

COMPANY RESULTS

Alibaba Group (9988 HK)

4QFY23: Solid Earnings Growth; Full Spin-off Of Alibaba Cloud

Alibaba delivered better-than-expected 4QFY23 results. Revenue came in at Rmb208.2b, growing by 2% yoy, in line with street estimates. Non-GAAP net profit was Rmb27.4b, up 38% yoy and beating street estimates by 11%, with net margin improving sequentially to 13%. The company announced a comprehensive capital management plan, including a full spin-off of the Cloud Group via stock dividend distribution. **Maintain BUY with a lower target price of HK\$142.00 (US\$146.00).**

4QFY23 RESULTS

Year to 31 Mar (Rmbm)	4QFY22	3QFY23	4QFY23	QoQ	YoY	UOBKH	Var	Cons	Var
Revenue	204,052	247,141	208,200	-16%	2%	214,802	-3%	209,191	0%
- China retail	135,696	165,765	132,062	-20%	-3%	138,807	-5%		
- China wholesale	4,383	4,221	4,011	-5%	-8%	4,646	-14%		
- International ecommerce	14,335	19,465	18,541	-5%	29%	16,273	14%		
- Cainiao	11,582	16,553	13,619	-18%	18%	13,881	-2%		
- Cloud	18,971	20,179	18,582	-8%	-2%	20,489	-9%		
- Digital media	8,005	7,586	8,273	9%	3%	8,245	0%		
Cost of sales	-138,945	-150,005	-138,823	-7%	0%	-150,561	-8%		
Gross profit	65,107	97,136	69,377	-29%	7%	64,241	8%	67,673	3%
GPM	31.9%	39.3%	33.3%	(6 ppt)	1 ppt	29.9%	3 ppt	32.4%	1 ppt
Operating expenses	-48,390	-62,720	-54,137	-14%	12%	-51,500	5%		
Non-GAAP Operating profit	12,980	43,189	22,786	-47%	76%	21,118	8%		
Non-GAAP OPM	6.4%	17.5%	10.9%	(7 ppt)	5 ppt	9.8%	111 bps		
Non-GAAP net profit	19,799	49,317	27,375	-44%	38%	21,458	28%	24,558	11%
Non-GAAP NPM	9.7%	20.0%	13.1%	(7 ppt)	3 ppt	10.0%	316 bps	11.7%	1 ppt

Source: Alibaba, UOB Kay Hian

RESULTS

- Weaker momentum of China commerce segment.** Alibaba Group's (BABA) China commerce segment revenue inched down 3% yoy to Rmb132b while Customer Management Revenue (CMR) decreased 5% yoy to Rmb41b, mainly due to mid-single-digit decline of Taobao/Tmall online physical goods GMV in 4QFY23 which sustained from 3QFY23. However, during March and April, BABA saw positive yoy growth of online physical goods GMV on Taobao and Tmall, driven by strong growth of fashion & accessories and healthcare categories. China commerce EBITA increased 19% yoy to Rmb38.5b and adjusted EBITA margin edged up 5ppt yoy to 28%, driven by optimised spending in user acquisition and improved operating efficiency.
- Direct sales and other revenue fell marginally by 1% yoy to Rmb71.8b**, due to a decrease in offline store sales, which was adversely affected by the COVID-19 disruption in January and seasonal volatility. International commerce revenue surged 29% yoy, driven by international retail/international wholesale revenues which grew by 41%/3% yoy, compared to 26%/flat yoy in 3QFY23. The combined order volume growth of Lazada, AliExpress, Trendyol and Daraz was 15% yoy (vs 3% yoy in 3QFY23). Adjusted EBITA margin improved to 13%, from -18% in 4QFY22.

KEY FINANCIALS

Year to 31 Mar (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	853,062.0	868,072.0	955,753.0	1,051,930.9	1,146,390.4
EBITDA	110,207.0	141,259.0	180,569.0	196,317.9	231,575.4
Operating profit	69,638.0	99,736.0	136,270.9	156,029.0	194,897.7
Net profit (rep./act.)	61,959.0	71,894.0	114,008.6	135,790.6	163,225.7
Net profit (adj.)	136,388.0	140,764.0	156,746.6	179,709.6	238,297.5
EPS (Fen)	636.2	650.1	716.7	809.6	1,057.7
PE (x)	12.4	12.1	11.0	9.7	7.5
P/B (x)	1.8	1.8	1.5	1.3	1.2
EV/EBITDA (x)	14.7	11.5	9.0	8.3	7.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	7.3	8.3	11.9	12.9	14.2
Net debt/(cash) to equity (%)	(14.9)	(13.4)	(23.3)	(30.6)	(37.0)
Interest cover (x)	5.3	8.3	n.a.	n.a.	n.a.
ROE (%)	6.5	7.3	10.5	10.7	11.2
Consensus net profit	-	-	134,339	155,389	174,617
UOBKH/Consensus (x)	-	-	1.17	1.16	1.36

