

## Alibaba Group

February 10, 2020

**Nimble To The Market Driving Strong FY3Q20; While Coronavirus Outbreak Is Likely to Put Pressure On Its Growth In The Very Near Term, The Longer Term Outlook Is Positive; Maintain BUY**

**BABA: Buy**  
**Price \$216.53**  
**Target Price: \$250.00**

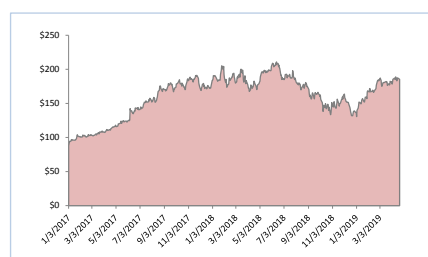
Theoretically, BABA is supposed to benefit from the recent coronavirus outbreak as many offline stores are delaying their openings; however, the delivery forces are not yet running in full gear due to the nationwide caution on the virus. Therefore, FY4Q20 is likely to be negatively impacted. Once people resume their work, we believe BABA is likely to become one of the preferred platforms for consumers to shop without leaving their homes. BABA will report FY3Q20 results on February 13<sup>th</sup> before the markets open with a 7:30am EST conference call. We are positive on BABA into FY3Q20E performance. Based on our data and model, FY3Q20E revenue is likely to be meaningfully better than consensus at RMB159.1B (35.8% Y/Y growth). We maintain our Buy rating.

**52 Week Range:** \$147.95 - \$231.14  
**Market Cap:** \$595.4B  
**Avg. Daily Vol. (100 day):** 15,464,451  
**3-Yr. Est. Rev. CAGR:** 33.0%

FY (Mar)	2019A	2020E	2021E
Q1	80,920A	114,924A	117,297E
Q2	85,148A	119,017A	131,596E
Q3	117,278A	159,064E	174,763E
Q4	<u>93,498A</u>	<u>97,317E</u>	<u>155,105E</u>
FY Net Rev.	376,844A	490,332E	578,761E

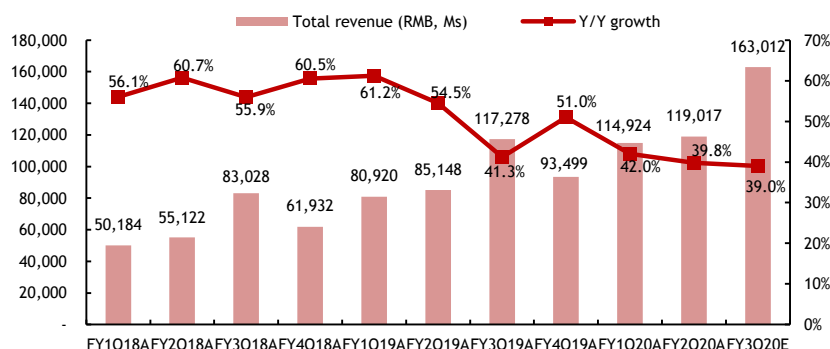
Q1	8.04A	12.56A	10.71E
Q2	9.61A	13.10A	13.37E
Q3	12.20A	15.75E	15.53E
Q4	<u>8.57A</u>	<u>5.74E</u>	<u>14.22E</u>
FY EPS*	38.42A	47.14E	53.84E
P/E	37.8x	32.8x	28.7x

\*Non-GAAP EPS  
 All figures in RMB millions unless otherwise noted



- Total revenue grew faster than expectation driven by core commerce** – Even though BABA is a big company, it is quite nimble to the new things in the market. It launched many initiatives in the recent past, including Juhuasuan (recommendation engine), “10 billion subsidization” (customer acquisition and retention), KOL live broadcasting (traffic and traffic conversion); also SKU feeds, etc. For Live broadcasting, we believe eventually there will be a revenue split between BABA and hosts. This will further increase its revenue and margins. Based on our data and model, FY3Q20E revenue is likely to be RMB163.0B (39.0% Y/Y; Kaola included), above consensus at RMB159.1B (35.8% Y/Y growth) (Figure 1). Of the total revenue, Commission revenue is likely to increase 19.1% Y/Y to RMB24.0B in FY3Q20E as there were more subsidizations, vs. RMB16.3B in FY2Q20 (Figure 2). Customer Management revenue is likely to increase 25.0% Y/Y in FY3Q20E to RMB62.0B vs. RMB41.3B in FY2Q20 (Figure 3 & 4). Hema had a jump in its store numbers to 221 stores at the end of December, vs. 174 at the end of September 2019.
- Please see page 3 for valuation and risks.**

