

# Alibaba (BABA US)

## Challenges yet over

We expect BABA to see another challenging quarter in 3QFY22E, with topline/bottom line +13%/-37% YoY (2%/20% below consensus). Soft consumption, epidemic resurgence and regulation tightening would continuously dampen CMR momentum (forecasting +0.3% YoY). We forecast cloud rev to decelerate to +25% YoY, due to shrinking enterprise budgets under macro softness and some verticals slowdown. Adj. EBITA margin would be at 18.7%, with Taobao deals and Taocaicai investment to continue. We turn more prudent on next few quarters' momentum, given tough base and macro challenge. We trimmed our FY22-24E earnings forecast by 1-2%, and lowered TP at US\$181.6.

- 3QFY22E challenges to linger.** We expect 3QFY22E topline/bottom line +13%/-37% YoY (2%/20% below consensus), in which core commerce/cloud/ DME rev +12%/25%/5% YoY, dragged by soft consumption and new retail biz normalization. Weak core commerce and new retail investment could continuously dampen its margin, and we estimate its adj. EBITA margin at 18.7% (-9ppts YoY, +5ppts QoQ), in which core commerce/ cloud/ DME adj. EBITA margin at +24%/+3%/-11%.
- Softer CMR and cloud deceleration ahead.** Given challenging macro and epidemic resurgence, we expect 3QFY22 CMR to continuously decelerate to +0.3% YoY (vs. 3% in 2QFY22), below GMV trend (estimating +6% YoY). International biz would see headwinds from EU tariff and Lira volatility. We turn more conservative on its core-co biz in next few quarters, considering soft consumption, stricter travel limit in CNY and livestreaming KOLs issue. 3QFY22E investment on Taobao deals and Taocaicai could continue, but would be selective on local service. We forecast cloud service +25% YoY in 3QFY22E (vs. 33% in 2QFY22), dampened by 1) lower capex and longer decision-making cycle under soft macro; and 2) shrinking contribution from some verticals (e.g. edu, game). Cloud margin would range at low single digits. To reflect multiple headwinds, we cut our topline forecast by 1-3% in FY22-24E.
- Maintain BUY.** We trimmed our FY22-24E earnings forecast by 1-2%, with lower SOTP-based TP at US\$181.6 (23x/20x 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	857,196	975,288	1,121,902
YoY growth (%)	35.3	40.7	19.5	13.8	15.0
Adj. net profit (RMB mn)	132,479	171,985	141,176	161,262	198,161
Adj. EPS (RMB)	53.9	65.2	51.4	58.1	70.7
YoY growth (%)	41.8	21.0	(21.2)	13.1	21.7
Consensus EPS (RMB)	NA	NA	52.5	60.0	69.8
P/E (x)	15.4	12.8	16.2	14.3	11.8
P/B (x)	2.5	2.1	1.9	1.7	1.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.3	16.6	12.4	12.6	13.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **US\$181.6**  
 (Previous TP **US\$213.0**)  
 Up/Downside **+39.7%**  
 Current Price **US\$129.8**

### China Internet Sector

#### Sophie Huang

(852) 3900 0889

sophiehuang@cmbi.com.hk

#### Stock Data

Mkt Cap (US\$ mn)	343,283
Avg 3 mths t/o (US\$ mn)	3,351.72
52w High/Low (US\$)	274.3/108.7
Total Issued Shares (mn)	2,711

Source: Bloomberg

#### Shareholding Structure

Goldman Sachs	1.8%
T Rowe Price Group	1.0%
Norges Bank	0.9%

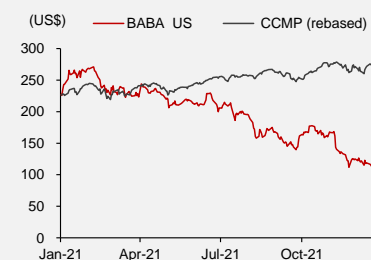
Source: Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	2.5%	3.4%
3-mth	-12.1%	-15.5%
6-mth	-40.2%	-41.8%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

#### Related Reports

- FY22E rev guiding down to 20%-23% YoY – 19 Nov 2021
- China Internet: Embracing a new normal of regulation – 8 Nov 2021
- Prudent on CMR momentum – 5 Oct 2021

