

Alibaba (BABA US)

Cloud and e-commerce development both in good shape; reiterate BUY

We reiterate our positive view on Alibaba, backed by: 1) strong cloud revenue growth outlook, aided by both increase in adoption of AI-related products and digitalization demand; 2) solid e-commerce business development outlook, driven by increase in penetration of Quanzhantui, and cross-sell effect brought by the rapid development of Quick Commerce (QC) business, which we believe could help improve user stickiness and drive better customer management revenue (CMR) outlook over the medium to long term. With strong technological capability and abundant application scenario of AI, Alibaba is on track to drive its long-term revenue and earnings growth through the two strategic business pillars of "Consumption" and "AI + Cloud". Alibaba remains one of the key beneficiaries under the AI theme, and current valuation of 17.6x non-GAAP FY27E PE based on our estimate is still undemanding compared to global peers, in our view. We lift our SOTP-based TP by 32% to US\$210.3 to reflect our positive view on the development prospect of both cloud and e-commerce businesses, translating into 20.6x FY27E PE (non-GAAP). Reiterate BUY.

- **Cloud revenue growth could further accelerate.** In 1QFY26, Cloud Intelligence Group (CIG) inked revenue growth of 26% YoY (1QFY25: 6%; 4QFY25:18%), and AI related revenue has accounted for over 20% of revenue from external customers. During Apsara Conference 2025 (24-26 Sep; see our [note](#)), management: 1) unveiled and updated 7 new models, including the flagship Qwen3-max that has demonstrated strong capability in preview version, which in our view could drive more cloud consumption and further propel acceleration in cloud revenue growth; 2) highlighted its ambition to drive for success in ASI (Artificial Super Intelligence) era, noted that the three-year capex plan of RMB380bn is well on track, and guided to further increase the targeted amount of spending in the coming years. We are estimating 30% revenue CAGR for CIG over FY25-28E (was 23%).
- **Solid e-commerce growth outlook.** Although the early-stage investment in QC was heavy, we are positive that this could help improve user stickiness and drive for incremental GMV, and will in turn drive better CMR growth outlook in the medium to long term. We are forecasting 10% YoY growth for CMR in FY26E. In addition, we are looking for 2-3% incremental CMR growth to be generated from the synergies between QC and Taobao, and 3-5% over the long term. However, in the near term, the ROI of investment in QC as well as the pace of ramp up in synergies remains a focus.
- **Changes in forecast.** We lift FY26-28E revenue forecasts by 0.2-4.6% to factor in the rise in CIG revenue growth forecast, and solid revenue growth outlook of CMR within Alibaba China E-commerce Group (ACEG). For non-GAAP net income, we lower FY26E non-GAAP net profit forecast by 6.8% to account for greater-than-expected near-term investment in the QC business, although we noted an improvement in unit economics aided by the optimization of user subsidies in recent weeks. However, we raise FY27E/28E non-GAAP net income forecasts by 0.4/2.6% to factor in the increase in revenue forecasts of CIG and ACEG.

BUY (Maintain)

Target Price US\$210.30
(Previous TP) US\$158.80
Up/Downside 16.9%
Current Price US\$179.90

China Internet

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Stock Data

Mkt Cap (US\$ mn)	421,381.1
Avg 3 mths t/o (US\$ mn)	666.3
52w High/Low (US\$)	179.90/80.53
Total Issued Shares (mn)	2342.3

Source: FactSet

Shareholding Structure

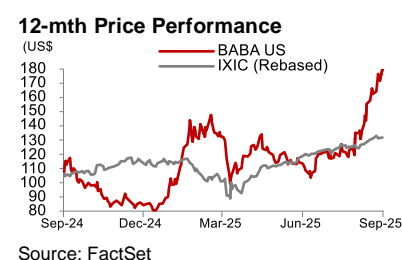
JPMorgan	2.3%
Parufam Limited	0.8%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	33.3%	26.6%
3-mth	58.6%	43.0%
6-mth	36.1%	4.2%

