

INITIATION OF COVERAGE REPORT

Alibaba Group Holding Limited

Winter is Over: Alibaba Turns the Page

SUMMARY

We are initiating coverage of Alibaba Group Holding Limited (BABA). Alibaba is a leading internet company in China, founded in Hangzhou in 1999 with the mission of "To make it easy to do business anywhere in the world". Improving competition landscape for China's e-commerce industry, core customers (88VIP) and brand new full-site promotion (advertising tool) drive the recovery of Alibaba. With internet traffic from WeChat, Taobao and Tmall could penetrate further into lower-tier cities in China (a significant portion of Wechat users in China does not overlap with Taobao and Tmall). Moreover, entering HK Stock Connect in September 10 may attract up to US\$30 Billion into the stock from Southbound inclusion.

KEY POINTS

Largest global E-commerce company. In terms of GMV, Alibaba is the largest e-commerce company in the world. It was founded in Hangzhou in 1999 with the mission of "To make it easy to do business anywhere in the world", with around 9.3 Million MAU and US\$1.1 Trillion GMV in 2023. Recently, the company remains confident of achieving double-digit external cloud revenue growth in FY2H25, driven by strong AI computing demand. Alibaba completed dual primary listing on Aug 28, 2024, and effectively entered HK Stock Connect in September 10. Referencing China internet mega-cap peers' Southbound ownership as percentage of free-float market capitalization at 10%-15% (compared to Tencent, Meituan, and Xiaomi), the potential net buying may reach up to US\$30 Billion into Alibaba from Southbound inclusion. For shareholder's return, the company remains fully committed to ongoing buybacks/dividends and sees a broadened investor base with the recent Southbound inclusion.

Significant policy shift. In late September, on the background of China's incremental policy and overseas interest rate cut cycle, there were positive effects on Chinese Asset. It turned out to be a strong rebound on Chinese Asset. When policies switched to strongly pro-growth and competition landscape of China's e-commerce industry improved, the market share of Alibaba tends to stabilize in the near future. Under current circumstances, the e-commerce industry in China is expected to have a revaluation.

The market competition pattern of China's e-commerce industry has improved, and the growth rate of Douyin e-commerce has slowed down. In 1Q24, the overall GMV growth rate of Douyin e-commerce was 58%. The rapid slowdown in 2Q24 reached about 28%, and the growth rate fell further by 25% in June. At present, there is a high-single-digit difference in the growth rate of CMR and GMV in Alibaba, and the growth rate of CMR and GMV will be narrowed in the future. The upcoming Double 11 Shopping Festival is a good time to promote advertising products, which is expected to drive Taobao and Tmall Group's profit margin and year-on-year growth rate.

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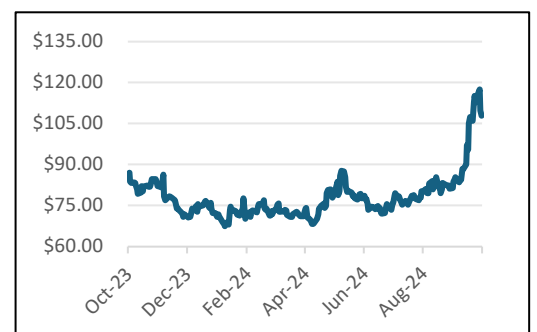
KEY DATA

Exchange: NYSE, HKEX
Ticker: BABA, HK:9988
Current Price: \$107.89
52-Week Range: \$66.07-\$117.82
Average Volume (3M): 2,319,071
Shares Outstanding (MM): 2,395
Market Capitalization (\$MM): \$258,394
Fiscal Year-End: March

FINANCIALS

In US\$M	FY23A	FY24A	FY25E	FY26E
Ending in	March-23	March-24	March-25	March-26
Revenue	123,875	134,211	143,229	154,072
Gross Profit	45,488	50,601	54,133	58,548
EBIT	14,310	16,164	17,301	22,186
Net Income-Non GAAP	20,088	22,457	21,940	24,715

PRICE PERFORMANCE



Organizational structure: Reshape Alibaba's priorities, clarify the two strategic directions of user-first and AI-focused, and enable young management. In 4Q23, after the adjustment on the company's management, it reshaped priorities at the level of Alibaba Group: (1) Sort out the strategic priorities, make it clear that e-commerce and cloud are the core businesses of Alibaba, and the two strategic directions are user-first and focus on artificial intelligence, stop the spin-off and listing of AIDC, Cainiao, Cloud Intelligence and other sub-groups, concentrating all resources on core business; (2) Personnel adjustment: The young management team will fully replace the current management team in next a few years, and "fully enable the young talents that has been trained at the grassroots level and emerged".

88VIPs build the foundation for Alibaba's recovery. In 2Q24, there are about 42 Million 88VIPs on the Taobao platform (providing free unlimited return and exchange services). This part of the customer group is Alibaba's core customer group, accounting for 40% of GMV in the long run. It is crucial to maintain the repurchasing activities of the core customer base. From 2020 to 2024, DAU will grow by about 15% every year.

Full-site promotion will drive CMR (Customer Management Revenue) growth in following quarters. "Full-site promotion" is new advertising tools (currently 40% of the internet traffic on the platform is not paid). By guaranteeing a certain ROI to merchants, the company can correspondingly ensure the growth of its own GMV. By Alibaba's LMA model, "full-site promotion" shifts the focus of merchants from "business-oriented" to "product-oriented". It effectively helps small and medium-sized enterprises to reduce labor costs and attract small and medium-sized enterprises to settle in. It utilizes a more accurate investment mechanism to reduce costs and improve the ROI for the merchant. "Full-site promotion" no longer distinguishes between paid traffic and organic traffic, and simple operation processes attract small and medium-sized enterprises. At this stage, about 30% of its merchants use "full-site promotion". The goal is to let more than 50% of merchants on the platform use the "full-site promotion" tool before Double 11 Shopping Festival. It means that if Alibaba can achieve its target, the GMV market growth is highly certain. Because the effect from "full-site promotion" tool is more visible, the overall GMV is relatively under control.






