

Alibaba Group

Focusing on regaining growth momentum and improving shareholder return

Reiterate Rating: BUY | PO: 102.00 USD | Price: 78.23 USD

Taobao Tmall Group GMV back to YoY growth

FY3Q24 results largely in-line with our est. and consensus, with only GAAP Op and Np missing the expectations due to RMB12b Sun Art impairment loss. Consolidated revs +5% YoY (or +8% YoY excl. offline retails), driven by 2% growth in Taobao Tmall Group (TTG). Customer management revenue (CMR) up 0.5% YoY, below growth of GMV (gross merchandise value) and orders, due to a mix shifting towards Taobao from Tmall, partially offset by improved Taobao take rate. Co.'s strategic priority of 2024 is to restore the growth momentum for TTG and Cloud, and also to support the sustained high growth of AIDC. Co. will continue to invest in the 3 key segments while continuing to optimize group efficiency and improve shareholder return through buybacks (commit 3% net reduction of shares every year in the next 3 years). We keep FY25-26e revs largely unchanged while lower non-GAAP Np by 7% to reflect the strong commitment in investments. Consequently, adjust PO to US\$102/HK\$100 (from US\$106/HK\$103). Retain Buy on attractive valuation at 8x/7x FY25/26E adj. EPADS, 4%+ committed yield (buyback+ dividend) and potential upside of improved consumer sentiment.

Largely in-line; GAAP Np affected by Sun Art impairment

Total revs were RMB260b (+5% YoY), in-line with consensus. TTG's revs +2% YoY with CMR stayed flattish. AIDC revs +44% YoY driven by strong momentum of AliExpress Choice (consignment model business) and Trendyol. Cloud/Local Services/Cainiao delivered revenue growth of 3%/13%/24% YoY. Adj. EBITA for TTG stayed largely stable YoY at c.46%, but loss in AIDC increased to RMB3.1bn (from loss of RMB0.6bn in F3Q23) largely due to investments in AE Choice. Profitability of other business segments has improved YoY. Consolidated adj. EBITA +2% YoY to RMB53b, implying a margin of 20.3%, vs. 21% one year ago. Net profit was RMB14.4b, missing consensus of RMB38.2b, primarily due to RMB12.1b impairment loss on Sun Art and change in value of equity investments. Adj. net profit was RMB48bn (-4% YoY) and adj. NPM was 18%, both in line with consensus. In addition, another US\$25b share repurchase program was approved. BABA's outstanding buyback program is US\$35b, available till Mar 2027.

Estimates (Mar) (CNY)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - mn)	54,986	72,783	97,598	121,976	137,725
EPS	20.19	27.58	38.24	49.33	57.49
EPS Change (YoY)	-63.2%	36.6%	38.7%	29.0%	16.6%
Dividend / Share	0	7.10	14.20	14.20	14.20
Free Cash Flow / Share	33.19	63.07	38.95	55.39	49.82
Common EPS (CNY)	2.52	3.45	4.78	6.17	7.19
Common Dividend / Share (CNY)	0	0.887	1.77	1.77	1.77
Valuation (Mar)					
P/E	24.58x	19.49x	14.72x	11.41x	9.79x
Dividend Yield	0%	1.32%	2.52%	2.52%	2.52%
EV / EBITDA*	10.46x	9.76x	9.72x	9.05x	8.10x
Free Cash Flow Yield*	6.25%	11.56%	6.89%	9.48%	8.26%

* For full definitions of *IQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 07 February 2024 05:49PM EST

08 February 2024

Equity

Key Changes

(CNY)	Previous	Current
Price Obj.	US\$106.00	US\$102.00
2024E EPS	47.99	38.24
2025E EPS	51.34	49.33
2026E EPS	58.97	57.49

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Stock Data

Price (ADR / Common)	78.23 USD / 74.90 HKD
Price Objective	102.00 USD / 100.00 HKD
Date Established	8-Feb-2024 / 8-Feb-2024
Investment Opinion	C-1-9 / B-1-9
52-Week Range	66.63 USD-109.81 USD
Market Value (mn)	198,972 USD
Shares Outstanding (mn)	2,543.4 / 20,347.4
Average Daily Value (mn)	1,771 USD
Free Float	26.0%
BofA Ticker / Exchange	BABA / NYS
BofA Ticker / Exchange	BABAF / HKG
Bloomberg / Reuters	BABA US / BABAN
ROE (2024E)	8.7%
Net Dbt to Eqty (Mar-2023A)	-2.8%

