FY2Q27 EARNINGS UPDATE

Alibaba Group Holding Limited

Cloud Moderates in FY28E Due to Tightened BIS Restrictions, But FCF Inflection & T-Head Take Center Stage

SUMMARY

Beat market expectations. BABA reported 2QFY27 results prior to market open, delivering 10% YoY revenue growth driven primarily by an accelerated 64% YoY surge in external cloud revenue. Within the eCommerce segment, Customer Management Revenue (CMR) was broadly in line with expectations at RMB75bn. Adjusted EBITA reached RMB32.6bn—beating Bloomberg consensus by 19.3%—facilitated by resilient core eCommerce profitability, narrowed quick commerce losses, and stronger-than-expected cloud margin expansion. Despite tightened BIS restrictions, BABA reiterated its CY30 targets of US$100bn in external cloud revenue and a 20% cloud adjusted EBITA margin, underpinned by the growing strategic importance of T-Head. While we anticipate a temporary moderation in cloud growth during FY28E before re-accelerating in CY28E, we believe BABA will dynamically allocate scarce computing capacity to balance internal workloads with external monetization, adhering to principles of capability enhancement and efficiency prioritization.

Cloud growth to accelerate into the 3QFY27 before moderating in FY28E and re-accelerating in CY28E. AI Cloud & Compute revenue accelerated to +53% YoY in 2QFY27, with recurring external revenue up 67% YoY and AI-related products maintaining triple-digit growth (exceeding a US$10bn quarterly annualized run-rate). Looking ahead, management expects overall cloud revenue growth to moderate to 30%–45% in FY28E (April 2027–March 2028) before rebounding to 50%+ in CY28E, reflecting near-term constraints on overseas compute access and the ramp-up schedule for domestic capacity. We view this FY28E deceleration as primarily supply- and timing-driven rather than indicative of softening underlying AI demand, supported by an expanding higher-margin AI product mix and rising proprietary compute contributions. We estimate overall cloud revenue growth of 57%/32% and cloud adjusted EBITA margins of 15.2%/15.0% in 3QFY27/4QFY27, respectively.

AI capex peak and FCF inflection. 2QFY27 capex declined QoQ to RMB50.5bn from RMB67.7bn, partly reflecting procurement and payment cycle fluctuations, while FCF outflow narrowed to RMB34.5bn. Given shifting global compute availability and a strategic pivot toward domestic hardware, management indicated that its prior 20GW capacity target by end-2032 will be revised lower, though investments in T-Head capacity will remain elevated. The heaviest AI infrastructure investment phase is now expected to be concentrated in CY27–CY28 as T-Head compute ramps up, with FCF targeted to turn positive in 2H28 on the back of growing cloud and eCommerce profits alongside improving working-capital commitments. Overall, we see a clearer timeline for both peak capex and FCF inflection despite elevated near-term spending.

T-Head becoming increasingly critical to BABA's AI infrastructure. With the V900 slated to enter production in 1Q27, management expects proprietary compute to gradually support in-house Qwen foundation model training and contribute more meaningfully as capacity scales. T-Head chips will be prioritized for internal model training/iteration and key strategic partners, while a broader mix of domestic chips will handle inference workloads. Amid expectations of tight compute supply over the next two years, T-Head's production progress—currently tracking ahead of initial internal expectations—should give BABA greater control over compute availability and underpin cloud growth re-acceleration in CY28E.

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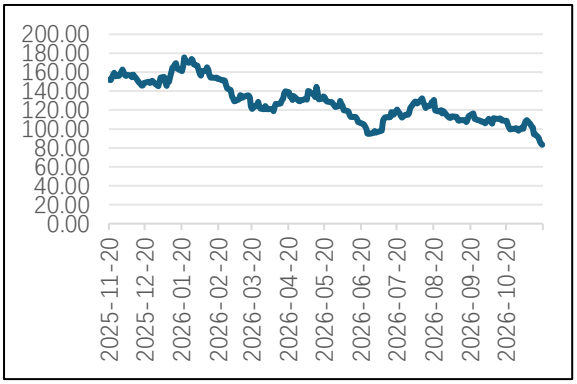
KEY DATA

Exchange: NYSE, HKEX
Ticker: BABA, HK:9988
Current Price: $83.31
52-Week Range: $83.25-$181.10
Average Volume (3M): 10.67M
Shares Outstanding (MM): 2,844
Market Capitalization ($MM): $207,254
Fiscal Year-End: March

FINANCIALS

In RMB Million	FY25A	FY26A	FY27E	FY28E
Revenue	996,347	1,023,670	1,102,455	1,214,874
Gross Profit	398,062	407,534	427,478	489,594
EBIT	140,905	50,150	74,394	108,730
Non-GAAP Net Income	157,940	60,658	115,967	136,129

PRICE PERFORMANCE



Improving AI Labs & Applications efficiency. AI Labs & Applications revenue accelerated to +51% YoY in 2QFY27, while adjusted EBITA loss narrowed to RMB10.5bn from RMB13.9bn in the prior quarter. MaaS ARR reached approximately RMB20bn as of September 2026, with management confident in achieving its RMB30bn FY27 target, supported by new model releases following Qwen4 (with the majority of ARR contributed by Qwen models) and a growing contribution from third-party models. BABA remains focused on the joint development of models and applications while maintaining disciplined spending on QwenWork and Qwen app promotions and subsidies.

