

### COMPANY UPDATE

## Alibaba Group (9988 HK)

4QFY24 Preview: Solid CMR And AIDC Growth; Lacklustre Profitability

Alibaba saw solid consumption momentum in Jan-Feb 24 on its platform and slight moderation in March with its continuous focus on user needs. We expect revenue to grow 6% yoy for 4QFY24, fuelled by better CMR growth. For FY25, Alibaba will continue to focus on user experience and investment in AIDC to foster revenue growth amid a highly competitive environment. Maintain BUY with a lower target price of HK\$92.00 (US\$92.00).

### WHAT'S NEW

- **The encouraging CMR and GMV growth momentum in 4QFY24** was anchored by a solid Spring Festival performance. We expect customer management revenue (CMR) to sustain a 3% yoy growth in 4QFY24 (with advertising revenue growth at 3% yoy and commission revenue growth at 3% yoy), accelerating from flattish growth in 3QFY24. Alibaba guided Taobao-Tmall's GMV growth in 4QFY24 to outperform the NBS China retail growth of 6% yoy in Jan-Feb 24. Thus, we expect GMV growth to continue outpacing CMR growth in the March quarter with no sign of the CMR-GMV gap from the December quarter narrowing. The lower take rate is mainly hampered by a product mix shift emerging from its strategic investment to enrich its product mix, aiming to optimise user experience and stickiness. In 2024, Alibaba targets to narrow the gap between GMV growth with the e-commerce industry. We estimate group EBITA to hit Rmb28b in 4QFY24, with adjusted EBITA margin dropping 4ppt yoy to 13%, due to the incremental investment in user experience and AIDC.
- **Alibaba International Digital Commerce (AIDC).** We expect continuous strong AIDC revenue growth of 34% yoy, with retail growth of 46% yoy and wholesale growth of 7% yoy to Rmb25.3b in 4QFY24, primarily boosted by the solid performance of AE Choice and Trendyol. AIDC's EBITA loss is expected to expand to Rmb4b during 4QFY24 from Rmb3.1b in 3QFY24 given heightened investment to accelerate expansion progress (compared with Temu's EBIT loss of Rmb7.6b in 1Q24).
- **AliCloud revenue remains subdued, with impact from comprehensive price cut yet to unfold.** We estimate that cloud revenue will show subdued growth of 4%/2% yoy in 4QFY24/FY25 respectively (3QFY24: 3% yoy), mainly supported by solid growth in public cloud. Alicloud will continue to prioritise public cloud and scale back on project-based contracts for better margins. In 4QFY24, we reckon AliCloud's EBITA margin will remain stable at 5%, attributable to streamlined projects and increased revenue from public cloud. On 28 Feb 24, Alicloud announced price cuts on a wide range of internet-based products and services, averaging 20%. Overseas markets followed the price reduction in April, averaging 23%. AliCloud is well positioned to capture the influx of demand for incremental computing power emerging from the AIGC wave and expects the impact of price reduction on margin to continue in 4QFY24 but to ease in FY25.

### KEY FINANCIALS

Year to 31 Mar (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	853,062.0	869,599.0	939,717.1	1,012,568.5	1,089,606.9
EBITDA	110,207.0	142,786.0	159,342.2	202,404.1	219,163.2
Operating profit	69,638.0	101,263.0	115,129.2	162,352.1	182,874.7
Net profit (rep./act.)	61,959.0	73,421.0	87,341.5	122,180.5	147,278.9
Net profit (adj.)	136,388.0	142,291.0	113,906.6	166,793.3	187,268.4
EPS (Fen)	637.3	659.3	532.5	810.1	896.1
PE (x)	10.2	9.9	12.2	8.0	7.3
P/B (x)	1.5	1.4	1.2	1.1	0.9
EV/EBITDA (x)	10.9	8.4	7.5	5.9	5.5
Dividend yield (%)	0.0	0.0	1.3	1.3	1.3
Net margin (%)	7.3	8.4	9.3	12.1	13.5
Net debt/(cash) to equity (%)	(14.9)	(13.4)	(21.5)	(28.5)	(35.0)
Interest cover (x)	5.3	8.4	15.1	26.6	297.2
ROE (%)	6.5	7.5	8.1	9.9	10.5
Consensus net profit	-	-	157,854	159,236	175,894
UOBKH/Consensus (x)	-	-	0.72	1.05	1.06

Source: Alibaba Group, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$70.50
Target Price	HK\$92.00
Upside	+30.5%
(Previous TP)	HK\$100.00