TTG: Taobao and Tmall Group

AIDC: Alibaba International Digital Commerce

DME: Digital Media and Entertainment Group

iQprofileSM Alibaba Group

Key Income Statement Data (Mar)

(CNY Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	853,062	868,687	937,843	1,007,685	1,103,892
Gross Profit	313,612	318,992	353,497	375,559	408,480
Sell General & Admin Expense	(151,721)	(145,679)	(151,216)	(177,648)	(190,201)
Operating Profit	69,638	100,351	116,993	125,608	141,229
Net Interest & Other Income	(10,088)	(11,166)	(6,452)	1,546	1,546
Associates	NA	NA	NA	NA	NA
Pretax Income	59,550	89,185	110,541	127,154	142,775
Tax (expense) / Benefit	(26,815)	(15,549)	(19,323)	(23,236)	(24,634)
Net Income (Adjusted)	54,986	72,783	97,598	121,976	137,725
Average Fully Diluted Shares Outstanding	2,723	2,639	2,552	2,473	2,395

Key Cash Flow Statement Data

Net Income	54,986	72,783	97,598	121,976	137,725
Depreciation & Amortization	73,951	53,596	37,514	40,307	44,156
Change in Working Capital	(18,150)	13,482	(12,867)	592	(21,192)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	31,972	59,891	23,233	33,291	34,784
Cash Flow from Operations	142,759	199,752	145,478	196,167	195,472
Capital Expenditure	(53,324)	(34,352)	(46,892)	(60,461)	(77,272)
(Acquisition) / Disposal of Investments	(144,812)	(101,438)	0	0	0
Other Cash Inflow / (Outflow)	(2,704)	1,315	0	0	0
Cash Flow from Investing	(200,840)	(134,475)	(46,892)	(60,461)	(77,272)
Shares Issue / (Repurchase)	(78,107)	(77,246)	(53,564)	(42,994)	(39,135)
Cost of Dividends Paid	NA	NA	NA	NA	NA
Cash Flow from Financing	(64,449)	(65,619)	(105,762)	(57,364)	(31,942)
Free Cash Flow	89,435	165,400	98,585	135,706	118,200
Net Debt	(48,554)	(31,732)	(24,556)	(102,898)	(189,155)
Change in Net Debt	133,663	8,154	7,176	(78,342)	(86,257)

Key Balance Sheet Data

Property, Plant & Equipment	171,806	176,031	185,409	205,563	238,680
Other Non-Current Assets	885,212	879,047	867,401	860,947	854,493
Trade Receivables	45,001	41,176	51,862	58,570	74,502
Cash & Equivalents	189,898	193,086	185,910	264,252	350,509
Other Current Assets	403,636	463,704	473,058	485,704	504,459
Total Assets	1,695,553	1,753,044	1,763,640	1,875,036	2,022,644
Long-Term Debt	132,503	149,088	149,088	149,088	149,088
Other Non-Current Liabilities	97,073	95,684	95,684	95,684	95,684
Short-Term Debt	8,841	12,266	12,266	12,266	12,266
Other Current Liabilities	374,943	373,085	380,258	400,204	413,699
Total Liabilities	613,360	630,123	637,296	657,242	670,737
Total Equity	1,082,193	1,122,921	1,126,345	1,217,794	1,351,907
Total Equity & Liabilities	1,695,553	1,753,044	1,763,640	1,875,036	2,022,644

iQmethodSM - Bus Performance*

Return On Capital Employed	4.2%	8.1%	7.1%	7.2%	7.6%
Return On Equity	5.1%	6.6%	8.7%	10.4%	10.7%
Operating Margin	8.2%	11.6%	12.5%	12.5%	12.8%
EBITDA Margin	16.8%	17.7%	16.5%	16.5%	16.8%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	2.6x	2.7x	1.5x	1.6x	1.4x
Asset Replacement Ratio	0.7x	0.6x	1.3x	1.5x	1.8x
Tax Rate (Reported)	45.0%	17.4%	17.5%	18.3%	17.3%
Net Debt-to-Equity Ratio	-4.5%	-2.8%	-2.2%	-8.4%	-14.0%
Interest Cover	1.3x	2.1x	8.8x	19.5x	21.9x

Key Metrics

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Internet/e-Commerce

Company Description

Alibaba Group runs leading online marketplaces (Taobao, TMall, Ele.Me) and B2B sties in China, and Lazada in SEA. It collects revenues mainly from commissions, marketing services, subscription fees, cloud computing and software, and logistics platform services. It also owns media and store chains, and partners with logistics and payment companies to offer delivery, warehousing, payment & financing services for its users and merchants. It has a stake and cooperation agreement with Ant Technology.

