

Alibaba Group Holding Limited (9988 HK & BABA US)

Thoughts on senior management reshuffle

What happened: According to local media ([link](#)), Alibaba group CEO Eddie Wu will replace Trudy Dai and become CEO of Taobao and Tmall group, effective immediately. Post this appointment, Mr. Wu will become the CEO of Alibaba group, as well as cloud and Taobao and Tmall group. Meanwhile, Ms. Dai will assist the capital management committee to establish a new asset management company to improve shareholder value and increase ROIC.

JPM view:

- **New changes to take place at Taobao and Tmall group.** We believe that Mr. Wu has finished reviewing business strategy and performance of Taobao Tmall group since he took the Alibaba group CEO role in September 2024. Taobao and Tmall group's CEO role change indicates Taobao Tmall group's performance doesn't live up to Mr. Wu's expectation, in our view. The CEO role change will lead to new changes in operation and personnel of Taobao Tmall group, which introduces risks on both sides to near-term financial performance, in our view. On the other hand, we expect Taobao Tmall group's key strategy will largely remain as Mr. Wu has been chairman of the group and therefore a key decision maker since May 2023.
- **A potential acceleration of ROIC and shareholder value improvement.** We believe the establishment of the asset management company indicates a potential acceleration of non-core asset monetization or disposal. Given Alibaba's core focal areas (i.e. technology driven internet platform operation, AI driven technology operation and global commerce network), we believe the offline retail assets it owns (i.e. Sun Art, Intime, Suning.com, Red Star Macalline, Lianhua Supermarket, etc.) are likely to be monetized or disposed. The market value of Alibaba's stake in these offline retail assets adds up to US\$2b as of Dec 20, 2023. We expect the following financial impact from such monetization: 1) increase ROIC at the expense of lower future revenue; 2) increase margins; 3) unlikely to be significantly profit accretive; and, 4) recoup cash. With more cash, we think Alibaba is likely to boost capital return to shareholders (i.e. buyback and dividend).
- **Likely a non-event to near-term share price.** While frequent management turnover is certainly not welcomed by the investor community, trading at 7.5x 2024E PE against 18% adj EPS CAGR during 24-26E based on Bloomberg consensus, there is hardly any optimism in the share price, in our view.

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J.P. Morgan Securities (China) Company Limited

9988.HK, 9988 HK

Overweight

Price: HK\$72.55

20 Dec 2023

Price Target: HK\$120.00

PT End Date: 30 Jun 2024

BABA, BABA US

Overweight

Price: \$75.39

19 Dec 2023

Price Target: \$125.00

PT End Date: 30 Jun 2024

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Alibaba Group Holding Limited (Overweight; Price Target: HK\$120.00)

Investment Thesis

Post the 3Q23 result, we think the outlook for domestic ecommerce growth has weakened and the number of value-unlocking capital market activities has decreased. We believe these negative developments will be priced in soon after the results announcement. On the other hand, 3Q23 results reveal the following positive developments that make us remain positive on Alibaba's share price outlook on a 12-month view: 1) better-than-expected margins in the past few quarters indicate increasing mgmt focus on ROI, which bodes well for better-than-feared impact from investment activities, and 2) a sharp acceleration in international retail ecommerce revenue growth indicates AliExpress Choice is a highly efficient business model and is likely to become a new growth driver for international commerce. Maintain OW.

Valuation

Our Jun-24 PT of HK\$120 is based on 13x CY24E P/E, given weaker domestic ecommerce growth and fewer value-adding capital market activities. We believe this is a fair target multiple given our forecast CY23-25E adjusted EPS CAGR of 13%.

Risks to Rating and Price Target

Key downside risks include: 1) large Chinese internet companies such as Tencent and Baidu posing a threat to Alibaba's Local Services business; 2) investments in digital content being a long-lasting effort and bringing margin pressure over the long term; and 3) the progress of mobile monetization improvement likely being slower than expected, along with the sustainability of China's retail marketplace GMV and revenue growth in the longer run.

Alibaba Group Holding Limited (Overweight; Price Target: \$125.00)

Investment Thesis

Post the 3Q23 result, we think the outlook for domestic ecommerce growth has weakened and the number of value-unlocking capital market activities has decreased. We believe these negative developments will be priced in soon after the results announcement. On the other hand, 3Q23 results reveal the following positive developments that make us remain positive on Alibaba's share price outlook on a 12-month view: 1) better-than-expected margins in the past few quarters indicate increasing mgmt focus on ROI, which bodes well for better-than-feared impact from investment activities, and 2) a sharp acceleration in international retail ecommerce revenue growth indicates AliExpress Choice is a highly efficient business model and is likely to become a new growth driver for international commerce. Maintain OW.

Valuation

Our Jun-24 PT of US\$125 is based on 13x CY24E P/E, given weaker domestic ecommerce growth and fewer value-adding capital market activities. We believe this is a fair target multiple, given our forecast CY23-25E adjusted EPS CAGR of 13%.

Risks to Rating and Price Target

Key downside risks include: 1) large Chinese internet companies such as Tencent and Baidu posing a threat to Alibaba's Local Services business; 2) investments in digital content being a long-lasting effort and bringing margin pressure over the long term; and 3) the progress of mobile monetization improvement likely being slower than expected, along with the sustainability of China's retail marketplace GMV and revenue growth in the longer run.

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Alibaba Group Holding Limited (9988.HK, 9988 HK) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage May 11, 2021. All share prices are as of market close on the previous business day.

Alibaba Group Holding Limited (BABA) (BABA, BABA US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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