**Figure 1: BABA - Total Revenue (in RMB, blns) and Growth, FY1Q18A – FY3Q20E**



Source: T. H. Data ([www.thdata.com](http://www.thdata.com))

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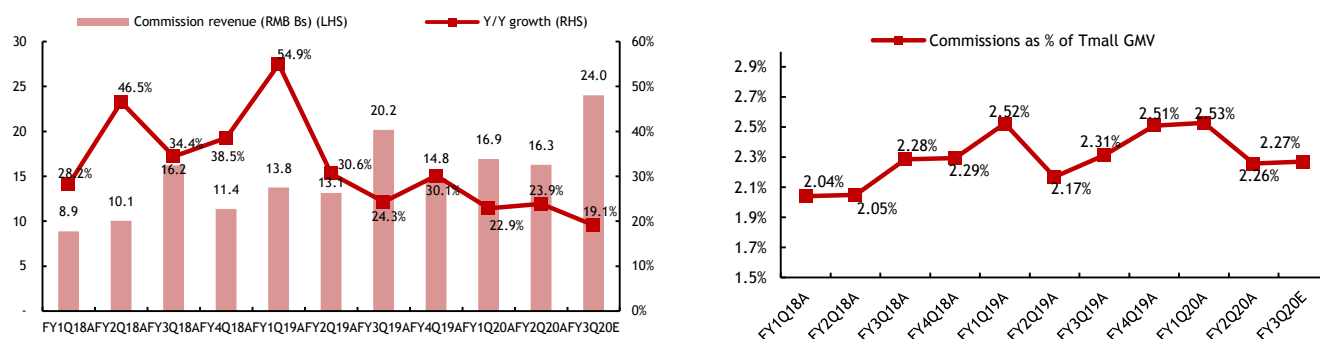
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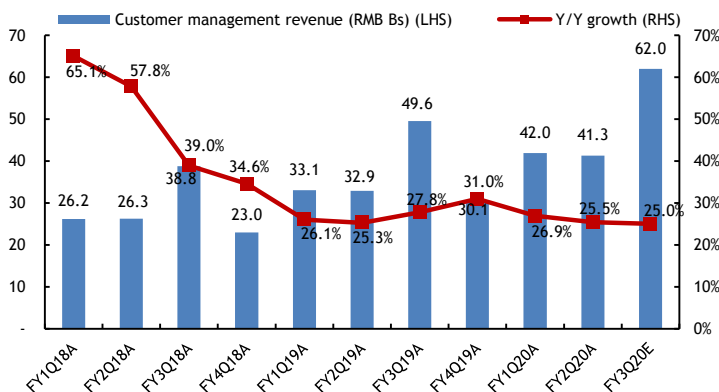
- Taobao and Tmall GMV growth Y/Y** - BABA's total GMV transacted on Tmall and Taobao is likely to be RMB2,082B in FY3Q20E with a Y/Y growth of 18.5%, higher than 17.8% Y/Y growth last quarter. GMV for Tmall is likely to increase 22.9% Y/Y to reach RMB1,072B in FY3Q20E, up from FY2Q20 at 20.7% Y/Y (Figure 5), mainly driven by Household products, Cosmetics, and Food. Taobao GMV is likely to grow 14.0% Y/Y to reach RMB1,011B in FY3Q20E (Figure 6), mainly driven by Home & Garden.
- Expect FY4Q20 to be impacted by the novel coronavirus** – The impact can slow down near term revenue growth and cost and expense are higher. BABA actually was doing well in January 2020. Tmall hosted a Chinese New Year shopping festival (年货节) from January 2 – January 8, 2020, which sold 190M kilogram agricultural products with more than 50 county magistrates participated in live broadcasting to promote their agriculture produce. Tmall International also hosted a Chinese New Year shopping festival (年货节) from January 2 - January 16, 2020, and 7.3M overseas Chinese consumers participated. Juhuasuan sponsored 2020 CCTV Spring Festival Gala (春节联欢晚会 – 春碗) on January 24, 2020. During the Spring Festival Gala, the number of interactions was over 66 billion with more than 100 million consumer participation. However, toward February 2020, the outbreak started to have an impact. Tmall cancelled three upcoming promotional activities in February. Cainiao started to subsidize delivery men on each package from February 3, 2020 and waived technical service fees for delivery outlets. Koubei waived commission fees for all merchants from February 1 - February 29, 2020 and for merchants in Wuhan from February 1 - March 31, 2020. On a positive note, BABA's remote telecommuting platform, Dingding, has become one the most in-demand platforms with more than 10 million companies using it, 20,000 schools and 12 million students in 20 provinces adopting Dinding. In addition, BABA announced on February 6th that is hiring more than 10,000 people/riders for its Fengniao (convenient store, part of local services). We believe the impact can be very short term as online commerce and businesses are likely to be more widely adopted after this outbreak.

