

# Alibaba (BABA US)

## Quick commerce investment peaked out; accelerating AI adoption

For 2QFY26E (March year-end), we expect Alibaba Group Holding (Alibaba) to deliver revenue growth of 2% YoY, broadly inline with Bloomberg consensus, with customer management revenue (CMR) and Cloud Intelligence Group (CIG) revenue growth standing at 10% and 30%, respectively. Although we have baked in the RMB37.4bn impact on adjusted EBITA from investment in quick commerce (QC) business, we believe the investment should have peaked out in 2QFY26 and its impact on earnings will start to fade in 3QFY26E as QC is on track to halve unit economics loss by end-Oct 2025. We fine-tune our target price to US\$209.4 (was US\$210.3) to reflect adjustments in earnings forecast. Alibaba remains one of the key beneficiaries under the AI theme, in our view, and both its capex investment and investment to accelerate AI adoption internally and externally should propel revenue and earnings growth over the long run. Maintain BUY.

- **2QFY26 preview.** We estimate Alibaba achieved 2QFY26 revenue of RMB241.2bn, up 2% YoY, broadly inline with Bloomberg consensus, and adjusted EBITA of RMB6.1bn, down 85% YoY due to the investment in QC, and investment to accelerate AI adoption in various AI-native and AI-empowered apps such as Quark and Amap. We are looking for non-GAAP net profit of RMB11.2bn for 2QFY26, down 69% YoY.
- **Quick commerce investment likely peaked out.** For Alibaba China E-commerce Group (ACEG) segment, we are estimating 10% YoY growth in revenue, and adjusted EBITA of RMB8.7bn, within which we have baked in an RMB37.4bn drag from investment in QC. Within ACEG, we are looking for 10% YoY growth for CMR, backed by 8% YoY increase in GMV and increase in take rate driven by a rise in penetration of Quanzhantui.
- **Cloud revenue growth could further accelerate.** We are looking for 30% YoY revenue growth for CIG in 2QFY26 (1QFY26: 26%), aided by both the increased adoption of AI-related products and digitalization demand. In addition, we estimate adjusted EBITA of RMB3.4bn for CIG, translating into 8.8% adjusted EBITA margin (2QFY25: 9.0%). Although capex investment may see some fluctuations between quarters, the three-year capex plan of RMB380bn is well on track, in our view, and our forecast of 30% revenue CAGR for CIG over FY25-28E remains unchanged.
- **Accelerating AI adoption across businesses.** Alibaba is escalating its investment in AI-native apps and AI-empowered apps, such as Amap and DingTalk, which will likely drag near-term earnings growth but should benefit long-term revenue and earnings growth, in our view. We estimate adjusted EBITA loss generated from All Others segment to reach RMB5.0bn in 2QFY26, widening from RMB1.4bn in 1QFY26.

### Earnings Summary

(YE 31 Mar)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	941,168	996,347	1,026,003	1,139,610	1,257,614
YoY growth (%)	8.3	5.9	3.0	11.1	10.4
Net profit (RMB mn)	79,741.0	129,470.0	103,346.6	128,220.0	167,928.7
Adjusted net profit (RMB mn)	158,359.0	158,095.0	107,915.6	146,453.7	186,792.9
YoY growth (%)	10.0	(0.2)	(31.7)	35.7	27.5
EPS (Adjusted) (RMB)	62.77	67.31	47.36	66.27	84.52
Consensus EPS (RMB)	na	65.41	50.22	71.19	85.63
P/E (x)	39.2	22.5	27.3	21.3	16.3

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** US\$209.40  
 (Previous TP) US\$210.30  
**Up/Downside** 20.6%  
**Current Price** US\$173.68

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### Stock Data

Mkt Cap (US\$ mn)	406,812.0
Avg 3 mths t/o (US\$ mn)	746.2
52w High/Low (US\$)	189.34/80.53
Total Issued Shares (mn)	2342.3

