

# Alibaba (BABA US)

## Factoring in epidemic impact

We expect 4QFY22E to be another challenging quarter, with topline/bottom line +6%/-39% YoY (2%/19% below consensus). Soft consumption and epidemic resurgence would linger in 1H22E, further to dampen CMR momentum (forecasting -2.3% YoY in 4QFY22E). We forecast cloud rev to decelerate to +19% YoY, due to shrinking enterprise budgets & project delay under macro softness and some verticals slowdown. Adj. EBITA margin would be at 7%, with narrowing loss from Taobao deals and Taocaicai. We turn more prudent on next few quarters' momentum, given stricter travel limits and macro challenge. We trimmed our FY22-24E earnings forecast by 6-14%, and lowered TP at US\$153.2.

- Soft 4QFY22E & 1QFY23E ahead.** We expect 4QFY22E topline/bottom line +6%/-39% YoY (2%/19% below consensus), in which China Commerce/ cloud rev +2%/19% YoY, dragged by challenging macro and epidemic resurgence. New initiatives narrowing loss would benefit its margin, and we estimate its adj. EBITA margin at 7% (-5ppts YoY), in which China commerce/ cloud adj. EBITA margin at +22%/+2%. 1QFY23E might be another challenging quarter, given lingering lockdowns.
- Challenging CMR and cloud under epidemic resurgence.** Given epidemic resurgence from Mar, we expect 4QFY22 CMR -2.3% YoY (vs. -1% in 3QFY22), below GMV trend (estimating +2% YoY), dragged by logistics limits despite strong user demand. For international biz, AliExpress would see pressure from epidemic and Russia-Ukraine tension, while Trendyol growth is dragged by Lira volatility. We are conservative on its China-co biz in 1QFY23E, considering more lockdowns from Mar under epidemic resurgence. Hema, Taocaicai and Taoxianda strong momentum continued, and we expect narrowing loss from Taocaicai & Taobao Deals. We forecast cloud service +19% YoY in 4QFY22E (vs. 20% in 3QFY22), dampened by 1) lower capex and longer decision-making cycle under soft macro; 2) shrinking contribution from some verticals (e.g. education); and 3) project delay for epidemic. Cloud margin would range at low single digits. To reflect multiple headwinds, we cut our topline forecast by 1-2% in FY22-24E.
- Maintain BUY.** We trimmed our FY22-24E earnings forecast by 6-14%, with lower SOTP-based TP at US\$153.2 (20x/19x FY22/23E P/E). We expect BABA's price to range trade over the coming quarters. Suggest to wait for clearer signals of relaxation of lockdowns and macro recovery.

### Earnings Summary

(YE 31 Mar)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	509,711	717,289	847,010	944,716	1,081,460
YoY growth (%)	37.1	40.7	18.1	11.5	14.5
Adj. net profit (RMB mn)	132,479	171,985	133,668	141,158	170,084
Adj. EPS (RMB)	53.9	65.2	48.6	50.8	60.7
YoY growth (%)	49.5	21.0	(25.4)	4.6	19.3
Consensus EPS (RMB)	NA	NA	46.2	51.9	55.6
P/E (x)	11.3	9.4	12.6	12.0	10.1
P/B (x)	1.9	1.5	1.4	1.3	1.2
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.3	16.6	11.8	11.4	12.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **US\$153.2**  
 (Previous TP **US\$181.6**)  
 Up/Downside **+60.4%**  
 Current Price **US\$95.5**

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	291,911
Avg 3 mths t/o (US\$ mn)	3,662.87
52w High/Low (US\$)	245.7/73.3
Total Issued Shares (mn)	2,711

Source: Bloomberg

### Shareholding Structure

Goldman Sachs	1.5%
Primecap Management	0.6%
Govt Pension Inv Fund Jap	0.6%

Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	7%	2.6%
3-mth	-15.0%	-7.7%
6-mth	-25.3%	-22.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PwC**

### Related Reports

- New initiatives net loss to narrow – 25 Feb 2022
- Challenges yet over – 10 Jan 2022
- FY22E rev guiding down to 20%-23% YoY – 19 Nov 2021

