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3FQ25 EARNINGS UPDATE

Alibaba Group Holding Limited

Leading China's AI Innovation in the Wake of DeepSeek

SUMMARY

Alibaba (BABA, HK9988) announced its 3FQ25 results before the market open on February 20, 2025. For the quarter, revenue increased 8% YoY to US$39 billion, with non-GAAP net income and adjusted EBITDA reaching US$7.0 billion and US$8.6 billion, respectively. Cloud revenue saw a 13% YoY increase, outperforming the consensus estimate of 10%, driven by significant growth in AI-related products, which delivered triple-digit growth for the sixth consecutive quarter. Alibaba's planned investment in cloud and AI infrastructure over the next three years is set to surpass the company's cumulative spending over the past decade. We have raised our FY26 revenue forecast to US$152 billion, with FY26 non-GAAP net income projected to reach US$23 billion.

KEY POINTS

Solid Beat on Consensus. In 3FQ25, Alibaba (BABA) reported total revenues of US$39 billion, an 8% year-over-year (YoY) increase, in line with market expectations. Non-GAAP net income and adjusted EBITDA reached US$7.0 billion and US$8.6 billion, respectively. Customer Management Revenue (CMR) grew by 9% YoY, exceeding consensus expectations by 4%, primarily driven by GMV growth and improved take rates. Cloud revenue increased 13% YoY, beating the 10% consensus forecast by 3%, with AI-related product revenue continuing to demonstrate impressive triple-digit growth for the sixth consecutive quarter. Total adjusted EBITDA rose 4% YoY, surpassing the consensus estimate of 2%. Adjusted EBITDA for Taobao and Tmall Group grew by 2% YoY, outperforming the consensus forecast of a 2% decline. Capital expenditures (Capex) reached US$4.38 billion, representing 11% of quarterly revenue, compared to US$1.22 billion in 3FQ24, which accounted for 3% of revenue. Year-to-date Capex totaled US$8.46 billion. During 3FQ25, Alibaba repurchased 15 million ADSs for US$1.3 billion, down from 52 million ADSs repurchased for US$4.1 billion in 2FQ25. The remaining repurchase authorization of US$20.7 billion is effective through March 2027.

Evaluating Alibaba's Position After the DeepSeek Disruption. The launch of DeepSeek's open-source AI model has sent shockwaves through the global AI landscape. On January 27, 2025, DeepSeek's core model, DeepSeek-R1, surpassed ChatGPT on the U.S. Apple App Store, creating widespread industry buzz. With a training cost of only US$5.6 million, DeepSeek-R1's performance rivals OpenAI's GPT-4o, yet it consumes only 1/10th the computing power of GPT-4o. DeepSeek's efficient use of technology allows it to train its model with just 2048 H800 AI chips, and its proprietary advancements have pushed GPU utilization to 92%, well above the industry average of 65%. In response, on January 29, 2025, Alibaba Cloud launched its Qwen2.5-Max model, based on a Mixture of Experts (MoE) architecture, outperforming both DeepSeek-V3 and GPT-4o. The Qwen2.5-Max model has been pre-trained on more than 20 trillion tokens and has set new industry benchmarks. As of January 31, 2025, over 90,000 derivative models have been developed on Hugging Face using the Qwen family, making it one of the largest AI model ecosystems globally. More than 290,000 companies and developers now access Qwen APIs via Alibaba Cloud. Looking ahead, Alibaba plans to release a deep reasoning model based on Qwen2.5-Max, further cementing its leadership in AI. During its latest conference call, Alibaba's management disclosed that the company's planned investments in cloud and AI infrastructure over the next three years will exceed its total cloud and AI expenditures of the past decade, underscoring its commitment to maintaining its competitive edge in this rapidly evolving space.

Strategic Partnership with Apple Highlights Alibaba's AI Strengths. On February 13, 2025, at the World Government Summit in Dubai, Alibaba's co-founder and chairman, Joe Tsai, addressed rumors regarding a partnership with Apple. Tsai explained that Apple, requiring a local partner in China to support its mobile ecosystem, selected Alibaba after evaluating several potential partners. Apple, known for its selective approach, has been testing AI models from leading Chinese developers since 2023. Initially, Apple worked with Baidu to develop the Chinese version of Apple Intelligence, but more recently, it expanded its evaluations to include models from Tencent, ByteDance, Alibaba, and DeepSeek. After thorough assessments, Apple chose Alibaba as its strategic partner for AI development in China. Tsai expressed that Alibaba is both fortunate and honored to collaborate with such a prestigious company. According to reports, Apple and Alibaba have jointly submitted their Apple Intelligence AI models to Chinese regulators for approval, with the final decision pending.