Source: FactSet

### Shareholding Structure

JPMorgan	2.3%
Parufam Limited	0.8%

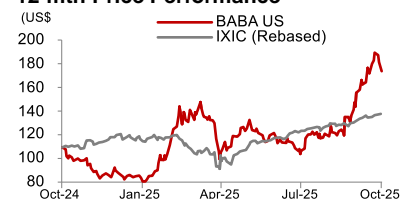
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	20.7%	14.7%
3-mth	62.9%	45.9%
6-mth	66.7%	18.7%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Revision of forecast and valuation

We nudge up FY26-28E revenue forecast by 0.4-0.8% to factor in slightly better assumption in revenue forecast for All Others segment, while we cut FY26-28E non-GAAP net profit forecast by 5-15% to account for likely wider-than-previously expected investment in QC business, as well as escalated investment to support business development of AI-native apps and AI-empowered apps.

**Figure 1: Alibaba: forecast revision**

RMB bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	1,026.0	1,139.6	1,257.6	1,021.5	1,132.7	1,247.8	0.4%	0.6%	0.8%
Gross profit	461.7	512.8	565.9	459.7	509.7	561.5	0.4%	0.6%	0.8%
Non-GAAP net profit	107.9	146.5	186.8	127.6	167.2	195.6	-15.4%	-12.4%	-4.5%
Gross margin	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	0.0 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	10.5%	12.9%	14.9%	12.5%	14.8%	15.7%	-2.0 ppt	-1.9 ppt	-0.8 ppt

Source: CMBIGM estimates

**Figure 2: Alibaba: CMBI forecast vs Bloomberg consensus**

RMB bn	CMBI			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	1,026.0	1,139.6	1,257.6	1040.0	1152.7	1263.4	-1.3%	-1.1%	-0.5%
Gross profit	461.7	512.8	565.9	439.3	489.0	539.0	5.1%	4.9%	5.0%
Non-GAAP net profit	107.9	146.5	186.8	122.9	163.8	195.1	-12.2%	-10.6%	-4.3%
Gross margin	45.0%	45.0%	45.0%	42.2%	42.4%	42.7%	2.8 ppt	2.6 ppt	2.3 ppt
Non-GAAP net margin	10.5%	12.9%	14.9%	11.8%	14.2%	15.4%	-1.3 ppt	-1.4 ppt	-0.6 ppt

Source: Bloomberg, CMBIGM estimates

## Valuation: target price of US\$209.4 per ADS

Our SOTP valuation is lifted to US\$209.4 per ADS, which comprises:

- 1) US\$88.5 for ACEG, based on a 12.0x FY28E EV/adj. EBITA and discounted back to FY26 at WACC of 11.0% (was US\$89.7 based on 12.0x FY28E EV/adj. EBITA); the tweak in valuation is mainly driven by adjustment in segment earnings forecast;
- 2) US\$13.9 for AIDC (was US\$14.0), based on an unchanged 1.5x EV/revenue multiple on FY26E revenue forecast;
- 3) US\$81.0 for the Cloud Intelligence Group (unchanged), based on an unchanged 7.5x EV/revenue multiple on FY27E revenue and discounted back to FY26E at WACC of 11.0%;
- 4) US\$14.9 for All Others (was US\$14.6), based on an unchanged 1.0x FY26E EV/revenue multiple;
- 5) US\$11.1 per ADS (unchanged) for strategic investments with a 30% holding discount.

Our new SOTP-based target price translates into 23.4/18.3x FY27/28E PE (non-GAAP).