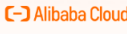


















Embracing WeChat Ecosystem. On September 4, it was reported that Alibaba's Taobao and Tmall is working to fully integrate Tencent's WeChat Pay. (1) By integrating with WeChat Pay, Taobao and Tmall could penetrate further into lower-tier cities, helping the company to stabilize its market share. It is estimated that there are several hundreds of millions of WeChat Pay users who are not Alipay users (mostly in lower-tier cities). (2) It also enhances Taobao and Tmall's user experience by offering more payment flexibility. However, it may harm Alipay's online payment market share potentially (direct impact on the listed company is limited via its 33% shareholding in Ant).

After completing the regulatory cycle and the industry cycle, 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\$107.89 per ADS, US\$258,394 Million in market cap. Consensus estimates 2024 and 2025 EBITDA are estimated to be \$27,544 Million and \$29,981 Million, respectively, which translate into 9x and 8x of EV/EBITDA in 2024 and 2025, while the peer group is trading at 22x and 18x. See our Valuation section for more details.

COMPANY OVERVIEW

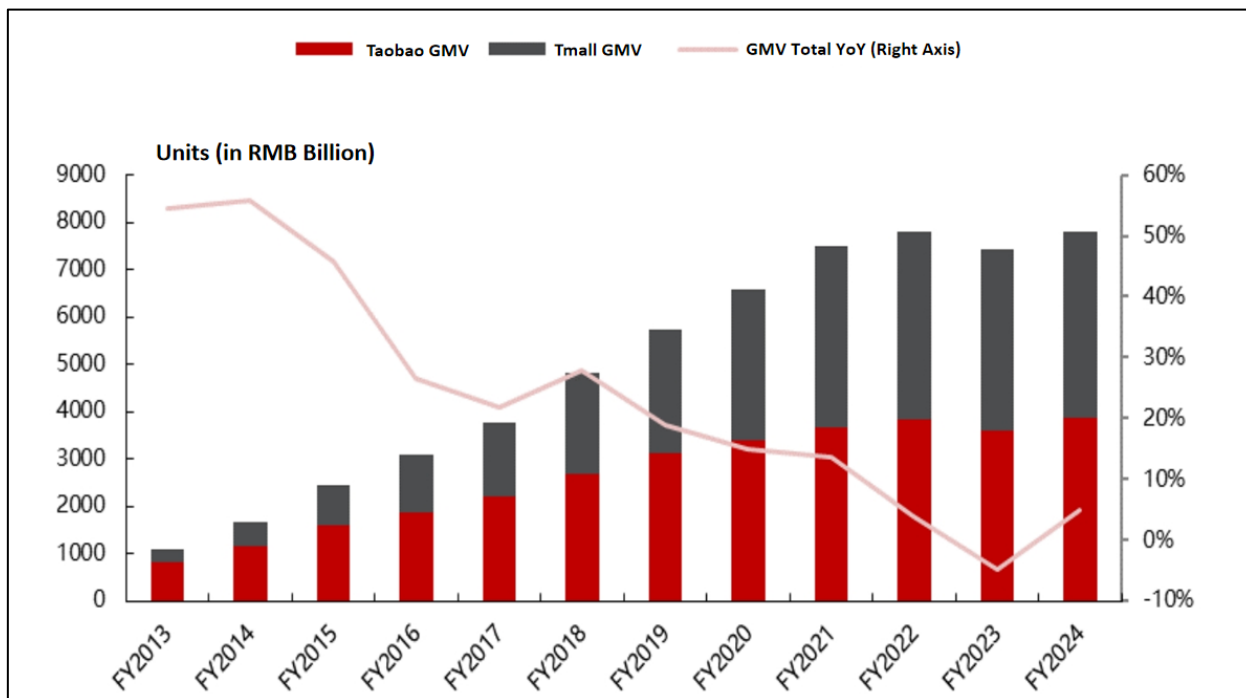
Alibaba Group (BABA.N) is a leading internet company in China, founded in Hangzhou in 1999 with the mission of “To make it easy to do business anywhere in the world”, with around US\$1.1 Trillion GMV and 9.3 Million MAU in 2023. The company remains confident of achieving double-digit external cloud revenue growth in FY2H25, driven by strong AI computing demand. For shareholder return policies, the company remains fully committed to ongoing buybacks/dividends and sees a broadened investor base with the recent Southbound inclusion.

Figure 1: Alibaba’s Product Matrix.

Taobao and Tmall Group	Cloud Intelligence Group	Alibaba International Digital Commerce Group	Cainiao Smart Logistics Network Limited	Local Services Group	Digital Media and Entertainment Group	All Others
Retail		Retail		To Home		
    		 trendyol   			  	 Quark      Floggy
Wholesale		Wholesale		To Destination		
						

Source: GLH Research; Company filings.

Figure 2: Taobao’s and Tmall’s GMV in FY2013 – FY2024.