**Figure 1: 4QFY22E financial preview**

RMB mn, Mar-YE	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22E	QoQ	YoY	Consensus	Diff %
Revenue	153,751	155,059	221,084	187,395	205,740	200,690	242,580	198,000	-18.4%	5.7%	201,985	-2%
Operating Profit	34,705	13,634	49,002	(7,663)	30,847	15,006	7,068	16,641	135.4%	NA	7,695	116%
Net profit	46,437	26,524	79,427	(5,479)	42,835	3,377	20,429	14,750	-27.8%	NA	13,221	12%
Adj. net profit	39,494	47,088	60,630	26,216	43,441	28,524	45,803	15,900	-65.3%	-39.4%	19,640	-19%
Adj. EPS (RMB)	14.82	17.97	22.03	10.32	16.60	11.20	16.87	5.74	-66.0%	-44.4%	7.47	-23%
<b>Margin (%)</b>												
Gross margin	45.0%	42.0%	45.1%	33.1%	39.7%	35.3%	39.5%	28.6%			33.0%	
Operating margin	22.6%	8.8%	22.2%	-4.1%	15.0%	7.5%	2.9%	8.4%			3.8%	
Adj. net margin	25.7%	30.4%	27.4%	14.0%	21.1%	14.2%	18.9%	8.0%			9.7%	
<b>Growth (%)</b>												
Revenue (YoY)	33.8%	30.3%	36.9%	63.9%	33.8%	29.4%	9.7%	5.7%			7.8%	
Revenue (QoQ)	34.5%	0.9%	42.6%	-15.2%	9.8%	-2.5%	20.9%	-18.4%			-16.7%	
Operating Profit	42.4%	-33.0%	23.9%	-207.5%	-11.1%	10.1%	-85.6%	NA			NA	
Adj. net profit	27.6%	43.8%	30.4%	17.6%	10.0%	-39.4%	-24.5%	-39.4%			-25.1%	

Source: Company data, CMBIGM estimates, Bloomberg

**Figure 2: Revenue breakdown**

RMB mn, Mar-YE	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22E	QoQ	YoY
Total revenue	153,751	155,059	221,084	187,395	205,740	200,690	242,580	198,000	-18%	6%
China Commerce	107,985	102,043	161,328	130,391	144,029	136,120	172,226	133,230	-23%	2%
International Commerce	10,216	11,299	13,920	13,416	15,202	15,092	16,449	14,321	-13%	7%
Local Consumer Services	7,892	9,824	9,536	8,123	10,099	10,806	12,141	9,839	-19%	21%
Cainiao	7,713	8,226	11,360	9,959	11,601	9,846	13,078	11,459	-12%	15%
Cloud	12,437	15,029	16,227	16,865	16,051	20,007	19,539	20,101	3%	19%
Digital media and entertainment	6,994	8,066	8,079	8,047	8,073	8,081	8,113	8,042	-1%	0%
Innovation initiatives and others	514	572	634	594	685	738	1,034	1,010	-2%	70%

Source: Company data, CMBIGM estimates

**Figure 3: Earnings revision**

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	847,010	944,716	1,081,460	850,524	955,218	1,099,737	-0.4%	-1.1%	-1.7%
Gross profit	304,924	324,982	373,104	310,441	348,655	406,903	-1.8%	-6.8%	-8.3%
Operating profit	91,588	92,204	108,640	99,665	113,408	138,162	-8.1%	-18.7%	-21.4%
Adj. net profit	133,668	141,158	170,084	142,063	161,567	198,499	-5.9%	-12.6%	-14.3%
EPS (RMB)	48.63	50.84	60.65	51.68	58.19	70.79	-5.9%	-12.6%	-14.3%
Gross margin	36.0%	34.4%	34.5%	36.5%	36.5%	37%	-0.5ppts	-2.1ppts	-2.5ppts
Operating margin	10.8%	9.8%	10.0%	11.7%	11.9%	12.6%	-0.9ppts	-2.1ppts	-2.6ppts
Adj. net margin	15.8%	14.9%	15.7%	16.7%	16.9%	18%	-0.9ppts	-2.0ppts	-2.3ppts

Source: Company data, CMBIGM estimates

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

Rmb mn, Mar-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	847,010	944,716	1,081,460	851,896	962,242	1,089,277	-0.6%	-1.8%	-0.7%
Gross profit	304,924	324,982	373,104	314,998	349,881	397,274	-3.2%	-7.1%	-6.1%
Operating profit	91,588	92,204	108,640	72,971	97,051	123,085	25.5%	-5.0%	-11.7%
Adj. net profit	133,668	141,158	170,084	135,891	143,573	167,807	-1.6%	-1.7%	1.4%
EPS (RMB)	48.63	50.84	60.65	46.2	51.9	55.6	5.3%	-2.1%	9.2%
Gross margin	36.0%	34.4%	34.5%	38.9%	38.8%	39.1%	-2.9ppts	-4.4ppts	-4.6ppts
Operating margin	10.8%	9.8%	10.0%	12.6%	13.4%	14.5%	-1.8ppts	-3.7ppts	-4.5ppts
Adj. net margin	15.8%	14.9%	15.7%	22.8%	22.7%	22.5%	-7.0ppts	-7.7ppts	-6.8ppts

