Alibaba Group (9988 HK)

AI Momentum Strengthens While Core Commerce Stabilises

BUY (Maintained)

Share Price	HK$126.90
Target Price	HK$190.00
Upside	+49.7%

Analyst(s)
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Highlights

- Alibaba's outlook is increasingly supported by accelerating cloud growth, improving margins and stronger AI execution. Qwen3.8-Max strengthens Alibaba's frontier-model competitiveness, while QwenWork broadens its enterprise AI offering and could support greater workplace adoption, API usage and cloud monetisation.
- Apple's adoption provides further external validation of Qwen's capabilities. Core commerce also remains resilient, supported by better-than-expected CMR and EBITA, narrowing quick-commerce losses and early signs of consumption stabilisation.
- Maintain BUY with a target price of HK$190.00 (US$194.00).

Analysis

- **Qwen3.8-Max strengthens Alibaba's frontier-model positioning and supports broader AI and cloud adoption.** Alibaba Group (Alibaba) released Qwen3.8-Max with 2.4t total parameters, visual-understanding capabilities and a 1m-token context window, alongside significant improvements in coding and professional productivity tasks. On the third-party Arena leader board, Qwen ranked behind Anthropic's Claude series and Kimi K3, placing it within the first tier of global foundation models. The model is competitively priced at Rmb12 (US$2.00) per 1m input tokens, Rmb36 (US$6.00) per 1m output tokens and Rmb1.5 (US$0.25) per 1m cached-input tokens, with its output price equivalent to only 24% of Claude Opus 5. Qwen3.8-Max and Qwen3.8-27B are expected to be released on an open-weight basis. A stronger model performance, lower inference costs, and open-weight distribution should strengthen Alibaba Cloud's model-as-a-service (MaaS) offering and drive incremental application programming interface (API) usage and cloud-computing demand.
- **QwenWork strengthens Alibaba's enterprise AI offering and supports cloud monetisation.** The launch of public testing for QwenWork (千问办公), an enterprise-grade agent product, expands Alibaba's AI capabilities into a broader range of workplace applications. By integrating QoderWork, MuleRun and Wukong, the platform can support document generation, data analytics, audio and video creation, and web application development. Its initial integration with DingTalk provides an established distribution channel and access to enterprise users, while future connectivity with corporate databases and workflows could deepen user engagement, accelerate enterprise adoption and generate incremental AI inference and cloud demand for Alibaba Cloud.

Key Financials

Year to 31 Mar (Rmbm)	2025	2026	2027F	2028F	2029F
Net turnover	996,347	1,023,670	1,130,222	1,264,984	1,408,476
EBITDA	181,839	96,055	146,986	206,991	262,725
Operating profit	140,905	50,150	86,605	138,258	185,697
Net profit (rep./act.)	129,470	105,904	75,294	114,809	153,488
Net profit (adj.)	158,122	60,658	109,550	151,363	190,279
EPS (Fen)	855.3	326.5	594.8	825.4	1,042.1
PE (x)	12.8	33.5	18.4	13.2	10.5
P/B (x)	2.1	2.0	1.7	1.5	1.3
EV/EBITDA (x)	11.4	21.7	14.2	10.1	7.9
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Net margin (%)	13.0	10.3	6.7	9.1	10.9
Net debt/(cash) to equity (%)	(7.1)	(5.2)	(6.1)	(6.2)	(8.9)
ROE (%)	12.8	10.1	6.6	8.9	10.4
Consensus net profit	-	-	105,954.9	144,330.7	181,697.6
UOBKH/Consensus (x)	-	-	1.03	1.05	1.05

Source: Alibaba Group, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Consumer Discretionary
Bloomberg ticker	9988 HK
Shares issued (m)	19,176.5
Market cap (HK$m)	2,433,500.4
Market cap (US$m)	310,292.6
3-mth avg daily t'over (US$m)	1,529.4

Price Performance (%)