Valuation & Investment Thesis. We see several better-than-feared catalysts driving a share price recovery: a resilient revenue outlook for AI Cloud & Compute despite overseas compute restrictions, a clearer path to FCF inflection, the rising strategic role of in-house custom silicon (T-Head) across BABA's full-stack AI infrastructure, and a stabilizing eCommerce cash generation profile. We forecast an EPS inflection in the upcoming quarters (+70%/+13% YoY in FY27E/FY28E). BABA currently trades at US$83.31 per ADS, representing a market capitalization of US$207.3bn. This corresponds to 13x/9x FY27E/FY28E consensus P/E, compared to peer-group mean multiples of 22x/20x, implying a meaningful valuation discount.

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	1,102,455	1,214,874
Alibaba E-commerce Group			808,033	836,686
YoY			1%	4%
AI Cloud and Compute Services			232,531	306,942
YoY			47%	32%
AI Labs and Applications			17,540	26,309
YoY			42%	50%
All others			117,256	117,843
Unallocated			2,491	2,491
Inter-segment elimination			-75,396	-75,396
Cost of revenue	-598,285	-616,136	-674,977	-725,280
Gross Profit	398,062	407,534	427,478	489,594
Product development expenses	-57,151	-66,533	-81,754	-82,611
Sales and marketing expenses	-144,021	-245,023	-222,389	-242,975
General and administrative expenses	-44,239	-33,082	-42,257	-48,595
Amortization and impairment of intangible assets	-6,336	-5,079	-4,972	-4,972
Impairment of goodwill	-6,171	-9,515	-4,458	-4,738
Other gains, net	761	1,848	2,747	3,027
Income from operations	140,905	50,150	74,394	108,730
Interest and investment income, net	20,759	87,512	135,395	149,202
Interest expense	-9,596	-9,793	-10,195	-11,235
Other income, net	3,387	1,518	1,576	1,737
Income before income tax and share of results of equity method investees	155,455	129,387	201,171	248,434
Income tax expenses	-35,445	-30,045	-67,931	-62,109
Share of results of equity method investees	5,966	2,785	1,418	1,562
Net income	125,976	102,127	134,657	187,888
Non-GAAP Adjustment Items and Minority Interest	31,964	-41,469	-20,108	-51,759
Non-GAAP net income attributable to ordinary shareholders	157,940	60,658	115,967	136,129

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	2,780,000	257.37	7.17	12.80	10.66	35.9x	20.1x	24.1x	U.S. E-Commerce Companies
eBay Inc	EBAY.O	51,460	117.22	4.26	6.27	6.88	27.5x	18.7x	17.0x	U.S. E-Commerce Companies
Shopify Inc	SHOP.K	169,782	131.97	0.94	1.91	2.46	-	69.1x	53.6x	U.S. E-Commerce Companies
Meta Platforms Inc	META.O	1,520,000	596.22	23.49	29.36	35.68	25.4x	20.3x	16.7x	U.S. Internet Companies
Alphabet Inc	GOOGL.O	3,350,000	272.66	10.80	19.56	14.91	25.2x	13.9x	18.3x	U.S. Internet Companies
Microsoft Corp	MSFT.O	3,700,000	498.30	17.95	20.01	24.20	27.8x	24.9x	20.6x	U.S. Internet Companies
PDD Holdings Inc.	PDD.O	122,412	86.00	9.44	10.79	12.50	9.1x	8.0x	6.9x	Asia E-Commerce Companies
JD.Com Inc	JD.O	34,499	25.64	1.84	3.09	4.21	13.9x	8.3x	6.1x	Asia E-Commerce Companies
Sea Ltd	SE.N	40,387	65.94	2.52	3.66	4.77	26.2x	18.0x	13.8x	Asia E-Commerce Companies
							Median	25.8x	18.7x	17.0x
							Mean	23.9x	22.4x	19.7x
Alibaba Group Holding Ltd	BABA.N	207,254	83.31	6.38	6.44	9.10	13.1x	12.9x	9.2x	

Notes:
1. Data as of 11/20/2026.
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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