

COMPANY RESULTS

Alibaba Group (9988 HK)

3QFY24: Increased Shareholder Return Plan; Pivoting Focus To Reignite E-commerce Growth

Alibaba delivered in-line 3QFY24 results. Revenue grew 5% yoy to Rmb260.3b, in line with street estimates. Non-GAAP net profit was Rmb48b, down 4% yoy and in line with street estimates, with net margin of 18.4%. Alibaba has approved an increase of US\$25b to its share repurchase programme through to the end of Mar 27. The company remains focused on achieving double-digit growth in ROIC and targets a 3% share reduction in the next three years. Maintain BUY. Target price: HK\$100.00 (US\$100.00).

3QFY24 RESULTS

Year to 31 Mar (Rmbm)	3QFY23	2QFY23	3QFY24	QoQ	YoY	UOBKH	Var	Cons	Var
Revenue	247,756	224,790	260,348	16%	5%	269,246	-3%	261,686	-0.5%
- China retail	122,736	92,560	123,762	34%	1%	113,409			
- China wholesale	4,329	5,094	5,308	4%	23%	4,854			
- International ecommerce	19,824	24,511	28,516	16%	44%	27,416			
- Cainiao	23,023	22,823	28,476	25%	24%	25,325			
- Cloud	27,364	27,648	28,066	2%	3%	27,468			
- Digital media	4,261	5,779	5,040	-13%	18%	4,900			
Cost of sales	-150,005	-139,664	-156,214	12%	4%	-165,708			
Gross profit	97,751	85,126	104,134	22%	7%	103,537	1%	102,743	1.4%
GPM	39.5%	37.9%	40.0%	2 ppt	1 ppt	38.5%	2 ppt	39.3%	1 ppt
Non-GAAP Operating profit	43,804	40,414	28,733	-29%	-34%	53,232	-46%		
Non-GAAP OPM	17.7%	18.0%	11.0%	(7 ppt)	(7 ppt)	19.8%	(873 bps)		
Non-GAAP net profit	49,932	40,188	47,951	19%	-4%	47,129	2%	47,808	0.3%
Non-GAAP NPM	20.2%	17.9%	18.4%	1 ppt	(2 ppt)	17.5%	91 bps	18.3%	0 ppt

Source: Alibaba, UOB Kay Hian

RESULTS

- Lacklustre Taobao Tmall Group revenue growth momentum.** Taobao and Tmall Group revenue grew 2% yoy to Rmb129.1b. Meanwhile, customer management revenue (CMR) remained flat yoy at Rmb66.6b, mainly supported by stable growth in GMV that was partially offset by a decline in the overall take rate due to increased GMV contribution from Taobao merchants. China commerce EBITA inched up 1% yoy to Rmb59.9b while adjusted EBITA margin remained flat yoy due to elevated investment in content, user acquisition and retention of Taobao app. Direct sales and other revenue grew 2% yoy to Rmb31.6b, moderating from 6% yoy in 2QFY24 amid a soft macro backdrop.
- Alibaba International Digital Commerce Group's revenue soared 44% yoy,** propelled by the 56%/8% yoy respective growths in International retail/International wholesale revenues, primarily propelled by a 60% yoy order growth delivered by AliExpress, driven by Choice. Meanwhile, Trendyol continued to generate robust double-digit order growth while maintaining its leading e-commerce position in Turkey. Adjusted EBITA margin expanded to -11% from -2% in 3QFY23 as Alibaba stepped up its investment pace to sustain rapid growth momentum of Ali Express's Choice and Trendyol.

