

# Alibaba (BABA US)

## New initiatives net loss to narrow

BABA delivered mixed but acceptable 3QFY22 results, with upbeat bottom line and largely in-line topline. 3QFY22E CMR and cloud decelerated to -1%/+20% YoY (below our estimates of +0.3%/+25% YoY), but was forgivable given low market expectation. New initiatives performed well, with Taobao Deals paying orders >+100% YoY and Taocaicai GMV +30% QoQ in 3QFY22. Mgmt guided new initiatives net loss to narrow in the coming quarters, which is a positive signal for margin trend. We suggest investors to look beyond challenging 4QFY22E, and expect gradual and moderate recovery ahead, with potential travel limitation relaxation. We slightly cut our FY22-24E topline by 1%-2%, but barely changed earnings forecast. Keep our SOTP-based TP at US\$181.6.

- Mixed 3QFY22, but forgivable.** 3QFY22E topline/bottom line +10%/-24% YoY (-1%/4% vs. consensus), in which core commerce/ cloud/ DME rev +9%/20%/0% YoY (vs. our estimates of +12%/25%/5% YoY), dragged by soft consumption and new retail biz normalization. However, margin beat on low expectation, mainly on lighter R&D, G&A. By segment, core commerce/ cloud/ DME adj. EBITA margin came in at +23%/+1%/-17% (vs. our estimates of +24%/+3%/-11%).
- New initiatives net loss to narrow ahead.** 3QFY22 CMR decelerated to -1% YoY (vs. our estimate of +0.3% YoY), given challenging macro and epidemic resurgence, while GMV grew by single digit. 4QFY22E CMR might still see pressure, but was well anticipated. New initiatives performed well, with Taobao Deals paying orders >+100% YoY and Taocaicai GMV +30% QoQ in 3QFY22. Mgmt guided new initiatives net loss to narrow ahead, with focus shift to quality growth. We view this tone as positive to alleviate market concern on ecommerce margin. Cloud service slowed down to +20% YoY (vs. 33% in 2QFY22, our estimate of +25% YoY), dampened by 1) lower capex and longer decision-making cycle under soft macro; and 2) shrinking contribution from some verticals (e.g. edu, game). Excluding top internet player factor, cloud growth should be +29% YoY, in which non-internet segments account for 52%.
- Maintain BUY.** We slightly cut our FY22-24E topline by 1%-2%, but barely changed earnings forecast. Keep our SOTP-based TP at US\$181.6 (23x/20x FY22/23E P/E). Given low market expectation and valuation multiple, we think BABA's price downside risk is limited.

### Earnings Summary

(YE 31 Mar)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	509,711	717,289	850,524	955,218	1,099,737
YoY growth (%)	35.3	40.7	18.6	12.3	15.1
Adj. net profit (RMB mn)	132,479	171,985	142,063	161,567	198,499
Adj. EPS (RMB)	53.9	65.2	51.7	58.2	70.8
YoY growth (%)	41.8	21.0	(20.7)	12.6	21.6
Consensus EPS (RMB)	NA	NA	51.3	57.7	65.8
P/E (x)	13.0	10.7	13.5	12.0	9.9
P/B (x)	2.1	1.8	1.6	1.4	1.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.3	16.6	12.5	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\$181.6**)  
 Up/Downside **+66.6%**  
 Current Price **US\$109.0**

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	297,441
Avg 3 mths t/o (US\$ mn)	2,876.51
52w High/Low (US\$)	252.3/108.7
Total Issued Shares (mn)	2,711

Source: Bloomberg

### Shareholding Structure

Goldman Sachs	1.5%
Norges Bank	1.0%
PrimeCap	0.6%

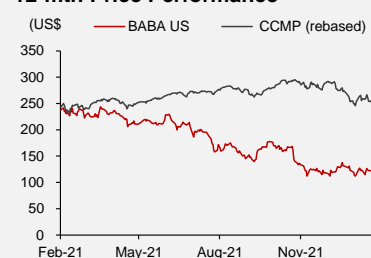
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-11.0%	-6.0%
3-mth	-17.9%	-0.7%
6-mth	-31.9%	-21.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PwC**