Figure 3: Alibaba: SOTP valuation

#	Segment (USDmn)	Valuation method	Rev (USDmn)	Adj. EBITA post tax (USDmn)	P/E (x)	EV/S (x)	Val. Rmb mn	Val. US\$m	\$/ADS	Value split
1	Alibaba China E-commerce Group	12x FY28E EV/EBITA; assume 20% tax rate on adjusted EBITA; discount back with 11% WACC		21,273	12.0		1,491,753	207,188	88.5	42%
2	International Digital Commerce Group	1.5x FY26E EV/S	21,678			1.5	234,118	32,516	13.9	7%
3	Cloud Intelligence Group	7.5x FY27E EV/S on revenue before intersegment elimination; discount back with 11% WACC	28,094			7.5	1,366,741	189,825	81.0	39%
4	All others	1.0x FY26E EV/S	34,914			1.0	251,384	34,914	14.9	7%
<b>Total Alibaba business</b>							<b>3,343,996</b>	<b>464,444</b>	<b>198.3</b>	
<b>INVESTMENTS</b>										
1	Ant Group	Last round share buyback valuation; 33% share holding					187,143	25,992	11.1	
2	Others	Market valuation					79,526	11,045	4.7	
<b>Total investment (with 30% holding discount)</b>									<b>11.1</b>	<b>5%</b>
<b>Total (US\$m)</b>									<b>209.4</b>	
#s of diluted ADS (mn)									2,342	

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Revenue	868,687	941,168	996,347	1,026,003	1,139,610	1,257,614
Cost of goods sold	(549,695)	(586,323)	(598,285)	(564,302)	(626,785)	(691,688)
Gross profit	318,992	354,845	398,062	461,701	512,824	565,926
Operating expenses	(218,641)	(241,495)	(257,157)	(370,238)	(376,071)	(376,027)
SG&A expense	(145,679)	(157,126)	(188,260)	(303,697)	(304,276)	(298,054)
R&D expense	(56,744)	(52,256)	(57,151)	(63,612)	(68,377)	(74,199)
Others	(16,218)	(32,113)	(11,746)	(2,929)	(3,419)	(3,773)
Operating profit	100,351	113,350	140,905	91,463	136,753	189,900
Interest income	(11,071)	(9,964)	20,759	32,832	26,211	28,674
Interest expense	(5,918)	(7,947)	(9,596)	(9,882)	(10,406)	(11,484)
Other income/expense	5,823	6,157	3,387	5,100	5,665	6,251
Pre-tax profit	89,185	101,596	155,455	119,514	158,223	213,341
Income tax	(15,549)	(22,529)	(35,445)	(25,098)	(37,182)	(53,335)
Others	(8,063)	(7,735)	5,966	5,130	5,698	6,288
After tax profit	65,573	71,332	125,976	99,546	126,738	166,294
Minority interest	7,210	8,677	4,133	1,334	1,481	1,635
Others	(274)	(268)	(639)	2,467	0	0
Net profit	72,509	79,741	129,470	103,347	128,220	167,929
Adjusted net profit	143,991	158,359	158,095	107,916	146,454	186,793
BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Current assets	697,966	752,864	674,049	731,873	785,565	868,892
Cash & equivalents	193,086	248,125	145,487	251,586	289,376	356,378
Restricted cash	36,424	38,299	43,781	43,781	43,781	43,781
Prepayment	137,072	143,536	202,175	153,900	169,802	186,127
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	1,350,115	1,498,654	1,661,764
PP&E	176,031	185,161	203,348	429,468	557,672	700,036
Investment in JVs & assos	207,380	203,131	210,169	222,337	235,073	248,399
Intangibles	46,913	26,950	20,911	26,483	29,772	33,099
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	59,508	63,818	67,911
Total assets	1,753,044	1,764,829	1,804,227	2,081,988	2,284,219	2,530,655
Current liabilities	385,351	421,507	435,346	388,723	438,281	491,783
Short-term borrowings	7,466	12,749	22,562	21,280	23,637	26,084
Tax payable	12,543	9,068	11,638	20,580	29,374	40,535
Other current liabilities	89,392	101,807	68,609	64,712	71,877	79,320
Accrued expenses	275,950	297,883	332,537	282,151	313,393	345,844
Non-current liabilities	244,772	230,723	278,775	272,727	283,847	295,396
Long-term borrowings	52,023	55,686	49,909	49,909	49,909	49,909
Deferred income	3,560	4,069	4,536	4,278	4,752	5,244
Other non-current liabilities	189,189	170,968	224,330	218,540	229,186	240,243
Total liabilities	630,123	652,230	714,121	661,451	722,128	787,179
Share capital	1	1	1	1	1	1
Capital surplus	416,880	397,999	381,379	398,738	413,553	428,644
Retained earnings	599,028	597,897	645,478	910,026	1,038,246	1,206,174
Other reserves	(16,394)	1,375	(5,287)	2,511	2,511	2,511
Total shareholders equity	999,515	997,272	1,021,571	1,311,275	1,454,310	1,637,330
Minority interest	123,406	115,327	68,535	109,262	107,781	106,146
Total equity and liabilities	1,753,044	1,764,829	1,804,227	2,081,988	2,284,219	2,530,656