Source: FactSet



Earnings Summary

(YE 31 Mar)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	941,168	996,347	1,021,500	1,132,715	1,247,834
YoY growth (%)	8.3	5.9	2.5	10.9	10.2
Net profit (RMB mn)	79,741.0	129,470.0	123,079.0	149,107.4	176,917.4
Adjusted net profit (RMB mn)	158,359.0	158,095.0	127,571.5	167,230.8	195,635.0
YoY growth (%)	10.0	(0.2)	(19.3)	31.1	17.0
EPS (Adjusted) (RMB)	62.77	67.31	55.99	75.67	88.52

Source: Company data, Bloomberg, CMBIGM estimates

Revision of forecast and valuation

We lift FY26-28E revenue forecast by 0.2-4.6% to factor in the rise in CIG revenue growth forecast, and solid revenue growth outlook of CMR within ACEG. For non-GAAP net income, we lower FY26E non-GAAP net profit forecast by 6.8% to account for greater-than-expected near-term investment in the QC business, although we noted an improvement in unit economics aided by the optimization of user subsidies in recent weeks. However, we raise FY27E/28E non-GAAP net income forecasts by 0.4/2.6% to factor in the increase in forecasts of cloud and CMR revenue generation.

Figure 1: Alibaba: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	1,021.5	1,132.7	1,247.8	1,019.0	1,110.7	1,193.3	0.2%	2.0%	4.6%
Gross profit	459.7	509.7	561.5	458.5	499.8	537.0	0.2%	2.0%	4.6%
Non-GAAP net profit	127.6	167.2	195.6	136.9	166.5	190.7	-6.8%	0.4%	2.6%
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	12.5%	14.8%	15.7%	13.4%	15.0%	16.0%	-0.9 ppt	-0.2 ppt	-0.3 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	1,021.5	1,132.7	1,247.8	1039.5	1149.9	1255.9	-1.7%	-1.5%	-0.6%
Gross profit	459.7	509.7	561.5	439.4	488.2	534.5	4.6%	4.4%	5.1%
Non-GAAP net profit	127.6	167.2	195.6	128.2	166.4	196.4	-0.5%	0.5%	-0.4%
Gross margin	45.0%	45.0%	45.0%	42.3%	42.5%	42.6%	2.7 ppt	2.5 ppt	2.4 ppt
Non-GAAP net margin	12.5%	14.8%	15.7%	12.3%	14.5%	15.6%	0.2 ppt	0.3 ppt	0.0 ppt

Source: Bloomberg, CMBIGM estimates

Valuation: target price of US\$210.3 per ADS

Our SOTP valuation was lifted to US\$210.3 per ADS, which comprises:

- 1) US\$89.7 for ACEG, based on a 12.0x FY28E EV/adj. EBITA and discounted back to FY26 at WACC of 11.0% (was US\$74.7 based on 10.0x FY28E EV/adj. EBITA), the lift in valuation was due to solid revenue growth outlook of CMR business;
- 2) US\$14.0 for AIDC (unchanged), based on an unchanged 1.5x EV/revenue multiple on FY26E revenue forecast;
- 3) US\$81.0 for the Cloud Intelligence Group, based on a 7.5x EV/revenue multiple on FY27E revenue and discounted back to FY26E at WACC of 11.0% (was US\$44.6 based on 5.0x FY26E EV/revenue). We believe Alibaba has strong business development potential in AI and cloud business given solid infrastructure and technology capability, and is positive on the acceleration trend of cloud revenue growth over 2Q-4QFY26E;
- 4) US\$14.6 for All Others, based on a 1.0x FY26E EV/revenue multiple (was US\$13.8 based on 0.95x FY26E EV/revenue);
- 5) US\$11.1 per ADS (was US\$11.6) for strategic investments with a 30% holding discount.