**Figure 1: 3QFY22E financial preview**

RMB mn, Mar-YE	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22E	QoQ	YoY	Consensus	Diff %
Revenue	114,314	153,751	155,059	221,084	187,395	205,740	200,690	248,727	23.9%	12.5%	253,469	-2%
Operating Profit	7,131	34,705	13,634	49,002	(7,663)	30,847	15,006	34,830	132.1%	-28.9%	34,990	0%
Net profit	3,162	46,437	26,524	79,427	(5,479)	42,835	3,377	29,506	773.7%	-62.9%	35,073	-16%
Adj. net profit	22,287	39,494	47,088	59,207	26,216	43,441	28,524	38,064	33.4%	-35.7%	47,792	-20%
Adj. EPS (RMB)	9.20	14.82	17.97	22.03	10.32	16.60	11.20	13.78	23.1%	-37.4%	17.26	-20%
<b>Margin (%)</b>												
Gross margin	36.6%	45.0%	42.0%	45.1%	33.1%	39.7%	35.3%	36.4%			39.5%	
Operating margin	6.2%	22.6%	8.8%	22.2%	-4.1%	15.0%	7.5%	14.0%			13.8%	
Adj. net margin	19.5%	25.7%	30.4%	26.8%	14.0%	21.1%	14.2%	15.3%			18.9%	
<b>Growth (%)</b>												
Revenue (YoY)	22.3%	33.8%	30.3%	36.9%	63.9%	33.8%	29.4%	12.5%			63.5%	
Revenue (QoQ)	-29.2%	34.5%	0.9%	42.6%	-15.2%	9.8%	-2.5%	23.9%			23.2%	
Operating Profit	-18.6%	42.4%	-33.0%	23.9%	-207.5%	-11.1%	10.1%	-28.9%			156.6%	
Adj. net profit	11.1%	27.6%	43.8%	27.3%	17.6%	10.0%	-39.4%	-35.7%			1.5%	

Source: Company data, CMBIS estimates, Bloomberg

**Figure 2: Revenue breakdown**

RMB mn, Mar-YE	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22E	QoQ	YoY	
<b>Total revenue</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>200,690</b>	<b>248,727</b>	<b>24%</b>	<b>13%</b>	
Core commerce		93,865	133,318	130,922	195,541	161,365	180,241	171,170	218,279	28%	12%
Cloud computing		12,217	12,437	14,899	16,115	16,669	16,051	20,007	20,144	1%	25%
Digital media and entertainment		5,944	6,994	8,066	8,079	8,047	8,073	8,081	8,483	5%	5%
Innovation initiatives and others		2,288	1,002	1,172	1,349	1,314	1,375	1,432	1,821	27%	35%

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	857,196	975,288	1,121,902	865,804	992,312	1,151,646	-1.0%	-1.7%	-2.6%
Gross profit	312,877	355,980	415,104	316,018	362,194	426,109	-1.0%	-1.7%	-2.6%
Operating profit	98,811	113,091	137,811	99,904	115,253	141,767	-1.1%	-1.9%	-2.8%
Adj. net profit	141,176	161,262	198,161	142,312	163,343	201,968	-0.8%	-1.3%	-1.9%
EPS (RMB)	51.36	58.08	70.67	51.77	58.83	72.02	-0.8%	-1.3%	-1.9%
Gross margin	36.5%	36.5%	37.0%	36.5%	36.5%	37%	0.0ppts	0.0ppts	0.0ppts
Operating margin	11.5%	11.6%	12.3%	11.5%	11.6%	12.3%	+0.0ppts	-0.0ppts	-0.0ppts
Adj. net margin	16.5%	16.5%	17.7%	16.4%	16.5%	18%	+0.1ppts	+0.0ppts	+0.2ppts

Source: Company data, CMBIS estimates

**Figure 4: CMBIS estimates vs. consensus**

Rmb mn, Mar-YE	CMBIS			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	857,196	975,288	1,121,902	874,160	1,029,257	1,192,929	-1.9%	-5.2%	-6.0%
Gross profit	312,877	355,980	415,104	326,540	383,544	454,659	-4.2%	-7.2%	-8.7%
Operating profit	98,811	113,091	137,811	94,079	117,302	150,860	5.0%	-3.6%	-8.6%
Adj. net profit	141,176	161,262	198,161	192,046	217,243	245,186	-26.5%	-25.8%	-19.2%
EPS (RMB)	51.36	58.08	70.67	52.5	60.0	69.8	-2.2%	-3.1%	1.3%
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	-2.3ppts
Adj. net margin	16.5%	16.5%	17.7%	22.8%	22.7%	22.5%	-6.3ppts	-6.1ppts	-4.8ppts

