

## Alibaba (9988 HK/BABA US)

### Ongoing business revitalization

- Taobao/Tmall is seeing progress in business revitalization
- Investments in Taobao/Tmall and overseas business lead to some margin dilutions
- Undemanding valuation with ongoing efforts to enhance shareholders' return

**Ongoing business revitalization.** We see some positive developments in Taobao/Tmall's revitalization plan to improve the platform's price competitiveness and user experience, as evidenced by a 5% YoY increase in customer management revenue in 1Q24 (compared to a flat growth in 4Q23) and double-digit GMV growth in 1Q24. Looking forward, Alibaba plans to launch new monetization products aiming to narrow the gap between GMV growth and revenue growth. In addition, the management expects the Cloud Intelligence's segment revenue from external customer to resume a double-digit growth in coming quarters on public cloud and AI-related products. We expect overall revenue to grow at 10% CAGR in FY3/24-26E, in which Taobao and Tmall would grow at 6% CAGR during the period.

**Business investment to dilute margins.** In our view, the continuous business investment in customer experience in Taobao/Tmall and cross-border e-commerce is expected to result in margin dilution in the near term, although the impact will be somewhat mitigated by greater profitability in other categories such as Cloud intelligence, Local service, etc. We expect core net margin to moderate to 15.2% in FY3/26E.

**A value play.** Maintain **BUY** with SOTP-based TP at HK\$ 110 for Alibaba-SW (9988 HK) and US\$ 113 for Alibaba-ADR (BABA US). The counter is currently trading at an undemanding valuation. In addition, the declaration of extraordinary cash dividend of US\$ 0.0825 per share, on top of its annual dividend of US\$ 0.125 per share indicates ongoing effort to enhance shareholders' return.

#### Results and Valuation

FY end Mar 31	FY23A	FY24A	FY25E	FY26E
Revenue (RMB mn)	868,687	941,168	1,036,935	1,141,975
Chg (% YoY)	1.8	8.3	10.2	10.1
Net profit (RMB mn)	72,509	79,741	108,888	129,170
Chg (% YoY)	17.0	10.0	36.6	18.6
Core net profit (RMB mn)	143,991	158,359	155,217	173,789
Chg (% YoY)	0.3	10.0	(2.0)	12.0
Underlying EPS (RMB)	3.5	4.0	5.6	6.8
Chg (% YoY)	20.3	14.3	40.8	22.3
Core EPS (RMB)*	6.8	7.8	7.9	9.1
Chg (% YoY)	3.5	14.1	1.0	15.4
Core P/E (x)- ADR*	11.5	10.1	10.0	8.6
Core P/E (x)-SW share*	11.3	9.9	9.8	8.5
DPS (USD)	0.125	0.208	0.210	0.242
Yield (%) -ADR	1.2	1.9	1.9	2.2
Yield (%) -SW Share	1.2	1.9	1.9	2.2

1 ADR = 8 ordinary shares

\*Excluding share-based compensation, impairments, fair value changes of investment, etc.  
 Source (s): Bloomberg, ABCI Securities estimates

## Company Report

May 17, 2024

Rating (SW-share): BUY  
 TP (SW-share): HK\$ 110  
 Rating (ADR): BUY  
 TP (ADR): US\$ 113

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Price (ADR/SW-share)	US\$86.7/ HK\$84.7
Est. share price return (ADR/SW-share)	30.1%/29.9%
Est. dividend yield (ADR/SW-share)	1.9%/1.9%
Est. total return (ADR/SW-share)	32.0%/31.8%
Last Rating & TP (ADR/SW-share)	BUY/US\$113 BUY/HK\$110

Previous Report Date Mar 7, 2024

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (SW-share)	100.0/64.6
52Wk H/L (US\$) (ADR)	102.5/66.6
Issued shares (mn)	19,469
Market cap (HK\$ bn) (all share)	1,649
3-mth avg daily turnover (HK\$ mn) (SW-share)	3,993
3-mth avg daily turnover (US\$ mn) (ADR)	1,749
Major shareholder(s) (%): Joseph Tsai	1.4%

Source(s): Bloomberg, HKEx, Company

## Financial Outlook

We expect revenue to grow at 10% CAGR in FY3/24-26E.

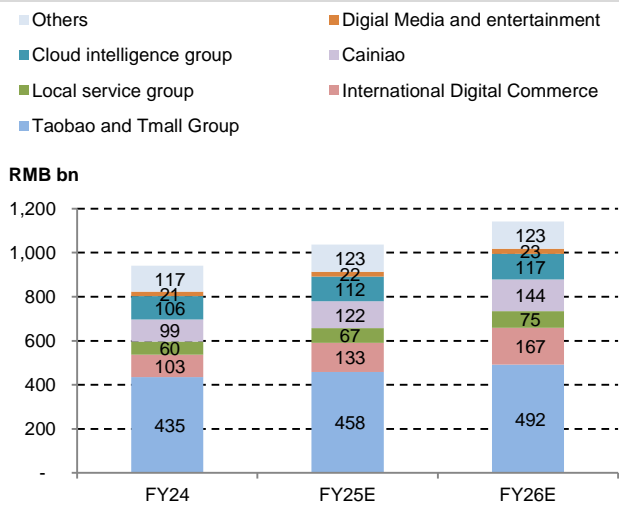
Taobao and Tmall revenue would expand at 6% CAGR in FY3/24-26E. Taobao/Tmall's revitalization plan to enhance the platform's price competitiveness and user experience has made some initial progress, with GMV growth resuming to double-digit level in 1Q24. Looking forward, the company plans to launch new monetization products to further improve merchants' ROI.

