

## COMPANY RESULTS

### Alibaba Group (9988 HK)

2QFY23: Earnings Beat; Upsized Share Repurchase Programme; Net Cash Of US\$45b

**Alibaba delivered better-than-expected 2QFY23 results. Revenue came in at Rmb207.2b, up 3% yoy compared with flattish yoy growth in 2QFY22, 1% below street estimates. The group adjusted EBITA grew 29% yoy to Rmb36.2b on cost reduction. Non-GAAP net profit was Rmb33.8b, up 19% yoy and beating street estimates by 15%, with net margin improving sequentially to 14.5%. Maintain BUY with a higher target price of HK\$133.00 (US\$136.00).**

#### 3Q22 RESULTS

Year to 31 Mar (Rmbm)	2QFY22	1QFY23	2QFY23	QoQ	YoY	UOBKH	Var	Cons	Var
Revenue	200,690	205,555	207,176	1%	3%	210,741	-2%	209,207	-1%
China retail	126,827	136,977	131,222	-4%	3%	136,858	-4%		
China wholesale	4,174	4,958	4,209	-15%	1%	4,675	-10%		
International ecommerce	15,092	15,451	15,747	2%	4%	15,262	3%		
Cainiao	9,846	12,142	13,367	10%	36%	11,086	21%		
Cloud	20,007	17,685	20,757	17%	4%	22,008	-6%		
Digital media	8,081	7,231	8,392	16%	4%	7,839	7%		
Others	1,432	479	409	-15%	-71%	788	-48%		
Cost of sales	-129,750	-129,657	-131,210	1%	1%	-135,194	-3%		
Gross profit	70,940	75,898	75,966	0%	7%	75,547	1%	73,950	3%
GPM	35.3%	36.9%	36.7%	(0 ppt)	1 ppt	35.8%	1 ppt	35.3%	1 ppt
Operating expenses	-55,934	-50,955	-50,829	0%	-9%	-57,686	-12%		
S&M	-28,857	-25,578	-22,359	-13%	-23%	-30,091	-26%		
G&A	-8,874	-8,433	-10,591	26%	19%	-9,108	16%		
R&D	-15,297	-14,193	-15,150	7%	-1%	-15,806	-4%		
Non-GAAP Operating profit	25,127	31,668	32,924	4%	31%	26,290	25%		
Non-GAAP OPM	12.5%	15.4%	15.9%	0 ppt	3 ppt	12.5%	342 bps		
Net income	5,367	22,739	-20,561	-190%	-483%	20,341	-201%		
Non-GAAP net profit	28,524	30,252	33,820	12%	19%	29,812	13%	29,289	15%
Non-GAAP NPM	14.2%	14.7%	16.3%	2 ppt	2 ppt	14.1%	218 bps	14.0%	2 bps

Source: Alibaba, UOB Kay Hian

#### RESULTS

- **Weaker China commerce segment.** Alibaba Group's (Baba) China commerce revenue grew 3% yoy to Rmb131b while Customer Management Revenue (CMR) fell 7% yoy. The gap between gross merchandise value (GMV) and CMR growth was mainly due to the higher rate of order returns due to logistics disruptions and from live-streaming driven sales. Taobao/Tmall physical goods GMV declined by low single digits yoy in 2QFY23, but improved sequentially from the mid-single digit drop in 1QFY23. Direct sales and other revenue grew 6% yoy to Rmb64.7b, with the robust growth due to the Freshippo and AliHealth direct sales businesses. Adjusted EBITA margin for the China commerce segment inched up 2ppt yoy to 32%, mainly attributed to Taobao Deals' much smaller losses yoy, driven by optimised spending in user acquisition. Taocaicai significantly narrowed losses yoy, driven by optimised pricing strategy, enhanced sourcing capability and lowered operation and fulfilment costs.
- **Non-internet industries support AliCloud's positive revenue growth.** AliCloud's revenue grew by 4% yoy (vs +10% yoy in 2QFY22) with strong growth of 27% yoy from non-internet industries, offsetting the 18% yoy decline from the internet industry. The weak internet industry cloud performance is still mainly due to gradual dis-adoption from the top internet customers as well as a decrease in online education customers. Adjusted EBITA margin dropped to 2.1% from 1.4%/2.0% in 1QFY23/2QFY22. Revenue contribution from non-internet industries rose to 58% in 2QFY23, up 5ppt qoq.

