

Alibaba (BABA US)

Moderate recovery in sight with cost efficiency

BABA delivered better-than-feared 4QFY22 result, with rev/non-GAAP net profit +9% YoY/-24% YoY, 2%/7% above consensus. China ecommerce rev +8% (5% above our estimate), in which CMR was stable at 0% YoY on higher take. Mgmt stated GMV in Apr declined low-teens YoY, while CMR showed low-single-digit decline, better than buy-side expectation. We expect CMR -8% YoY in 1QFY23E, and achieve positive growth in 2HFY23E. Narrowing loss of Taocaicai and Taobao Deals would continue in Jun quarter. Cloud deceleration (+12% YoY) was well anticipated by the market. Mgmt guided cloud margin could improve gradually in FY23E, with Dingtalk loss control, economies of scale and more membership. We believe 2Q22E epidemic impact has been well priced in, and suggest to move into 2H22E recovery after upcoming lockdowns relaxation. We trimmed our FY22-24E earnings forecast by 6-11%, with new TP at US\$150.6.

- 4QFY22 beat.** 4QFY22 rev +9% YoY, 2%/3% above consensus/our estimate, on better-than-expected China ecommerce and local services. Non-GAAP net profit -24% YoY, 7% above consensus. Adj. EBITA margin came out at 8% (-4ppts YoY, above our estimate of 7%), in which China commerce /international commerce/ local service/ Cainiao/ Cloud/ DME adj. EBITA margin were at +23%/-18%/-52%/-8%/+1%/-25%.
- Better-than-feared CMR ahead, while epidemic challenges priced in.** 4QFY22 CMR +0% YoY (vs. -2% in 3QFY22), above our estimate of -2% YoY. GMV declined low single-digit YoY, in which Jan & Feb GMV were flat YoY. Mgmt stated GMV in Apr declined low-teens YoY, while CMR showed low-single-digit decline, better than buy-side expectation. As such, we expect its CMR -8% YoY in 1QFY23E, and achieve positive growth in 2HFY23E (GMV -1.8% YoY in FY23E). TCC still saw sequential GMV growth in 4QFY22, with rising AOV and improving UE QoQ. We expect narrowing loss from TCC & Taobao Deals to continue (loss peak in Dec 2021). Cloud +12% YoY, 6% below our estimate, mainly on shrinking demand from certain verticals (e.g. online edu, entertainment). We view cloud softness well priced in, and suggest to eye on better margin and demand recovery ahead.
- Maintain BUY.** We trimmed our FY22-24E earnings forecast by 6-11%, with SOTP-based TP at US\$150.6 (21x FY23E P/E). Valuation at 13x FY23E P/E is attractive, considering its upcoming GMV gradual recovery, better margin outlook and already-low financials expectation.

Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	717,289	853,062	913,552	1,012,828	1,135,742
YoY growth (%)	40.7	18.9	7.1	10.9	12.1
Adj. net profit (RMB mn)	178,954	146,892	132,375	151,807	179,663
Adj. EPS (RMB)	65.2	56.2	47.5	53.9	63.1
YoY growth (%)	26.6	(17.9)	(9.9)	14.7	18.3
Consensus EPS (RMB)	NA	NA	47.0	53.1	70.1
P/E (x)	9.7	11.3	13.3	11.7	10.0
P/B (x)	2.4	2.0	1.9	1.7	1.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	18.7	19.1	14.3	11.4	11.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$150.6
(Previous TP)	US\$153.2
Up/Downside	+59.4%
Current Price	US\$94.5

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	223,569
Avg 3 mths t/o (US\$ mn)	3,350.54
52w High/Low (US\$)	230.89/73.28
Total Issued Shares (mn)	2,711
Source:	Bloomberg