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
<b>YE 31 Mar (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	89,185	101,596	155,455	119,514	158,223	213,341
Depreciation & amortization	46,938	44,504	42,459	11,628	11,969	12,323
Tax paid	(15,549)	(22,529)	(35,445)	(25,098)	(37,182)	(53,335)
Change in working capital	13,482	(13,749)	(23,988)	82,388	32,524	36,385
Others	65,696	72,771	25,028	11,326	20,400	20,893
<b>Net cash from operations</b>	<b>199,752</b>	<b>182,593</b>	<b>163,509</b>	<b>199,758</b>	<b>185,933</b>	<b>229,606</b>
<b>Investing</b>						
Capital expenditure	(34,330)	(32,087)	(85,972)	(123,120)	(136,753)	(150,914)
Acquisition of subsidiaries/ investments	(22)	(842)	0	(6,000)	(6,708)	(7,100)
Net proceeds from disposal of short-term investments	(61,086)	71,426	23,395	0	0	0
Others	(40,068)	(60,321)	(122,838)	(7,038)	(7,038)	(7,038)
<b>Net cash from investing</b>	<b>(135,506)</b>	<b>(21,824)</b>	<b>(185,415)</b>	<b>(136,158)</b>	<b>(150,499)</b>	<b>(165,052)</b>
<b>Financing</b>						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	11	843	10	0	0	0
Share repurchases	(74,746)	(88,745)	(86,662)	0	0	0
Others	9,116	(20,342)	10,437	(1,282)	2,356	2,448
<b>Net cash from financing</b>	<b>(65,619)</b>	<b>(108,244)</b>	<b>(76,215)</b>	<b>(1,282)</b>	<b>2,356</b>	<b>2,448</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	227,353	229,510	286,424	189,268	251,586	289,376
Exchange difference	3,530	4,389	965	0	0	0
<b>Cash at the end of the year</b>	<b>229,510</b>	<b>286,424</b>	<b>189,268</b>	<b>251,586</b>	<b>289,376</b>	<b>356,378</b>
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
<b>YE 31 Mar</b>						
Revenue	1.8%	8.3%	5.9%	3.0%	11.1%	10.4%
Gross profit	1.7%	11.2%	12.2%	16.0%	11.1%	10.4%
Operating profit	44.1%	13.0%	24.3%	(35.1%)	49.5%	38.9%
Net profit	17.0%	10.0%	62.4%	(20.2%)	24.1%	31.0%
Adj. net profit	0.3%	10.0%	(0.2%)	(31.7%)	35.7%	27.5%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
<b>YE 31 Mar</b>						
Gross profit margin	36.7%	37.7%	40.0%	45.0%	45.0%	45.0%
Operating margin	11.6%	12.0%	14.1%	8.9%	12.0%	15.1%
Adj. net profit margin	16.6%	16.8%	15.9%	10.5%	12.9%	14.9%
Return on equity (ROE)	7.4%	8.0%	12.8%	8.9%	9.3%	10.9%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
<b>YE 31 Mar</b>						
Net debt to equity (x)	(0.4)	(0.4)	(0.2)	(0.3)	(0.3)	(0.3)
Current ratio (x)	1.8	1.8	1.5	1.9	1.8	1.8
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
<b>YE 31 Mar</b>						
P/E	44.8	39.2	22.5	27.3	21.3	16.3
P/E (diluted)	45.0	39.5	23.1	28.0	21.9	16.7
P/B	3.3	3.2	2.9	2.2	1.9	1.7
P/CFPS	19.7	20.9	38.5	37.8	57.2	35.7

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

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