BABA IR meeting notes

Margin trajectory:, when will investors see impact? Should we expect to yoy margin growth near term?

* Transforming from a pure e-comm company to a multi-channel, multi- service company, margin profiles different across different segments. Business mix will be a headwind for margin (given faster growing segments such as direct sales, tend to have lower margins).
* The major focuses and priorities for cost optimization in the coming fiscal year. Alibaba expects gradual loss reduction in Taocaicai (TCC), Taobao Deals (TD), and Digital Media and Entertainment (DME) segments. TD plans to shift focus from user acquisitions to increased purchase frequency, while TCC aims to boost regional order density with cost discipline.
* Margin will **NOT** go up near term given growth in 1P (direct sales growth), and continuing investment in Local consumer services
* No margin targets, but set profit targets for business unit managers

GMV/CMR Growth trend?

* GMV and CMR growth could diverge qtq, but longer term, they trend in the same direction
* Mkt is getting more competitive. Segmenting the market to cater to different audience (e.g., TaoBao Deal for more cost sensitive consumers); increasing customer engagement (live streaming) , strengthen post sales customer services
* Market share: online offline business more integrated, focus on overall market share in overall China retail segment

Ali – Cloud

* Growth slowing down? Have high internet business (online education, online entertainment) exposure, which slowed down significantly last year. Some budget cut and project delay due to macro
* Expect to fast growth in financial service and telecom verticals

What to do with the stock?

BABA’s earnings power has been severely damaged in the past few years due to China macro, market regulation, competition and then covid. The stock has been de-rated significantly, driven by sharp slowdown in earnings growth. See the chart below of EBTDA revision (red), and EV/EBITDA (red).



EV/EBITDA NTM (Blue); EBITDA revision (Red)

It seems some bottom fishing opportunity starts to emerge: China covid lock down easing, potential 2h government stimulus, easing of market regulation, company’s commitment to optimize cost, and finally cheap valuation.

For the stock to sustain its outperformance, we do need to see growth re-acceleration and margin recovery