users performed well (TD AAC up to 240mn by Sep; TCC GMV +150% QoQ), but meanwhile would dampen ecommerce margin with stepping-up investment. Looking ahead, we expect BABA to focus more on quality growth as taking higher social responsibility. To reflect more challenging CMR amid soft macro and intensified competition, we cut our topline forecast by 7%-13% in FY22-24E.
- Maintain BUY.** We trimmed our FY22-24E earnings forecast by 14%-19%, with lower SOTP-based TP at US\$213.3 (26x/23x FY22/23E P/E). We expect BABA's price to range trade over the coming quarters. Suggest to wait for clearer signals of macro recovery.

Earnings Summary

(YE 31 Mar)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	509,711	717,289	865,804	992,312	1,151,646
YoY growth (%)	35.3	40.7	20.7	14.6	16.1
Adj. net profit (RMB mn)	132,479	171,985	142,312	163,343	201,968
Adj. EPS (RMB)	53.9	65.2	51.8	58.8	72.0
YoY growth (%)	41.8	21.0	-20.5	13.6	22.4
Consensus EPS (RMB)	NA	NA	57.3	66.3	84.4
P/E (x)	17.4	14.4	18.1	15.9	13.0
P/B (x)	2.8	2.4	2.1	1.9	1.7
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.3	16.6	12.5	12.7	13.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$213.3
(Previous TP)	US\$255.4)
Up/Downside	+47.1%
Current Price	US\$145.0

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	451,476
Avg 3 mths t/o (US\$ mn)	4,134.30
52w High/Low (US\$)	280.6/ 138.4
Total Issued Shares (mn)	2,711

Source: Bloomberg

Shareholding Structure

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

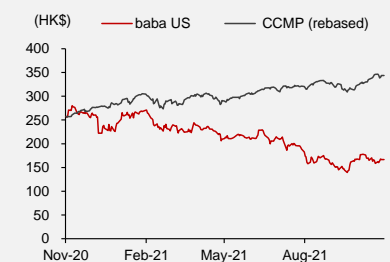
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-0.9%	-6.8%
3-mth	-11.7%	-17.4%
6-mth	-20.5%	-32.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- China Internet: Embracing a new normal of regulation – 8 Nov 2021
- Prudent on CMR momentum – 5 Oct 2021
- Multi-app strategy in investment cycle – 4 Aug 2021

Figure 1: 2QFY22 financial review

RMB mn, Mar-YE	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	114,314	153,751	155,059	221,084	187,395	205,740	200,690	-2.5%	29.4%	207,360	-3%	206,272	-3%
Operating Profit	7,131	34,705	13,634	49,002	(7,663)	30,847	15,006	-51.4%	10.1%	20,098	-25%	19,735	-24%
Net profit	3,162	46,437	26,524	79,427	(5,479)	42,835	3,377	-92.1%	-87.3%	23,987	-86%	24,084	-86%
Adj. net profit	22,287	39,494	47,088	59,207	26,216	43,441	28,524	-34.3%	-39.4%	33,160	-14%	34,486	-17%
Adj. EPS (RMB)	9.20	14.82	17.97	22.03	10.32	16.60	11.20	-32.5%	-37.7%	12.58	-11%	13.06	-14%
Margin (%)													
Gross margin	36.6%	45.0%	42.0%	45.1%	33.1%	39.7%	35.3%			37.7%		39.0%	
Operating margin	6.2%	22.6%	8.8%	22.2%	-4.1%	15.0%	7.5%			9.7%		9.6%	
Adj. net margin	19.5%	25.7%	30.4%	26.8%	14.0%	21.1%	14.2%			16.0%		16.7%	
Growth (%)													
Revenue (YoY)	22.3%	33.8%	30.3%	36.9%	63.9%	33.8%	29.4%			33.7%		33.0%	
Revenue (QoQ)	-29.2%	34.5%	0.9%	42.6%	-15.2%	9.8%	-2.5%			0.8%		0.3%	
Operating Profit	-18.6%	42.4%	-33.0%	23.9%	-207.5%	-11.1%	10.1%			47.4%		44.7%	
Adj. net profit	11.1%	27.6%	43.8%	27.3%	17.6%	10.0%	-39.4%			-29.6%		-26.8%	

Source: Company data, CMBIS estimates, Bloomberg

Figure 2: Revenue breakdown

RMB mn, Mar-YE	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	QoQ	YoY
Total revenue	114,314	153,751	155,059	221,084	187,395	205,740	200,690	-2%	29%
Core commerce	93,865	133,318	130,922	195,541	161,365	180,241	171,170	-5%	31%
Cloud computing	12,217	12,437	14,899	16,115	16,669	16,051	20,007	25%	34%
Digital media and entertainment	5,944	6,994	8,066	8,079	8,047	8,073	8,081	0%	0%
Innovation initiatives and others	2,288	1,002	1,172	1,349	1,314	1,375	1,432	4%	22%

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	865,804	992,312	1,151,646	910,294	1,093,337	1,293,290	-4.9%	-9.2%	-11.0%
Gross profit	316,018	362,194	426,109	353,995	424,072	505,365	-10.7%	-14.6%	-15.7%
Operating profit	99,904	115,253	141,767	114,604	146,646	188,013	-12.8%	-21.4%	-24.6%
Adj. net profit	142,312	163,343	201,968	207,178	247,667	291,148	-31.3%	-34.0%	-30.6%
EPS (RMB)	51.77	58.83	72.02	57.3	66.3	84.4	-9.7%	-11.2%	-14.7%
Gross margin	36.5%	36.5%	37.0%	38.9%	38.8%	39.1%	-2.4ppts	-2.3ppts	-2.1ppts
Operating margin	11.5%	11.6%	12.3%	12.6%	13.4%	14.5%	-1.1ppts	-1.8ppts	-2.2ppts
Adj. net margin	16.4%	16.5%	17.5%	22.8%	22.7%	22.5%	-6.3ppts	-6.2ppts	-5.0ppts