Figure 2: BABA - Commission Revenue (Left) and Commissions as % of Tmall GMV (Right), FY1Q18A – FY3Q20E



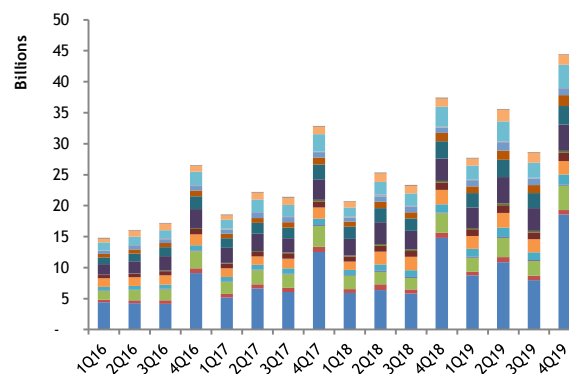
Source: Company data and T. H. Data ([www.thdata.com](http://www.thdata.com))

Figure 3: BABA - Customer Management Revenue, FY1Q18A – FY3Q20E

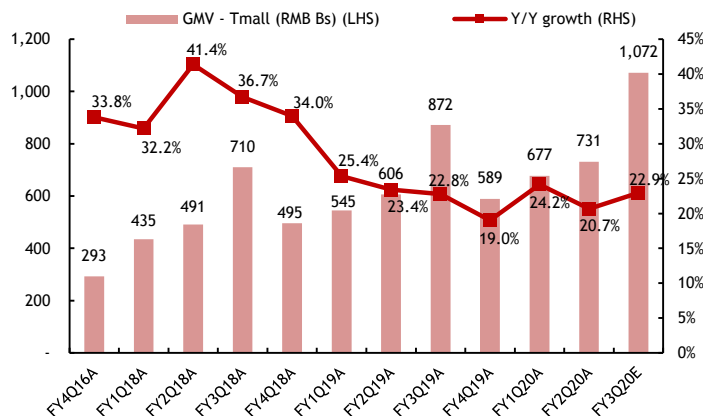


Source: Company data and T. H. Data ([www.thdata.com](http://www.thdata.com))

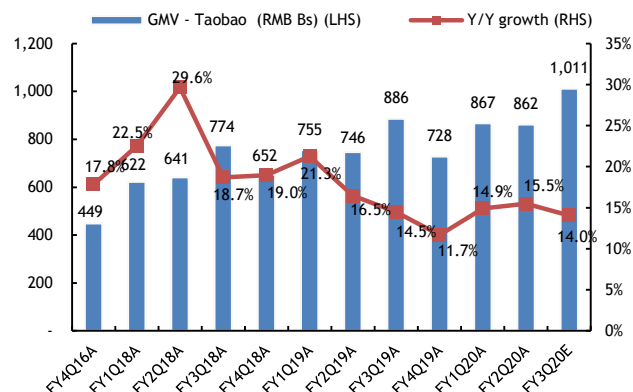
Figure 4: BABA - Clicks Volume, CY1Q16 – CY4Q19E



**Figure 5: Tmall GMV, FY4Q16A – FY3Q20E**



**Figure 6: Taobao GMV, FY4Q16A – FY3Q20E**



Source: T. H. Data ([www.thdata.com](http://www.thdata.com))

• **Valuation and price target** – There are several reasons why we maintain our BUY rating on BABA:

- ✓ The company has built an internal business data intelligence system, which enables BABA's different departments to be more targeted in their business operations, which results in higher ROI or cash generation capability;
- ✓ Its offline new retail initiative, including Hema, ele.me, Koubei and potentially 10,000 grocery stores, can be another big deal for BABA – we believe it is a new way to reach out to more consumers with categories that are not suitable for online sales, such as groceries. Such categories have higher user frequency. We believe once the initiative covers most major cities in China, BABA will become more competitive than today. To build a well-run and geographically well covered offline grocery store is more difficult than building Tmall and Taobao, in our opinion;
- ✓ BABA's internal ecosystem can enable more synergy among business units – for example, by consolidating ele.me and Koubei, the company is likely to integrate the food delivery business with Hema as well as its logistics business to make sure that food delivery workers have enough daily business and make more money on BABA's platform. As a result of its e-commerce ecosystem, the growth in GMV also leads to more usage of Cainiao and Alibaba payment systems, while Alipay directs traffic to ele.me APP; and
- ✓ Taobao started a new algorithm for advertising – personalized recommendation (feed business) – Alibaba owns the biggest traffic and data in China. In addition to traditional value-added brand advertising and search, the company is adopting a new algorithm to push for personalized feeds, which is a way of utilizing its vast data and traffic. This feed traffic has already reached a level of BABA non-feed business traffic. The company is still testing its monetization. We believe eventually it will be monetized.

We maintain our Buy rating and price target of \$250.00, which is based on a 28.6X PE multiple to our FY2022E non-GAAP EPS projection of \$8.74.

- **Risks** – 1) If the virus outbreak lasts longer; 2) Inability to gain new users and repeat purchases; 2) Failure of international expansions; ) The weaker macro-economic situation may put pressure on all commerce activities; 4) New technology enables other types of commerce platforms such as its peer Pinduoduo to emerge, which has already gained a significant amount of users from lower tier cities; 5) Inability to control fraudulent products sold on its platform; 6) Margin pressure from developing other business other than core commerce; and 7) New regulations.
- **Dial-in information** - BABA will report FY3Q20 results on February 13<sup>th</sup> before the markets open with a 7:30am EST conference call, which can be accessed by dialing 845-675-0437 with the passcode 9549246.

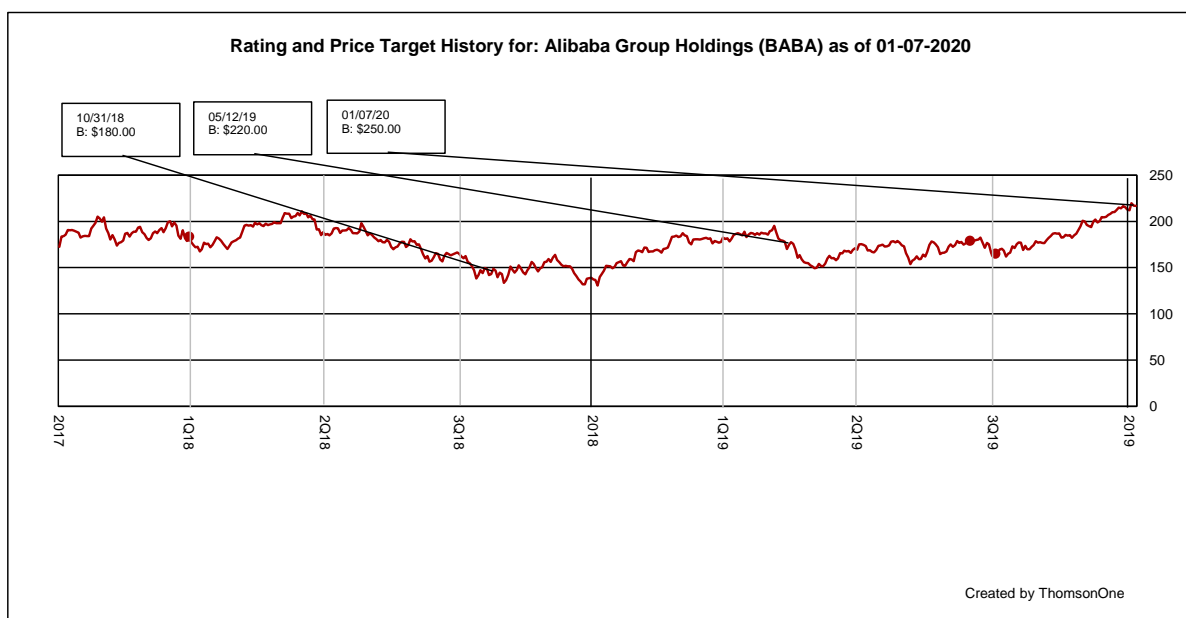


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