

F2Q25 EARNINGS UPDATE

Alibaba Group Holding Limited

AI Driving Growth, Core Strengthening Value

SUMMARY

Alibaba (BABA, HK9988) announced its F2Q25 results before market open on November 15. In F2Q25, revenue increased 5% y/y to US\$33 Billion, non-GAAP net income and adjusted EBITDA reached US\$5.0 Billion and US\$6.5 Billion respectively. Online shopping during Double 11 Shopping Period rebounded this year: Alibaba's GMV during Double 11 Period was US\$73 Billion, increasing by 18.5% year on year, with market share of 37% for Double 11 Period. AI-related product revenue grew at triple-digits y/y for the fifth consecutive quarter. In 3Q24, CAPEX quadrupled y/y to US\$2,347 Million. Cloud/AI will become the new impetus for Alibaba.

KEY POINTS

In line with market expectation. In F2Q25, total revenue grew 5% y/y to US\$33 Billion, in line with market expectation. By segment, Taobao and Tmall Group (TTG) grew by 1% y/y (in line with consensus) to US\$14 Billion, among which CMR grew by 2.5% y/y (vs. consensus at 2.6%). For Cloud Intelligence Group, revenue grew by 7% y/y to US\$4.09 Billion (vs. consensus at US\$4.09 Billion). For Alibaba International Digital Commerce Group (AIDC), revenue grew by 29% y/y to US\$4.37 Billion (vs. consensus at US\$4.33 Billion). For Cainiao, revenue grew by 8% y/y to US\$3.40 Billion (vs. consensus at US\$3.73 Billion). For local services, revenue grew by 14% y/y to US\$2.44 Billion (vs. consensus at US\$2.41 Billion). For DME, revenue declined by 1% y/y to US\$0.79 Billion (vs. consensus at US\$0.83 Billion). Overall adjusted EBITDA reached US\$6.54 Billion, and non-GAAP net income attributable to shareholders reached US\$5.03 Billion, in line with market expectation.

Online shopping during Double 11 Shopping Period rebounded this year. During the conference call, management mentioned that the trade-in subsidy programs launched by the government led to strong growth in home appliances (home decoration, home furnishing and other digital categories) from September 2024. As the company focuses on high quality consumer experiences, the number of 88VIPs increased by 9.5% sequentially, reaching 46 million. According to third-party data and our analysis, Alibaba's GMV during Double 11 Period reached US\$73 Billion, increasing by 18.5% y/y. For Double 11 Period, Alibaba's market share was 37% in terms of GMV. (For Double 11 period GMV ranking, Alibaba was the largest e-commerce platform, followed by JD.com and Douyin respectively).

AI was the biggest surprise in terms of revenue and segment EBITA. AI-related product revenue grew at triple-digits y/y for the fifth consecutive quarter. The newly launched technologies and products by Alibaba: (1) Model Upgrade: In Apsara Conference 2024, the company released open-source model: Qwen2.5 series. It greatly improved the performance. The 3B and 14B versions of Qwen2.5 are applicable on the cell phone; (2) Cost-efficient and Accessible AI: As the largest cloud service provider in China, Alibaba prioritizes growing the user base by lowering the API token price to attract lots of new users at the early stage. By reducing the charge rate for API calls, making advanced AI technologies more affordable and accessible; (3) Comprehensive AI infrastructure upgrades: Recently, the company launched GPU container services, and upgraded AI server as well as high-performance network products. These improvements have significantly enhanced model training and inference efficiency across various industries. Among six segment, Cloud Intelligence Group contributed the second highest EBITA of US\$368 Million to the company (second only to TTG). In 3Q24, quarterly CAPEX quadrupled y/y to US\$2,347 Million. During the conference call, management suggested that the Capex investments were on AI infrastructure. On short term, AI demand explosively grow for the compute power that drives AI for the API services; on the long term, the company views opportunities on GenAI as a historic moment, which probably comes along only once every 20 years. In the upcoming era of GenAI, revenue and EBITA from Cloud Intelligence Group will play a more important role on Alibaba financially. On the application side, Alibaba's Quark integrates AI search, AI tools, scanning, network disk, learning, documents, health assistant and other functions to efficiently solve learning, life, and work problems, providing one-stop AI services.