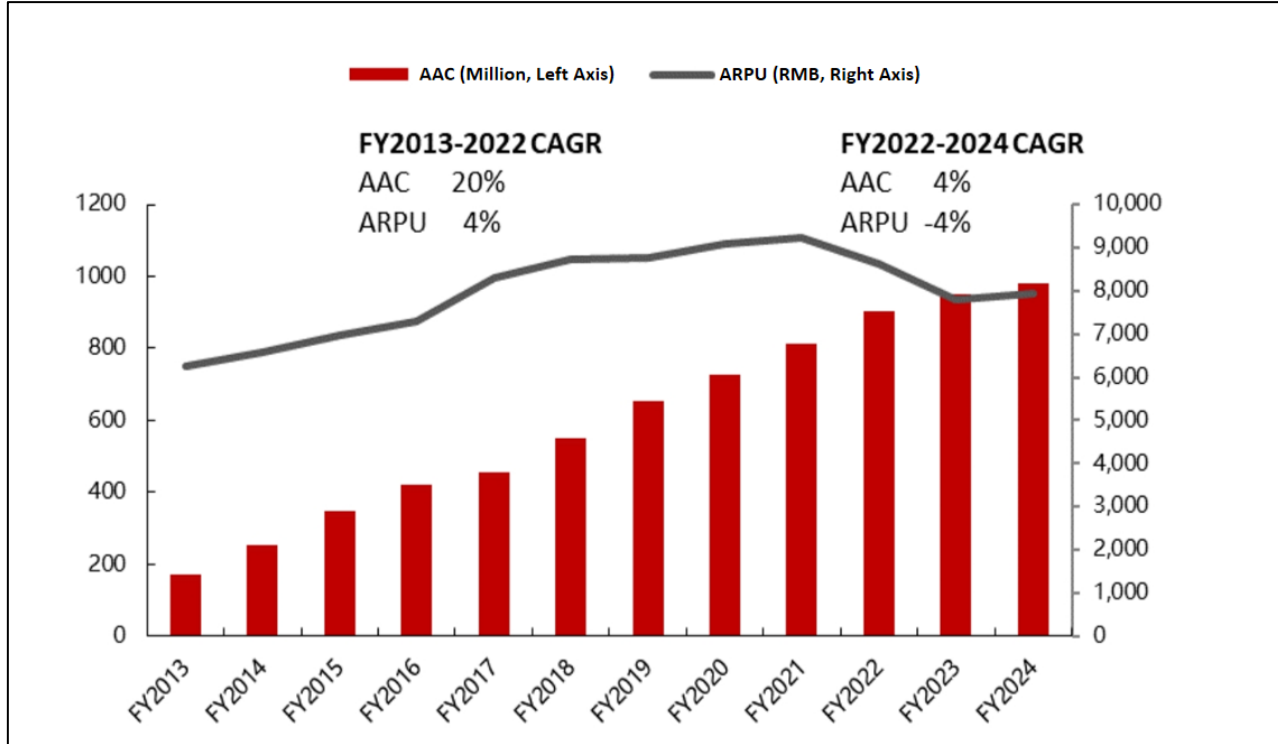


Source: GLH Research; Company filings.

The first target is GMV by adjusting the traffic distribution mechanism. The platform GMV can be decomposed into two factors: annual active consumer (AAC) and average revenue per user (ARPU). (The numerical relationship is $GMV = AAC \times ARPU$). There are two major logics for internet traffic allocation: one focuses on attracting users to make transactions at low prices and pushing up the order volume; the other uses GMV as the core indicator, with more diverse evaluation angles, in addition to the unit price, it will also integrate other user indicators. During the implementation of Taobao and Tmall's low-price strategy, the platform adopted the first

logic, and thus increasing the number of Taobao and Tmall transaction buyers and order volume, partially offset by the decrease in the average order value. However, the platform adjusted to the second logic in June 24, looking for high GMV as the first goal. After Taobao returns to GMV to allocate weights on core traffic, it will no longer simply pursue the order volume, but pay more attention to the brand, service and customers' impression accumulated by Taobao and Tmall for a long time, further balance low price and quality, and do a good job in customer service.

Figure 3: Taobao and Tmall Group's ACC and ARPU Breakdown in FY2013 – FY2024.



Source: GLH Research; Company filings.

Management

Jack Yun MA, Former Chairman. From 1999 through May 2013, Jack served as chairman and chief executive officer. He is also the founder of the Zhejiang-based Jack Ma Foundation. In May 2019, he was renamed as a Sustainable Development Goals (SDGs) advocate by the United Nations.

Joseph C. TSAI, Chairman. From 1995 to 1999, Mr. TSAI was a private equity investor based in Hong Kong with Investor AB, the main investment vehicle of Sweden's Wallenberg family. Prior to that, he was general counsel of Rosecliff, Inc., a management buyout firm based in New York. From 1990 to 1993, Joe was an associate attorney in the tax group of Sullivan & Cromwell LLP, a New York-based international law firm. Joe is qualified to practice law in the State of New York.

Eddie Yongming WU, CEO of Alibaba Group, CEO of Taobao and Tmall Group, and CEO of Cloud Intelligence Group. From September 2014 to September 2019, Mr. Wu was a special assistant to Alibaba Group's chairman. In August 2015, Mr. Wu founded Vision Plus Capital, a venture capital firm focused on investing in the areas of advanced technologies, enterprise services and digital healthcare.

Toby Hong XU, CFO. Before joining Alibaba Group, Mr. XU was a partner at PricewaterhouseCoopers for 11 years, where he joined in 1996. He is a member of the Chinese Institute of Certified Public Accountants.

Jane Fang JIANG, Chief People Officer. Mr. JIANG joined the company in 1999 as a member of the founding team. Over the years, Mr. JIANG has held a number of senior management roles in different departments within the company, at different times leading China TrustPass product planning, business analysis, global operations, website operations and marketing for Alibaba.com, as well as credit system development.

Fan JIANG, co-chairman and CEO of Alibaba International Digital Commerce Group. Previously, Mr. JIANG founded and served as the chief executive officer of Umeng, a provider of mobile app analytics solutions for developers which we acquired. Before founding Umeng in 2010, he worked in product development at Google China.

Lin WAN, CEO of Cainiao Smart Logistics. Prior to joining Cainiao, Mr. WAN was a senior executive at Amazon's global logistics division. Lin holds a Ph.D. in operational research from The University of Texas in Austin.

Luyuan FAN, CEO of Digital Media and Entertainment Group. Mr. FAN joined Alipay in 2007 where he served in a number of senior management positions, including the president of Alipay and the president of Ant Group's wealth management business.

Share Ownership

As of May 20, 2024, Alibaba's directors and executive officers as a group was the largest shareholders, holding 1.8% of stake. The second largest shareholder, PRIMECAP Management Company, held 176 Million shares. Sanders Capital, LLC/ Dodge & Cox/ Fidelity International held 148/145/85 Million shares respectively, corresponding to 0.8%/0.8%/0.4% of stake.