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	865,804	992,312	1,151,646	930,174	1,114,190	1,326,733	-6.9%	-10.9%	-13.2%
Gross profit	316,018	362,194	426,109	353,466	428,963	510,792	-10.6%	-15.6%	-16.6%
Operating profit	99,904	115,253	141,767	122,962	154,130	184,955	-18.8%	-25.2%	-23.4%
Adj. net profit	142,312	163,343	201,968	166,281	200,762	243,536	-14.4%	-18.6%	-17.1%
EPS (RMB)	51.77	58.83	72.02	60.49	72.31	86.85	-14.4%	-18.6%	-17.1%
Gross margin	36.5%	36.5%	37.0%	38.0%	38.5%	39%	-1.5ppts	-2.0ppts	-1.5ppts
Operating margin	11.5%	11.6%	12.3%	13.2%	13.8%	13.9%	-1.7ppts	-2.2ppts	-1.6ppts
Adj. net margin	16.4%	16.5%	17.5%	17.9%	18.0%	18%	-1.4ppts	-1.6ppts	-0.8ppts

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	391.7	142.5	EV/EBITA	18.0	15.0	21.8	26.1
Cloud	99.1	36.1	P/S	10.8	8.0	9.2	12.4
Others	95.4	34.7					
Digital Entertainment	10.7	3.9	P/S	2.2	2.0	4.8	5.3
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				
Equity Value (US\$)	586	213.3					
TP (HK\$)		247.4					

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	509,711	717,289	865,804	992,312	1,151,646
Core commerce	436,104	621,146	743,667	837,807	961,556
Cloud	40,016	60,120	81,162	108,432	139,401
DME	26,948	31,186	34,928	39,120	43,110
Others	6,643	4,837	6,046	6,953	7,579
COSG	(282,367)	(421,205)	(549,785)	(630,118)	(725,537)
Gross profit	227,344	296,084	316,018	362,194	426,109
R&D	(43,080)	(57,236)	(69,264)	(79,385)	(92,132)
S&M	(50,673)	(81,519)	(93,507)	(107,170)	(123,226)
Admin. Expense	(28,197)	(55,224)	(43,290)	(49,616)	(57,582)
Other income	(13,964)	(12,427)	(10,053)	(10,770)	(11,402)
Operating profit	91,430	89,678	99,904	115,253	141,767
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
Pre-tax profit	166,645	165,578	189,333	221,661	258,115
Equity investees	(5,733)	6,984	(11,057)	(11,057)	(11,057)
Tax	(20,562)	(29,278)	(43,547)	(50,982)	(59,366)
Net profit	140,180	143,014	134,730	159,622	187,692
Non-GAAP NI	132,479	171,985	142,312	163,343	201,968

Cash flow summary

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	140,350	143,284	134,730	159,622	187,692
D&A	74,169	79,510	80,813	77,415	87,910
Change in WC	59,388	120,741	52,186	62,623	75,148
Others	(93,300)	(111,749)	(74,567)	(76,884)	(79,964)
Operating CF	180,607	231,786	193,161	222,775	270,785
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
Investing CF	(108,072)	(244,194)	(204,577)	(217,664)	(232,059)
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
Financing CF	70,853	30,082	3,750	0	0
Change in cash	143,388	17,674	(7,666)	5,112	38,726
Cash (beg of yr)	189,976	345,982	321,262	313,596	318,708
FX	0	(7,187)	0	0	0
Cash (end of yr)	333,364	356,469	313,596	318,708	357,434

Balance sheet

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
NC assets	850,062	1,046,858	1,252,431	1,419,539	1,594,659
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
Current assets	462,923	643,360	660,636	695,677	770,319
Cash	330,503	321,262	313,596	318,708	357,434
Account receivable	99,708	159,915	184,857	214,787	250,702
Other	32,712	162,183	162,183	162,183	162,183
Current liabilities	241,872	377,358	423,463	486,086	561,233
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
NC liabilities	191,462	229,226	229,226	229,226	229,226
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
Total Equity	870,548	1,074,961	1,196,846	1,336,373	1,510,988
MI	115,147	137,491	129,481	121,352	113,542
S/H equity	755,401	937,470	1,067,365	1,215,021	1,397,446

Key ratios

YE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Core commerce	85.6	86.6	85.9	84.4	83.5
Cloud	7.9	8.4	9.4	10.9	12.1
DME	5.3	4.3	4.0	3.9	3.7
Others	1.3	0.7	0.7	0.7	0.7
Total	100.0	100.0	100.0	100.0	100.0
Profitability (%)					
Gross margin	44.6	41.3	36.5	36.5	37.0
PreTax margin	32.7	23.1	21.9	22.3	22.4
Tax rate	(12.3)	(17.7)	(23.0)	(23.0)	(23.0)
Adj. net margin	28.2	25.0	17.4	17.3	18.2
Balance sheet					
Current ratio (x)	1.9	1.7	1.6	1.4	1.4
Debtors turnover	51.1	53.2	57.8	60.5	62.6
Creditors turnover	180.5	183.0	190.6	199.5	207.9
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROE	16.3	16.6	12.5	12.7	13.8
ROA	10.1	10.2	7.4	7.7	8.5
Per share data					
Adj. EPS (RMB)	53.9	65.2	51.8	58.8	72.0
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	329.7	398.1	438.5	484.5	541.9

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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