FY1Q27 EARNINGS UPDATE

Alibaba Group Holding Limited

Accelerating Cloud Growth with Improving AI Capex ROIC Visibility and a Stabilizing E-commerce Outlook

SUMMARY

In-line with market expectation. Alibaba reported FY1Q27 results were mixed with total revs +9% yoy to Rmb269.0bn (0.2% ahead of Bloomberg consensus of Rmb268.5bn). Non-GAAP NI -38% yoy to Rmb20.7bn (below Bloomberg consensus Rmb25.3bn), mainly due to lower GPM, higher R&D and G&A partly offset by lower S&M. By segments, total Alibaba E-commerce Group +4% yoy to Rmb205.9bn, of which CMR -7% yoy to Rmb82.5bn vs market estimate of Rmb81.5bn; direct sales, logistics and others -10% yoy to Rmb28.4bn, China quick commerce +45% yoy to Rmb53.3bn, international ecommerce -1% yoy to Rmb27.8bn and global wholesale +7% yoy to Rmb13.9bn. E-commerce adjusted EBITA of Rmb39.7bn, remaining broadly stable yoy. AI Cloud and Compute Services (cloud intelligence group, T-Head) +45% yoy to Rmb48.4bn. The segment adjusted EBITA surged 133% yoy to Rmb5.6bn, with margin expanding by 4.4ppts yoy to ~12%. AI Labs and Applications (AI model labs, Qwen Consumer Business Group, QwenWork) +16% yoy to Rmb3.34bn, recorded an adjusted EBITA loss of Rmb13.9bn. All Others +1% yoy to Rmb28.8bn, with an adjusted EBITA loss of Rmb3.3bn.

AI capex payback vs. elevated capex/funding. While quarterly capex increased to Rmb67.7bn (vs. Rmb26.9bn in Mar quarter), management attributed the higher capex to procurement timing, higher CPU investments amid rising agent demand and component cost inflation, while noted FY27 capex should not be linearly annualized given the front-loaded nature of AI infrastructure investments/procurement cycle/payment terms etc. Based on current AI product economics, management expects AI infrastructure investments to achieve payback within three years (with potential improvement toward 2-2.5 years through higher AI gross margins/utilization/self-developed T-Head chip adoption), and highlighted attractive long-term ROIC potential and that it could management sees the potential to sustain 40%+ cloud revenue growth, supporting its longer-term ambition to exceed US$100bn in annual AI + Cloud revenue within five years. Capex estimates are lifted to Rmb210bn/240bn in FY27E/FY28E (prior: 178bn/194bn), with capex to be partly funded by improving core business cash flow generation, cloud profits and net cash on-hand.

Dual lift on cloud segment revenue and margin. Management remained confident in further cloud growth acceleration (with Sep qtr growth expected to exceed 50%) and continued EBITA margin expansion over the coming quarters, driven by rising AI-related revenue contribution (35% of external cloud revenue in Jun qtr; targeting 50% by FY27E), rapid MaaS monetization (MaaS ARR exceeding Rmb16bn as of Aug and on track for >Rmb30bn by year-end) and improving pricing dynamics under a tight compute environment. Alibaba's full-stack AI cloud infrastructure platform is well positioned to capture value across the compute/infrastructure/model/application layers.

Improving efficiencies at its AI Labs & Applications. AI Labs & Applications as a new segmental disclosure, segment losses peaked in Jun quarter. Current revenue growth (at +16%yoy, slower than independent AI labs) remains primarily driven by traditional products such as Quark and DingTalk, while continued investments into Qwen models and QwenWork (which differentiates in leveraging cloud infra/DingTalk distribution channel & enterprise customer base) are expected to bring higher revenue contribution from AI-native products over time. On the profitability side, management expected quarterly loss to trend lower on improving training efficiency, more disciplined Qwen App spending and growing monetization into personal/enterprise productivity applications.

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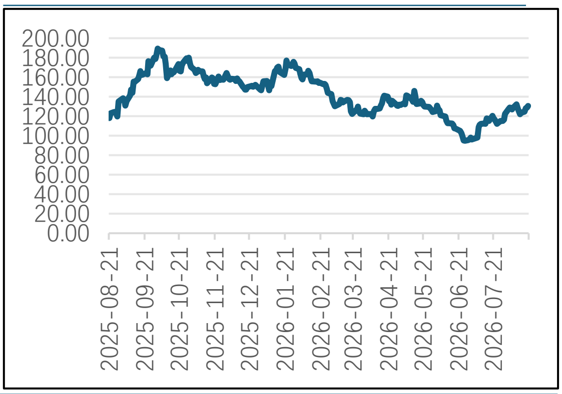
KEY DATA

Exchange: NYSE, HKEX
Ticker: BABA, HK:9988
Current Price: $130.53
52-Week Range: $91.99-$192.67
Average Volume (3M): 19.71M
Shares Outstanding (MM): 2,397
Market Capitalization ($MM): $312,864
Fiscal Year-End: March

FINANCIALS

In RMB Million	FY25A	FY26E	FY27E	FY28E
Revenue	996,347	1,023,670	1,116,824	1,236,324
Gross Profit	398,062	407,534	446,730	509,366
EBIT	140,905	50,150	74,551	123,499
Non-GAAP Net Income	158,122	60,658	98,285	140,350

PRICE PERFORMANCE



Improved e-commerce outlook for CMR and segment EBITA. The management expected sequential improvement in both CMR growth and eCommerce EBITA into the Sep qrt, amid still challenging macro backdrop. Quick commerce continued to deliver improving UE through higher AOV and fulfillment efficiency while maintaining solid order growth, with Sep qtr losses expected to remain stable or narrow sequentially despite weather-related fulfillment pressure and FY29 profitability target unchanged. We also note deeper integration of Freshippo and Taobao Instant Commerce, with non-food categories and front-warehouse expansion emerging as incremental growth drivers. We expect CMR growth of -5%/-5% in 2QFY27E/FY27E, on the back of the macro consumption backdrop and merchant rebate policy. We estimate quick commerce loss to narrow further to Rmb-9.7bn in the Sep quarter, driven by both operating efficiency improvement and AOV increase.