52-week high/low				HK$186.2/HK$88.65
1mth	3mth	6mth	1yr	YTD
34.9	(3.6)	(25.0)	8.6	(11.1)

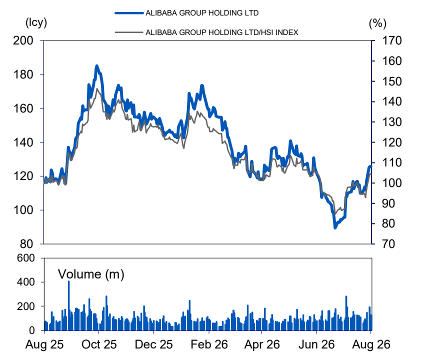
Major Shareholders

Major Shareholders	%
JP Morgan Chase & Co	12.31

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	63.01
FY26 Net Cash/ Share (Rmb)	3.88

Price Chart



Source: Bloomberg

Company Description

Alibaba Group is the largest e-commerce marketplace operator and cloud hyperscaler in China.

- **Cloud growth accelerates alongside continued margin improvement.** Alibaba Cloud's revenue growth is likely to accelerate to 45% yoy, from 38% yoy in the previous quarter, significantly ahead of expectations, while management indicated that growth could continue to accelerate in the coming quarters. Cloud margin is also projected to improve to 11-12%, from 9% last quarter and above the earlier 10-11% expectation, supported by a higher MaaS revenue mix and cost benefits from self-developed T-Head chips. Management reiterated Alibaba Cloud's long-term margin target of around 20% and noted that most of T-Head's output is either used internally by Alibaba Cloud or sold externally through the cloud platform, implying limited impact on group revenue after internal eliminations. Although T-Head remains loss-making, the continued improvement in Alibaba Cloud's margin points to solid underlying profitability momentum.
- **Apple partnership validates Qwen and strengthens Alibaba's AI monetisation outlook.** Apple's selection of Alibaba validates Qwen's model capabilities, regulatory compliance and scalability. Integration into Apple's China ecosystem should expand usage across Chinese-language and multimodal applications, creating a positive flywheel of user adoption, model improvement and enterprise demand, while driving incremental inference, Alibaba Cloud consumption and brand recognition.
- **Core operating trends remain positive, with early signs of consumption stabilisation.** Our positive view remains unchanged, with customer management revenue (CMR) likely to decline 7-8% yoy under the new accounting treatment as merchant subsidies are netted against revenue, while growing 1-2% yoy on a like-for-like basis, slightly above consensus. Domestic e-commerce EBITA is forecast to decline only 3-4% yoy, significantly better than the previous expectation of around 8%, reflecting improving industry discipline. Quick-commerce losses are also projected to narrow to around Rmb10b in the June quarter, better than the previous expectation of Rmb14b, while AIDC EBITA could turn positive. Meanwhile, China online retail goods GMV grew 4% yoy in June vs 3% in May, with a sequential improvement in home appliances and 3C products, indicating that domestic consumption is bottoming and providing a more supportive backdrop for Alibaba's core commerce business.

