

COMPANY RESULTS

Alibaba Group (9988 HK)

1QFY25: Solid Cloud Revenue Growth In 2H24; Gradual Take Rate Improvement

Alibaba delivered solid 1QFY25 results. Revenue grew 4% yoy to Rmb243.2b, slightly missing the street's estimate. Non-GAAP net profit was Rmb40.7b, down 9% yoy and is 7% above consensus forecast, with net margin of 16.7%. We remain optimistic on the double-digit revenue growth target for the cloud business in 2H24 and TTG's take rate improvement upon strategic execution. Maintain BUY with a slightly lower target price of HK\$95.00 (US\$95.00).

1QFY25 RESULTS

Year to 31 Mar (Rmbm)	1QFY24	4QFY24	1QFY25	QoQ	YoY	UOBKH	Var	Cons	Var
Revenue	234,156	221,874	243,236	10%	4%	248,041	-2%	249,848	-2.6%
- China retail	109,828	88,264	107,421	22%	-2%	107,869	0%		
- China wholesale	5,125	4,952	5,952	20%	16%	5,433	10%		
- International ecommerce	22,123	27,448	29,293	7%	32%	31,091	-6%		
- Cainiao	23,164	24,557	26,811	9%	16%	28,260	-5%		
- Cloud	25,065	25,595	26,549	4%	6%	26,128	2%		
- Digital media	5,381	4,945	5,581	13%	4%	5,489	2%		
Cost of sales	-142,347	-148,098	-146,106	-1%	3%	-156,266	-7%		
Gross profit	91,809	73,776	97,130	32%	6%	91,775	6%	93,723	3.6%
GPM	39.2%	33.3%	39.9%	7 ppt	1 ppt	37.0%	3 ppt	37.5%	2 ppt
Non-GAAP Operating profit	40,861	21,888	40,098	83%	-2%	46,304	-13%		
Non-GAAP OPM	17.5%	9.9%	16.5%	7 ppt	(1 ppt)	18.7%	(218 bps)		
Non-GAAP net profit	44,922	24,418	40,691	67%	-9%	38,553	6%	38,134	6.7%
Non-GAAP NPM	19.2%	11.0%	16.7%	6 ppt	(2 ppt)	15.5%	119 bps	15.3%	1 ppt

Source: Alibaba, UOB Kay Hian

RESULTS

- Taobao Tmall Group top-line growth trajectory.** Taobao and Tmall Group's (TTG) revenue dipped 1% yoy to Rmb113.4b. Customer management revenue (CMR) grew 1% yoy to Rmb57.1b, with high-single-digit online gross merchandise value (GMV) and double-digit order growth yoy thanks to its investment in user experience leading to increased purchase frequency. The yoy take rate decrease was primarily due to increasing proportion of GMV generated from new models that currently have lower monetisation rates. China commerce EBITA inched down 1% yoy to Rmb38.5b while adjusted EBITA margin fell 1ppt yoy due to elevated investment to improve user experience. Direct sales and other revenue dropped 9% yoy to Rmb27.3b, weakening from a 2% yoy decline in 4QFY24.
- AliCloud stood well for double-digit growth in 2H24; margin reaches record high.** Cloud Intelligence Group's revenue growth accelerated to 6% yoy, fuelled by double-digit public cloud revenue yoy growth and triple-digit AI-related product revenue yoy growth. Driven by the increased contribution from public cloud, EBITA margin expanded to 9% in 1QFY25 from 4% in 1QFY24. AliCloud saw robust demand for AI-related products and anticipates a double-digit revenue growth from external customers in 2H24 which will gradually accelerate thereafter. This is propelled by the industry trend which is shifting away from traditional CPU-based cloud computing towards GPU-based AI development.

KEY FINANCIALS

Year to 31 Mar (Rmbm)	2023	2024	2025F	2026F	2027F
Net turnover	868,687.0	941,168.0	1,011,139.6	1,098,618.4	1,189,498.6
EBITDA	141,874.0	170,022.0	197,426.8	191,626.0	218,572.5
Operating profit	100,351.0	113,350.0	147,965.1	157,256.5	189,835.8
Net profit (rep./act.)	72,509.0	79,741.0	110,291.7	119,358.8	145,454.7
Net profit (adj.)	141,379.0	157,479.0	142,861.1	161,050.7	182,013.9
EPS (Fen)	655.0	796.8	754.7	888.4	989.2
PE (x)	10.7	8.8	9.3	7.9	7.1
P/B (x)	1.5	1.5	1.2	1.0	0.9
EV/EBITDA (x)	9.1	7.6	6.6	6.7	5.9
Dividend yield (%)	0.0	0.0	0.2	0.2	0.2
Net margin (%)	8.3	8.5	10.9	10.9	12.2
Net debt/(cash) to equity (%)	(13.4)	(18.0)	(28.3)	(34.8)	(40.6)
Interest cover (x)	8.4	9.5	22.5	30.4	34.4
ROE (%)	7.4	8.0	10.2	9.6	10.3
Consensus net profit	-	-	151,555	165,670	178,132
UOBKH/Consensus (x)	-	-	0.94	0.97	1.02