### Related Reports

- Challenges yet over – 10 Jan 2022
- FY22E rev guiding down to 20%-23% YoY – 19 Nov 2021
- China Internet: Embracing a new normal of regulation – 8 Nov 2021

**Figure 1: 3QFY22 financial preview**

RMB mn, Mar-YE	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	153,751	155,059	221,084	187,395	205,740	200,690	242,580	20.9%	9.7%	244,912	-1%	248,727	-2%
Operating Profit	34,705	13,634	49,002	(7,663)	30,847	15,006	7,068	-52.9%	-85.6%	95,005	-93%	34,830	-80%
Net profit	46,437	26,524	79,427	(5,479)	42,835	3,377	20,429	504.9%	-74.3%	31,976	-36%	29,506	-31%
Adj. net profit	39,494	47,088	60,630	26,216	43,441	28,524	45,803	60.6%	-24.5%	43,874	4%	38,064	20%
Adj. EPS (RMB)	14.82	17.97	22.03	10.32	16.60	11.20	16.87	50.6%	-23.4%	16.12	5%	13.78	22%
<b>Margin (%)</b>													
Gross margin	45.0%	42.0%	45.1%	33.1%	39.7%	35.3%	39.5%			38.8%		36.4%	
Operating margin	22.6%	8.8%	22.2%	-4.1%	15.0%	7.5%	2.9%			38.8%		14.0%	
Adj. net margin	25.7%	30.4%	27.4%	14.0%	21.1%	14.2%	18.9%			17.9%		15.3%	
<b>Growth (%)</b>													
Revenue (YoY)	33.8%	30.3%	36.9%	63.9%	33.8%	29.4%	9.7%			57.9%		12.5%	
Revenue (QoQ)	34.5%	0.9%	42.6%	-15.2%	9.8%	-2.5%	20.9%			19.0%		23.9%	
Operating Profit	42.4%	-33.0%	23.9%	-207.5%	-11.1%	10.1%	-85.6%			596.8%		-28.9%	
Adj. net profit	27.6%	43.8%	30.4%	17.6%	10.0%	-39.4%	-24.5%			-6.8%		-35.7%	

Source: Company data, CMBIS estimates, Bloomberg

**Figure 2: Revenue breakdown**

RMB mn, Mar-YE	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	QoQ	YoY
<b>Total revenue</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>242,580</b>	<b>21%</b>	<b>10%</b>
Core commerce	133,318	130,922	196,144	160,762	180,241	171,170	213,894	25%	9%
Cloud computing	12,437	14,899	16,227	16,557	16,051	20,007	19,539	-2%	20%
Digital media and entertainment	6,994	8,066	8,079	8,047	8,073	8,081	8,113	0%	0%
Innovation initiatives and others	1,002	1,172	634	2,029	1,375	1,432	1,034	-28%	63%

Source: Company data

**Figure 3: Earnings revision**

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	850,524	955,218	1,099,737	857,196	975,288	1,121,902	-0.8%	-2.1%	-2.0%
Gross profit	310,441	348,655	406,903	312,877	355,980	415,104	-0.8%	-2.1%	-2.0%
Operating profit	99,665	113,408	138,162	98,811	113,091	137,811	0.9%	0.3%	0.3%
Adj. net profit	142,063	161,567	198,499	141,176	161,262	198,161	0.6%	0.2%	0.2%
EPS (RMB)	51.68	58.19	70.79	51.36	58.08	70.67	0.6%	0.2%	0.2%
Gross margin	36.5%	36.5%	37.0%	36.5%	36.5%	37%	0.0ppts	0.0ppts	0.0ppts
Operating margin	11.7%	11.9%	12.6%	11.5%	11.6%	12.3%	+0.2ppts	+0.3ppts	+0.3ppts
Adj. net margin	16.7%	16.9%	18.0%	16.5%	16.5%	18%	+0.2ppts	+0.4ppts	+0.4ppts