Source: Company data, Bloomberg, CMBIS estimates

**Figure 5: SOTP valuation**

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY22E	FY23E	FY22E	FY23E
Core Commerce	337.9	122.9	EV/EBITA	14.0	12.5	24.1	27.1
Cloud	73.3	26.7	P/S	6.0	4.7	12.2	15.7
Others	88.0	32.0					
Digital Entertainment	10.4	3.8	P/S	2.0	1.8	5.2	5.8
Innovations	3.1	1.1	P/S	3.0	2.5	1.0	1.2
Strategic Investments	44.2	16.1	SoTP for all investments				
Net (Debt)/Cash	30.3	11.0	Cash forecasted on Balance sheet				
<b>Equity Value (US\$)</b>	<b>499</b>	<b>181.6</b>					
<b>TP (HK\$)</b>		<b>177.0</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>857,196</b>	<b>975,288</b>	<b>1,121,902</b>
Core commerce	436,104	621,146	739,141	829,349	946,512
Cloud	40,016	60,120	78,156	100,665	125,308
DME	26,948	31,186	33,369	37,373	41,185
Others	6,643	4,837	6,530	7,901	8,897
<b>COSG</b>	<b>(282,367)</b>	<b>(421,205)</b>	<b>(544,320)</b>	<b>(619,308)</b>	<b>(706,798)</b>
<b>Gross profit</b>	<b>227,344</b>	<b>296,084</b>	<b>312,877</b>	<b>355,980</b>	<b>415,104</b>
R&D	(43,080)	(57,236)	(68,576)	(78,023)	(89,752)
S&M	(50,673)	(81,519)	(92,577)	(105,331)	(120,044)
Admin. Expense	(28,197)	(55,224)	(42,860)	(48,764)	(56,095)
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>98,811</b>	<b>113,091</b>	<b>137,811</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>188,240</b>	<b>219,499</b>	<b>254,159</b>
Equity investees	(5,733)	6,984	(11,057)	(11,057)	(11,057)
Tax	(20,562)	(29,278)	(43,295)	(50,485)	(58,457)
<b>Net profit</b>	<b>140,180</b>	<b>143,014</b>	<b>133,888</b>	<b>157,957</b>	<b>184,646</b>
<b>Non-GAAP NI</b>	<b>132,479</b>	<b>171,985</b>	<b>141,176</b>	<b>161,262</b>	<b>198,161</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>133,888</b>	<b>157,957</b>	<b>184,646</b>
D&A	74,169	79,510	80,518	76,998	87,148
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>192,024</b>	<b>220,694</b>	<b>266,977</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>(8,802)</b>	<b>3,031</b>	<b>34,918</b>
Cash (beg of yr)	189,976	345,982	321,262	312,460	315,491
FX	0	(7,187)	0	0	0
<b>Cash (end of yr)</b>	<b>333,364</b>	<b>356,469</b>	<b>312,460</b>	<b>315,491</b>	<b>350,409</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>659,499</b>	<b>692,460</b>	<b>763,294</b>
Cash	330,503	321,262	312,460	315,491	350,409
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	0	0	0	0	0
	51,978	77,506	77,506	77,506	77,506
<b>NC liabilities</b>					
Borrowings	<b>191,462</b>	<b>229,226</b>	<b>229,226</b>	<b>229,226</b>	<b>229,226</b>
Deferred taxation	39,660	38,335	38,335	38,335	38,335
Other	43,898	59,598	59,598	59,598	59,598
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>1,195,710</b>	<b>1,333,156</b>	<b>1,503,963</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>1,066,228</b>	<b>1,211,803</b>	<b>1,390,421</b>

### Key ratios

YE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Core commerce	85.6	86.6	86.2	85.0	84.4
Cloud	7.9	8.4	9.1	10.3	11.2
DME	5.3	4.3	3.9	3.8	3.7
Others	1.3	0.7	0.8	0.8	0.8
<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	36.5	36.5	37.0
PreTax margin	32.7	23.1	22.0	22.5	22.7
Tax rate	(12.3)	(17.7)	(23.0)	(23.0)	(23.0)
Adj. net margin	28.2	25.0	17.4	17.4	18.4
<b>Balance sheet</b>					
Current ratio (x)	1.9	1.7	1.6	1.4	1.4
Debtors turnover	51.1	53.2	58.4	61.6	64.3
Creditors turnover	180.5	183.0	192.5	203.0	213.4
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROE	16.3	16.6	12.4	12.6	13.6
ROA	10.1	10.2	7.4	7.6	8.4
<b>Per share data</b>					
Adj. EPS (RMB)	53.9	65.2	51.4	58.1	70.7
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	329.7	398.1	438.1	483.3	539.4

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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