We expect Cloud Intelligence's revenue to grow at 5% CAGR in FY3/24-26E due to continuous business adjustment and rivalry from telco cloud operators. Public cloud and AI-related products could be the major focus on business expansion.

We expect International Digital Commerce to grow at 28% CAGR in FY3/24-26E, driven by expansion of cross-border e-commerce initiatives such as AliExpress Choice. The increased demand of cross-border fulfillment services could also benefit Cainiao, whose revenue is expected to grow at 20% CAGR in FY3/24-26E.

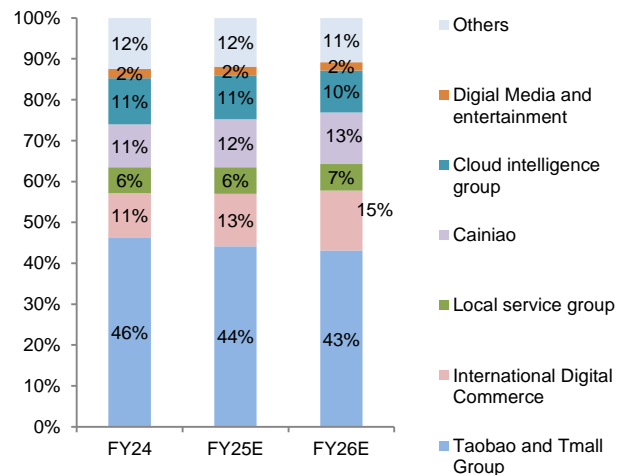
In addition, we expect revenue from Local Consumer Services and DME (Digital Media and Entertainment) to expand at 12% CAGR and 5% CAGR in FY3/24-26E, respectively.

**Exhibit 1: Revenue outlook**



Source(s): Company, ABCI Securities estimates

**Exhibit 2: Revenue mix outlook**



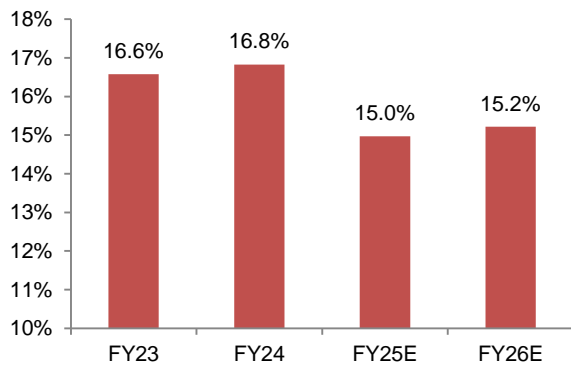
Source(s): Company, ABCI Securities estimates

In terms of segment profitability, we estimate adjusted EBITA margin of Taobao/Tmall to moderate to 43.5% in FY26E due to increased customer incentives and promotions to boost sales. The adjusted EBITA margins of other businesses (International commerce/Local service/Cainiao/Cloud/DME) would continue to improve, with International commerce experiencing some margin pressure due to continuous business expansion, while Cloud's margin would improve.

We expect core net margin (excl. impacts of share-based compensation and other non-operating items) to be 15.2% for FY26E.

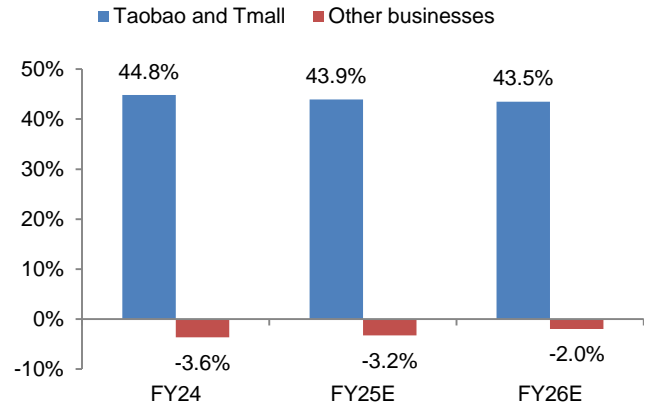


Exhibit 3: Core net margin



Source(s): Company, ABCI Securities estimates

Exhibit 4: Adjusted EBITA margin of Taobao/Tmall and Other businesses



Source(s): Company, ABCI Securities estimates

Exhibit 5: Financial forecast changes

	FY3/25E			FY3/26E			Comment
	old	new	Diff	old	new	Diff	
Revenues	1,009,352	1,036,935	2.70%	1,093,782	1,141,975	4.40%	Business improvement of Taobao/Tmall and overseas expansion
Core profit	167,462	155,217	-7.30%	178,968	173,789	-2.90%	Increased spending on customer experiences and investments in overseas expansion

Source(s): ABCI Securities estimates



Recommendation

We maintain our SOTP-based TPs to HK\$ 110 for Alibaba-SW (9988 HK) and US\$ 113 for Alibaba-ADR (BABA US). Our TP for Alibaba-SW (9988 HK) implies 11x FY3/25E core P/E.