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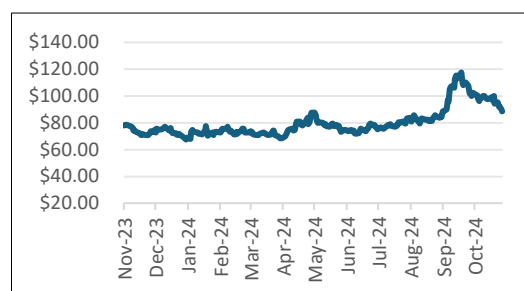
KEY DATA

Exchange: NASDAQ, HKEX
Ticker: BABA, HK:9988
Current Price: \$88.59
52-Week Range: \$66.07-\$117.82
Average Volume (3M): 20.18M
Shares Outstanding (MM): 2,393
Market Capitalization (\$MM): \$211,964
Fiscal Year-End: March

FINANCIALS

In US\$M	FY23A	FY24A	FY25E	FY26E
Revenue	123,875	134,211	138,920	150,088
Gross Profit	45,488	50,601	52,919	57,034
EBIT	14,310	16,164	17,778	22,663
Non GAAP				
Net Income	20,088	22,457	21,267	22,783

PRICE PERFORMANCE



Solid shareholder return. In F2Q25, the company repurchased a total of 414 million ordinary shares for a total of US\$4.1 Billion (made in both the NYSE and HKEX). Share repurchase was US\$5.8 Billion in F1Q25. Combining quarterly repurchases, the company spent a total of approximately US\$10 Billion for the first half of FY2025. Even after factoring in ESOP issuances, the company has achieved an equivalent share buyback of 4.4% total shares outstanding in the 6 months of FY2025, compared to a share buyback of 5.1% total shares outstanding for the entire year of FY2024. The remaining amount of Board authorization for the share repurchase program was US\$22 Billion in the end of F2Q25. Moreover, the company proactively managed dilution from the ESOP program by replacing a portion of the ESOP with long-term cash incentives starting FY2025. Alibaba's share buyback has highest dollar amount among all listed Chinese internet companies.

Alibaba is expected to step into a recovery phase. For e-Commerce companies, investors often use EV/EBITDA multiples for valuation. Here we select three groups of companies with similar business/financial profile for peer analysis. Alibaba's stock is currently trading at US\$88.59 per ADS, US\$211,964 Million in market cap. Consensus estimates 2024 and 2025 EBITDAs are estimated to be \$26,969 Million and \$29,414 Million, respectively, which translate into 7.4x and 6.8x of EV/EBITDA in 2024 and 2025, while the peer group is trading at 23x and 18x.

FINANCIALS AND VALUATION UPDATES

Figure 1: Alibaba's Financials 2022 – 2025E.