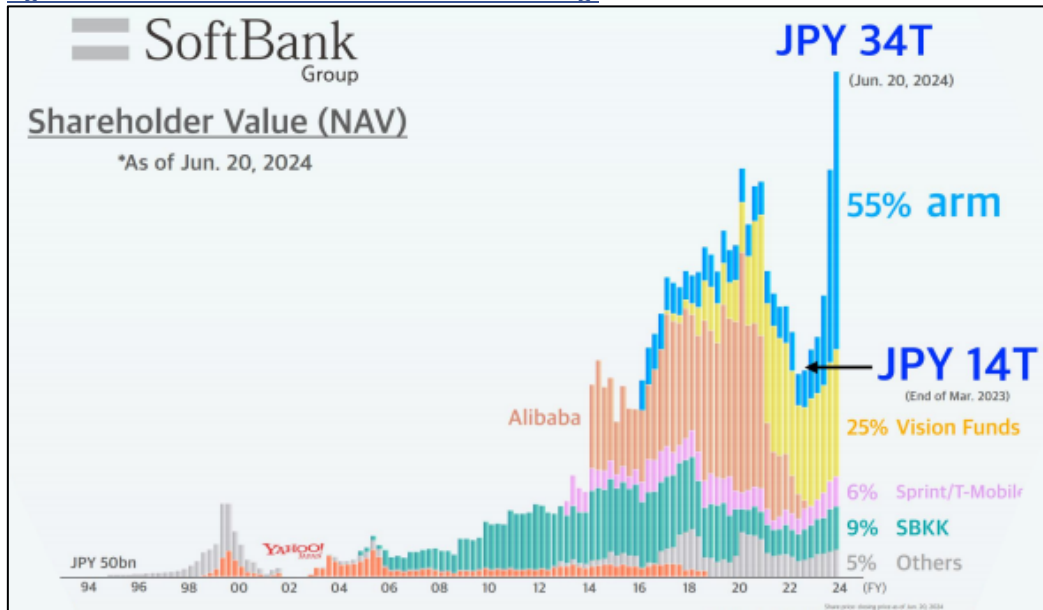
Figure 4: Top 10 Shareholders of Alibaba with Ordinary Shares Holding and Percentage of Ownership.

Shareholders	Investor Name	Shares Outstanding(Million)	%
1	All directors and executive officers as a group	356	1.8%
2	PRIMECAP Management Company	176	0.9%
3	Sanders Capital, LLC	148	0.8%
4	Dodge & Cox	145	0.8%
5	Fidelity International	85.0	0.4%
6	Appaloosa Management, L.P.	84.6	0.4%
7	Temasek Holdings Pte. Ltd.	74.2	0.4%
8	Jane Street Capital, L.L.C.	74.2	0.4%
9	J.P. Morgan Securities LLC	69.0	0.4%
10	Goldman Sachs & Company, Inc.	65.4	0.3%
Others		18067	93.4%
Total		19345	100%

Source: GLH Research; Company filings.

SoftBank has almost zero stake in Alibaba. According to the announcement of Alibaba and SoftBank, the first reduction occurred in June 2016, when SoftBank sold part of its stake in Alibaba to raise funds, resulting in a reduction in its stake from 32% to 29.2%. Later, SoftBank reduced its holdings several times from 2019 to 2021, mainly in the form of forward contracts, holding about 23.9% of its shares by the end of FY2022. In August of the same year, SoftBank announced the early delivery of a forward contract involving 242 million shares of Alibaba, and its shareholding plummeted to 14.6% after the reduction. By May 2024, SoftBank announced that it had almost sold out its stake in Alibaba, and Alibaba's share of SoftBank's net asset value had fallen to "almost zero." Because some holdings of SoftBank have not yet been physically settled, SoftBank still shows up on Alibaba's 20-F report.

Figure 5: SoftBank Has Almost Zero Alibaba's Holding.

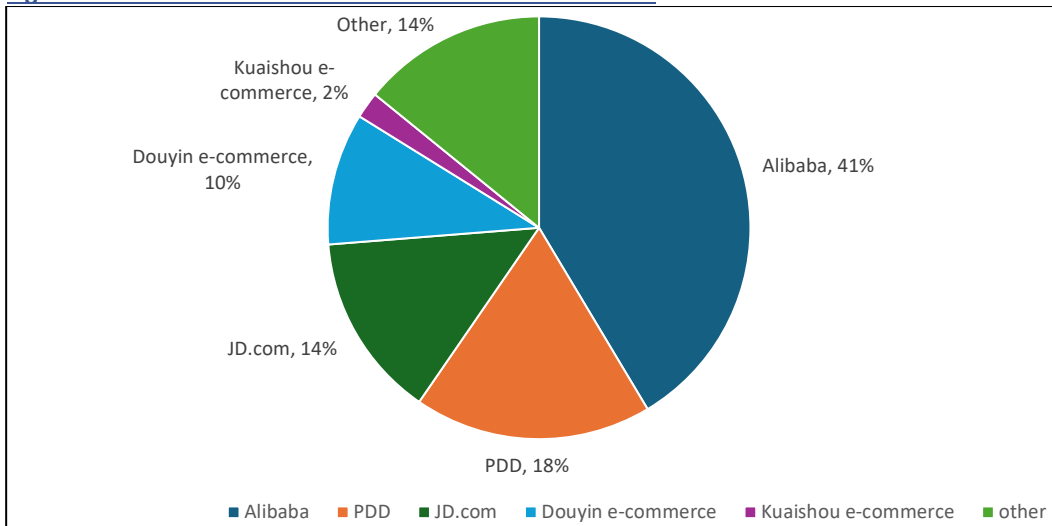


Source: GLH Research; Company filings.

INDUSTRY OVERVIEW

The market competition pattern of China's e-commerce industry has improved. Assuming the market shares of PDD and JD.com remain stable, the slowing down of Douyin and Kuaishou may lead to a rebound of Alibaba's market share. In 1Q24, the overall GMV growth rate of Douyin e-commerce was 58%. The rapid slowdown in 2Q24 reached about 28%, and the growth rate fell further by 25% in June. At present, there is a high-single-digit difference in the growth rate of CMR and GMV in Alibaba, and the growth rate of CMR and GMV will be narrowed in the future. The upcoming Double 11 Shopping Festival is a good time to promote advertising products, which is expected to drive Taobao and Tmall Group's profit margin and year-on-year growth rate.

Figure 6: China E-Commerce Market Share in Term of GMV.



Source: GLH Research; Company filings.