The counter is currently trading at an undemanding valuation. In addition, the company declared an annual dividend of US\$ 0.125 per share (same vs. FY3/23) and a on-time extraordinary cash dividend of US\$0.0825 per share (none in FY3/23), indicating the company’s ongoing effort to enhance shareholders’ return through various initiatives such as share repurchase, disposal of non-core asset, and so on.

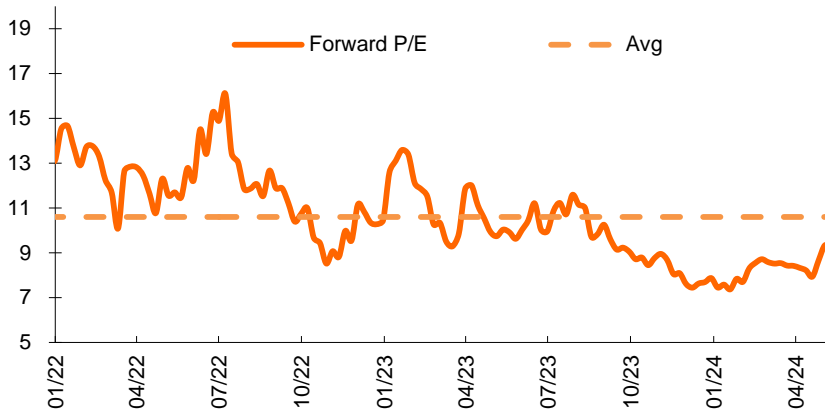
Exhibit 6: SOTP-based TP for Alibaba-SW (9988 HK)

	HKD per share	% of total	Remarks
Taobao and Tmall	56	51.2%	6.5x FY3/25E P/E
Other businesses (International Digital Commerce/Cainiao/Local service/Cloud/DME)	20	17.9%	0.8x FY3/25E P/S
<b>Investments</b>	16	14.2%	Latest book value with a 40% discount
Net cash	18	16.7%	Latest book value
<b>Total</b>	<b>110</b>		

Source(s): ABCI Securities estimates

\*Our SOTP-based TP remained unchanged as higher valuation of Taobao and Tmall/Other businesses is offset by lower valuation of net cash.