Unit: Million USD	FY2023	1FQ24	2FQ24	3FQ24	4FQ24	FY2024	1FQ25	2FQ25	3FQ25E	4FQ25E	FY2025E	FY2026E
Ending in	Mar-22					Mar-24					Mar-25	Mar-26
Revenue	123,875	33,391	32,055	37,126	31,639	134,211	34,685	33,725	38,171	32,338	138,920	150,088
Cost of revenue	-78,387	-20,299	-19,916	-22,276	-21,119	-83,610	-20,835	-20,539	-23,284	-21,343	-86,001	-93,055
Gross Profit	45,488	13,092	12,139	14,850	10,520	50,601	13,851	13,187	14,887	10,995	52,919	57,034
Product development expenses	-8,092	-1,492	-2,027	-1,923	-2,009	-7,452	-1,907	-2,022	-2,061	-1,746	-7,737	-8,105
Sales and marketing expenses	-14,759	-3,857	-3,634	-4,817	-4,111	-16,419	-4,662	-4,630	-5,268	-4,463	-19,023	-19,962
General and administrative expenses	-6,015	-1,041	-1,342	-1,606	-1,999	-5,987	-1,894	-1,394	-2,176	-1,843	-7,307	-7,805
Amortization and impairment of intangible assets	-1,926	-354	-347	-2,082	-297	-3,079	-256	-235	-382	-323	-1,196	1,501
Impairment of goodwill	-387	-290	0	-1,211	0	-1,500	0	0	0	0	0	0
Other gains, net	0	0	0	0	0	0	0	121	0	0	121	0
Other Operating Income (Expenses) - Net	-10,404	-2,135	-2,374	-5,216	-2,305	-12,031	-2,163	-2,136	-2,443	-2,070	-8,811	-6,604
Income from operations	14,310	6,059	4,789	3,210	2,105	16,164	5,132	5,026	5,000	2,619	17,778	22,663
Interest and investment income, net	-1,579	-841	732	-499	-813	-1,421	-211	2,653	-229	-194	2,020	-901
Interest expense	-844	-254	-264	-304	-310	-1,133	-312	-346	-344	-291	-1,293	-1,351
Other income, net	830	195	198	63	423	878	37	-211	191	162	178	600
Income before income tax and share of results of equity method investees	12,718	5,158	5,455	2,470	1,404	14,488	4,646	7,123	4,619	2,296	18,683	21,012
Income tax expenses	-2,217	-859	-827	-711	-816	-3,213	-1,435	-1,052	-970	-482	-3,939	-4,833
Share of results of equity method investees	-1,150	406	-822	-230	-457	-1,103	215	139	229	194	777	901
Net income	9,351	4,706	3,807	1,528	131	10,172	3,426	6,210	3,878	2,008	15,521	17,080
Non-GAAP Adjustment Items	10,737	1,700	1,924	5,310	3,351	12,285	2,342	-1,038	2,331	1,970	5,605	5,562
Non-GAAP net income	20,088	6,406	5,731	6,838	3,482	22,457	5,803	5,207	6,244	4,013	21,267	22,783

Source: GLH Research; Company filings.

Figure 2: Peer valuation analysis.

Company	Ticker	EV	EBITDA			EV/EBITDA			Category	
			2023A	2024E	2025E	2023A	2024E	2025E		
Amazon.com Inc	AMZN.O	2,200,930	85,515	141,657	165,439	25.7x	15.5x	13.3x	U.S. E-Commerce Companies	
eBay Inc	EBAY.O	32,393	2,485	3,221	3,349	13.0x	10.1x	9.7x	U.S. E-Commerce Companies	
Shopify Inc	SHOP.K	136,426	330	1,495	2,034	-	91.2x	67.1x	U.S. E-Commerce Companies	
Meta Platforms Inc	META.O	1,376,916	61,381	98,374	114,368	22.4x	14.0x	12.0x	U.S. Internet Companies	
Alphabet Inc	GOOGL.O	2,055,257	100,172	150,444	172,593	20.5x	13.7x	11.9x	U.S. Internet Companies	
Microsoft Corp	MSFT.O	3,103,885	129,433	149,430	172,646	24.0x	20.8x	18.0x	U.S. Internet Companies	
PDD Holdings Inc.	PDD.O	119,228	8,389	17,145	21,469	14.2x	7.0x	5.6x	Asia E-Commerce Companies	
JD.Com Inc	JD.O	47,195	5,246	6,863	7,635	9.0x	6.9x	6.2x	Asia E-Commerce Companies	
Sea Ltd	SE.N	55,725	784	1,890	2,625	71.1x	29.5x	21.2x	Asia E-Commerce Companies	
						Median	21.5x	14.0x	12.0x	
						Mean	25.0x	23.2x	18.3x	
Alibaba Group Holding Ltd	BABA.N	199,822	25,375	26,969	29,414	7.9x	7.4x	6.8x		

Notes:

1. Data as of 11/15/2024.
2. EVs and EBITDAs are in US\$ Million.
3. EBITDAs are in calendar year and estimates are 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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Yuecong (Marco) Zhang is a Senior Research Analyst at Gelonghui Research. Marco previously held the position of Senior Research Analyst at Watertower Research, Executive Director at Valuable Capital Group's Investment Banking Department, Vice President at Guosen Securities (HK), and Senior Associate at Roth Capital Partners, where he completed more than 35 transactions, including IPOs, follow-on offerings, and M&A, with a total transaction value of more than US\$3.5 Billion+ for mid-cap companies from China and the US. During his time at Roth, he led six NASDAQ and NYSE IPOs for Chinese clients, with a total transaction value of more than US\$260 Million. Marco holds a B.S. in Financial Management from North China Electric Power University and an M.S. in Applied Finance from Pepperdine University.

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