Shareholding Structure

Goldman Sachs	0.8%
Primecap Management	0.6%
Govt Pension Inv Fund Jap	0.6%

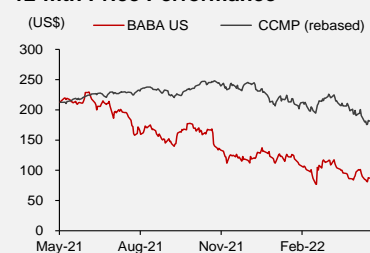
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-4.6%	8.7%
3-mth	-24.3%	-9.4%
6-mth	-39.6%	-15.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Factoring in epidemic impact – 19 Apr 2022
- New initiatives net loss to narrow – 25 Feb 2022
- Challenges yet over – 10 Jan 2022

Figure 1: 4QFY22 financial review

RMB mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	153,751	155,059	221,084	187,395	205,740	200,690	242,580	204,052	-15.9%	8.9%	200,594	2%	198,000	3%
Operating Profit	34,705	13,634	49,002	(7,663)	30,847	15,006	7,068	16,717	136.5%	NA	4,737	253%	4,815	247%
Net profit	46,437	26,524	79,427	(5,479)	42,835	3,377	20,429	(16,241)	-179.5%	NA	10,509	-255%	11,959	-236%
Adj. net profit	39,494	47,088	60,630	26,216	43,441	28,524	45,803	19,799	-56.8%	-24.5%	18,511	7%	15,900	25%
Adj. EPS	14.82	17.97	22.03	10.32	16.60	11.20	16.87	7.95	-52.9%	-23.0%	7.10	12%	6.79	17%
Margin (%)														
Gross Margin	45.0%	42.0%	45.1%	33.1%	39.7%	35.3%	39.5%	32.0%			31.4%		27.8%	
Operating Margin	22.6%	8.8%	22.2%	-4.1%	15.0%	7.5%	2.9%	8.2%			2.4%		2.4%	
Adj. net margin	25.7%	30.4%	27.4%	14.0%	21.1%	14.2%	18.9%	9.7%			9.2%		8.0%	
Growth (%)														
Revenue (YoY)	33.8%	30.3%	36.9%	63.9%	33.8%	29.4%	9.7%	8.9%			7.0%		5.7%	
Revenue (QoQ)	34.5%	0.9%	42.6%	-15.2%	9.8%	-2.5%	20.9%	-15.9%			-17.3%		-18.4%	
Operating Profit	42.4%	-33.0%	23.9%	-207.5%	-11.1%	10.1%	-85.6%	NA			-161.8%		NA	
Adj. net profit	27.6%	43.8%	30.4%	17.6%	10.0%	-39.4%	-24.5%	-24.5%			-29.4%		-39.3%	

Source: Company data, CMBIGM estimates, Bloomberg

Figure 2: Revenue breakdown

RMB mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	QoQ	YoY
Total revenue	153,751	125,447	221,084	187,395	205,740	200,690	242,580	204,052	-16%	9%
China Commerce	107,985	102,043	161,328	130,391	144,029	136,120	172,226	140,330	-19%	8%
International Commerce	10,216	11,299	13,920	13,416	15,202	15,092	16,449	14,335	-13%	7%
Local Consumer Services	7,892	9,824	9,536	8,123	10,099	10,806	12,141	10,445	-14%	29%
Cainiao	7,713	8,226	11,360	9,959	11,601	9,846	13,078	11,582	-11%	16%
Cloud	12,437	15,029	16,227	16,865	16,051	20,007	19,539	18,971	-3%	12%
Digital media and entertainment	6,994	8,066	8,079	8,047	8,073	8,081	8,113	8,005	-1%	-1%
Innovation initiatives and others	514	572	634	594	685	738	1,034	384	-63%	-35%

