

COMPANY RESULTS

Alibaba Group (9988 HK)

4QFY24: Rewarding Dividend Payout; Reigniting Cloud Revenue Growth In 2H24

Alibaba delivered in-line 4QFY24 results. Revenue grew 7% yoy to Rmb221.9b, in line with street estimates. Non-GAAP net profit was Rmb24.4b, down 11% yoy and is 7% below street estimates, with net margin of 11%. In FY24, Alibaba has approved the two-part dividend of US\$1.66 per ADS, representing an aggregate of US\$4b and 18% dividend payout ratio. We remain optimistic on the double-digit revenue growth target for the cloud business in 2H24. Maintain BUY. Target price: HK\$98.00 (US\$98.00).

4QFY24 RESULTS

Year to 31 Mar (Rmbm)	4QFY23	3QFY23	4QFY24	qoq	yoy	UOBKH	Var	Cons	Var
Revenue	208,200	260,348	221,874	-15%	7%	220,423	1%	219,774	1.0%
- China retail	85,757	123,762	88,264	-29%	3%	88,817	-1%		
- China wholesale	4,132	5,308	4,952	-7%	20%	4,613	7%		
- International ecommerce	18,915	28,516	27,448	-4%	45%	25,286	9%		
- Cainiao	18,915	28,476	24,557	-14%	30%	22,887	7%		
- Cloud	24,742	28,066	25,595	-9%	3%	25,757	-1%		
- Digital media	4,989	5,040	4,945	-2%	-1%	5,039	-2%		
Cost of sales	-138,823	-156,214	-148,098	-5%	7%	-148,075	0%		
Gross profit	69,377	104,134	73,776	-29%	6%	72,348	2%	73,304	0.6%
GPM	33.3%	40.0%	33.3%	(7 ppt)	(0 ppt)	32.8%	0 ppt	33.4%	(0 ppt)
Non-GAAP Operating profit	22,786	28,733	21,888	-24%	-4%	24,920	-12%		
Non-GAAP OPM	10.9%	11.0%	9.9%	(1 ppt)	(1 ppt)	11.3%	(144 bps)		
Non-GAAP net profit	27,375	47,951	24,418	-49%	-11%	19,907	23%	26,232	-6.9%
Non-GAAP NPM	13.1%	18.4%	11.0%	(7 ppt)	(2 ppt)	9.0%	197 bps	11.9%	(1 ppt)

Source: Alibaba, UOB Kay Hian

RESULTS

- Strong Taobao Tmall Group GMV growth momentum.** Taobao and Tmall Group revenue grew 4% yoy to Rmb93.2b. Customer management revenue (CMR) grew 5% yoy to Rmb43.3b, exceeding our expectation, primarily bolstered by the double-digit online GMV and order growth yoy thanks to its investment in user experience, but partially offset by a decline in take rate due to increased GMV contribution from Taobao merchants. China commerce EBITA inched down 1% yoy to Rmb38.5b while adjusted EBITA margin inched down 2% yoy due to elevated investment to improve user experience. Direct sales and other revenue dipped 2% yoy to Rmb24.7b, moderating from a 2% yoy growth in 3QFY24 amid a weak macro backdrop.
- Alibaba International Digital Commerce Group revenue soared 45% yoy,** boosted by: a) the 56%/11% yoy respective growths in International retail/International wholesale revenues, and b) robust order growth delivered by AliExpress, with Choice accounting for 70% of AliExpress' total orders in April. Trendyol continued to generate robust double-digit order growth while maintaining its leading e-commerce position in Turkey and further expanded in the Gulf region. Adjusted EBITA loss margin expanded to -15% from -11% in 3QFY24 as Alibaba stepped up its investment pace to foster rapid overseas expansion of Ali Express's Choice and Trendyol.

KEY FINANCIALS

Year to 31 Mar (Rmbm)	2023	2024	2025F	2026F	2027F
Net turnover	868,687.0	941,168.0	1,017,860.1	1,103,156.5	1,173,590.7
EBITDA	141,874.0	170,022.0	196,388.7	200,860.9	219,482.3
Operating profit	100,351.0	113,350.0	146,903.5	166,458.6	190,750.3
Net profit (rep./act.)	72,509.0	79,741.0	110,566.4	133,340.8	154,919.6
Net profit (adj.)	141,379.0	157,479.0	162,258.6	180,869.5	203,877.4
EPS (Fen)	655.0	796.8	855.7	939.7	1,043.6
PE (x)	11.7	9.6	8.9	8.1	7.3
P/B (x)	1.7	1.6	1.4	1.2	1.1
EV/EBITDA (x)	10.1	8.4	7.3	7.1	6.5
Dividend yield (%)	1.1	1.7	1.8	2.0	2.2
Net margin (%)	8.3	8.5	10.9	12.1	13.2
Net debt/(cash) to equity (%)	(13.4)	(18.0)	(28.8)	(35.5)	(41.3)
Interest cover (x)	8.4	9.5	25.8	284.8	611.0
ROE (%)	7.4	8.0	10.2	10.7	10.8
Consensus net profit	-	-	159,303	153,899	169,894
UOBKH/Consensus (x)	-	-	1.02	1.18	1.20