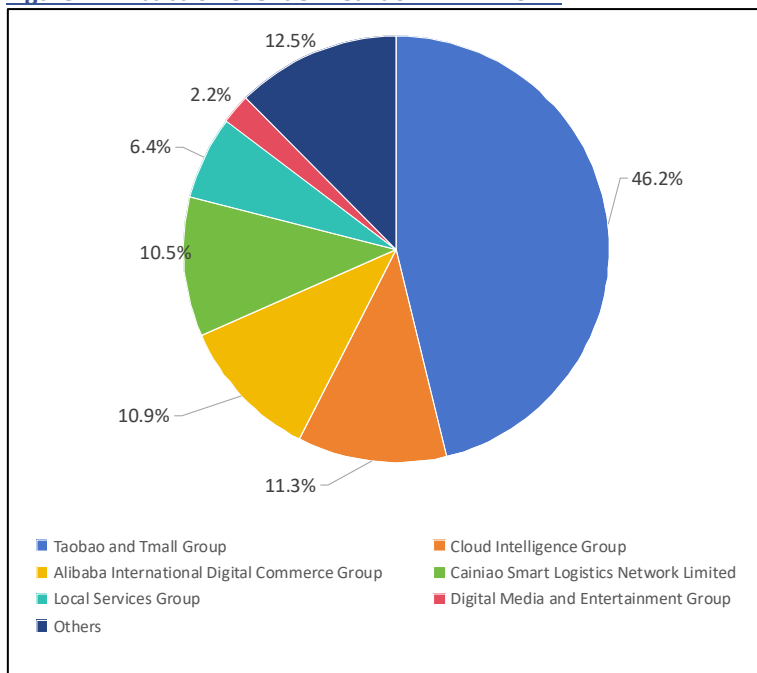
Significant policy shift. On September 24, People's Bank of China Governor announced a new monetary easing policy mix at a joint press conference with the State Administration for Market Regulation and the China Securities Regulatory Commission, with a simultaneous cut in the policy rate and reserve ratio, a relatively large rate cut, and unusual guidance for further policy easing, including policy rate cuts, real estate policy easing, and new monetary policy tools for stock ownership. The expansionary monetary policy may support the real economy. On September 26, during the meeting held by the Political Bureau of the Communist Party of China Central Committee, it is emphasized that "effectively implement the stock policy and strengthen the introduction of incremental policies", "It is necessary to intensify the counter-cyclical adjustment of fiscal and monetary policies", "it is necessary to

issue and use ultra-long-term special treasury bonds and local government special bonds", "it is necessary to reduce the deposit reserve ratio and implement a strong interest rate cut", "it is necessary to promote the real estate market to stop falling and stabilize", "vigorously guide medium and long-term funds to enter the market", "it is necessary to combine the promotion of consumption and the people's well-being", "it is necessary to increase the efforts to attract and stabilize capital investment". When policies switched to strongly pro-growth and competition landscape of China's e-commerce industry improved, the market share of Alibaba tends to stabilize. Under current circumstances, the e-commerce industry in China is expected to have a revaluation.

Business Summary

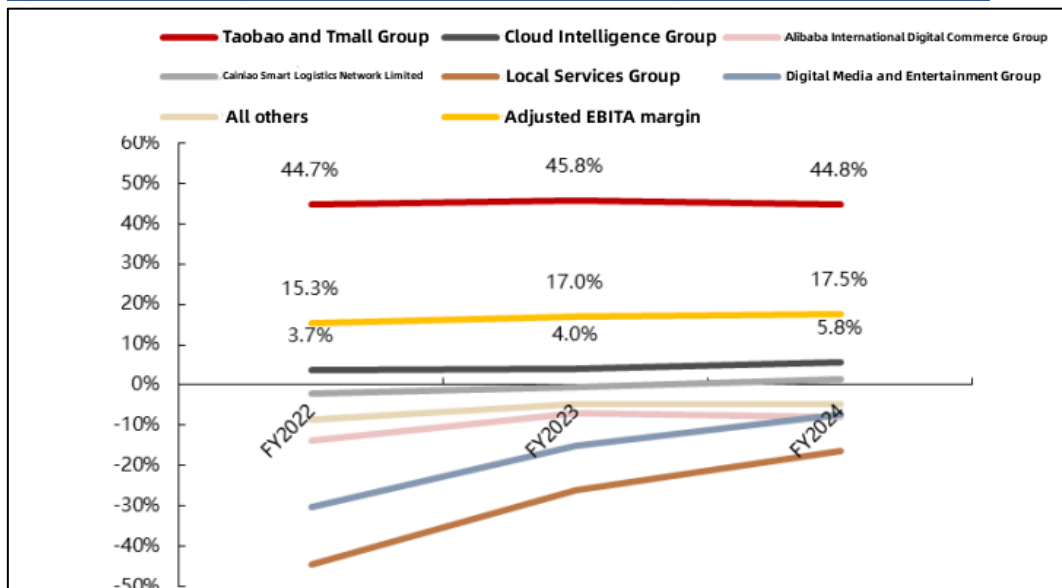
Alibaba's revenue is mainly composed by six parts: Taobao and Tmall Group, Cloud Intelligence Group, Alibaba International Digital Commerce Group (AIDC), Cainiao Smart Logistics Network, Local Services Group, and Digital Media and Entertainment Group. In terms of revenue in FY2024, Taobao and Tmall Group is the largest part, making up 46% of revenue. Cloud Intelligence Group and AIDC made up 11% and 11% of revenue respectively.

Figure 7: Alibaba's Revenue Breakdown in FY2024.



Source: GLH Research; Company filings.

Figure 8: Alibaba's Adjusted EBITAs for Different Business Segments in FY2022 – FY2024.



Source: GLH Research; Company filings.

(1) Revenue from China commerce retail business in FY2024 was US\$59,109 Million, increasing by 5% year on year. Customer management revenue was US\$43,361 Million, increasing by 4% year on year, primarily due to healthy growth in online GMV. Revenue from China commerce wholesale business in fiscal year 2024 was US\$2,921 Million, increasing by 15% year on year, primarily due to an increase in revenue from value-added services provided to paying members.