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 5: SOTP valuation**

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY22E	FY23E	FY22E	FY23E
Core Commerce	275.8	100.3	EV/EBITA	12.0	10.9	23.0	25.4
Cloud	59.1	21.5	P/S	5.0	4.1	11.8	14.5
Others	86.3	31.4					
Digital Entertainment	10.1	3.7	P/S	2.0	1.8	5.0	5.7
Innovations	1.6	0.6	P/S	3.0	2.3	0.5	0.7
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>421</b>	<b>153.2</b>					
<b>TP (HK\$)</b>		<b>148.1</b>					

Source: CMBIGM 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>847,010</b>	<b>944,716</b>	<b>1,081,460</b>
China Commerce	352,209	516,005	585,605	634,753	719,799
International	33,917	48,851	61,064	71,477	81,528
Local Services	29,783	35,442	42,885	51,462	61,754
Cainiao	22,233	37,258	45,984	53,603	62,721
Cloud	40,372	60,558	75,698	92,729	110,464
DME	29,094	31,186	32,309	36,186	39,877
Innovation	2,103	2,311	3,467	4,506	5,318
<b>COSG</b>	<b>(282,367)</b>	<b>(421,205)</b>	<b>(542,086)</b>	<b>(619,734)</b>	<b>(708,356)</b>
<b>Gross profit</b>	<b>227,344</b>	<b>296,084</b>	<b>304,924</b>	<b>324,982</b>	<b>373,104</b>
R&D	(43,080)	(57,236)	(59,291)	(75,577)	(86,517)
S&M	(50,673)	(81,519)	(101,641)	(99,195)	(112,472)
Admin. Expense	(28,197)	(55,224)	(42,350)	(47,236)	(54,073)
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>91,588</b>	<b>92,204</b>	<b>108,640</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>181,017</b>	<b>198,611</b>	<b>224,988</b>
Tax	(20,562)	(29,278)	(41,634)	(45,681)	(51,747)
<b>Net profit</b>	<b>140,180</b>	<b>143,014</b>	<b>128,326</b>	<b>141,873</b>	<b>162,184</b>
<b>Non-GAAP NI</b>	<b>132,479</b>	<b>171,985</b>	<b>133,668</b>	<b>141,158</b>	<b>170,084</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>128,326</b>	<b>141,873</b>	<b>162,184</b>
D&A	74,169	79,510	78,572	72,978	81,533
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>184,516</b>	<b>200,590</b>	<b>238,900</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>(16,310)</b>	<b>(17,074)</b>	<b>6,841</b>
Cash (beg of yr)	189,976	345,982	321,262	304,952	287,878
FX	0	(7,187)	0	0	0
<b>Cash (end of yr)</b>	<b>333,364</b>	<b>356,469</b>	<b>304,952</b>	<b>287,878</b>	<b>294,719</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>651,991</b>	<b>664,848</b>	<b>707,605</b>
Cash	330,503	321,262	304,952	287,878	294,719
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>1,188,202</b>	<b>1,305,543</b>	<b>1,448,273</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>1,058,720</b>	<b>1,184,191</b>	<b>1,334,732</b>

### Key ratios

YE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
China Commerce	69.1	71.9	69.1	67.2	66.6
International	6.7	6.8	7.2	7.6	7.5
Local Services	5.8	4.9	5.1	5.4	5.7
Cainiao	4.4	5.2	5.4	5.7	5.8
Cloud	7.9	8.4	8.9	9.8	10.2
DME	5.7	4.3	3.8	3.8	3.7
Innovation	0.4	0.3	0.4	0.5	0.5
<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	36.0	34.4	34.5
PreTax margin	32.7	23.1	21.4	21.0	20.8
Tax rate	(12.3)	(17.7)	(23.0)	(23.0)	(23.0)
Adj. net margin	28.2	25.0	16.7	15.8	16.4
<b>Balance sheet</b>					
Current ratio (x)	1.9	1.7	1.5	1.4	1.3
Debtors turnover	51.1	53.2	59.1	63.6	66.7
Creditors turnover	180.5	183.0	193.3	202.9	213.0
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROE	16.3	16.6	11.8	11.4	12.2
ROA	10.1	10.2	7.0	6.8	7.4
<b>Per share data</b>					
Adj. EPS (RMB)	53.9	65.2	48.6	50.8	60.7
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	329.7	398.1	435.4	473.4	519.6

Source: Company data, CMBIGM estimates

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