KEY DATA

Exchange: NASDAQ, HKEX
Ticker: BABA, HK:9988
Current Price: $135.97
52-Week Range: $67.78-$144.51
Average Volume (3M): 20.37M
Shares Outstanding (MM): 2,376
Market Capitalization ($MM): $323,058
Fiscal Year-End: March

FINANCIALS

In US$M	FY23A	FY24A	FY25E	FY26E
Revenue	119,705	129,693	137,789	151,619
Gross Profit	43,957	48,898	53,583	57,615
EBIT	13,828	15,620	18,173	22,895
Non GAAP Net Income	19,412	21,701	21,781	23,016

PRICE PERFORMANCE
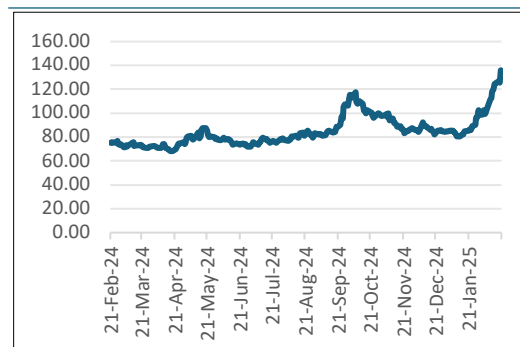
Resilience in TTG Business: CMR Revenue and Profitability Outperform Consensus. Despite a slowdown in China's overall online retail market, with retail sales growth dropping from 6.2% to 3.5% month-on-month, Alibaba's 3FQ25 results demonstrated strong resilience in its TTG business. The company's CMR revenue grew 9% YoY, significantly surpassing the consensus growth estimate of 5-6%, driven by a combination of GMV growth and improved monetization. The addition of a 0.6% service fee in early September and the Full-Site Promotion boosted the monetization rate for Taobao and Tmall Group. This growth represents the third consecutive quarter of CMR acceleration, confirming the steady recovery of Taobao and Tmall Group's take rate. In terms of profitability, Taobao and Tmall Group's adjusted EBITDA grew by 2% YoY, exceeding the consensus estimate by 4%.

AI Potential Becoming Priced into Alibaba's Valuation. The market is increasingly pricing in the AI potential for Alibaba (BABA), prompting us to raise our FY26 revenue forecast to US$151.6 billion and FY26 non-GAAP net income forecast to US$23.0 billion. In line with typical e-commerce valuation methods, we have used EV/EBITDA multiples to assess Alibaba's current market position. As of now, BABA's stock is trading at US$135.97 per ADS, with an enterprise value of US$266.2 billion. Consensus estimates for 2025 and 2026 EBITDA stand at US$27.2 billion and US$30.1 billion, respectively, which translates to EV/EBITDA multiples of 9.8x and 8.9x. By comparison, a peer group of similarly positioned companies is trading at significantly higher multiples of 22x and 18x for 2025 and 2026, respectively, suggesting substantial upside potential for Alibaba's stock.

FINANCIALS AND VALUATION UPDATES

Figure 1: Alibaba's Financials 2023 – 2026E.