(2) Revenue from Cloud Intelligence Group was US\$15,169 Million in FY2024, increasing by 3% year on year, mainly driven by Alibaba-consolidated businesses. Overall revenue excluding Alibaba-consolidated subsidiaries decreased slightly year-on-year as the company's transition away from low-margin project-based revenues. Management expects that strong revenue growth in public cloud and AI-related products will offset the impact of the roll-off of project-based revenues.

(3) Revenue from International commerce retail business in FY2024 was US\$11,646 Million increasing by 60% year on year, primarily due to solid combined order growth of AIDC's retail businesses, revenue contribution from AliExpress' Choice as well as improvements in monetization. The international businesses generate revenue in local currencies while the reporting currency was denominated in RMB, so AIDC's revenue is affected by exchange rate fluctuations. Revenue from international commerce wholesale business in FY2024 was US\$2,987 Million, increasing by 7% year on year, primarily due to an increase in revenue generated by cross-border related value-added services.

(4) Revenue from Cainiao Smart Logistics Network Limited was US\$14,120 Million in FY2024, increasing by 28% year on year, primarily contributed by the increase in revenue from cross-border fulfillment services.

(5) Revenue from Local Services Group was US\$8,528 Million in FY2024, increasing by 19% year on year, primarily due to the order growth of Ele.me and Amap.

(6) Revenue from Digital Media and Entertainment Group was US\$3,015 Million in FY2024, increasing by 15% year on year, primarily driven by the strong revenue growth of offline entertainment businesses of Alibaba Pictures.

88VIP

Under the market condition of turning to existing market competition, E-commerce users require constant improvement on experience and service, and Membership business has become an important way to strengthen the "user-centric" strategy. It is important to serve the core customers well, during the existing market competition. Alibaba strives to increase its investment in 88VIP, expand the rights and interests of 88VIP, and focus on serving high-quality customers (high consumption, high repurchase rate and high purchasing power). At the same time, the membership benefits continue to be iteratively upgraded, emphasizing the "exclusive" experience of consumers, and promoting the rapid growth of member users. Through 88VIP, Taobao can attract users with high purchasing power, improving Taobao's GMV and profits. 88VIP contributed about US\$2,850 Billion GMV in 2023.

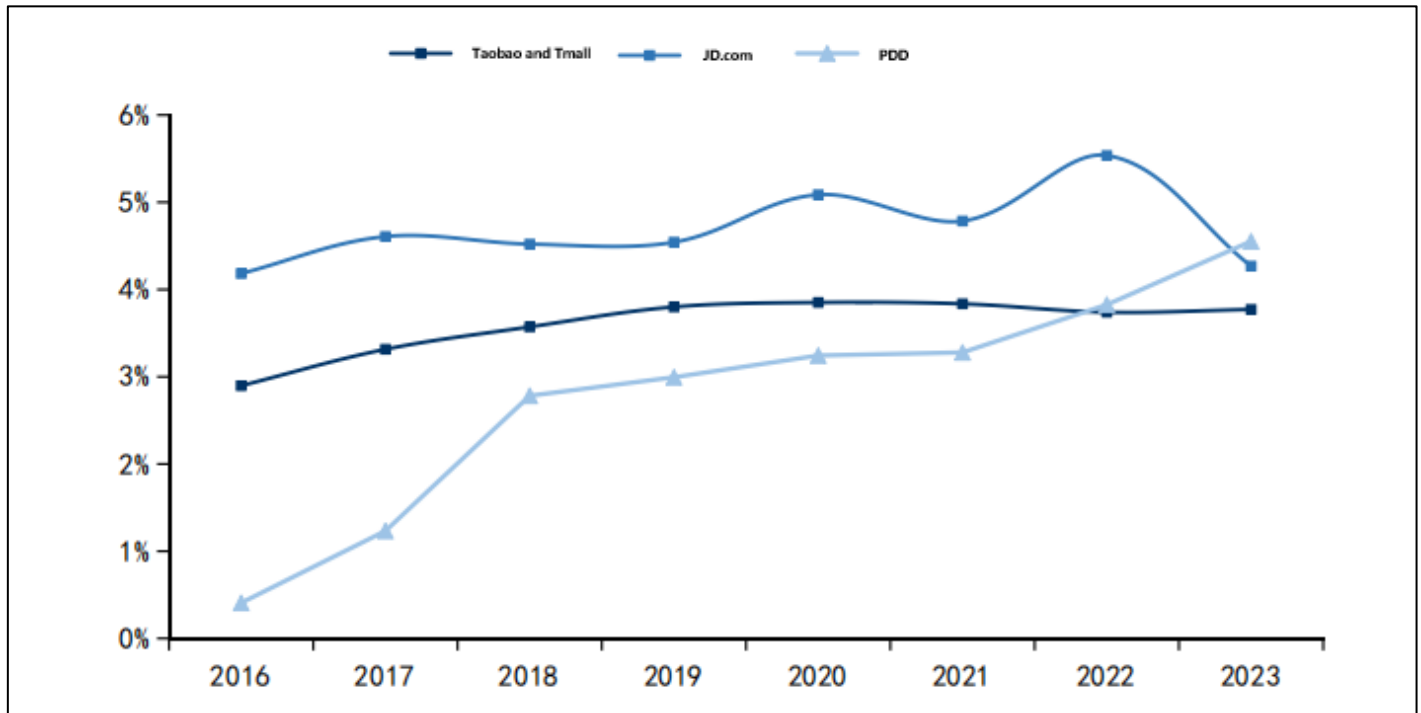
Taobao cultivates the loyalty of high-quality customers through 88VIP and locks in those high-spending customers. In terms of high awareness, Alibaba divides ordinary members and super members according to the naughty value of 1000 points, giving consumers a high degree of paid membership awareness. In terms of high value, there are many internet application ecosystems, comprehensive layouts for different applications, including food delivery, travel, music, video, and e-commerce, and etc. It solves the pain points of tedious registration and recharge of users, and brings service perception to members covering the different dimensions of life. It further accumulates high-quality loyal users, extending the usage time. Eventually, it enhances user competitiveness, and achieves long-term stable growth. In October 2023, Taobao added shopping cards and all-round cards to build a diversified membership product system to meet the core needs of different groups of people. In April 2024, Alibaba's 88VIP membership rights upgraded again, and the e-commerce rights and interests expanded to 1,000 selected brands with 95% off all stores, and unlimited return shipping services were introduced, driving the number of Taobao members to exceed 42 million in 24Q2.