Exhibit 7: Alibaba’s valuation



Source(s): Bloomberg, ABCI Securities



<p><b>Business</b></p> <ul style="list-style-type: none"> <li>After recent <b>strategic restructuring</b>, Alibaba now consists of six major business groups (Cloud intelligence, Taobao/Tmall, Local Consumer Service, Cainiao, International Digital Commerce, and Digital media and Entertainment), each with independent management teams and public listing potentials (except for Taobao/Tmall which will remain wholly owned)</li> <li><b>Taobao/Tmall</b>: Largest ecommerce platform in China with estimated market share at the mid-40s level; we believe its market share has been dropping in recent years due to rising competition from emerging players such as Pinduoduo (PDD US) and short-video platforms. Estimated annual active buyers amounted to RMB ~1bn in China, while estimated GMV per buyer was around RMB 9-10K, vs. about RMB 4-5K for Pinduoduo and about RMB 5-6K for another e-commerce platform</li> <li><b>International Digital Commerce</b>: Lazada, AliExpress, and Trendyol, etc.</li> <li><b>Local Consumer Services</b>: “To-Home” business of Ele.me and the “To-Destination” business of Amap. Revenue size about one-third of Meituan’s (3690 HK) local service business</li> <li><b>Cainiao</b>: External customers account for about 70% of revenue</li> <li><b>Cloud Intelligence</b>: Largest public cloud platform in China with about 33% market share</li> <li><b>Digital Media and Entertainment</b> : Youku (YOKU US), Damai, and Alibaba Pictures (1060 HK)</li> <li>Other business include Sun Art (6808 HK), Freshippo, Lingxi Games, Intime, Fliggy, etc.</li> <li>In 3Q23, Ant Group repurchased approximately 7% equity interest from its existing shareholders and the shares repurchased were allocated to the employee incentive plans of Ant Group. <b>Alibaba’s equity interest in Ant Group on a fully diluted basis remains unchanged at 33%</b></li> </ul>
<p><b>Financials</b></p> <ul style="list-style-type: none"> <li>Taobao/Tmall contributes most of Alibaba’s operating profit, while other businesses are either loss-making or has minimal profit contribution. Nonetheless, profitability of these business units has been improving recently</li> <li>Profit contribution from Ant Group at low-teens level</li> <li><b>Core net margin</b> dropped from high-20s years ago to teens level currently due to industry competition and ongoing investments in new business initiatives</li> <li><b>Strong balance sheet</b> with about RMB 340bn in net cash and RMB 484bn in equity investment in Mar 2024</li> <li>The company has set up a capital management committee to undertake a comprehensive capital management plan to enhance shareholder value, such as capital market transactions, shareholder return initiatives, subsidiary equity incentive plans, fundraisings, IPOs, and spin-offs</li> </ul>
<p><b>Management and shareholder</b></p> <ul style="list-style-type: none"> <li><b>Softbank</b> (9984 JP) has disposed its stakes in Alibaba. There are no shareholders with a stake higher than 5%</li> <li><b>Alibaba’s partnership</b> structure limits the ability of its shareholders to influence corporate matters, such as the nomination and election of directors. For example, its Articles of Association allow the Alibaba Partnership to nominate or, in limited situations, appoint a simple majority of board of directors. There are 28 partners in total and election of new partners requires the approval of at least 75% of all of the partners</li> <li><b>Jack Ma</b> stepped down as Chairman in 2019. He will also give up its voting control on Ant Group after Ant’s restructuring</li> <li>A series of <b>management changes</b> occur due to the strategic reorganization. In June 2023 ,Daniel Zhang, who succeeded Jack’s Chairman role since 2019, resigned as Group Chairman and took up the role of Chairman and CEO of Cloud Intelligence Group. Joseph Tsai succeeded Zhang as the new Group Chairman. Yet, only after three months, Daniel Zhang has stepped down from his role of Chairman and CEO of Cloud Intelligence Group in Sep 2023, which surprised the market</li> </ul>
<p><b>Shareholders’ return</b></p> <ul style="list-style-type: none"> <li>Declare an <b>annual cash dividend of US\$ 1 per ADS</b> for FY3/2024 of US\$ 0.66 per ADS and one-time extraordinary cash dividend of US\$ 0.66 per ADS</li> <li>The company has been ramping up its <b>share repurchase program</b> in recent years. The company has boosted its share repurchase program by US\$ 25bn through the end of Mar 2027. In FY3/24, its share repurchase program has led to 5.1% net reduction in its outstanding shares. The company <b>targets to repurchase c. 3% outstanding share per year</b> over the next three years</li> <li>Organization restructuring including <b>spin-off, asset disposal</b>, etc. might increase shareholders’ return.</li> <li>Given of the dismal state of the market, the company is <b>not in a rush to pursue IPO or spin-off</b> of its business units.</li> <li>Potential increase in shareholders return constrained by availability of <b>offshore cash</b></li> </ul>



**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Alibaba (9988 HK/ BABA US, BUY)

China Internet Sector

May 17, 2024

**Corporate governance/information disclosure**

- RMB 18.2bn in Antitrust fine in 2021
- Ant Group: Listing suspended in 2020 and RMB 7.07bn in regulatory fine in 2023
- Increase information disclosure as a result of strategic reorganization
- Various ESG initiatives in recent years

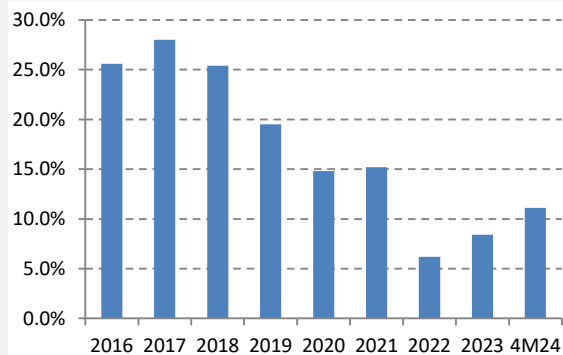
Source(s):the Company, ABCI Securities



### Industry profile: Online shopping

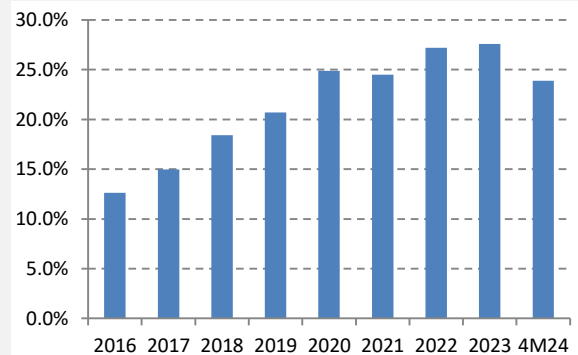
- **China's online sales growth has turned steadier** after years of development. According to NBS, online sales of physical goods grew 8.4% YoY in 2023. In 4M24, online sales growth of physical goods rebounded to 11.1% YoY, mainly due to low base. By product category, online sales of food products, groceries, and apparel rose 19.2%, 9.8%, and 10.5% in 4M24.
- **Online shopping penetration rate was generally in an uptrend** in recent years, indicating an ongoing consumption shift from offline to online
- **Live-streaming e-commerce** has been fast growing in recent years. In 9M23, live-streaming e-commerce sales rose by 60.6% YoY and accounted for 18.3% of total online sales, according to Ministry of Commerce. Short video platforms such as Douyin and Kuaishou (1024 HK) are major players in this emerging segment, leading to competitive pressure to traditional e-commerce platforms. On the other hand, Alibaba has been actively developing live-streaming business to defend its market position
- Major e-commerce platforms are **increasing their sales and marketing effort** by raising user incentives and price subsidies. In our view, **online shoppers have turned more price-sensitive** in past years due to the pandemic and moderating economic development, prompting e-commerce platforms to enhance price competitiveness
- In terms of market share, we estimate that Alibaba is still the largest e-commerce platform with mid-40s market share, vs. Pinduoduo (mid-20s), Platform A (low-20s), Douyin (high-single-digit), and Kuaishou (mid-single-digit)
- Over the past few years, **Pinduoduo and short-video platforms (Douyin and Kuaishou) are gaining market shares**. Common features of these platforms: 1) Product offers have low prices; 2) More interactive features (social e-commerce, live streaming, etc.) than traditional search-based e-commerce format
- Selected platforms such as Pinduoduo and Shein are actively developing **cross-border e-commerce** and gained growing traction in various overseas markets