KEY FINANCIALS

Year to 31 Mar (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	853,062.0	869,599.0	942,595.6	1,015,827.8	1,100,017.9
EBITDA	110,207.0	142,786.0	170,548.7	210,922.6	229,622.0
Operating profit	69,638.0	101,263.0	126,322.0	170,846.2	193,280.3
Net profit (rep./act.)	61,959.0	73,421.0	98,321.0	135,456.1	160,726.7
Net profit (adj.)	136,388.0	142,291.0	124,995.5	180,169.0	201,028.4
EPS (Fen)	637.3	659.3	584.4	875.1	962.0
PE (x)	10.8	10.5	11.8	7.9	7.2
P/B (x)	1.6	1.5	1.3	1.1	1.0
EV/EBITDA (x)	11.5	8.9	7.4	6.0	5.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	7.3	8.4	10.4	13.3	14.6
Net debt/(cash) to equity (%)	(14.9)	(13.4)	(22.2)	(29.6)	(36.4)
Interest cover (x)	5.3	8.4	17.9	28.9	311.3
ROE (%)	6.5	7.5	9.1	10.9	11.2
Consensus net profit	-	-	162,242	170,198	181,380
UOBKH/Consensus (x)	-	-	0.77	1.06	1.11

Source: Alibaba Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$74.90
Target Price	HK\$100.00
Upside	+33.5%
(Previous TP)	HK\$102.00)

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):	20,347.4
Market cap (HK\$m):	1,524,019.7
Market cap (US\$m):	194,897.4
3-mth avg daily t'over (US\$m):	492.6

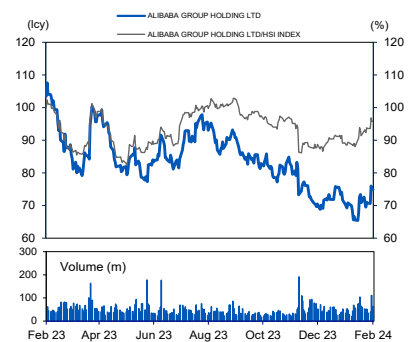
Price Performance (%)

52-week high/low	HK\$107.60/HK\$65.45
1mth	4.5
3mth	(9.9)
6mth	(21.7)
1yr	(28.5)
YTD	(0.9)

Major Shareholders

	%
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 hit record high.** Cloud Intelligence Group revenue registered a 3% yoy growth due to the scaling back of project-based contracts with lower margins. However, due to the continuous elevated contribution from public cloud, EBITA margin increased to 8% in 3QFY24 from 5% in 3QFY23.
- **Local Services Group revenue rose 13% yoy to Rmb15.2b** with adjusted EBITA loss sequentially narrowing to Rmb2.1b from 3QFY23's loss of Rmb2.6b, due to Ele.me's improving unit economics and scale.
- **Revenue of all other segments** (Intime, Sun Art, Dingtalk, Alibaba Health, Fliggy, Freshippo) dropped 7% yoy to Rmb47.0b, primarily due to the decrease in Sun Art caused by the scaling down of its supply chain business. Adjusted EBITA loss was Rmb3.2b, expanding from the Rmb1.7b loss in 3QFY23.
- **Upsizing share repurchase plan by US\$25b; exiting non-core investment.** After upsizing the buyback, it has US\$35.3b remaining in the programme. In 2023, Alibaba repurchased a total of 897.9m ordinary shares at a value of US\$9.5b (Rmb68b), translating in a net 3.3% reduction of outstanding shares in 2023. Management stated that it has exited US\$1.7b of non-core assets in 9MFY24, and will continue to look to exit listed securities and non-core physical retail businesses on the company's balance sheet.

EARNINGS REVISION/RISK

- We lower our 4QFY24/FY25 revenue estimates by 1%/2% respectively, in view of the subdued e-commerce growth momentum. We also lower our FY25 non-GAAP net profit by 5% due to higher investment in 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 competition with Tencent in the merchants' acquisition channel.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of HK\$100.00 (US\$100.00)** that implies 9.5x FY25F PE, below its historical mean of 22x, against a 11% EPS CAGR from FY25-28. We believe market is now concerned about: a) the subdued e-commerce revenue growth given market share loss to content-based e-commerce, b) soft cloud revenue growth of 3% yoy, c) pressured margin given heavy investment. We adopt only 1x EV/Revenue on AliCloud in view of the lukewarm revenue growth. Alibaba is trading at 8.4x 12-month forward PE, 1.7SD 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	EV / EBITA	Value (HK\$,b)	% BABA holding	Value to BABA (HK\$,b)	per share (HK\$)
Core+initiatives									
Core commerce business		343	195	3x	5x	977	100%	977	46
Online marketing service	Taobao Tmall Commerce Group	245					100%		
Commission		97					100%		
International commerce	Global Digital Commerce Group	145		2x		290	100%	290	14
Cainiao	Cainiao Smart Logistics	124	5		20x	99	51%	50	2
Ele.me+ Amap	Local Services Group	74		1x		74	100%	74	4
Cloud Computing, other	Cloud Intelligence Group	120	6	1x	20x	120	100%	120	6
Youku Tudou	Digital Media and Entertainment Group	26		0.5x		13	100%	13	1
Other initiatives		267		0.5x		134	100%	134	6
Total Core+initiatives valuation								1,658	79
Total investees valuation						462		96	5
Net cash								354	17
Total								2,108	100