### 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):	1,434,491.2
Market cap (US\$m):	183,171.7
3-mth avg daily t'over (US\$m):	454.4

### Price Performance (%)

52-week high/low HK\$99.30/HK\$65.45

1mth	3mth	1mth	3mth	1mth
(1.1)	1.1	(14.1)	(27.9)	(6.7)

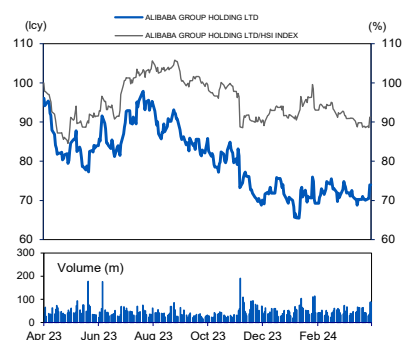
### Major Shareholders

	%
Ma Jack Yun	4.5
Vanguard Group	3.6
BlackRock Inc	2.7

FY25 NAV/Share (RMB) 61.77

FY25 Net Cash/Share (RMB) 17.76

### PRICE CHART



Source: Bloomberg

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### ESSENTIALS

- 4QFY24 outlook for DME and other segments.** We estimate the revenue of digital media & entertainment (DME) to inch up 1% yoy to Rmb5b in 4QFY24. Meanwhile, the local consumer service group is guided to deliver a solid revenue growth of 14% yoy given resilient order volume growth. The improvement in unit economics (UE) is attributed to lower subsidies and investment in map solutions sequentially. China's wholesale, international retail and international wholesale segments are expected to deliver faster growth of 15%/46%/7% yoy respectively in 4QFY24 vs 6%/41%/3% in 4QFY23.
- Alibaba scraps Hong Kong IPO plan for logistics unit Cainiao,** seeking to synergise its logistics arm and core commerce business. Alibaba owns 64% of Cainiao and plans to invest US\$3.75b to purchase the remaining 36.3% from minority shareholders of Cainiao Smart Logistics Network. Based on the acquisition, the total valuation of Cainiao is US\$10b, implying a discount from our estimate of US\$11b. We forecast Cainiao revenue to grow 21% yoy in 4QFY24, with EBITA loss of Rmb1b, due to one-off impact in bonus distribution for Cainiao employees. Alibaba decided to withdraw the Cainiao IPO plan over two reasons. Firstly, Cainiao is deeply integrated in its e-commerce operations. Alibaba is eyeing long-term expansion opportunities for Cainiao's logistics network to become a leading platform worldwide. Secondly, the financial information in the prospectus filed with the Hong Kong Stock Exchange has expired. In view of challenging IPO market conditions, Alibaba concluded that taking Cainiao public now does not align with the group's strategy.
- Shareholder returns.** Following the disposal of non-core assets, the majority of the proceeds will be utilised for shareholder returns and partially allocated to AIDC investment. Shares repurchased in 4QFY24 reached US\$4.8b, resulting in a 2.6% yoy reduction in total outstanding shares (vs promised commitment of 3% for the full year). With this, Alibaba has US\$30.5b (16.5% of market cap) remaining in the share repurchase programme. Meanwhile, the dividend payout ratio in 2024 is estimated at 13% or higher.

### 12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

### EARNINGS REVISION/RISK

- We keep our 4QFY24/FY25 revenue estimates largely unchanged. We forecast 6%/8% revenue growth and -26%/43% yoy net profit growth in 4QFY24/FY25. Our 4QFY24/FY25 net non-GAAP net margin forecasts are 9.6%/17% respectively vs 13% in FY24.
- Risks.** a) Intensified competition among e-commerce peers, and b) continued investment in new initiatives may drag on margins.

### VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$92.00 (US\$92.00).** Our target price implies 10.3x FY25F PE, against an 11% EPS CAGR from FY25-28. The EPS growth is mainly due to the continuous decline in the number of shares. The market currently values Alibaba on Alibaba Group basis PE, which includes the loss of other subsidiaries along with the high margin Taobao-Tmall group and ascribes no value to Alibaba's investment portfolio. Alibaba is trading at 8x 12-month forward PE, 1.7SD below its historical mean of 21.8x.

### SHARE PRICE CATALYST

- a) New retail segment to see profits and economies of scale, b) continued strong growth in the international business, c) potential listing of Ant Financial, and d) incoming spin-off events over the next 6-12 months.