Valuation key driver comes from AI capex ROIC visibility and recovery on e-Commerce profit. Alibaba's results have delivered upon positive developments around cloud growth being a bright spot, higher certainty on ROIC despite capex uplift, improvement in EPS growth (from Sep-quarter) with better quick commerce UE and with increased disclosures that Alibaba's Cloud + T-Head and AI models/applications. We continue to expect Alibaba to deliver a solid EPS recovery of +64%/+33% yoy for FY27E/FY28E, to be driven by continued leadership in its AI + Cloud business in China with further acceleration in cloud growth and a recovery in overall eCommerce profits with narrowing quick commerce losses. Alibaba trades at 19.3x/14.1x FY27E/FY28E consensus P/E, versus peer-group mean multiples of 24.7x/21.9x, implying a meaningful discount, particularly on FY28E earnings.

FINANCIALS AND VALUATION UPDATES

Figure 1: Alibaba's Financials 2025 – 2028E.

Unit: Million RMB	FY2025	FY2026	FY2027E	FY2028E
Ending in	*Mar-25*	*Mar-26*	*Mar-27*	*Mar-28*
Revenue	996,347	1,023,670	1,116,824	1,236,324
Cost of revenue	-598,285	-616,136	-670,094	-726,959
Gross Profit	398,062	407,534	446,730	509,366
Product development expenses	-57,151	-66,533	-75,944	-84,070
Sales and marketing expenses	-144,021	-245,023	-239,000	-247,265
General and administrative expenses	-44,239	-33,082	-44,673	-49,453
Amortization and impairment of intangible assets	-6,336	-5,079	-5,079	-5,079
Impairment of goodwill	-6,171	-9,515	-7,483	0
Other gains, net	761	1,848	0	0
Income from operations	140,905	50,150	74,551	123,499
Interest and investment income, net	20,759	87,512	27,921	30,908
Interest expense	-9,596	-9,793	-10,610	-11,745
Other income, net	3,387	1,518	1,117	1,236
Income before income tax and share of results of equity method investees	155,455	129,387	92,978	143,898
Income tax expenses	-35,445	-30,045	-21,385	-33,097
Share of results of equity method investees	5,966	2,785	6,701	7,418
Net income	125,976	102,127	78,294	118,219
Non-GAAP Adjustment Items and Minority Interest	32,146	-41,469	19,991	22,130
Non-GAAP net income attributable to ordinary shareholders	158,122	60,658	98,285	140,350

Source: GLH Research; Company filings.

Figure 2: Peer Valuation Analysis.

				Diluted EPS			P/E			
Company	Ticker	Market Cap	Share Price	2026	2027E	2028E	2026	2027E	2028E	Category
Amazon.com Inc	AMZN.O	2,810,000	260.11	7.17	12.48	10.39	36.3x	20.8x	25.0x	U.S. E-Commerce Companies
eBay Inc	EBAY.O	46,551	104.61	4.26	6.13	6.73	24.6x	17.1x	15.5x	U.S. E-Commerce Companies
Shopify Inc	SHOP.K	189,368	147.18	0.94	1.91	2.45	-	77.1x	60.1x	U.S. E-Commerce Companies
Meta Platforms Inc	META.O	1,390,000	545.83	23.49	31.16	34.70	23.2x	17.5x	15.7x	U.S. Internet Companies
Alphabet Inc	GOOGL.O	4,170,000	340.67	10.80	20.59	14.81	31.5x	16.5x	23.0x	U.S. Internet Companies
Microsoft Corp	MSFT.O	3,570,000	481.15	17.95	19.71	23.57	26.8x	24.4x	20.4x	U.S. Internet Companies
PDD Holdings Inc.	PDD.O	127,422	89.52	9.44	10.12	12.27	9.5x	8.8x	7.3x	Asia E-Commerce Companies
JD.Com Inc	JD.O	39,527	29.41	1.84	3.38	4.23	16.0x	8.7x	7.0x	Asia E-Commerce Companies
Sea Ltd	SE.N	71,808	117.24	2.52	3.75	5.14	46.5x	31.3x	22.8x	Asia E-Commerce Companies
						Median	25.7x	17.5x	20.4x	
						Mean	26.8x	24.7x	21.9x	
Alibaba Group Holding Ltd	BABA.N	312,864	130.53	6.38	6.78	9.29	20.5x	19.3x	14.1x	

Notes:
1. Data as of 8/21/2026.
2. Market cap, share price and EPS are in US$ Million.
3. Diluted EPS are estimates provided by analyst consensus on Capital IQ.

Source: GLH Research; Company filings; Capital IQ.

ABOUT THE ANALYSTS

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Chujie (Jack) Sun is a Senior Research Analyst at Gelonghui Research. Since 2017, Jack has served as the Investment Analyst in China Alpha Fund Management (Hong Kong) Limited, TMT Analyst in First Shanghai Group, and TMT Analyst at Gelonghui Research. Focusing on TMT sector, Chinese companies listed in the US, Hong Kong, and etc., and he specializes in both buy-side and sell-side equity research. Jack holds a B.A. in Economics from Ohio State University (Columbus) and an M.S. in Finance from City University of Hong Kong.

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