Source: UOB Kay Hian

12-MONTH FORWARD PE BAND



PROFIT & LOSS

Year to 31 Mar (Rmbm)	2023	2024F	2025F	2026F
Net turnover	869,599	942,596	1,015,828	1,100,018
EBITDA	142,786	170,549	210,923	229,622
Deprec. & amort.	41,523	44,227	40,076	36,342
EBIT	101,263	126,322	170,846	193,280
Total other non-operating income	5,823	3,194	0	0
Associate contributions	(8,063)	(3,659)	5,112	3,297
Net interest income/(expense)	(16,989)	(9,532)	(7,300)	(738)
Pre-tax profit	82,034	116,325	168,659	195,840
Tax	(15,549)	(25,417)	(39,844)	(43,445)
Minorities	7,210	7,714	6,943	8,331
Preferred dividends	(274)	(301)	(301)	0
Net profit	73,421	98,321	135,456	160,727
Net profit (adj.)	142,291	124,995	180,169	201,028

CASH FLOW

Year to 31 Mar (Rmbm)	2023	2024F	2025F	2026F
Operating	199,752	139,059	179,063	205,255
Pre-tax profit	82,034	116,325	168,659	195,840
Tax	(15,549)	(25,417)	(39,844)	(43,445)
Deprec. & amort.	41,523	44,227	40,076	36,342
Associates	(5,518)	549	(3,282)	(14,344)
Working capital changes	(54,676)	3,924	10,173	16,518
Non-cash items	0	0	0	0
Other operating cashflows	151,938	(549)	3,282	14,344
Investing	(135,506)	(84,614)	(87,367)	(90,170)
Capex (growth)	(30,373)	(28,210)	(25,322)	(21,921)
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)	130,098	143,276	171,823
Beginning cash & cash equivalent	189,898	192,055	322,153	465,429
Changes due to forex impact	3,530	0	0	0
Ending cash & cash equivalent	193,086	322,153	465,429	637,251

BALANCE SHEET

Year to 31 Mar (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	176,031	171,987	166,150	158,370
Other LT assets	879,047	923,479	976,606	1,038,214
Cash/ST investment	193,086	322,153	465,429	637,251
Other current assets	504,880	534,943	565,951	599,701
Total assets	1,753,044	1,952,561	2,174,136	2,433,536
ST debt	7,466	7,466	7,466	7,466
Other current liabilities	377,885	411,872	453,053	503,321
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	1,160,874	1,335,545	1,538,383
Minority interest	123,406	123,406	123,406	123,406
Total liabilities & equity	1,753,044	1,952,561	2,174,136	2,433,536

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	16.4	18.1	20.8	20.9
Pre-tax margin	9.4	12.3	16.6	17.8
Net margin	8.4	10.4	13.3	14.6
ROA	4.3	5.3	6.6	7.0
ROE	7.5	9.1	10.9	11.2
Growth				
Turnover	1.9	8.4	7.8	8.3
EBITDA	29.6	19.4	23.7	8.9
Pre-tax profit	11.0	41.8	45.0	16.1
Net profit	18.5	33.9	37.8	18.7
Net profit (adj.)	4.3	(12.2)	44.1	11.6
EPS	3.4	(11.4)	49.7	9.9
Leverage				
Debt to total capital	5.0	4.8	4.6	4.4
Debt to equity	6.0	5.6	5.3	5.0
Net debt/(cash) to equity	(13.4)	(22.2)	(29.6)	(36.4)
Interest cover (x)	8.4	17.9	28.9	311.3

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