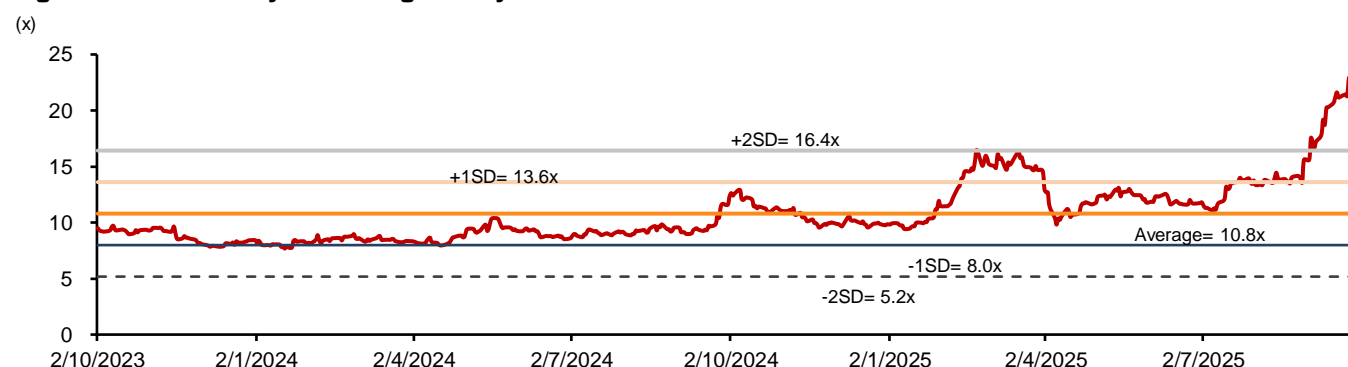
Our new SOTP-based target price translates into 20.6x FY27E PE (non-GAAP).

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	\$/share	Value split
1	Alibaba China E-commerce Group	12x FY28E EV/EBITA; assume 20% tax rate on adjusted EBITA; discount back with 11% WACC		21,566	12.0		1,512,314	210,044	89.7	43%
2	International Digital Commerce Group	1.5x FY26E EV/S	21,828			1.5	235,745	32,742	14.0	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	34,081			1.0	245,384	34,081	14.6	7%
Total Alibaba business							3,360,184	466,692	199.2	
INVESTMENTS										
1	Ant Group	Last round share buy back valuation; 33% share holding					187,143	25,992	11.1	
2	Others	Market valuation					79,774	11,080	4.7	
Total investment (with 30% holding discount)									11.1	5%
Total (US\$m)									210.3	
#s of diluted ADS (mn)									2,342	

Source: CMBIGM estimates

Figure 4: Alibaba: 2-year average one-year forward PE band



Source: Bloomberg, CMBIGM

Figure 5: Alibaba: 5-year average one-year forward PE band



Source: Bloomberg, CMBIGM

Figure 6: Global internet and software comps table

Company	Stock code	Price	Market cap	PE (x)		PS (x)	
		(LC)	(US\$mn)	2025E	2026E	2025E	2026E
China Internet							
Alibaba Group	BABA US Equity	179.9	428,896	24.2	18.5	2.9	2.7
JD.com	JD US Equity	35.6	51,795	13.2	9.5	0.3	0.3
Pinduoduo	PDD US Equity	130.7	185,505	12.8	10.4	3.1	2.7
Meituan	3690 HK Equity	102.8	80,275	NA	21.9	1.5	1.3
VIPShop	VIPS US Equity	19.1	9,829	7.9	7.6	0.7	0.6
Tencent	700 HK Equity	660.0	777,313	21.8	19.3	7.4	6.8
NetEase	NTES US Equity	151.4	95,841	17.4	16.3	5.9	5.5
Boss Zhipin	BZ US Equity	23.4	11,235	23.2	20.6	9.7	8.6
Beike	BEKE US Equity	20.2	23,905	25.2	20.5	1.6	1.5
SenseTime	20 HK Equity	2.7	13,918	NA	NA	20.4	16.1
Kuaishou	1024 HK Equity	78.9	44,098	15.6	13.2	2.2	2.0
Bilibili	BILI US Equity	27.3	11,512	35.3	24.7	2.7	2.5
TME	TME US Equity	23.7	36,756	27.5	23.8	8.1	7.1
NetEase Cloud Music	9899 HK Equity	262.6	7,224	18.5	22.4	6.5	5.9
China Literature	772 HK Equity	39.3	5,091	27.1	24.3	4.8	4.5
Baidu	BIDU US Equity	134.9	47,282	17.9	16.8	2.6	2.5
Trip.com Group	TCOM US Equity	76.1	49,765	19.1	17.2	5.8	5.1
TC Travel	780 HK Equity	23.0	6,846	15.1	13.0	2.5	2.2
Ali Health	241 HK Equity	6.5	13,533	41.6	34.6	2.8	2.5
JD Health	6618 HK Equity	66.9	26,932	35.7	31.4	2.7	2.4
Pingan Healthcare	1833 HK Equity	18.5	5,081	NA	NA	6.5	5.7
iQiyi	IQ US Equity	2.6	2,523	49.6	16.5	0.7	0.6
Full-truck Alliance	YMM US Equity	13.1	13,680	20.1	17.0	8.2	7.7
Baozun	BZUN US Equity	4.0	234	18.1	9.1	0.2	0.2
DIDI	DIDIY US Equity	6.5	30,127	NA	NA	0.9	NA
Average				22.4	18.0	4.5	3.9
US Internet and software							
Meta Platforms Inc	META US Equity	743.4	1,867,526	22.4	20.1	9.5	8.2
Alphabet Inc	GOOG US Equity	244.4	2,953,355	23.3	21.9	8.8	7.8
Amazon.com Inc	AMZN US Equity	222.2	2,369,424	26.7	23.1	3.3	3.0
Microsoft Corp	MSFT US Equity	514.6	3,825,107	32.9	28.2	11.8	10.3
NVIDIA Corp	NVDA US Equity	181.9	4,418,955	40.0	28.3	21.4	16.0
Tesla Inc	TSLA US Equity	443.2	1,473,740	NA	NA	15.8	13.5
Adobe Inc	ADBE US Equity	359.4	150,453	16.9	15.5	6.4	5.8
Salesforce Inc	CRM US Equity	245.1	233,335	21.3	18.9	5.7	5.2
Netflix Inc	NFLX US Equity	1206.4	512,635	44.7	38.9	11.4	10.1
ServiceNow Inc	NOW US Equity	940.9	195,697	NA	46.5	14.8	12.5
Palo Alto Network	PANW US Equity	204.0	136,429	NA	44.0	13.0	11.4
Palantir	PLTR US Equity	178.9	424,317	NA	NA	NA	NA
Datadog	DDOG US Equity	145.3	50,659	NA	NA	15.3	12.7
Average				30.4	30.4	11.4	9.7