Exhibit 8: Online sales growth of physical goods (YoY)



Source(s): NBS, ABCI Securities

Exhibit 9: Online shopping penetration rate



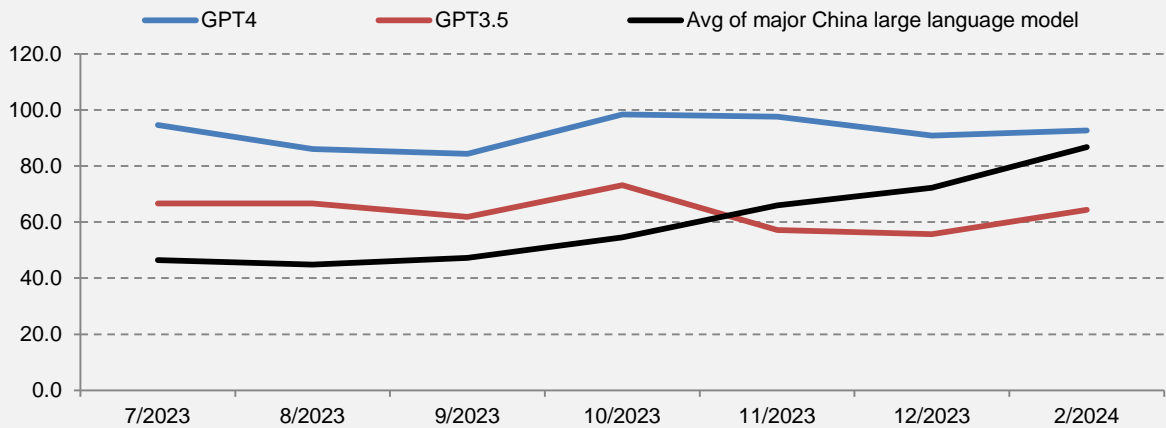
Source(s): NBS, ABCI Securities



## Industry profile: Generative AI

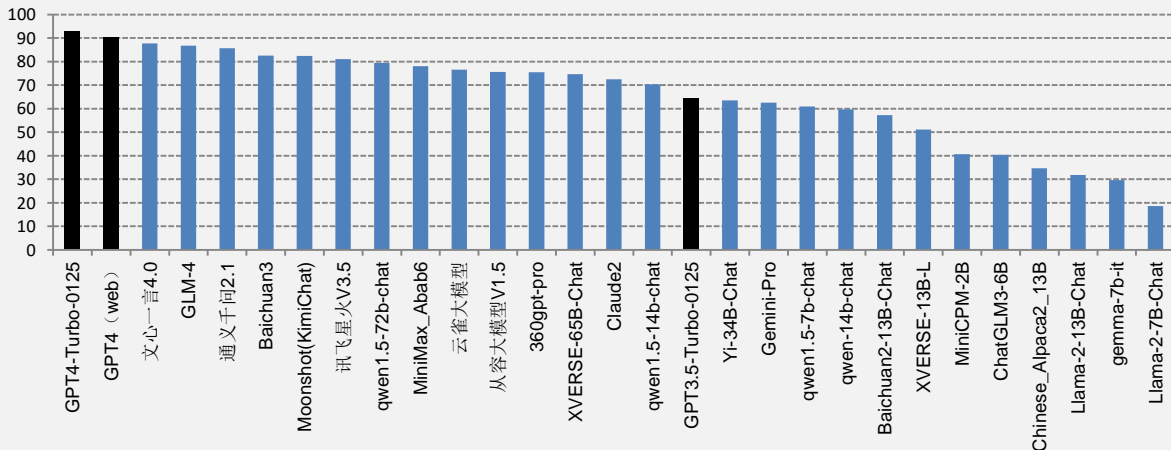
- The **regulatory environment of generative AI is an evolving one**, given the industry is still in its early stage. Recently announced generative AI measures include prohibiting generative AI services to generate inappropriate contents, leveraging algorithms, data and other information to engage in monopoly and unfair competition, etc. In addition, it required generative AI service providers to conduct security review and register their AI models/algorithms with regulators before product launch. Looking forward, regulators might fine-tune existing measures or introduce rules in accordance with the development of the industry
- Since Jun 2023, there are over **540 AI models/algorithms being successfully registered** so far. Currently, **various internet companies including Alibaba, Xiaomi, Baidu, Ant Group, NetEase, Meituan, Huawei, Douyin, etc have developed their respective large language models**. In our view, many internet platforms have been actively developing generative AI models, and **competition** in this emerging segment has been growing. Among these models, Alibaba's Tongyi Qianwen, Baidu's ERNIE Bot, Hunyuan, and 360's Smart Brain have become the first batch of models that pass the official "Large Model Standard Compliance Evaluation" by China Electronics Standardization Institute
- **Parameter count is a crucial attribute of language models**, as it directly influences their complexity and expressive capabilities. In recent years, there has been a **trend of increasing parameter counts in language models**, driven by advancements in hardware and optimization techniques. Generally speaking, a higher parameter count allows a model to handle more complex tasks and process larger amounts of data. Having said that, while parameter count is an important factor, the **effectiveness of a language model also depends on a combination of factors, including training methodology, data quality, etc**. For instance, LaMDA, designed primarily for dialogue applications, is trained using specialized dialogue data aimed at generating "human-like" responses. In contrast, ChatGPT's training draws from a vast dataset comprising approximately 45TB of text data sourced from web pages, forums, internet books, and other sources. Additionally, human AI trainers are involved in optimizing and fine-tuning ChatGPT's performance. These differing training methodologies can lead to diverse performance outcomes when the AI model engages in various tasks.