Full-Site Promotion

Full-site promotion is a new advertising tool launched by Taobao and Tmall Group in 2024. It will help lower the threshold for merchants, increase the paid penetration rate of small and medium-sized merchants, improve the accuracy and effectiveness of

advertising, and thus improve the overall monetization rate of the platform. The necessity of "Full-Site Promotion" is that the competition among e-commerce platforms has shifted to pay more attention to product quality and SKU richness. From an in-depth perspective, it is expected to revitalize the side-wide traffic through the new traffic allocation mechanism. It may attract small and medium-sized businesses to settle in, and further improve the take rate. Due to attracting a large number of small and medium-sized merchants to pursue GMV growth, the take rate of Taobao and Tmall Group has been under pressure. "Full-Site Promotion" can identify customer characteristics and traffic distribution reach rules more accurately, through Alibaba's LMA model. Full-site promotion emphasizes simple process and high production. It will help factories and brand stores with supply chain advantages to find target group for categorization and sales. It can generate personalized creative content to effectively improve ROI to achieve following three goals: (1) It changes the focus of merchants from "heavy operation" to "heavy goods". (2) It effectively helps small and medium-sized businesses reduce labor costs and attract small and medium-sized businesses to settle in. (3) With a more accurate investment mechanism, it may reduce costs, increase efficiency, and thus improve the take rate.

Figure 9: Take Rate Comparison for Alibaba, PDD and JD.com in 2016 – 2023.



Source: GLH Research; Company filings.

Compared with traditional promotion tools: (1) "Full-Site Promotion" can make higher use of the traffic distribution mechanism and break through the boundary between paid and organic traffic pools, thereby improving the ROI efficiency of merchants. In the past, advertising products were limited by paid traffic pools, and the distribution path of natural traffic was difficult to determine and unstable. "Full-Site Promotion" no longer distinguishes between paid and organic traffic. Merchants can leverage organic traffic through paid traffic, thereby improving traffic utilization efficiency. (2) "Full-Site Promotion" occupies the core resource position, which can utilize internet traffic across different Alibaba's platforms. "Full-Site Promotion" occupies core resource slots such as search results page, Home - Guess You Like, Purchase/After - Guess You Like, etc., to realize the site-wide traffic. (3) The operation process of "Full-Site Promotion" is simple, which is suitable for small and medium-sized businesses to get started with operation. "Full-Site Promotion" only needs to complete the three steps of "selecting products, setting budgets, and setting site-wide ROI goals" to achieve intelligent promotion of site-wide traffic and obtain deterministic growth.

Alibaba Has Completed a Three-year Rectification

In April 2021, the State Administration for Market Regulation imposed administrative penalties on Alibaba for its "either-or" monopolistic behavior in China's domestic online retail platform service market, and carried out a three-year self-inspection and rectification. On August 30 2024, the State Administration for Market Regulation (SAMR) issued an announcement announcing that Alibaba Group had completed a three-year rectification and achieved good results. After three years of rectification, Alibaba has not only corrected its own misconduct, but also set an example for other platform companies. It prompts the entire internet platform

economy to pay more attention to compliance operations. Alibaba responded: "This is a new starting point for development. In the future, we will continue to be based on innovation, adhere to compliance management, increase investment in science and technology, promote the healthy development of the internet platform economy, and create more value for the society."

New Organizational Structure

Reshape Alibaba's priorities, clarify the two strategic directions of user-first and AI-focused, and enable young management. In September 2023, Joseph TSAI and Eddie WU succeeded Daniel Zhang, and in December 2023 Eddie WU replaced Trudy Dai as Taobao and Tmall Group CEO. Eddie WU reshape priorities at the level of Alibaba Group: (1) Sort out the strategic priorities, make it clear that e-commerce and cloud are the core businesses of Alibaba, and the two strategic directions are user-first and focus on artificial intelligence, stop the spin-off and listing of AIDC, Cainiao, Cloud Intelligence and other sub-groups, concentrating all resources on core business; (2) Personnel adjustment: The company will continue to deepen its organizational reform, use more flexible and open governance mechanisms, and continuously strengthen the independent decision-making system for each business. It has also set clear requirements and goals for the youngization of its management team, aiming to have 80s and 90s become the mainstay of management within the next four years, update its business management team, and create more young Alibaba people as the core forces of the company.

Taobao Integrates into Tencent's Ecosystem

On September 4, Alibaba's Taobao and Tmall is working to fully support Tencent's WeChat Pay. Because Chinese internet giants have been "blocking" each other for over a decade, the news of the top ecosystems of Alibaba and Tencent getting connected is a key step towards the "interconnection" of the internet industry. It served as a landmark event signifying the "demolition" of walls. Taobao officially announced that it plans to add WeChat Payment and gradually open them up to all merchants on the Taobao and Tmall platforms, marking a milestone in the progress of tearing down walls between internet giants. (1) By integrating with WeChat Pay, Taobao and Tmall could penetrate further into lower-tier cities, helping the company to stabilize its market share. It is estimated that there are several hundreds of millions of WeChat Pay users who are not Alipay users (mostly in lower-tier cities). (2) It also enhances Taobao and Tmall's user experience by offering more payment flexibility. However, it may harm Alipay's online payment market share potentially (direct impact on the listed company is limited via its 33% shareholding in Ant).

Dual Primary Listing On HKEX

On August 28, Alibaba completed its dual primary listing in HKEX, becoming a dual-primary listed company on the Hong Kong Stock Exchange and the New York Stock Exchange. It broadened financing channels for internet platform economy, enabled the company to attract international and domestic investors, boosted the company's valuation and global influence, and injected strong impetus into the development of the industry. The dual primary listing in HKEX enhances the company's position in the capital markets, increasing the liquidity and market value of the company's shares. It also enhances its competitiveness in the international capital markets. On September 10, Alibaba was officially included in the HK Stock Connect, allowing domestic investors in China Mainland to purchase Alibaba's shares and benefit from the economic dividends of China. Referencing China internet mega-cap peers' Southbound ownership as percentage of free-float market capitalization at 10%-15% (compared to Tencent, Meituan, Xiaomi), the potential net buying may reach up to US\$30 Billion into Alibaba from Southbound inclusion.