Source: Alibaba Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$76.40
Target Price	HK\$95.00
Upside	+24.3%
(Previous TP)	HK\$98.00

COMPANY DESCRIPTION

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

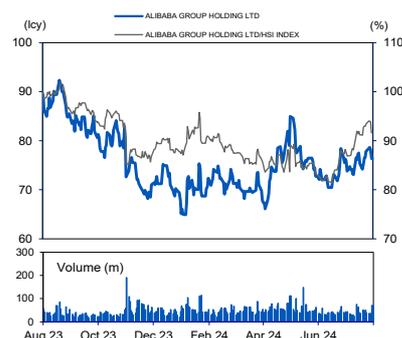
STOCK DATA

GICS sector	Consumer Discretionary			
Bloomberg ticker:	9988 HK Equity			
Shares issued (m):	19,345.5			
Market cap (HK\$m):	1,477,995.1			
Market cap (US\$m):	189,673.8			
3-mth avg daily t'over (US\$m):	452.0			
Price Performance (%)				
52-week high/low	HK\$92.35/HK\$64.89			
1mth	3mth	6mth	1yr	YTD
(0.3)	(6.8)	8.1	(15.5)	1.9

Major Shareholders

Ma Jack Yun	4.5
Vanguard Group Inc	3.7
BlackRock	2.6
FY25 NAV/Share (RMB)	59.30
FY25 Net Cash/Share (RMB)	16.92

PRICE CHART



Source: Bloomberg

ANALYST(S)

Julia Pan Meng Yao
 +8621 5404 7225 ext 808
 juliapan@uobkayhian.com

Soong Ming San
 +603 21471912
 mingsan@uobkayhian.com

- Alibaba International Digital Commerce Group's (AIDC) revenue elevated 32% yoy**, boosted by the 38%/12% yoy growth in international retail/international wholesale revenues. In 2Q24, AliExpress and Magalu entered into a partnership in which Magalu will open and operate a storefront on AliExpress and vice versa. Adjusted EBITA loss margin narrowed sequentially to -13% from -15%, due to reduced loss from Lazada, despite stepped up investment of Ali Express's Choice and Trendyol in Europe and the Gulf region.
- Local Services Group and all other segments.** Local Services Group's revenue rose 12% yoy to Rmb16.2b with adjusted EBITA loss significantly narrowing to Rmb386m from 1QFY24's loss of Rmb2b, due to Ele.me's improving operating efficiency and increasing scale. All other segments' revenue grew 3% yoy to Rmb47b, supported by Freshippo, Alibaba Health and Intelligent Information Platform, partly moderated by Lingxi Games and Sun Art. Adjusted EBITA loss was Rmb1.3b, softening from a Rmb1.7b loss in 1QFY24.
- Poised for take rate improvement and incremental revenue.** In September, TTG plans to implement a basic software service fee of 0.6% on Taobao and Idlefish, based on the GMV received by merchants. TTG expects customer management revenue (CMR) and GMV growth to align and take rate to stabilise in the next 6-12 months. TTG will implement measures to support SME merchants, including potential refunds or alternative assistance to reach the threshold for receiving the charge. TTG expects this new charge to impact its financials over the next seven months of FY25.
- Shareholder returns.** During 1QFY25, Alibaba repurchased a total of 613m ordinary shares (77m ADSs) for a total of US\$5.8b (2.9% of market cap). As of 30 June, Alibaba Group (Alibaba) had 19,024m ordinary shares (2,378m ADSs) outstanding, a 2.3% net reduction in its outstanding shares.
- Progress on dual primary listing in HKEX and NYSE.** Alibaba is pursuing a primary listing in Hong Kong with AGM scheduled for 22 August to present a proposal that requires shareholder approval. Alibaba aims to complete the conversion process by end-Aug 24. Following this, Alibaba will proceed with joining the Stock Connect.

12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

EARNINGS REVISION/RISK

- We keep our 2QFY25 revenue estimate unchanged but trim FY25 revenue forecast by 0.6%**, in view of a lukewarm consumption backdrop. We raised our 2QFY25 non-GAAP net profit by 2% but lowered FY25 non-GAAP net profit by 6% due to higher investment in its user-first strategy, AIDC as well as reinvestment in AliCloud.
- Risks.** a) Slowing growth in GMV and new user numbers, b) continued investment in new initiatives may drag on margin, and c) increasing competition in merchant acquisition.

VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$95.00 (US\$95.00)** that implies 11x FY25F PE, below its historical mean of 22x, against a 13% EPS CAGR from FY25-28. We believe the favourable outlook stems from AliCloud and TTG's strategic implementations to foster monetisation in 2H24. Alibaba is trading at 9.4x 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)
Core+initiatives								
Core commerce business	Taobao Tmall Commerce Group	347	139	2	5	694	100	694
International commerce	Global Digital Commerce Group	151		2		301	100	301
Cainiao	Cainiao Smart Logistics	127	5		15	76	51	39
Ele.me+ Amap	Local Services Group	74		1		74	100	74
Cloud Computing, other	Cloud Intelligence Group	129	8	3	42	323	100	323
Youku Tudou	Digital Media and Entertainment Group	24		1		24	100	24
Other initiatives		333	7		6	40	100	40
Total Core+initiatives valuation								1,495
Total investees valuation						461		96
Net cash								266
Total								1,857
# of shares								19,525

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (RMBm)	2024	2025F	2026F	2027F
Net turnover	941,168	1,011,140	1,098,618	1,189,499
EBITDA	170,022	197,427	191,626	218,573
Deprec. & amort.	56,672	49,462	34,370	28,737
EBIT	113,350	147,965	157,256	189,836
Total other non-operating income	6,157	257	0	0
Associate contributions	(7,735)	1,033	61	(111)
Net interest income/(expense)	(17,911)	(8,766)	(6,300)	(6,363)
Pre-tax profit	93,861	140,490	151,017	183,362
Tax	(22,529)	(36,778)	(37,533)	(45,531)
Minorities	8,677	7,060	6,354	7,624
Preferred dividends	(268)	(479)	(479)	0
Net profit	79,741	110,292	119,359	145,455
Net profit (adj.)	157,479	142,861	161,051	182,014

CASH FLOW

Year to 31 Mar (RMBm)	2024	2025F	2026F	2027F
Operating	182,593	161,849	168,224	186,791
Pre-tax profit	93,861	140,490	151,017	183,362
Tax	(22,529)	(36,778)	(37,533)	(45,531)
Deprec. & amort.	56,672	49,462	34,370	28,737
Associates	549	(3,282)	(14,344)	3,480
Working capital changes	36,299	8,676	20,371	20,224
Non-cash items	0	0	0	1
Other operating cashflows	17,741	3,282	14,344	(3,481)
Investing	(21,824)	(78,591)	(80,626)	(82,375)
Capex (growth)	(27,579)	(24,574)	(21,207)	(17,013)
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	156,310	137,504	159,312
Beginning cash & cash equivalent	191,211	248,125	404,435	541,939
Changes due to forex impact	4,389	0	0	0
Ending cash & cash equivalent	248,125	404,435	541,939	701,251

BALANCE SHEET

Year to 31 Mar (RMBm)	2024	2025F	2026F	2027F
Fixed assets	185,161	179,559	171,881	161,717
Other LT assets	826,804	861,535	915,470	979,272
Cash/ST investment	248,125	404,435	541,939	701,251
Other current assets	504,739	534,930	569,659	605,914
Total assets	1,764,829	1,980,459	2,198,949	2,448,154
ST debt	12,749	12,749	12,749	12,749
Other current liabilities	408,758	447,625	502,725	559,204
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	1,168,467	1,325,731	1,511,719
Minority interest	115,327	115,327	115,327	115,327
Total liabilities & equity	1,764,829	1,980,459	2,198,949	2,448,154

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	18.1	19.5	17.4	18.4
Pre-tax margin	10.0	13.9	13.7	15.4
Net margin	8.5	10.9	10.9	12.2
ROA	4.5	5.9	5.7	6.3
ROE	8.0	10.2	9.6	10.3
Growth				
Turnover	8.3	7.4	8.7	8.3
EBITDA	19.8	16.1	(2.9)	14.1
Pre-tax profit	15.7	49.7	7.5	21.4
Net profit	10.0	38.3	8.2	21.9
Net profit (adj.)	11.4	(9.3)	12.7	13.0
EPS	21.6	(5.3)	17.7	11.3
Leverage				
Debt to total capital	5.8	5.5	5.3	5.1
Debt to equity	6.9	6.3	6.0	5.7
Net debt/(cash) to equity	(18.0)	(28.3)	(34.8)	(40.6)
Interest cover (x)	9.5	22.5	30.4	34.4

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