Source: Alibaba Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$82.65
Target Price	HK\$98.00
Upside	+18.6%
(Previous TP)	HK\$92.00

COMPANY DESCRIPTION

Alibaba Group is the largest e-commerce marketplace operator in China.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	9988 HK Equity
Shares issued (m):	19,469.0
Market cap (HK\$m):	1,609,112.9
Market cap (US\$m):	205,987.5
3-mth avg daily t'over (US\$m):	452.7

Price Performance (%)

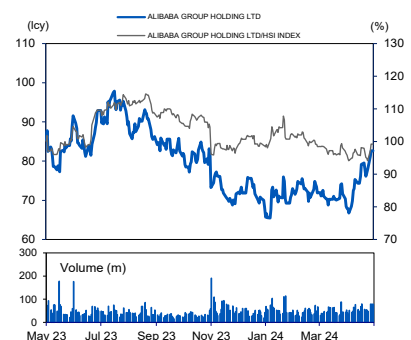
52-week high/low HK\$97.85/HK\$65.45

1mth	3mth	6mth	1yr	YTD
15.4	16.7	4.4	(2.4)	9.3

Major Shareholders

Shareholder	%
Ma Jack Yun	4.5
Vanguard Group Inc	3.6
BlackRock	2.8
FY24 NAV/Share (RMB)	53.81
FY24 Net Cash/Share (RMB)	12.04

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **AliCloud margin achieved record high; back to double-digit growth in 2H24.** Cloud Intelligence Group revenue registered a 3% yoy growth due to higher public cloud adoption and scaling back of low-margin project-based contracts. EBITA margin increased to 6% in 4QFY24 from 4% in 4QFY23. Management expects cloud revenue to rebound and generate a double-digit yoy growth in 2H24, mainly due to increasing contribution from AI-related new products and strong public cloud revenue growth.
- **Local Services Group revenue rose 19% yoy to Rmb14.6b** with adjusted EBITA loss sequentially expanding to Rmb3.2b from 4QFY23's loss of Rmb4.1b, due to Ele.me's improvement in transacting users and purchase frequency.
- **All other segments'** (Intime, Sun Art, Dingtalk, Alibaba Health, Fliggy, Freshippo) revenue dropped 3% yoy to Rmb51.5b, primarily due to the decrease in AliHealth and Sun Art due to the scaling down of its supply chain business, but partially offset by solid momentum of Freshippo. Adjusted EBITA loss was Rmb2.8b vs Rmb1.9b loss in 4QFY23.
- **Shareholder returns.** During 4QFY24, Alibaba repurchased a total of 524m ordinary shares for a total of US\$4.8b, with US\$30.5b (14.8% of market cap) remaining in the programme. During FY24, Alibaba repurchased a total of 1,249m ordinary shares for US\$12.5b (6.1% of market cap). In 4QFY24, BABA approved a two-part dividend with an aggregate amount of US\$4b, translating to a dividend payout ratio/dividend yield of 18%/1.7%, respectively.
- **Dual primary listing in HKEX and NYSE.** Alibaba has been preparing for its primary listing in Hong Kong and expects to complete its conversion to a dual primary listing by the end of Aug 24. Once the conversion is completed, Alibaba will have a dual primary listing on both the Main Board of the Hong Kong Stock Exchange (HKEX) and the NYSE.

12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

EARNINGS REVISION/RISK

- We raise our 1QFY25/FY25 revenue estimates by 0.7%/0.5% respectively, in view of the strong seasonality during the 618 festival. We also lower our FY25 non-GAAP net profit by 2% due to higher investment in its user-first strategy, AIDC as well as reinvestment in AliCloud.
- **Risks.** a) Slowing GMV and growth in new user numbers, b) continued investment in new initiatives may drag on margin, and c) increasing merchants' acquisition channel competition with Tencent.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of HK\$98.00 (US\$98.00)** that implies 11x FY25F PE, below its historical mean of 22x, against a 11% EPS CAGR from FY25-28. We believe the favourable shareholder returns will boost market confidence and drive further valuation repair. We adopt a higher 3x EV/revenue on AliCloud as we expect an encouraging recovery in 2H24. Alibaba is trading at 9.3x FY25F PE, 1.5SD below its historical mean.

SHARE PRICE CATALYST

- a) Successful listing of business groups, b) continued improvement in profitability of its cloud business, and c) strong user growth.