Source: Bloomberg, CMBIGM

Note: data as at 29 Sep market close

Risks

- 1) Investments for driving business growth pose a more severe impact on margin than we expect;
- 2) Consumption recovery takes longer than we expect.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Revenue	868,687	941,168	996,347	1,021,500	1,132,715	1,247,834
Cost of goods sold	(549,695)	(586,323)	(598,285)	(561,825)	(622,993)	(686,309)
Gross profit	318,992	354,845	398,062	459,675	509,722	561,525
Operating expenses	(218,641)	(241,495)	(257,157)	(343,075)	(345,478)	(359,376)
SG&A expense	(145,679)	(157,126)	(188,260)	(276,827)	(274,117)	(282,011)
R&D expense	(56,744)	(52,256)	(57,151)	(63,333)	(67,963)	(73,622)
Others	(16,218)	(32,113)	(11,746)	(2,916)	(3,398)	(3,744)
Operating profit	100,351	113,350	140,905	116,600	164,244	202,149
Interest income	(11,071)	(9,964)	20,759	32,688	26,052	28,451
Interest expense	(5,918)	(7,947)	(9,596)	(9,838)	(10,343)	(11,394)
Other income/expense	5,823	6,157	3,387	5,078	5,630	6,203
Pre-tax profit	89,185	101,596	155,455	144,527	185,583	225,408
Income tax	(15,549)	(22,529)	(35,445)	(30,351)	(43,612)	(56,352)
Others	(8,063)	(7,735)	5,966	5,108	5,664	6,239
After tax profit	65,573	71,332	125,976	119,284	147,635	175,295
Minority interest	7,210	8,677	4,133	1,328	1,473	1,622
Others	(274)	(268)	(639)	2,467	0	0
Net profit	72,509	79,741	129,470	123,079	149,107	176,917
Adjusted net profit	143,991	158,359	158,095	127,572	167,231	195,635