#### KEY FINANCIALS

Year to 31 Mar (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	717,289.0	853,062.0	905,922.5	1,003,949.2	1,075,257.9
EBITDA	128,494.0	110,201.0	152,990.5	172,897.2	195,266.9
Operating profit	89,678.0	69,638.0	107,176.5	128,492.6	152,387.7
Net profit (rep./act.)	150,308.0	54,696.0	56,495.0	117,830.0	138,147.0
Net profit (adj.)	171,985.0	136,388.0	139,637.7	161,237.4	186,151.6
EPS (Fen)	810.3	636.2	644.9	737.3	838.6
PE (x)	8.8	11.2	11.1	9.7	8.5
P/B (x)	1.6	1.6	1.5	1.3	1.2
EV/EBITDA (x)	11.6	13.6	9.8	8.6	7.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	21.0	6.4	6.2	11.7	12.8
Net debt/(cash) to equity (%)	(29.5)	(14.9)	(18.7)	(25.6)	(31.9)
Interest cover (x)	n.a.	5.3	3.9	n.a.	n.a.
ROE (%)	17.6	5.7	5.6	10.4	10.7
Consensus net profit	-	-	141,049	161,431	181,543
UOBKH/Consensus (x)	-	-	0.99	1.00	1.03

Source: Alibaba Group, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$78.25
Target Price	HK\$133.00
Upside	+70.4%
(Previous TP)	HK\$127.00)

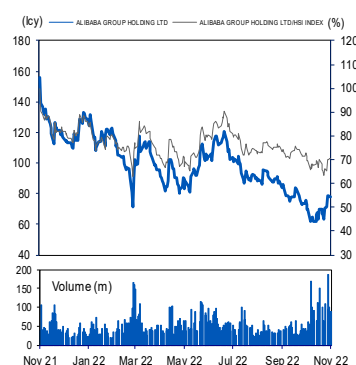
#### COMPANY DESCRIPTION

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

#### STOCK DATA

GICS sector	Consumer Discretionary				
Bloomberg ticker:	9988 HK				
Shares issued (m):	21,180.3				
Market cap (HK\$m):	1,657,357.3				
Market cap (US\$m):	211,792.0				
3-mth avg daily t'over (US\$m):	544.9				
Price Performance (%)					
52-week high/low			HK\$156.00/HK\$61.45		
1mth	3mth	6mth	1yr	YTD	
6.9	(13.4)	(13.6)	(52.5)	(34.2)	
Major Shareholders					%
-					-
-					-
-					-
FY22 NAV/Share (Rmb)					47.34
FY22 Net Cash/Share (Rmb)					8.91