### SOTP 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)	(HK\$) per share
<b>Core+initiatives</b>									
Core commerce business	Taobao Tmall Commerce Group	345	172	3	5	862	100	862	41
International commerce	Global Digital Commerce Group	145		2		289	100	289	14
Cainiao	Cainiao Smart Logistics	124	5		15	74	51	38	2
Ele.me+ Amap	Local Services Group	74		1		74	100	74	4
Cloud Computing, other	Cloud Intelligence Group	121	6	2	30	181	100	181	9
Youku Tudou	Digital Media and Entertainment Group	25		0.5		12	100	12	1
Other initiatives		289	14		6	87	100	87	4
<b>Total Core+initiatives valuation</b>								1,543	73
<b>Investees</b>									
Ant Financial	Internet finance					400	33%	132	6
<b>Total investees valuation</b>								461	5
<b>Net cash</b>								302	14
<b>Total</b>								1,942	92
<b># of shares</b>								21,069	

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (RMBm)	2023	2024F	2025F	2026F
Net turnover	869,599	939,717	1,012,568	1,089,607
EBITDA	142,786	159,342	202,404	219,163
Deprec. & amort.	41,523	44,213	40,052	36,288
EBIT	101,263	115,129	162,352	182,875
Total other non-operating income	5,823	3,194	0	0
Associate contributions	(8,063)	(5,159)	(1,104)	(1,676)
Net interest income/(expense)	(16,989)	(10,532)	(7,600)	(738)
Pre-tax profit	82,034	102,632	153,648	180,462
Tax	(15,549)	(22,704)	(38,110)	(41,514)
Minorities	7,210	7,714	6,943	8,331
Preferred dividends	(274)	(301)	(301)	0
Net profit	73,421	87,341	122,180	147,279
Net profit (adj.)	142,291	113,907	166,793	187,268

### CASH FLOW

Year to 31 Mar (RMBm)	2023	2024F	2025F	2026F
Operating	199,752	129,246	167,912	190,994
Pre-tax profit	82,034	102,632	153,648	180,462
Tax	(15,549)	(22,704)	(38,110)	(41,514)
Deprec. & amort.	41,523	44,213	40,052	36,288
Associates	(5,518)	549	(3,282)	(14,344)
Working capital changes	(54,676)	5,105	12,321	15,758
Non-cash items	0	0	0	0
Other operating cashflows	151,938	(549)	3,282	14,344
Investing	(135,506)	(84,528)	(87,286)	(89,962)
Capex (growth)	(30,373)	(28,123)	(25,241)	(21,713)
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)	120,372	132,205	157,769
Beginning cash & cash equivalent	189,898	192,055	312,427	444,632
Changes due to forex impact	3,530	0	0	0
Ending cash & cash equivalent	193,086	312,427	444,632	602,401

### BALANCE SHEET

Year to 31 Mar (RMBm)	2023	2024F	2025F	2026F
Fixed assets	176,031	171,914	166,020	158,086
Other LT assets	879,047	923,479	976,606	1,038,214
Cash/ST investment	193,086	312,427	444,632	602,401
Other current assets	504,880	534,473	565,419	598,001
<b>Total assets</b>	<b>1,753,044</b>	<b>1,942,292</b>	<b>2,152,677</b>	<b>2,396,702</b>
ST debt	7,466	7,466	7,466	7,466
Other current liabilities	377,885	412,583	455,850	504,190
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	1,149,894	1,311,290	1,500,680
Minority interest	123,406	123,406	123,406	123,406
<b>Total liabilities &amp; equity</b>	<b>1,753,044</b>	<b>1,942,292</b>	<b>2,152,677</b>	<b>2,396,702</b>

### KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	16.4	17.0	20.0	20.1
Pre-tax margin	9.4	10.9	15.2	16.6
Net margin	8.4	9.3	12.1	13.5
ROA	4.3	4.7	6.0	6.5
ROE	7.5	8.1	9.9	10.5
<b>Growth</b>				
Turnover	1.9	8.1	7.8	7.6
EBITDA	29.6	11.6	27.0	8.3
Pre-tax profit	11.0	25.1	49.7	17.5
Net profit	18.5	19.0	39.9	20.5
Net profit (adj.)	4.3	(19.9)	46.4	12.3
EPS	3.4	(19.2)	52.1	10.6
<b>Leverage</b>				
Debt to total capital	5.0	4.8	4.7	4.5
Debt to equity	6.0	5.6	5.4	5.1
Net debt/(cash) to equity	(13.4)	(21.5)	(28.5)	(35.0)
Interest cover (x)	8.4	15.1	26.6	297.2

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