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Current assets	697,966	752,864	674,049	754,610	829,754	919,196
Cash & equivalents	193,086	248,125	145,487	274,998	334,593	408,130
Restricted cash	36,424	38,299	43,781	43,781	43,781	43,781
Prepayment	137,072	143,536	202,175	153,225	168,775	184,679
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	1,349,304	1,496,877	1,658,652
PP&E	176,031	185,161	203,348	428,928	556,304	697,494
Investment in JVs & assos	207,380	203,131	210,169	222,315	235,016	248,293
Intangibles	46,913	26,950	20,911	26,496	29,806	33,162
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	59,247	63,432	67,383
Total assets	1,753,044	1,764,829	1,804,227	2,103,915	2,326,631	2,577,848
Current liabilities	385,351	421,507	435,346	391,415	440,886	490,567
Short-term borrowings	7,466	12,749	22,562	21,187	23,494	25,881
Tax payable	12,543	9,068	11,638	24,888	34,454	42,828
Other current liabilities	89,392	101,807	68,609	64,428	71,442	78,703
Accrued expenses	275,950	297,883	332,537	280,913	311,497	343,154
Non-current liabilities	244,772	230,723	278,775	272,287	283,172	294,439
Long-term borrowings	52,023	55,686	49,909	49,909	49,909	49,909
Deferred income	3,560	4,069	4,536	4,260	4,723	5,203
Other non-current liabilities	189,189	170,968	224,330	218,118	228,540	239,327
Total liabilities	630,123	652,230	714,121	663,702	724,058	785,006
Share capital	1	1	1	1	1	1
Capital surplus	416,880	397,999	381,379	398,675	413,400	428,374
Retained earnings	599,028	597,897	645,478	929,758	1,078,865	1,255,783
Other reserves	(16,394)	1,375	(5,287)	2,511	2,511	2,511
Total shareholders equity	999,515	997,272	1,021,571	1,330,945	1,494,777	1,686,669
Minority interest	123,406	115,327	68,535	109,268	107,796	106,173
Total equity and liabilities	1,753,044	1,764,829	1,804,227	2,103,915	2,326,631	2,577,848

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	89,185	101,596	155,455	144,527	185,583	225,408
Depreciation & amortization	46,938	44,504	42,459	11,614	11,948	12,293
Tax paid	(15,549)	(22,529)	(35,445)	(30,351)	(43,612)	(56,352)
Change in working capital	13,482	(13,749)	(23,988)	85,890	32,848	33,044
Others	65,696	72,771	25,028	11,042	20,193	20,634
Net cash from operations	199,752	182,593	163,509	222,723	206,960	235,027
Investing						
Capital expenditure	(34,330)	(32,087)	(85,972)	(122,580)	(135,926)	(149,740)
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)
Net cash from investing	(135,506)	(21,824)	(185,415)	(135,618)	(149,672)	(163,878)
Financing						
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	(1,375)	2,307	2,388
Net cash from financing	(65,619)	(108,244)	(76,215)	(1,375)	2,307	2,388
Net change in cash						
Cash at the beginning of the year	227,353	229,510	286,424	189,268	274,998	334,593
Exchange difference	3,530	4,389	965	0	0	0
Cash at the end of the year	229,510	286,424	189,268	274,998	334,593	408,130
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Revenue	1.8%	8.3%	5.9%	2.5%	10.9%	10.2%
Gross profit	1.7%	11.2%	12.2%	15.5%	10.9%	10.2%
Operating profit	44.1%	13.0%	24.3%	(17.2%)	40.9%	23.1%
Net profit	17.0%	10.0%	62.4%	(4.9%)	21.1%	18.7%
Adj. net profit	0.3%	10.0%	(0.2%)	(19.3%)	31.1%	17.0%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Gross profit margin	36.7%	37.7%	40.0%	45.0%	45.0%	45.0%
Operating margin	11.6%	12.0%	14.1%	11.4%	14.5%	16.2%
Adj. net profit margin	16.6%	16.8%	15.9%	12.5%	14.8%	15.7%
Return on equity (ROE)	7.4%	8.0%	12.8%	10.5%	10.6%	11.1%
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)	(0.3)
Current ratio (x)	1.8	1.8	1.5	1.9	1.9	1.9
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
P/E	46.3	40.5	23.2	23.7	19.0	16.0
P/E (diluted)	46.6	40.9	23.9	24.4	19.5	16.4
P/B	3.4	3.3	3.0	2.3	1.9	1.7
P/CFPS	20.4	21.7	39.9	30.0	41.0	34.1

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

Disclosures & Disclaimers

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CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
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