FINANCIALS and VALUATION

In FY1Q25, revenue was US\$34,685 Million, increasing by 4% year-over-year. Adjusted EBITA decreased by 1% year-over-year to US\$6,422 Million. Net income was US\$3,426 Million, decreasing by 27% year-over-year, primarily due to a decrease in income from operations and the increase in impairment of investments, partly offset by the mark-to-market changes from equity investments. Non-GAAP net income was US\$5,803 Million, decreasing by 9% year on year.

Figure 10: Alibaba's Financials 2022 – 2026.

Unit: Million USD	FY2023	1FQ24	2FQ24	3FQ24	4FQ24	FY2024	1FQ25	2FQ25E	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	34,594	39,865	34,085	143,229	154,072
Cost of revenue	-78,387	-20,299	-19,916	-22,276	-21,119	-83,610	-20,835	-21,448	-24,318	-22,496	-89,097	-95,525
Gross Profit	45,488	13,092	12,139	14,850	10,520	50,601	13,851	13,146	15,547	11,589	54,133	58,548
Product development expenses	-8,092	-1,492	-2,027	-1,923	-2,009	-7,452	-1,907	-1,868	-2,153	-1,841	-7,768	-8,320
Sales and marketing expenses	-14,759	-3,857	-3,634	-4,817	-4,111	-16,419	-4,662	-4,774	-5,501	-4,704	-19,641	-21,262
General and administrative expenses	-6,015	-1,041	-1,342	-1,606	-1,999	-5,987	-1,894	-1,972	-2,272	-1,943	-8,081	-8,320
Amortization and impairment of intangible assets	-1,926	-354	-347	-2,082	-297	-3,079	-256	-346	-399	-341	-1,341	1,541
Impairment of goodwill	-387	-290	0	-1,211	0	-1,500	0	0	0	0	0	0
Other Operating Income (Expenses) - Net	-10,404	-2,135	-2,374	-5,216	-2,305	-12,031	-2,163	-2,214	-2,551	-2,181	-9,109	-6,779
Income from operations	14,310	6,059	4,789	3,210	2,105	16,164	5,132	4,186	5,222	2,761	17,301	22,186
Interest and investment income, net	-1,579	-841	732	-499	-813	-1,421	-211	-208	-239	-205	-862	-924
Interest expense	-844	-254	-264	-304	-310	-1,133	-312	-311	-359	-307	-1,289	-1,387
Other income, net	830	195	198	63	423	878	37	173	199	170	579	616
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	3,840	4,824	2,420	15,730	20,492
Income tax expenses	-2,217	-859	-827	-711	-816	-3,213	-1,435	-806	-1,013	-508	-3,763	-4,713
Share of results of equity method investees	-1,150	406	-822	-230	-457	-1,103	215	208	239	205	866	-924
Net income	9,351	4,706	3,807	1,528	131	10,172	3,426	3,241	4,050	2,116	12,833	14,854
Non-GAAP Adjustment Items	10,737	1,700	1,924	5,310	3,351	12,285	2,342	2,110	2,436	2,078	8,966	9,720
Non-GAAP net income	20,088	6,406	5,731	6,838	3,482	22,457	5,803	5,386	6,522	4,230	21,940	24,715

Source: GLH Research; Company filings.

After completing the regulatory cycle and the industry cycle, 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\$107.89 per ADS, US\$258,394 Million in market cap. Consensus estimates 2024 and 2025 EBITDAs are estimated to be \$27,544 Million and \$29,981 Million, respectively, which translate into 9x and 8x of EV/EBITDA in 2024 and 2025, while the peer group is trading at 22x and 18x.

Figure 11: Peer valuation analysis.

Company	Ticker	EV	EBITDA			EV/EBITDA			Category
			2023A	2024E	2025E	2023A	2024E	2025E	
Amazon.com Inc	AMZN.O	1,986,500	85,515	136,657	158,765	23.2x	14.5x	12.5x	U.S. E-Commerce Companies
eBay Inc	EBAY.O	35,857	2,485	3,224	3,385	14.4x	11.1x	10.6x	U.S. E-Commerce Companies
Shopify Inc	SHOP.K	102,703	330	1,367	1,858	-	75.1x	55.3x	U.S. E-Commerce Companies
Meta Platforms Inc	META.O	1,479,814	61,381	95,634	111,506	24.1x	15.5x	13.3x	U.S. Internet Companies
Alphabet Inc	GOOGL.O	1,927,193	100,172	146,885	168,685	19.2x	13.1x	11.4x	U.S. Internet Companies
Microsoft Corp	MSFT.O	3,125,317	129,433	147,338	170,765	24.1x	21.2x	18.3x	U.S. Internet Companies
PDD Holdings Inc.	PDD.O	153,573	8,389	17,411	21,735	18.3x	8.8x	7.1x	Asia E-Commerce Companies
JD.Com Inc	JD.O	54,434	5,246	6,885	7,615	10.4x	7.9x	7.1x	Asia E-Commerce Companies
Sea Ltd	SE.N	53,714	784	1,834	2,425	68.6x	29.3x	22.1x	Asia E-Commerce Companies
						Median	21.2x	14.5x	12.5x
						Mean	25.3x	21.8x	17.5x
Alibaba Group Holding Ltd	BABA.N	234,967	25,375	27,544	29,981	9.3x	8.5x	7.8x	

Notes:
1. Data as of 10/09/2024.
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.

RISKS

Risks on industry competition landscape. Due to the size and scale of Alibaba, the businesses may not continue to grow as quickly. On the industry, there are rapid market change, introduction of new business models, and the new and well-funded industry entrants. It may affect Alibaba's market share negatively.

Risks on Regulations. Regulations may impose significant regulatory approval and review requirements. It could make it more difficult for the company to pursue growth through acquisitions and subject to fines or other administrative penalties.

Risk on profitability. The company is currently concentrating resources on the development of its core business, and has a large AI investment, if the business continues to increase investment and the investment business performs poorly, it may have an impact on profitability.

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