招银国际
CMB INTERNATIONAL
招商银行全资附属机构
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Alibaba (BABA US)

Offering of exchangeable bonds to support international business development

Alibaba Group (Alibaba) announced the proposed offering of exchangeable bonds by reference to the ordinary share of Alibaba Health (Ali Health) on 3 Jul. Alibaba proposed to offer HK$12bn aggregated principal amount of zero coupon bonds due 2032, and intends to use the net proceeds for general corporate purposes, including investment to support the development of cloud infrastructure and international commerce business. Alibaba can elect to satisfy its exchange obligation to holders of the bonds by delivering AH shares, cash, or a combination of cash and AH shares of Ali Health. Alibaba currently holds c. 64% of the equity interest of Ali Health, and the initial exchange property referenced by the bond will represent up to c.12% of the total shares of Ali Health assuming the bonds are exchanged in full for AH shares. Ali Health will remain a consolidated subsidiary of Alibaba upon bond issuance and following any future exchange of the bonds into AH shares. We expect the issuance of bonds to help Alibaba enhance overseas capital for international expansion in the near term, and to help Ali Health increase free float upon future exchange. Maintain BUY on Alibaba with an unchanged SOTP-based TP of US$155.5.

- **Pricing details of the bonds.** The initial exchange ratio of the bonds will be c.160,513.6 AH shares per HK$1mn principal amount of bonds, which is equivalent to an initial exchange price of HK$6.23 per AH share of Ali Health. This represents a premium of 48% over the market close price per share of Ali Health on 3 July. Bondholders may exchange all or any portion of the bonds at their option at any time on or after the 41st day following the issue date of the bonds, and including, the close of business on the fifth scheduled trading day immediately preceding the maturity date of the bonds.
- **Issuance of the bonds should enhance capital for international expansion.** International expansion is one of Alibaba's important long-term development strategies, and we believe the issuance of the exchangeable bonds should help facilitate sufficient offshore funds to support overseas business development of both cloud and digital commerce business of Alibaba. As of 31 Mar 2025, Alibaba's cash and cash equivalent, short-term investment, and other treasury investment totalled RMB597.1bn, and we are anticipating an adjusted EBITA loss of RMB3.5bn for Alibaba International Digital Commerce Group in FY26E (March year-end). We expect Ali Health to remain a flagship healthcare platform and a consolidated subsidiary of Alibaba upon bond issuance and following any future exchange of the bonds into AH shares, and will continue to collaborate closely with Alibaba ecosystem to drive "AI + Healthcare" industry transformation.

Earnings Summary

(YE 31 Mar)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	941,168	996,347	1,041,023	1,118,003	1,183,412
YoY growth (%)	8.3	5.9	4.5	7.4	5.9
Net profit (RMB mn)	79,741.0	129,470.0	146,001.0	165,295.6	185,593.8
Adjusted net profit (RMB mn)	158,359.0	157,940.0	166,821.5	186,537.6	206,895.2
YoY growth (%)	10.0	(0.3)	5.6	11.8	10.9
EPS (Adjusted) (RMB)	62.77	67.24	73.22	84.40	93.62
P/E (x)	25.1	14.4	12.4	10.6	9.4
ROE (%)	8.0	12.8	11.9	10.8	10.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$155.50**
Up/Downside	**40.5%**
Current Price	**US$110.71**

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Stock Data

Mkt Cap (US$ mn)	259,316.9
Avg 3 mths t/o (US$ mn)	797.7
52w High/Low (US$)	147.57/73.50
Total Issued Shares (mn)	2342.3