Investment Rationale

We expect Alibaba to remain the leading eCommerce and Cloud platforms. Its leadership position enables it to benefit from industry growth and economies of scale. Alibaba has industry-leading investment in R&D to facilitate cross-selling and targeting. Hence there should be room for customer management growth. It also runs industry leading B2B and cloud services, and has initiatives targeting large addressable markets such as overseas eCommerce, new retail, O2O and an affiliate, Ant Technology.

Stock Data

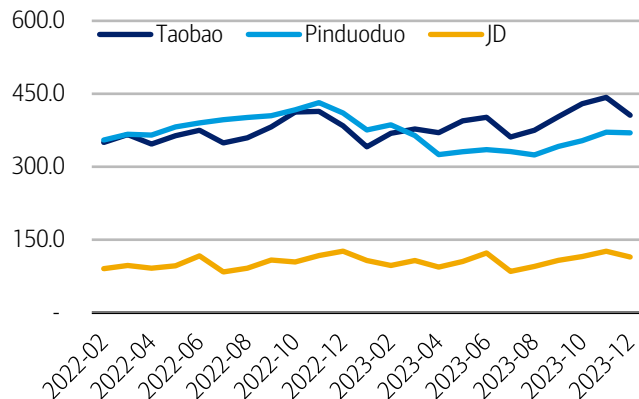
Shares / Common	0.13
Price to Book Value	1.3x

Key Changes

(CNY)	Previous	Current
Price Obj.	HK\$103.00	HK\$100.00
2024E EPS	6.00	4.78
2025E EPS	6.42	6.17
2026E EPS	7.37	7.19

Exhibit 1: Average DAU trends of eCommerce platforms

Taobao's DAU has been trending strong in Nov 2023

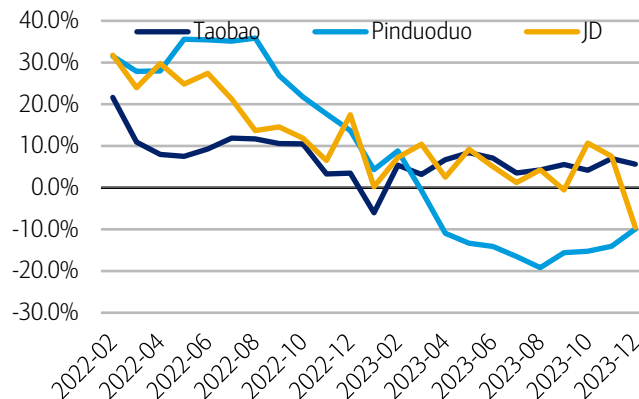


Source: Questmobile, BofA Global Research

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Exhibit 2: Average DAU YoY%

Taobao's DAU grew 7%/6% YoY in Nov/Dec 2023

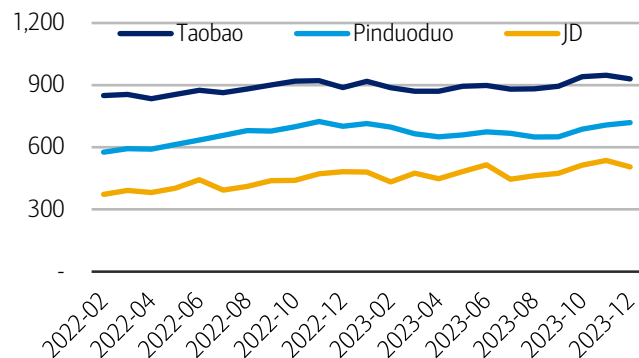


Source: Questmobile, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 3: MAU trends of eCommerce platforms

Taobao's MAU remains the largest among peers

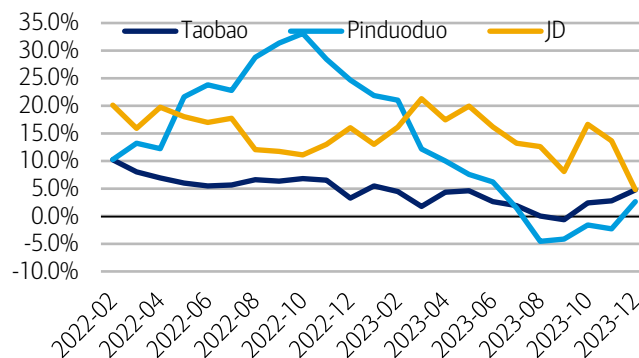


Source: Questmobile, BofA Global Research

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Exhibit 4: MAU YoY%

Taobao's MAU grew 4.8% YoY in Dec 2023



Source: Questmobile, BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Alibaba Group (BABA / BABAF)