Source: Alibaba Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$87.75
Target Price	HK\$142.00
Upside	+61.8%
(Previous TP)	HK\$151.00)

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):	20,700.0
Market cap (HK\$m):	1,816,425.0
Market cap (US\$m):	232,045.0
3-mth avg daily t'over (US\$m):	623.7
Price Performance (%)	

52-week high/low HK\$121.00/HK\$61.45

1mth	3mth	6mth	1yr	YTD
(7.4)	(11.8)	9.8	(2.5)	1.7

Major Shareholders	%
Soft Bank Group Corp	25.2
Ma Jack Yun	3.2
Vanguard Group Inc	2.5
FY24 NAV/Share (RMB)	52.58
FY24 Net Cash/Share (RMB)	12.34

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Local consumer service revenue grew 17% yoy** to Rmb12.5b with adjusted EBITA loss sequentially narrowing to -Rmb4.1b from -Rmb3.1b/-Rmb5.6b in 3QFY23/4QFY22, driven by Ele.me's enhanced operation efficiency. Ele.me continued to generate positive GMV growth, due to resilient consumer demand and a heightened number of active merchants.
- **Subdued AliCloud revenue.** Cloud revenue dipped 2% yoy, mainly dragged by delays in delivery of hybrid cloud projects and normalisation of CDN demand compared to 4QFY22. Revenue contribution from non-internet industries rose to 55% in 4QFY23. Recently, BABA reduced the prices of some of its core utility products by up to 50%. BABA believes these moves will help its customers increase public cloud adoption in China and unlock emerging opportunities to leverage AI technology for enterprises.
- **Capital management plan.** The company announced a comprehensive capital management plan for the shareholder returns: a) a full spin-off of the Cloud Group via stock dividend distribution to all Alibaba shareholders in the following 12 months (valued at HK\$26 per share under our SOTP), b) Alibaba International Digital Commerce Group aiming to raise external capital to support its global market expansion, and c) exploration of IPO for Cainiao (upcoming 12-18 months) and Freshippo (upcoming 12 months) respectively.
- **With the reorganisation,** Taobao-Tmall Group will continue to be 100%-owned by the Alibaba Group, while each business unit would have independent financing/ESOP programme and to reduce share dilution for Alibaba Group level. Taobao-Tmall Group management has a clear three-year investment plan to sustain its no.1 user scale and no.1 positioning with merchants, through investing in user content and the merchant ecosystem.
- **Alibaba Cloud has been committed to the R&D of core technologies of cloud computing, big data and AI.** In April, Alibaba Cloud unveiled its latest large language model (LLM), Tongyi Qianwen (通义千问). Alibaba Cloud will offer its clients access to Tongyi Qianwen on the cloud and enable them to develop customised LLMs for their business scenarios. Since the announcement of the model, BABA has received over 200,000 beta testing requests from enterprise users across a broad range of sectors.

12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

EARNINGS REVISION/RISK

- We have lowered our 1QFY24/FY24 revenue by 2%/3%, in view of the soft 4QFY23 growth. We cut our FY24 non-GAAP net profit by 4%.
- **Risks.** a) The 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 lower target price of HK\$142.00 (US\$146.00)** that implies 18.6x FY23F PE, below its historical mean of 24x on the back of a 36% EPS CAGR from FY23-26. BABA is trading at 10.5x 12-month forward PE, 1.8SD 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	FY24 Revenue (HK\$,b)	EBITA (HK\$,b)	EV / Revenue	EV / EBITA	Value (HK\$,b)	% BABA holding	Value to BABA (HK\$,b)	(HK\$) per share
Core+initiatives									
Core commerce business	Taobao Tmall Commerce Group	347	139	3	8	1,111	100%	1,111	51
Online marketing service		247	99				100%		
Commission		100	40				100%		
Direct sales + Alihealth		328		1		328	100%	328	15
International commerce	Global Digital Commerce Group	91		3		274	100%	274	12
Cainiao	Cainiao Smart Logistics	70		3		210	51%	107	5
Ele.me+ Amap	Local Services Group	66		3		199	100%	199	9
Cloud Computing, other	Cloud Intelligence Group	95	2	6		567	100%	567	26
Youku Tudou and other initiatives	Digital Media and Entertainment Group	38		1		38	100%	38	2
Total Core+initiatives valuation								2,625	119
Total investees valuation						863		216	10
Net cash								286	13
Total								3,127	142