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **New initiatives' losses narrow.** Taobao Deals' losses continue to narrow yoy and qoq, driven by lower user acquisition costs and increasing ARPU. Taocaicai's GMV grew by over 200% yoy, with sequential narrowing losses on optimised pricing strategy, enhanced sourcing capability and lowered fulfillment costs.
- **Encouraging LCS performance.** Local consumer services (LCS) saw a solid performance, with revenue growth of 21% yoy to Rmb13.3b, EBITA loss slightly widened to Rmb3.5b. Ele.me's unit economics was positive for the second quarter in a row, driven by increased average order value, lower subsidies and reduced delivery cost per order. During the National Holiday season, Amap achieved a record high of over 220mn DAUs in China.
- **Double 11 performance disrupted.** There were a few factors that negatively impacted the Double 11 performance. Firstly, the delay in seasonal change weakened the consumption appetite for apparel amid the COVID-19 resurgence, causing the apparel category to suffer. Secondly, from October and through the 11.11 campaign period, nearly 15% of delivery areas across China experienced abnormal or suspended logistic services which hindered merchants' ability to fulfill orders on time. Thirdly, 11.11 became an event celebrated and embraced by the entire society, leading to a more competitive environment both offline and online.
- **Key growth driver: Cainiao.** Revenue grew by 36% yoy to Rmb13.4m, primarily contributed by the increase in revenue from domestic consumer logistics services as a result of service model upgrade since late-21 with Cainiao taking on more responsibilities throughout the logistics process to better serve consumers and enhance the consumer experience, as well as the increase in revenue from international fulfillment solution services.
- **Upsized share repurchase program.** As of 16 Nov 22, Alibaba had repurchased approximately US\$18b of its existing US\$25b share repurchase program. In addition, it approved the increase of the existing share repurchase program by another US\$15b and extended the program through end-Mar 25. Currently, it has an unused amount of US\$22b. As of 30 Sep 22, Alibaba continues to maintain a strong net cash position of Rmb323b or US\$45b.

### EARNINGS REVISION/RISK

- **We have raised our 3QFY23 forecasts and lowered FY23 revenue forecasts by 0.4% and 0.2% respectively,** conservatively in line with the street estimate which should represent yoy growth of 7%/8% for the respective period. We lift 3QFY23/FY23 non-GAAP net profit by 0.3%/3.4%.
- **Risks.** a) The persistent COVID-zero policy could dampen consumer spending, slowing GMV and growth in new users, 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\$133.00 (US\$136.00).** Our target price implies 15.6x FY23F PE, slightly below its historical mean of 24x on the back of a 41% EPS CAGR from FY23-26. The company is currently trading at 10x 12-month forward PE, 2.2SD below its historical mean.

### SHARE PRICE CATALYST

- a) Successful listing of Ant Group, b) continued improvement in profitability of its cloud business, and c) continued growth from business expansion, particularly in the Southeast Asia market/lower tier cities.

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

	FY22-23 Revenue (HK\$ b)	EBITA (HK\$ b)	EV / Revenue	EV / EBITA	Value (HK\$ b)	% BABA holding	Value to BABA (HK\$ b)	(HK\$) per share	% of NAV
Core+initiatives									
Core commerce business	797.7	195	2	8	1,564	100.0%	1,564	71	53%
Online marketing service	246.8	143.1				100.0%			
Commission	100.5	55.3				100.0%			
New retail + Alihealth	353.1	-4.4				100.0%			
International commerce	73.8	1.5				100.0%			
Cainiao	61.0		3		183	51.0%	93	4	
Ele.me	65.2		3		196	100.0%	196	9	
Cloud Computing, other	93.8		8		751	100.0%	751	34	26%
Youku Tudou and other initiatives	38.4		1		38	100.0%	38	2	1%
<b>Total Core+initiatives valuation</b>							<b>2,641.4</b>	<b>120.1</b>	<b>90%</b>
Investees									
Net cash							273	12	9%
<b>Total</b>							<b>2,931</b>	<b>133</b>	

Source: UOB Kay Hian

### 12 MONTHS FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

## PROFIT & LOSS

Year to 31 Mar (Rmbm)	2022	2023F	2024F	2025F
Net turnover	853,062	905,922	1,003,949	1,075,258
EBITDA	110,201	152,990	172,897	195,267
Deprec. & amort.	40,563	45,814	44,405	42,879
EBIT	69,638	107,176	128,493	152,388
Total other non-operating income	10,523	3,053	0	0
Associate contributions	14,344	1,825	14,260	10,349
Net interest income/(expense)	(20,611)	(39,015)	1,700	5,827
<b>Pre-tax profit</b>	<b>73,894</b>	<b>73,039</b>	<b>144,452</b>	<b>168,564</b>
Tax	(26,815)	(23,856)	(33,174)	(38,627)
Minorities	7,907	7,602	6,842	8,210
Preferred dividends	(290)	(290)	(290)	0
<b>Net profit</b>	<b>54,696</b>	<b>56,495</b>	<b>117,830</b>	<b>138,147</b>
Net profit (adj.)	136,388	139,638	161,237	186,152