Source: Company data, CMBIGM estimates

Figure 3: Earnings revision

RMB mn, Mar-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	913,552	1,012,828	1,135,742	944,716	1,081,460	NA	-3.3%	-6.3%	NA
Gross profit	284,238	321,991	373,158	324,982	373,104	NA	-12.5%	-13.7%	NA
Operating profit	82,184	106,650	138,916	92,204	108,640	NA	-10.9%	-1.8%	NA
Adj. net profit	132,375	151,807	179,663	141,158	170,084	NA	-6.2%	-10.7%	NA
EPS (RMB)	47.46	53.89	63.14	50.84	60.65	NA	-6.6%	-11.2%	NA
Gross margin	31.1%	31.8%	32.9%	34.4%	34.5%	NA	-3.3ppts	-2.7ppts	NA
Operating margin	9.0%	10.5%	12.2%	9.8%	10.0%	NA	-0.8ppts	+0.5ppts	NA
Adj. net margin	14.5%	15.0%	15.8%	14.9%	15.7%	NA	-0.4ppts	-0.7ppts	NA

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs. consensus

Rmb mn, Mar-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	913,552	1,012,828	1,135,742	954,864	1,081,286	1,202,867	-4.3%	-6.3%	-5.6%
Gross profit	284,238	321,991	373,158	346,888	395,337	450,698	-18.1%	-18.6%	-17.2%
Operating profit	82,184	106,650	138,916	93,943	118,765	142,621	-12.5%	-10.2%	-2.6%
Adj. net profit	132,375	151,807	179,663	140,458	164,326	198,257	-5.8%	-7.6%	-9.4%
EPS (RMB)	47.46	53.89	63.14	47.04	53.10	70.11	0.9%	1.5%	-9.9%
Gross margin	31.1%	31.8%	32.9%	36.3%	36.6%	37.5%	-5.2ppts	-4.8ppts	-4.6ppts
Operating margin	9.0%	10.5%	12.2%	9.8%	11.0%	11.9%	-0.8ppts	-0.5ppts	+0.4ppts
Adj. net margin	14.5%	15.0%	15.8%	14.7%	15.2%	16.5%	-0.2ppts	-0.2ppts	-0.7ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 5: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied		Metrics	
	US\$bn	Per share(US\$)		FY22A	FY23E	FY22A	FY23E
Core Commerce	284.4	103.0	EV/EBITA	9.8	12.0	28.9	23.7
Cloud	53.2	19.3	P/S	4.6	4.0	11.5	13.3
Others	78.4	28.4					
Digital Entertainment	10.0	3.6	P/S	2.0	2.0	5.0	5.0
Innovations	1.0	0.4	P/S	3.0	2.0	0.4	0.5
Strategic Investments	36.2	13.1	SoTP for all investments				
Net (Debt)/Cash	31.1	11.3	Cash forecasted on Balance sheet				
Equity Value (US\$)	416	150.6					

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	717,289	853,062	913,552	1,012,828	1,135,742
China Commerce	501,683	592,705	617,407	675,167	736,559
International	48,851	61,078	70,240	80,776	101,106
Local Services	35,442	43,491	49,797	54,375	57,928
Cainiao	37,258	46,107	53,747	62,889	70,436
Cloud	60,558	74,568	86,499	103,042	132,409
DME	31,186	32,272	32,595	32,921	33,250
Innovation	2,311	2,841	3,267	3,659	4,054
COSG	(421,205)	(539,450)	(629,313)	(690,838)	(762,584)
Gross profit	296,084	313,612	284,238	321,991	373,158
R&D	(57,236)	(55,465)	(61,035)	(65,566)	(71,214)
S&M	(81,519)	(119,799)	(98,215)	(106,595)	(116,973)
Admin. Expense	(55,224)	(31,922)	(35,742)	(38,019)	(40,856)
Other income	(12,427)	(35,985)	(7,063)	(5,160)	(5,200)
Operating profit	89,678	70,441	82,184	106,650	138,916
Interest exp	72,794	(9,052)	12,969	14,309	15,309
Associates	(4,476)	(4,977)	(4,733)	(4,733)	(4,733)
Others	7,582	12,000	12,000	12,000	10,000
Pre-tax profit	165,578	68,413	102,421	128,226	159,492
Tax	(29,278)	(21,892)	(30,726)	(39,217)	(42,060)
Net profit	150,308	65,987	99,646	119,855	148,180
Non-GAAP NI	178,954	146,892	132,375	151,807	179,663