Unit: Million USD	FY2023	1FQ24	2FQ24	3FQ24	4FQ24	FY2024	1FQ25	2FQ25	3FQ25	4FQ25E	FY2025E	FY2026E
Ending in	Mar-22					Mar-24					Mar-25	Mar-26
Revenue	119,705	32,267	30,976	35,876	30,574	129,693	33,518	32,590	38,605	33,076	137,789	151,619
Cost of revenue	-75,748	-19,615	-19,246	-21,526	-20,408	-80,795	-20,133	-19,847	-22,396	-21,830	-84,206	-94,004
Gross Profit	43,957	12,651	11,730	14,350	10,166	48,898	13,385	12,743	16,209	11,246	53,583	57,615
Product development expenses	-7,819	-1,442	-1,959	-1,859	-1,941	-7,201	-1,843	-1,954	-2,020	-1,786	-7,604	-8,187
Sales and marketing expenses	-14,262	-3,727	-3,512	-4,655	-3,972	-15,866	-4,506	-4,475	-5,881	-4,564	-19,425	-20,165
General and administrative expenses	-5,813	-1,006	-1,296	-1,552	-1,932	-5,786	-1,830	-1,347	-1,495	-1,885	-6,558	-7,884
Amortization and impairment of intangible assets	-1,861	-342	-335	-2,012	-287	-2,975	-247	-227	-284	-331	-1,089	1,516
Impairment of goodwill	-374	-280	0	-1,170	0	-1,450	0	0	-850	0	-850	0
Other gains, net	0	0	0	0	0	0	0	117	0	0	117	0
Income from operations	13,828	5,855	4,628	3,102	2,035	15,620	4,959	4,857	5,678	2,679	18,173	22,895
Interest and investment income, net	-1,526	-813	708	-482	-786	-1,373	-204	2,564	1,536	-198	3,698	-910
Interest expense	-816	-246	-255	-294	-300	-1,095	-302	-334	-342	-298	-1,276	-1,365
Other income, net	802	188	192	60	408	848	35	-204	632	165	629	606
Income before income tax and share of results of equity method investees	12,290	4,985	5,272	2,386	1,357	14,000	4,490	6,883	7,504	2,348	21,224	21,227
Income tax expenses	-2,143	-830	-799	-687	-788	-3,104	-1,387	-1,017	-1,536	-493	-4,433	-4,882
Share of results of equity method investees	-1,111	393	-794	-222	-442	-1,066	207	135	431	198	972	910
Net income	9,036	4,547	3,679	1,477	127	9,830	3,310	6,001	6,399	2,054	17,763	17,254
Non-GAAP Adjustment Items	10,376	1,643	1,859	5,131	3,238	11,871	2,263	-1,003	292	1,705	3,257	5,001
Non-GAAP net income	19,412	6,190	5,538	6,608	3,365	21,701	5,607	5,032	7,037	4,104	21,781	23,016

Source: GLH Research; Company filings.

Figure 2: Peer Valuation Analysis.

Company	Ticker	EV	EBITDA			EV/EBITDA			Category
			2024	2025E	2026E	2024	2025E	2026E	
Amazon.com Inc	AMZN.O	2,455,962	120,468	167,896	195,195	20.4x	14.6x	12.6x	U.S. E-Commerce Companies
eBay Inc	EBAY.O	36,172	3,216	3,340	3,501	11.2x	10.8x	10.3x	U.S. E-Commerce Companies
Shopify Inc	SHOP.K	160,909	1,283	2,022	2,639	-	79.6x	61.0x	U.S. E-Commerce Companies
Meta Platforms Inc	META.O	1,755,067	83,717	113,064	132,673	21.0x	15.5x	13.2x	U.S. Internet Companies
Alphabet Inc	GOOGL.O	2,201,146	129,497	173,010	197,616	17.0x	12.7x	11.1x	U.S. Internet Companies
Microsoft Corp	MSFT.O	3,114,747	129,433	151,462	173,051	24.1x	20.6x	18.0x	U.S. Internet Companies
PDD Holdings Inc.	PDD.O	136,911	16,142	19,108	23,779	8.5x	7.2x	5.8x	Asia E-Commerce Companies
JD.Com Inc	JD.O	54,027	7,142	7,831	8,810	7.6x	6.9x	6.1x	Asia E-Commerce Companies
Sea Ltd	SE.N	74,839	1,939	2,851	3,706	38.6x	26.2x	20.2x	Asia E-Commerce Companies
					Median	18.7x	14.6x	12.6x	
					Mean	18.5x	21.6x	17.6x	
Alibaba Group Holding Ltd	BABA.N	266,156	25,375	27,155	30,056	10.5x	9.8x	8.9x	

Notes:
1. Data as of 02/21/2025.
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.

Chujie (Jack) Sun, CFA

Senior Research Analyst

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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Senior Research Analyst

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.

DISCLOSURES