- In addition to increasing parameter count, another significant development trend of model development is the **shift from single-model to multi-model approaches**. **Multi-modal GPT models can handle multiple types of inputs and outputs, such as text-to-image, image-to-text, audio-to-text, etc**. The evolution of multimodal GPT represents a significant advancement in AI capabilities, extending beyond text-based models to handle diverse inputs and outputs such as text, image, video, and audio. By integrating multimodal inputs and outputs, these models have the potential to analyse and generate rich, diverse content across multiple modalities. For instance, GPT-4o, is a multimodal model equipped to handle inputs/outputs in various formats, such as text, images, and audio.
- Generative AI models offer interactive features such as interactive dialogue, content (text and graphic) generation, etc. Platforms can utilize these features to **improve overall user experience and stickiness and explore monetization opportunities**
- Selected platforms have adopted an **open-source AI strategy** which allows other enterprises to develop their own AI models based on the open-sourced model. E.g., Alibaba has built one of the largest open-source AI developer communities in China. Its developer community, ModelScope, has gathered over 2,300 AI models, attracting 2.8mn AI developers and over 100mn cumulative model downloads. It has also launched the open-source version of its Tongyi Qianwen models. In our view, this could **lower the entry barrier of AI model development especially for smaller enterprises**
- Major internet companies in China, including Baidu and Alibaba, have been actively developing AI models. According to CLUE, a testing platform for Chinese large language models, there has been notable improvement in testing scores for these Chinese models. In addition, it suggests that **a few Chinese models are surpassing GPT3.5 and closing the gap with GPT4 in the Chinese language environment**. Having said that, evaluating the performance of large language models remains a complex task, as these models have high complexity and diversity, making it challenging to devise standardized evaluation methodologies. Despite these challenges, the testing results offer insights into the overall technological progress and competitiveness of Chinese language models.



**Exhibit 10: SuperCLUE benchmark test results (testing scores)**


Source(s): CLUE, ABCI Securities

Note: Average of Ernie Bot 4.0, GLM-4, and Qianwen-2.1

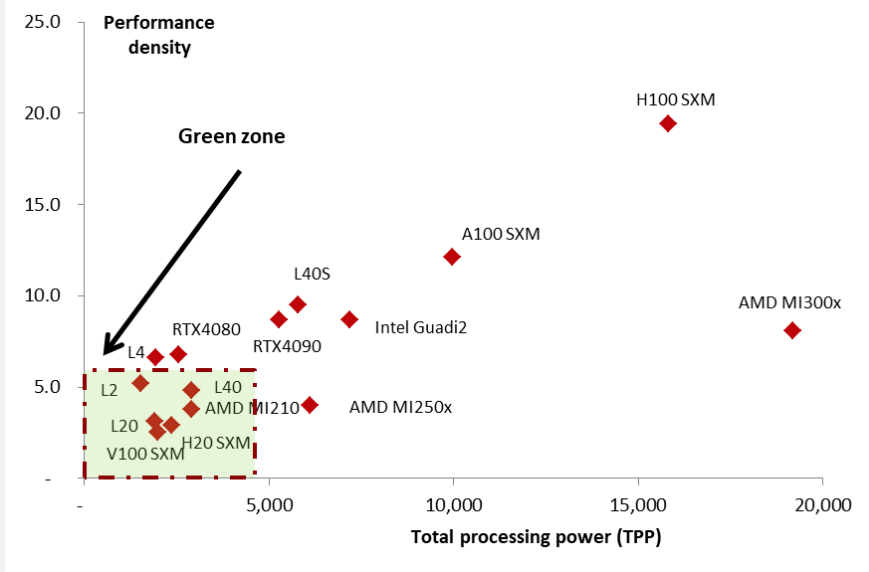
**Exhibit 11: SuperCLUE benchmark test results (2/2024)**