Cash flow summary

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	143,284	57,583	91,694	111,009	139,932
D&A	47,909	39,347	39,151	39,632	40,358
Change in WC	50,508	34,047	14,022	22,301	19,741
Others	(9,915)	22,920	31,553	29,980	19,476
Operating CF	231,786	153,897	176,421	202,922	219,506
Capex	(43,185)	(59,532)	(75,194)	(83,362)	(93,391)
Associates	(16,123)	4,351	0	0	0
Others	(204,614)	(66,403)	(50,000)	(50,000)	(50,000)
Investing CF	(263,922)	(121,584)	(125,194)	(133,362)	(143,391)
Equity raised	175	0	0	0	0
Change of Debts	(659)	(11,175)	0	0	0
Dividend paid	0	0	0	0	0
Others	30,566	(2,757)	0	0	0
Financing CF	30,082	(13,932)	0	0	0
Change in cash	(9,241)	18,381	51,226	69,560	76,115
Cash (beg of yr)	330,503	321,262	339,643	390,869	460,429
FX	(7,187)	0	0	0	0
Cash (end of yr)	321,262	339,643	390,869	460,429	536,544

Balance sheet

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
NC assets	1,046,858	1,089,252	1,173,692	1,273,140	1,385,636
Fixed asset	147,412	168,536	191,738	220,723	259,051
Associates	200,189	206,900	226,900	248,900	271,400
Land use-right	0	0	0	0	0
Intangible assets	292,771	267,630	267,630	267,630	267,630
Others	406,486	446,186	487,424	535,887	587,554
Current assets	643,360	741,241	849,074	966,850	1,094,207
Cash	321,262	339,643	390,869	460,429	536,544
Account receivable	124,708	159,717	186,324	204,539	225,781
Other	197,390	241,881	271,881	301,881	331,881
Current liabilities	377,358	454,502	503,165	556,868	614,177
Borrowings	3,606	3,490	3,490	3,490	3,490
Trade & payables	261,140	342,402	377,893	414,234	456,920
Income tax	25,275	18,899	26,525	33,855	36,309
Other	87,337	89,710	95,256	105,288	117,457
NC liabilities	229,226	210,804	229,053	246,773	253,102
Borrowings	38,335	37,107	37,107	37,107	37,107
Deferred taxation	59,598	44,563	62,546	79,829	85,617
Other	131,293	129,134	129,400	129,837	130,378
Mezzanine equity	8,673	8,673	8,673	8,673	8,673
Total Equity	1,074,961	1,156,515	1,281,874	1,427,675	1,603,890
MI	137,491	128,816	120,594	111,479	102,961
S/H equity	937,470	1,027,698	1,161,280	1,316,196	1,500,929

Key ratios

YE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
China Commerce	69.9	69.5	67.6	66.7	64.9
International	6.8	7.2	7.7	8.0	8.9
Local Services	4.9	5.1	5.5	5.4	5.1
Cainiao	5.2	5.4	5.9	6.2	6.2
Cloud	8.4	8.7	9.5	10.2	11.7
DME	4.3	3.8	3.6	3.3	2.9
Innovation	0.3	0.3	0.4	0.4	0.4
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	40.7	18.9	7.1	10.9	12.1
Gross profit	30.2	5.9	-9.4	13.3	15.9
EBIT	-1.9	-21.5	16.7	29.8	30.3
Net profit	26.6	-17.9	-9.9	14.7	18.3
P&L ratios (%)					
Operating margin	12.5	8.3	9.0	10.5	12.2
Pre-tax margin	23.1	8.0	11.2	12.7	14.0
Adj. net margin	24.9	17.2	14.5	15.0	15.8
Effective tax rate	(17.7)	(32.0)	(30.0)	(30.6)	(26.4)
Returns (%)					
ROE	18.7	19.1	14.3	11.4	11.5
ROA	10.8	10.6	8.0	6.5	6.8
Per share data					
Adj. EPS (RMB)	65.2	56.2	47.5	53.9	63.1
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	341.2	372.1	416.3	467.2	527.5

Source: Company data, CMBIGM estimates

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