Source: FactSet

Shareholding Structure

Blackrock	5.0%
Softbank	4.9%

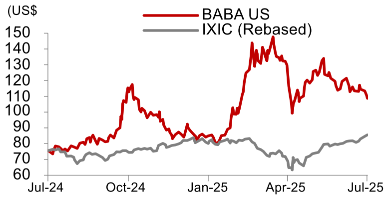
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.7%	-8.4%
3-mth	-14.4%	-30.5%
6-mth	29.4%	24.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Revenue	**868,687**	**941,168**	**996,347**	**1,041,023**	**1,118,003**	**1,183,412**
Cost of goods sold	(549,695)	(586,323)	(598,285)	(619,409)	(661,858)	(700,580)
Gross profit	**318,992**	**354,845**	**398,062**	**421,614**	**456,145**	**482,832**
Operating expenses	**(218,641)**	**(241,495)**	**(257,157)**	**(246,057)**	**(253,072)**	**(248,943)**
SG&A expense	(145,679)	(157,126)	(188,260)	(182,179)	(186,706)	(181,062)
R&D expense	(56,744)	(52,256)	(57,151)	(57,632)	(59,657)	(60,781)
Others	(16,218)	(32,113)	(11,746)	(6,246)	(6,708)	(7,100)
Operating profit	**100,351**	**113,350**	**140,905**	**175,558**	**203,073**	**233,889**
Interest income	(11,071)	(9,964)	20,759	4,164	4,248	4,260
Interest expense	(5,918)	(7,947)	(9,596)	(10,026)	(10,209)	(10,806)
Other income/expense	5,823	6,157	3,387	5,726	5,590	5,680
Pre-tax profit	**89,185**	**101,596**	**155,455**	**175,421**	**202,703**	**233,024**
Income tax	(15,549)	(22,529)	(35,445)	(38,943)	(47,635)	(58,256)
Others	(8,063)	(7,735)	5,966	5,205	5,590	5,917
After tax profit	**65,573**	**71,332**	**125,976**	**141,683**	**160,658**	**180,685**
Minority interest	7,210	8,677	4,133	4,318	4,638	4,909
Others	(274)	(268)	(639)	0	0	0
Net profit	**72,509**	**79,741**	**129,470**	**146,001**	**165,296**	**185,594**
Adjusted net profit	**143,991**	**158,359**	**157,940**	**166,821**	**186,538**	**206,895**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Current assets	**697,966**	**752,864**	**674,049**	**889,672**	**976,467**	**1,078,815**
Cash & equivalents	193,086	248,125	145,487	407,132	483,498	577,283
Restricted cash	36,424	38,299	43,781	43,781	43,781	43,781
Prepayment	137,072	143,536	202,175	156,154	166,582	175,145
Financial assets at FVTPL	331,384	322,904	282,606	282,606	282,606	282,606
Non-current assets	**1,055,078**	**1,011,965**	**1,130,178**	**1,351,179**	**1,480,466**	**1,610,425**
PP&E	176,031	185,161	203,348	432,754	547,184	662,893
Investment in JVs & assos	207,380	203,131	210,169	222,412	235,040	247,995
Intangibles	46,913	26,950	20,911	23,314	23,314	23,314
Goodwill	268,091	259,679	255,501	255,501	255,501	255,501
Financial assets at FVTPL	245,737	220,942	356,818	356,818	356,818	356,818
Other non-current assets	110,926	116,102	83,431	60,379	62,608	63,904
Total assets	**1,753,044**	**1,764,829**	**1,804,227**	**2,240,851**	**2,456,933**	**2,689,241**
Current liabilities	**385,351**	**421,507**	**435,346**	**412,605**	**445,941**	**476,472**
Short-term borrowings	7,466	12,749	22,562	23,359	24,959	26,420
Tax payable	12,543	9,068	11,638	31,934	37,632	44,274
Other current liabilities	89,392	101,807	68,609	71,031	75,899	80,340
Accrued expenses	275,950	297,883	332,537	286,281	307,451	325,438
Non-current liabilities	**244,772**	**230,723**	**278,775**	**282,534**	**290,088**	**296,979**
Long-term borrowings	52,023	55,686	49,909	49,909	49,909	49,909
Deferred income	3,560	4,069	4,536	4,696	5,018	5,312