We use a multi-year DCF to capture the long-term growth profile of the company's business portfolio, capex and investment. Our SOTP PO is US\$102 (HK\$100/HK share):

- 1) US\$79 from our DCF valuation of the Alibaba operations (already reflecting cash outflow for new initiatives, net cash & liquid assets of US\$21, discount rate of 9%),
- 2) US\$6 from its LT investments consisting of listed entities on market value and unlisted entities incl. equities and debt investments on value reported on balance sheet (US\$7),
- 3) US\$10 from Ali's stake in Ant Group, with an updated valuation of US\$78.5b in recently announced share buyback.

Downside risks: 1) macro consumption, 2) value-destructive investments, 3) costs from overseas expansion, 4) regulation regarding data, security, anti-trust, ANT, trade, VAT, listing, restriction by US and audit inspection by PCAOB, 4) reputational risks about regulation and quality, 5) data security reviews, 6) industry competition incl. from short video, 7) industry deceleration off a large base, 8) operation complexity, 9) overhang of stakes of pre-IPO strategic investors, 10) macro and state-level shocks like epidemics, econ system changes, sanctions or military conflicts. Upside risks: 1) higher than expected valuation of Ant, 2) private market valuation of its new initiatives

Analyst Certification

I, Joyce Ju, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Agora	API	API US	Daley Li, CFA
	AiHuiShou	RERE	RERE US	Joyce Ju
	Alibaba Group	BABA	BABA US	Joyce Ju
	Alibaba Group	BABAF	9988 HK	Joyce Ju
	Alibaba Health	ALBHF	241 HK	Miranda Zhuang, CFA
	Baidu.com	BIDU	BIDU US	Miranda Zhuang, CFA
	Baidu.com	BAIDF	9888 HK	Miranda Zhuang, CFA
	Bilibili	BILI	BILI US	Lei Zhang
	Bilibili	BLBLF	9626 HK	Lei Zhang
	CAR Group	CRSLF	CAR AU	Sriharsh Singh
	Chinasoft International	CFTLF	354 HK	Daley Li, CFA
	Cloud Music	XWJF	9899 HK	Lei Zhang
	Com2uS Corp	XOYAF	078340 KS	Jeehoon Jeong, CFA
	DBAPPSecurity	XDBAF	688023 CH	Daley Li, CFA
	Delhivery	XDVL	DELHIVER IN	Sachin Salgaonkar
	Dingdong	DDL	DDL US	Joyce Ju
	East Money	XEQTF	300059 CH	Michael Li
	Grab Holdings	GRAB	GRAB US	Sachin Salgaonkar
	Hello Group	MOMO	MOMO US	Lei Zhang
	Hundsun Technologies	XYTGF	600570 CH	Daley Li, CFA
	HYBE	XBGOF	352820 KS	Susie Lee
	iQIYI	IQ	IQ US	Lei Zhang
	JD Health	JDHIF	6618 HK	Miranda Zhuang, CFA
	JD.com	JD	JD US	Joyce Ju
	JD.com	JDCMF	9618 HK	Joyce Ju
	JYP Entertainment	ALNNF	035900 KS	Susie Lee
	Kingdee International Software	KGDEF	268 HK	Daley Li, CFA
	Kingsoft Corporation	KSFTF	3888 HK	Daley Li, CFA
	Kuaishou	KUASF	1024 HK	Lei Zhang

APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Makemytrip Limited	MMYT	MMYT US	Sachin Salgaonkar
	Meituan	MPNGF	3690 HK	Lei Zhang
	Naver Corporation	NHNCF	035420 KS	Susie Lee
	NetEase	NETTF	9999 HK	Lei Zhang
	NetEase, Inc	NTES	NTES US	Lei Zhang
	Nine Entertainment Company	NNMTF	NEC AU	Alice Lei, CFA
	Pinduoduo Inc.	PDD	PDD US	Joyce Ju
	Plan B Media PCL	XMKTf	PLANB TB	Thititthep Nophaket
	PT Bukalapak.com	BKLPF	BUKA IJ	Sachin Salgaonkar
	PVR-Inox Ltd	PVRLF	PVRINOX IN	Sachin Salgaonkar
	REA Group	RPGRF	REA AU	Sriharsh Singh
	Tencent Holdings	TCTZF	700 HK	Miranda Zhuang, CFA
	Tencent Music	TME	TME US	Lei Zhang
	Tencent Music	XWFWF	1698 HK	Lei Zhang
	Tongcheng Travel	TNGCF	780 HK	Janet Yang
	Trip.com Group	TCOM	TCOM US	Joyce Ju
	Trip.com Group	TRPCF	9961 HK	Joyce Ju
	TUHU Car	XTCRF	9690 HK	Miranda Zhuang, CFA
	Venustech	XVCGF	002439 CH	Daley Li, CFA
	Vipshop Holdings	VIPS	VIPS US	Joyce Ju
	Xero Limited	XROLF	XRO AU	Sriharsh Singh
	YG Entertainment	XYEIF	122870 KS	Susie Lee
	YY	YY	YY US	Lei Zhang
	Zomato Limited	XMWRF	ZOMATO IN	Sachin Salgaonkar
NEUTRAL				
	AfreecaTV	WNTHF	067160 KS	Susie Lee
	Autohome	ATHM	ATHM US	Miranda Zhuang, CFA
	Autohome	XXYZF	2518 HK	Miranda Zhuang, CFA
	Baozun	BZUN	BZUN US	Joyce Ju
	Coupang	CPNG	CPNG US	Susie Lee
	Glodon Company	XGCOF	002410 CH	Daley Li, CFA
	GoTo Group	GTOFF	GOTO IJ	Sachin Salgaonkar
	Huya	HUYA	HUYA US	Lei Zhang
	Kakao Corp.	DAUCF	035720 KS	Susie Lee
	KE Holdings	BEKE	BEKE US	Miranda Zhuang, CFA
	KE Holdings	XSQRF	2423 HK	Miranda Zhuang, CFA
	Kingsoft Cloud	KC	KC US	Daley Li, CFA
	Kingsoft Cloud	KCLHF	3896 HK	Daley Li, CFA
	Krafton	XKINF	259960 KS	Susie Lee
	NCSOFT	NCSCF	036570 KS	Susie Lee
	Nykaa	XQQGF	NYKAA IN	Sachin Salgaonkar
	PB Fintech	XPFXF	POLICYBZ IN	Sachin Salgaonkar
	PropertyGuru	PGRU	PGRU US	Sachin Salgaonkar
	Sea Limited	SE	SE US	Sachin Salgaonkar
	Seek Limited	SKLTF	SEK AU	Sriharsh Singh
	Seven West Media	WANHF	SWM AU	Alice Lei, CFA
	The ONE Enterprise	XUFCF	ONEE TB	Thititthep Nophaket
	VGI Public Company Limited	XZQHF	VGI TB	Thititthep Nophaket
	Weimob	WEMXF	2013 HK	Daley Li, CFA
	WiseTech Global Limited	WTCF	WTC AU	Ware Kuo
	XD Inc.	XDNCF	2400 HK	Lei Zhang
	Yonyou Network	XYNIF	600588 CH	Daley Li, CFA
UNDERPERFORM				
	Altium Limited	ALMFF	ALU AU	Ware Kuo
	Appen Ltd	APPEF	APX AU	Ware Kuo
	BEC World	XBJHF	BEC TB	Thititthep Nophaket
	CJ ENM	CHOF	035760 KS	Susie Lee
	Douyu	DOYU	DOYU US	Lei Zhang
	Indiamart InterMesh Limited	XEITF	INMART IN	Sachin Salgaonkar
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar
	Kakao Games	XKKGF	293490 KS	Susie Lee
	Kingsoft Office	XBKOF	688111 CH	Daley Li, CFA
	Ming Yuan Cloud	XWTAF	909 HK	Daley Li, CFA
	NavInfo	XWLHF	002405 CH	Daley Li, CFA



APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Netmarble	XLGHF	251270 KS	Susie Lee
	PearlAbyss Corp	XEPAF	263750 KS	Susie Lee
	Ping An Healthcare and Technology	PANHF	1833 HK	Miranda Zhuang, CFA
	Qi An Xin	XQTDF	688561 CH	Daley Li, CFA
	Technology One Limited	THNOF	TNE AU	Ware Kuo
	ThunderSoft	XSTS F	300496 CH	Daley Li, CFA
	Weibo Corporation	WB	WB US	Miranda Zhuang, CFA
	Weibo Corporation	WEIBF	9898 HK	Miranda Zhuang, CFA
	Zee Entertainment Enterprises	XZETF	Z IN	Sachin Salgaonkar
	Zip Co Limited	ZIZTF	ZIP AU	Ware Kuo
RVW				
	Dada Nexus	DADA	DADA US	Lei Zhang
	Paytm	XUXBF	PAYTM IN	Sachin Salgaonkar