SOTP-BASED VALUATION (BASED ON 12-MONTH FORWARD)

Description	Business Unit	FY25 Revenue (HK\$,b)	EBITA (HK\$,b)	EV / Revenue (x)	EV / EBITA (x)	Value (HK\$,b)	% BABA holding (%)	Value to BABA (HK\$,b)	per share (HK\$)
Core+initiatives									
Core commerce business	Taobao Tmall Commerce Group	349	157	2	5	785	100	785	38
International commerce	Global Digital Commerce Group	157		2		314	100	314	15
Cainiao	Cainiao Smart Logistics	127	5		15	76	51	39	2
Ele.me+ Amap	Local Services Group	76		1		76	100	76	4
Cloud Computing, other	Cloud Intelligence Group	128	6	3	60	383	100	383	18
Youku Tudou	Digital Media and Entertainment Group	24		1		24	100	24	1
Other initiatives		312	6		6	37	100	37	2
Total Core+initiatives valuation								1,658	80
Total investees valuation							461	96	5
Net cash								276	13
Total								2,030	98
# of shares								20,800	

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (RMBm)	2024	2025F	2026F	2027F
Net turnover	941,168	1,017,860	1,103,156	1,173,591
EBITDA	170,022	196,389	200,861	219,482
Deprec. & amort.	56,672	49,485	34,402	28,732
EBIT	113,350	146,903	166,459	190,750
Total other non-operating income	6,157	0	0	0
Associate contributions	(7,735)	(1,104)	(1,676)	(1,576)
Net interest income/(expense)	(17,911)	(7,600)	(705)	(359)
Pre-tax profit	93,861	138,200	164,078	188,815
Tax	(22,529)	(35,175)	(40,108)	(45,141)
Minorities	8,677	7,809	9,371	11,245
Preferred dividends	(268)	(268)	0	0
Net profit	79,741	110,566	133,341	154,920
Net profit (adj.)	157,479	162,259	180,870	203,877

CASH FLOW

Year to 31 Mar (RMBm)	2024	2025F	2026F	2027F
Operating	182,593	167,976	174,310	190,660
Pre-tax profit	93,861	138,200	164,078	188,815
Tax	(22,529)	(35,175)	(40,108)	(45,141)
Deprec. & amort.	56,672	49,485	34,402	28,732
Associates	549	(3,282)	(14,344)	3,480
Working capital changes	36,299	15,465	15,938	18,254
Non-cash items	0	0	0	1
Other operating cashflows	17,741	3,282	14,344	(3,481)
Investing	(21,824)	(78,755)	(80,713)	(82,147)
Capex (growth)	(27,579)	(24,737)	(21,294)	(16,786)
Capex (maintenance)	0	0	0	1
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	1
Others	5,755	(54,018)	(59,419)	(65,363)
Financing	(108,244)	73,053	49,905	54,896
Dividend payments	n.a.	n.a.	n.a.	n.a.
Issue of shares	(10,061)	67,484	43,780	48,158
Proceeds from borrowings	(13,179)	5,569	6,125	6,738
Loan repayment	0	0	0	1
Others/interest paid	(85,004)	0	0	(1)
Net cash inflow (outflow)	52,525	162,274	143,502	163,409
Beginning cash & cash equivalent	191,211	248,125	410,399	553,901
Changes due to forex impact	4,389	0	0	0
Ending cash & cash equivalent	248,125	410,399	553,901	717,309

BALANCE SHEET

Year to 31 Mar (RMBm)	2024	2025F	2026F	2027F
Fixed assets	185,161	179,699	172,075	161,689
Other LT assets	826,804	861,535	915,470	979,272
Cash/ST investment	248,125	410,399	553,901	717,309
Other current assets	504,739	536,383	570,640	602,475
Total assets	1,764,829	1,988,016	2,212,086	2,460,745
ST debt	12,749	12,749	12,749	12,749
Other current liabilities	408,758	455,867	506,063	556,151
LT debt	55,686	61,255	67,380	74,118
Other LT liabilities	175,037	175,037	175,037	175,037
Shareholders' equity	997,272	1,167,781	1,335,531	1,527,363
Minority interest	115,327	115,327	115,327	115,327
Total liabilities & equity	1,764,829	1,988,016	2,212,086	2,460,746

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	18.1	19.3	18.2	18.7
Pre-tax margin	10.0	13.6	14.9	16.1
Net margin	8.5	10.9	12.1	13.2
ROA	4.5	5.9	6.3	6.6
ROE	8.0	10.2	10.7	10.8
Growth				
Turnover	8.3	8.1	8.4	6.4
EBITDA	19.8	15.5	2.3	9.3
Pre-tax profit	15.7	47.2	18.7	15.1
Net profit	10.0	38.7	20.6	16.2
Net profit (adj.)	11.4	3.0	11.5	12.7
EPS	21.6	7.4	9.8	11.1
Leverage				
Debt to total capital	5.8	5.5	5.2	5.0
Debt to equity	6.9	6.3	6.0	5.7
Net debt/(cash) to equity	(18.0)	(28.8)	(35.5)	(41.3)
Interest cover (x)	9.5	25.8	284.8	611.0

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