Source(s): CLUE, ABCI Securities

- US's export control of high-end AI chips** could hinder industry development in the long run given the intensive computing power (GPU) required for training and running AI models. Currently, the thresholds for export control include total processing performance of 4,800 (TOPS x bit length) and performance density (performance power per die area) of 5.92. As a result, various server-grade GPU models of Nvidia such as A100, A800, H100, H800, L40, L4, etc have been restricted from exporting to China. In our view, **these thresholds are strict**- the high-end consumer-grade GPU RTX4090 falls within these thresholds
- On a positive note, **Nvidia has developed various models such as H20, L20, and L2 within these regulatory thresholds for the China market**, which help reduce some of the restriction impacts. **Nevertheless, the processing powers of these customized chips are inferior compared with their official models.** The following chart compares the performance metrics of various GPUs. Note that only those in the left lower corner belong to the "green zone" under the current US regulatory environment, meaning that the items can be exported without regulatory control
- In response, the **Chinese companies are developing its own AI chips.** For example, Huawei has launched Ascend 910B, a 7nm-based GPU which ranges between A100 and H100 in terms of performance. Having said that, its production volume could be constrained by SMIC's "(N+2) 7nm" production capability



Exhibit 12: Performance comparison of major AI chips



Source(s): Companies, Semianalysis, ABCI Securities



## Financial Forecast

### Consolidated income statement (FY23A-FY26E)

FY Ended Mar 31 (RMB mn)	FY23A	FY24A	FY25E	FY26E
<b>Total revenue</b>	<b>868,687</b>	<b>941,168</b>	<b>1,036,935</b>	<b>1,141,975</b>
Cost of sales	(549,695)	(586,323)	(653,526)	(719,727)
<b>Gross profit</b>	<b>318,992</b>	<b>354,845</b>	<b>383,409</b>	<b>422,247</b>
Product development expenses	(56,744)	(52,256)	(58,297)	(64,203)
Selling & marketing expenses	(103,496)	(115,141)	(126,965)	(139,826)
General & admin expenses	(42,183)	(41,985)	(45,717)	(48,064)
Amortization/Impairment	(16,218)	(32,113)	(16,406)	(15,562)
<b>Operating Profits</b>	<b>100,351</b>	<b>113,350</b>	<b>136,023</b>	<b>154,592</b>
Interest and investment income	(11,071)	(9,964)	(4,000)	(2,000)
Interest expenses	(5,918)	(7,947)	(7,400)	(7,200)
Other income	5,823	6,157	5,500	5,500
Share of results of equity investees	(8,063)	(7,735)	(3,000)	(2,000)
<b>Profit before tax</b>	<b>81,122</b>	<b>93,861</b>	<b>127,123</b>	<b>148,892</b>
Tax	(15,549)	(22,529)	(27,967)	(31,267)
<b>Profit after tax</b>	<b>65,573</b>	<b>71,332</b>	<b>99,156</b>	<b>117,625</b>
Minority interests	7,210	8,677	9,916	11,763
Accretion of mezzanine equity	(274)	(268)	(184)	(218)
<b>Profits attributable to ordinary shareholders</b>	<b>72,509</b>	<b>79,741</b>	<b>108,888</b>	<b>129,170</b>
Share-based compensation	30,831	18,546	20,739	22,839
Amortization and impairment	37,855	55,271	21,406	22,562
Gains on disposals/revaluation of investments	13,857	21,659	4,000	(1,000)
Other non-core items	(11,061)	(16,858)	184	218
<b>Non-GAAP profits attributable to ordinary shareholders (Core net profit)</b>	<b>143,991</b>	<b>158,359</b>	<b>155,217</b>	<b>173,789</b>
Basic EPS* (RMB)	3.46	3.95	5.56	6.80
Diluted EPS* (RMB)	3.43	3.91	5.51	6.74
DPS* (USD)	0.125	0.208	0.210	0.242
<b>Growth</b>				
Total revenue (%)	1.8	8.3	10.2	10.1
Gross Profits (%)	1.7	11.2	8.0	10.1
Operating Profits (%)	44.1	13.0	20.0	13.7
Net profit (%)	17.0	10.0	36.6	18.6
Core net profit (%)	0.3	10.0	(2.0)	12.0
<b>Operating performance</b>				
Operating margin (%)	11.6	12.0	13.1	13.5
Net margin (%)	8.3	8.5	10.5	11.3
Core net margin (%)	16.6	16.8	15.0	15.2