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
 $\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

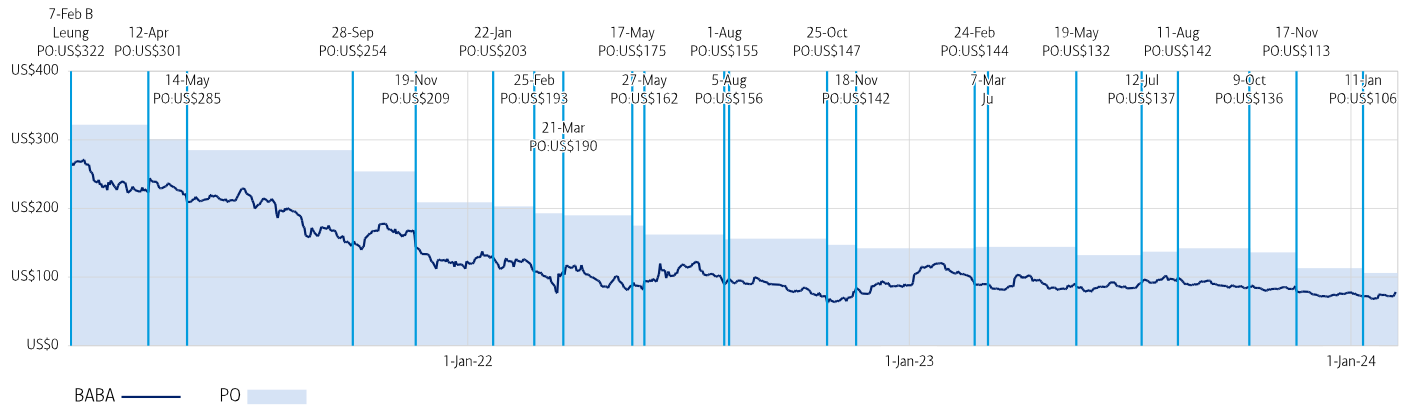
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Disclosures

Important Disclosures

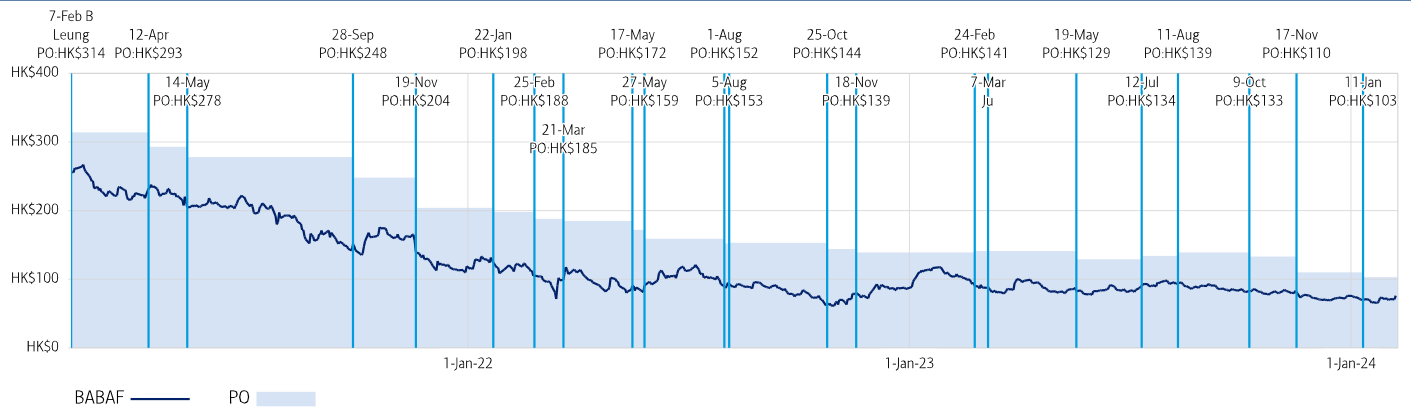
Alibaba (BABA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Alibaba (BABA) Price Chart



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The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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