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	850,524	955,218	1,099,737	861,213	1,000,905	1,150,169	-1.2%	-4.6%	-4.4%
Gross profit	310,441	348,655	406,903	319,572	368,291	435,127	-2.9%	-5.3%	-6.5%
Operating profit	99,665	113,408	138,162	88,087	108,596	137,443	13.1%	4.4%	0.5%
Adj. net profit	142,063	161,567	198,499	140,373	156,550	182,814	1.2%	3.2%	8.6%
EPS (RMB)	51.68	58.19	70.79	51.3	57.7	65.8	0.7%	0.9%	7.6%
Gross margin	36.5%	36.5%	37.0%	38.9%	38.8%	39.1%	-2.4ppts	-2.3ppts	-2.1ppts
Operating margin	11.7%	11.9%	12.6%	12.6%	13.4%	14.5%	-0.9ppts	-1.5ppts	-2.0ppts
Adj. net margin	16.7%	16.9%	18.0%	22.8%	22.7%	22.5%	-6.1ppts	-5.7ppts	-4.5ppts

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	339.6	123.5	EV/EBITA	14.0	12.6	24.3	26.9
Cloud	71.6	26.0	P/S	6.0	4.8	11.9	14.8
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>850,524</b>	<b>955,218</b>	<b>1,099,737</b>
Core commerce	436,104	621,146	734,272	815,037	935,146
Cloud	40,016	60,120	76,352	94,906	114,509
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>(540,083)</b>	<b>(606,563)</b>	<b>(692,834)</b>
<b>Gross profit</b>	<b>227,344</b>	<b>296,084</b>	<b>310,441</b>	<b>348,655</b>	<b>406,903</b>
R&D	(43,080)	(57,236)	(68,042)	(76,417)	(87,979)
S&M	(50,673)	(81,519)	(90,156)	(100,298)	(114,373)
Admin. Expense	(28,197)	(55,224)	(42,526)	(47,761)	(54,987)
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>99,665</b>	<b>113,408</b>	<b>138,162</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>189,094</b>	<b>219,815</b>	<b>254,510</b>
Equity investees	(5,733)	6,984	(11,057)	(11,057)	(11,057)
Tax	(20,562)	(29,278)	(43,492)	(50,558)	(58,537)
<b>Net profit</b>	<b>140,180</b>	<b>143,014</b>	<b>134,545</b>	<b>158,201</b>	<b>184,916</b>
<b>Non-GAAP NI</b>	<b>132,479</b>	<b>171,985</b>	<b>142,063</b>	<b>161,567</b>	<b>198,499</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>134,545</b>	<b>158,201</b>	<b>184,916</b>
D&A	74,169	79,510	80,748	77,059	87,216
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>192,912</b>	<b>220,999</b>	<b>267,315</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>(7,915)</b>	<b>3,336</b>	<b>35,256</b>
Cash (beg of yr)	189,976	345,982	321,262	313,347	316,683
FX	0	(7,187)	0	0	0
<b>Cash (end of yr)</b>	<b>333,364</b>	<b>356,469</b>	<b>313,347</b>	<b>316,683</b>	<b>351,939</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>660,387</b>	<b>693,652</b>	<b>764,824</b>
Cash	330,503	321,262	313,347	316,683	351,939
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>1,196,597</b>	<b>1,334,348</b>	<b>1,505,493</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>1,067,116</b>	<b>1,212,996</b>	<b>1,391,951</b>

### Key ratios

YE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Core commerce	85.6	86.6	86.3	85.3	85.0
Cloud	7.9	8.4	9.0	9.9	10.4
DME	5.3	4.3	3.9	3.9	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	22.2	23.0	23.1
Tax rate	(12.3)	(17.7)	(23.0)	(23.0)	(23.0)
Adj. net margin	28.2	25.0	17.6	17.8	18.8
<b>Balance sheet</b>					
Current ratio (x)	1.9	1.7	1.6	1.4	1.4
Debtors turnover	51.1	53.2	58.9	62.9	65.6
Creditors turnover	180.5	183.0	194.0	207.3	217.7
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROE	16.3	16.6	12.5	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	51.7	58.2	70.8
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	329.7	398.1	438.5	483.7	540.0

Source: Company data, CMBIS estimates

Note: all financials data are recorded in RMB mn

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