Note. Individual items may not sum to total due to rounding differences

\*per ordinary share

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (FY23A-FY26E)**

As of Mar 31 (RMB mn)	FY23A	FY24A	FY25E	FY26E
Fixed assets	176,031	185,161	186,661	188,161
Investments	453,117	424,073	426,073	429,073
Other non-current assets	425,930	402,731	406,325	408,763
<b>Total non-current assets</b>	<b>1,055,078</b>	<b>1,011,965</b>	<b>1,019,059</b>	<b>1,025,997</b>
Cash & equivalents	193,086	248,125	271,949	350,095
Restricted cash and escrow receivables	36,424	38,299	40,214	40,214
Short-term investments and investment securities	331,384	322,904	342,904	367,904
Prepayments, deposits & other assets	137,072	143,536	157,890	157,890
<b>Total current assets</b>	<b>697,966</b>	<b>752,864</b>	<b>812,956</b>	<b>916,102</b>
<b>Total assets</b>	<b>1,753,044</b>	<b>1,764,829</b>	<b>1,832,015</b>	<b>1,942,099</b>
Accrued expenses, accounts payable and other liabilities	275,950	297,883	298,296	328,513
Other payables & accruals	12,543	9,068	9,521	9,521
Borrowings and notes	12,266	29,001	37,001	43,001
Deferred revenue	71,295	72,818	82,955	91,358
Merchants deposits	13,297	12,737	13,374	13,374
<b>Total current liabilities</b>	<b>385,351</b>	<b>421,507</b>	<b>441,148</b>	<b>485,767</b>
Borrowings and notes	149,088	141,775	146,775	151,775
Other non-current liabilities	95,684	88,948	91,599	91,599
<b>Total non-current liabilities</b>	<b>244,772</b>	<b>230,723</b>	<b>238,374</b>	<b>243,374</b>
<b>Total liabilities</b>	<b>630,123</b>	<b>652,230</b>	<b>679,521</b>	<b>729,141</b>
<b>Net current assets</b>	<b>312,615</b>	<b>331,357</b>	<b>371,809</b>	<b>430,335</b>
<b>Mezzanine equity</b>	9,858	10,728	10,912	11,130
Equity attributable to shareholders	989,657	986,544	1,036,171	1,108,180
Non-controlling interests	123,406	115,327	105,411	93,649
<b>Total equity</b>	<b>1,113,063</b>	<b>1,101,871</b>	<b>1,141,582</b>	<b>1,201,829</b>

Note. Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/definition differences

Source(s): Company, ABCI Securities estimates

**Consolidated cash flows statement (FY23A-FY26E)**

As of Mar 31 (RMB mn)	FY23A	FY24E	FY25E	FY26E
Net income	65,573	71,332	99,156	117,625
Depreciation and amortization	46,938	48,232	39,906	41,062
Other non-cash adjustments	123,759	65,856	23,739	24,839
Change in working capital	(36,518)	(2,827)	(1,977)	38,620
<b>Operating cash flow</b>	<b>199,752</b>	<b>182,593</b>	<b>160,824</b>	<b>222,146</b>
<b>Investing cash flow</b>	<b>(135,506)</b>	<b>(21,824)</b>	<b>(70,000)</b>	<b>(75,000)</b>
<b>Financing cash flow</b>	<b>(65,619)</b>	<b>(108,244)</b>	<b>(67,000)</b>	<b>(69,000)</b>
<b>Net cash flows</b>	<b>(1,373)</b>	<b>52,525</b>	<b>23,824</b>	<b>78,146</b>

Note. Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/definition differences

Source(s): Company, ABCI Securities estimates



## Risk factors

### Market competition

The e-commerce industry is highly competitive, with companies contending on commission rate, promotion discount, brand advertising, technological investment, and more.

### Slowdown in ecommerce consumption

As the industry is dependent on consumer spending, any significant slowdown in consumption in China would hamper the Group's performance. In the long term, we believe consumption growth in domestic market would converge with income growth, which is usually in line with GDP growth.

### Loss making segments

Some business segments such as International Digital Commerce, Local Consumer Service, and Digital Media and Entertainment recorded loss from operations. If their losses enlarge, overall business performance will be adversely affected.

### Non-GAAP financials

Ecommerce platforms generally disclosed the non-GAAP financial metrics, such as the non-GAAP net profit, to supplement its GAAP financial measures. Historically, there were differences between its GAAP net profit and non-GAAP net profit due to inclusion of items such as share-based compensation and other non-core items in the former.

Among these items, share-based compensation expense is related to various factors including price movement of ordinary shares, expected volatility, risk-free interest rate, etc.

While investors tend to exclude these items when performing analysis given their non-cash nature, we believe these non-GAAP financial measures should only be taken as references.



## Disclosures

### Analyst Certification

The analyst, CHOW Sau Shing, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 7\%$ )
Hold	- Market return rate ( $\sim 7\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim 7\%$ )
Sell	Stock return $<$ - Market return ( $\sim 7\%$ )

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-23 averaged at 7.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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