Other non-current liabilities	189,189	170,968	224,330	227,929	235,161	241,758
Total liabilities	**630,123**	**652,230**	**714,121**	**695,139**	**736,029**	**773,451**
Share capital	1	1	1	1	1	1
Capital surplus	416,880	397,999	381,379	481,775	496,309	510,510
Retained earnings	599,028	597,897	645,478	955,147	1,120,443	1,306,036
Other reserves	(16,394)	1,375	(5,287)	2,511	2,511	2,511
Total shareholders equity	**999,515**	**997,272**	**1,021,571**	**1,439,434**	**1,619,264**	**1,819,058**
Minority interest	123,406	115,327	68,535	106,278	101,640	96,731
Total equity and liabilities	**1,753,044**	**1,764,829**	**1,804,227**	**2,240,851**	**2,456,933**	**2,689,241**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	**89,185**	**101,596**	**155,455**	**175,421**	**202,703**	**233,024**
Depreciation & amortization	46,938	44,504	14,886	14,796	15,258	15,650
Tax paid	(15,549)	(22,529)	(35,445)	(38,943)	(47,635)	(58,256)
Change in working capital	13,482	(13,749)	(68,323)	105,948	22,837	22,642
Others	65,696	72,771	96,936	16,463	18,328	17,662
Net cash from operations	**199,752**	**182,593**	**163,509**	**273,684**	**211,491**	**230,722**
Investing						
Capital expenditure	(34,330)	(32,087)	(92,660)	(119,718)	(122,980)	(124,258)
Acquisition of subsidiaries/ investments	(22)	(842)	4,178	(6,000)	(6,708)	(7,100)
Net proceeds from disposal of short-term investments	(61,086)	71,426	(34,129)	0	0	0
Others	(40,068)	(60,321)	(62,804)	(7,038)	(7,038)	(7,038)
Net cash from investing	**(135,506)**	**(21,824)**	**(185,415)**	**(132,756)**	**(136,726)**	**(138,396)**
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	11	843	0	0	0	0
Share repurchases	(74,746)	(88,745)	0	0	0	0
Others	9,116	(20,342)	(76)	797	1,601	1,460
Net cash from financing	**(65,619)**	**(108,244)**	**(76)**	**797**	**1,601**	**1,460**
Net change in cash						
Cash at the beginning of the year	227,353	229,510	286,424	265,407	407,132	483,498
Exchange difference	3,530	4,389	965	0	0	0
Cash at the end of the year	**229,510**	**286,424**	**265,407**	**407,132**	**483,498**	**577,283**
GROWTH	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Mar						
Revenue	1.8%	8.3%	5.9%	4.5%	7.4%	5.9%
Gross profit	1.7%	11.2%	12.2%	5.9%	8.2%	5.9%
Operating profit	44.1%	13.0%	24.3%	24.6%	15.7%	15.2%
Net profit	17.0%	10.0%	62.4%	12.8%	13.2%	12.3%
Adj. net profit	0.3%	10.0%	(0.3%)	5.6%	11.8%	10.9%
PROFITABILITY	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Mar						
Gross profit margin	36.7%	37.7%	40.0%	40.5%	40.8%	40.8%
Operating margin	11.6%	12.0%	14.1%	16.9%	18.2%	19.8%
Adj. net profit margin	16.6%	16.8%	15.9%	16.0%	16.7%	17.5%
Return on equity (ROE)	7.4%	8.0%	12.8%	11.9%	10.8%	10.8%
GEARING/LIQUIDITY/ACTIVITIES	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Mar						
Net debt to equity (x)	(0.4)	(0.4)	(0.2)	(0.3)	(0.3)	(0.4)
Current ratio (x)	1.8	1.8	1.5	2.2	2.2	2.3
VALUATION	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Mar						
P/E	28.7	25.1	14.4	12.4	10.6	9.4
P/E (diluted)	28.9	25.3	14.8	12.7	10.9	9.7
P/B	2.1	2.0	1.9	1.3	1.1	1.0
P/CFPS	12.6	13.4	27.0	12.1	20.4	16.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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