## BALANCE SHEET

Year to 31 Mar (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	171,806	177,610	181,904	183,344
Other LT assets	885,212	929,337	981,264	1,041,116
Cash/ST investment	189,898	246,880	364,688	501,981
Other current assets	448,637	472,920	506,126	535,260
<b>Total assets</b>	<b>1,695,553</b>	<b>1,826,746</b>	<b>2,033,982</b>	<b>2,261,700</b>
ST debt	8,841	8,841	8,841	8,841
Other current liabilities	374,943	409,856	456,452	499,934
LT debt	38,244	42,068	46,275	50,903
Other LT liabilities	191,332	191,332	191,332	191,332
Shareholders' equity	958,134	1,050,589	1,207,023	1,386,631
Minority interest	124,059	124,059	124,059	124,059
<b>Total liabilities &amp; equity</b>	<b>1,695,553</b>	<b>1,826,746</b>	<b>2,033,982</b>	<b>2,261,700</b>

## CASH FLOW

Year to 31 Mar (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>142,759</b>	<b>105,628</b>	<b>169,072</b>	<b>187,165</b>
Pre-tax profit	73,894	73,039	144,452	168,564
Tax	(26,815)	(23,856)	(33,174)	(38,627)
Deprec. & amort.	40,563	45,814	44,405	42,879
Associates	(6,093)	(5,518)	549	(3,282)
Working capital changes	(120,156)	10,631	13,389	14,348
Non-cash items	0	0	0	0
Other operating cashflows	181,366	5,518	(549)	3,282
<b>Investing</b>	<b>(198,592)</b>	<b>(95,743)</b>	<b>(100,626)</b>	<b>(104,171)</b>
Capex (growth)	(42,028)	(40,103)	(39,422)	(36,846)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(156,564)	(55,640)	(61,204)	(67,324)
<b>Financing</b>	<b>(64,449)</b>	<b>47,096</b>	<b>49,363</b>	<b>54,299</b>
Dividend payments	n.a.	n.a.	n.a.	n.a.
Issue of shares	(11,056)	43,272	45,156	49,671
Proceeds from borrowings	1,332	3,824	4,207	4,628
Loan repayment	0	0	0	0
Others/interest paid	(54,725)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>(120,282)</b>	<b>56,982</b>	<b>117,808</b>	<b>137,293</b>
Beginning cash & cash equivalent	319,014	189,898	246,880	364,688
Changes due to forex impact	(8,834)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>189,898</b>	<b>246,880</b>	<b>364,688</b>	<b>501,981</b>

## KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	12.9	16.9	17.2	18.2
Pre-tax margin	8.7	8.1	14.4	15.7
Net margin	6.4	6.2	11.7	12.8
ROA	3.2	3.2	6.1	6.4
ROE	5.7	5.6	10.4	10.7
<b>Growth</b>				
Turnover	18.9	6.2	10.8	7.1
EBITDA	(14.2)	38.8	13.0	12.9
Pre-tax profit	(57.2)	(1.2)	97.8	16.7
Net profit	(63.6)	3.3	108.6	17.2
Net profit (adj.)	(20.7)	2.4	15.5	15.5
EPS	(21.5)	1.4	14.3	13.7
<b>Leverage</b>				
Debt to total capital	4.2	4.2	4.0	3.8
Debt to equity	4.9	4.8	4.6	4.3
Net debt/(cash) to equity	(14.9)	(18.7)	(25.6)	(31.9)
Interest cover (x)	5.3	3.9	n.a.	n.a.

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