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (RMBm)	2023	2024F	2025F	2026F
Net turnover	868,072	955,753	1,051,931	1,146,390
EBITDA	141,259	180,569	196,318	231,575
Deprec. & amort.	41,523	44,298	40,289	36,678
EBIT	99,736	136,271	156,029	194,898
Total other non-operating income	5,823	0	0	0
Associate contributions	(8,063)	5,865	8,235	8,335
Net interest income/(expense)	(16,989)	1,700	1,415	1,175
Pre-tax profit	80,507	143,836	165,679	204,408
Tax	(15,549)	(36,043)	(37,676)	(50,526)
Minorities	7,210	6,489	7,787	9,344
Preferred dividends	(274)	(274)	0	0
Net profit	71,894	114,009	135,791	163,226
Net profit (adj.)	140,764	156,747	179,710	238,298

CASH FLOW

Year to 31 Mar (RMBm)	2023	2024F	2025F	2026F
Operating	199,752	156,147	181,522	202,641
Pre-tax profit	80,507	143,836	165,679	204,408
Tax	(15,549)	(36,043)	(37,676)	(50,526)
Deprec. & amort.	41,523	44,298	40,289	36,678
Associates	(5,518)	549	(3,282)	(14,344)
Working capital changes	(54,676)	4,055	13,229	12,081
Non-cash items	0	0	0	0
Other operating cashflows	153,465	(549)	3,282	14,344
Investing	(135,506)	(85,066)	(88,331)	(91,164)
Capex (growth)	(30,373)	(28,662)	(26,287)	(22,915)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(105,133)	(56,404)	(62,045)	(68,249)
Financing	(65,619)	75,653	51,579	56,737
Dividend payments	n.a.	n.a.	n.a.	n.a.
Issue of shares	5,054	70,451	45,857	50,442
Proceeds from borrowings	15,399	5,202	5,723	6,295
Loan repayment	0	0	0	0
Others/interest paid	(86,072)	0	0	0
Net cash inflow (outflow)	(1,373)	146,734	144,770	168,213
Beginning cash & cash equivalent	189,898	192,055	338,789	483,559
Changes due to forex impact	3,530	0	0	0
Ending cash & cash equivalent	193,086	338,789	483,559	651,772

BALANCE SHEET

Year to 31 Mar (RMBm)	2023	2024F	2025F	2026F
Fixed assets	176,031	172,368	167,283	160,162
Other LT assets	879,047	923,479	976,606	1,038,214
Cash/ST investment	193,086	338,789	483,559	651,772
Other current assets	504,880	537,365	572,147	607,601
Total assets	1,753,044	1,973,031	2,200,626	2,458,779
ST debt	7,466	7,466	7,466	7,466
Other current liabilities	377,885	414,425	462,437	509,972
LT debt	52,023	57,225	62,948	69,243
Other LT liabilities	192,749	192,749	192,749	192,749
Shareholders' equity	999,515	1,177,760	1,351,620	1,555,944
Minority interest	123,406	123,406	123,406	123,406
Total liabilities & equity	1,753,044	1,973,031	2,200,626	2,458,779

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	16.3	18.9	18.7	20.2
Pre-tax margin	9.3	15.0	15.8	17.8
Net margin	8.3	11.9	12.9	14.2
ROA	4.2	6.1	6.5	7.0
ROE	7.3	10.5	10.7	11.2
Growth				
Turnover	1.8	10.1	10.1	9.0
EBITDA	28.2	27.8	8.7	18.0
Pre-tax profit	8.9	78.7	15.2	23.4
Net profit	16.0	58.6	19.1	20.2
Net profit (adj.)	3.2	11.4	14.6	32.6
EPS	2.2	10.3	13.0	30.6
Leverage				
Debt to total capital	5.0	4.7	4.6	4.4
Debt to equity	6.0	5.5	5.2	4.9
Net debt/(cash) to equity	(13.4)	(23.3)	(30.6)	(37.0)
Interest cover (x)	8.3	n.a.	n.a.	n.a.

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