12-Month Forward PE Band

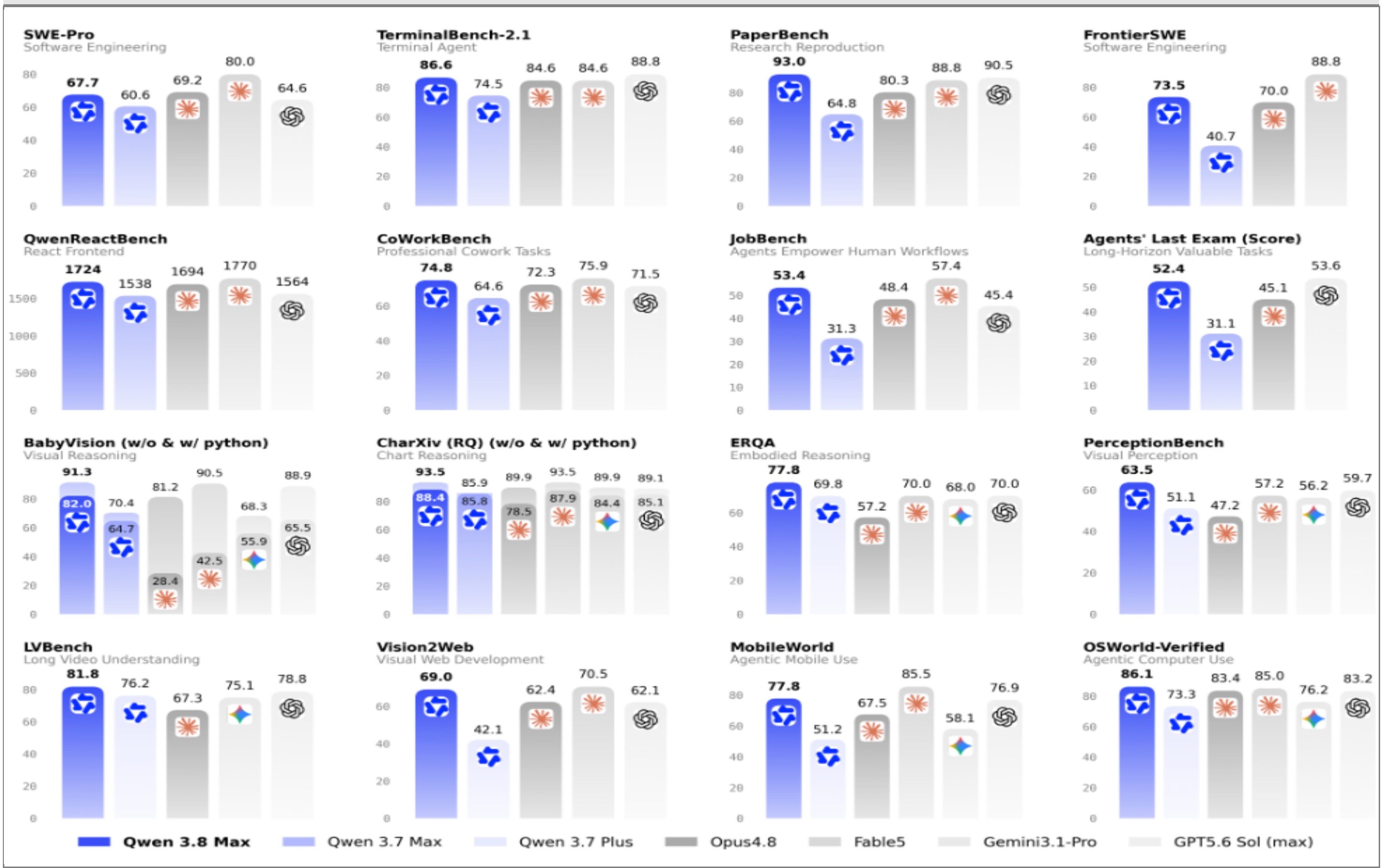
Source: Bloomberg; UOB Kay Hian

Overall Rankings Across AI Models On Front-End Web Development Tasks

Rank	Model	Score	
1	claude-opus-5-max	1705	+15/-15
2	kimi-k3-max	1676	+12/-12
3	claude-opus-5-high	1669	+11/-11
4	qwen3.8-max	1668	+18/-18
5	claude-fable-5	1630	+9/-9
6	gpt-5.6-sol-xhigh (codex-harness)	1620	+9/-9
7	glm-5.2-max	1586	+9/-9
8	deepseek-v4-flash-high	1577	+18/-18
9	claude-opus-4-8-thinking	1566	+8/-8
10	claude-opus-4-7	1561	+7/-7

Source: Arena Ai; UOB Kay Hian

Key Benchmark Performance Comparison For Qwen3.8-Max



Source: Qwen Ai; UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with a target price of HK$190.00** (US$194.00), based on FY27 SOTP. Our target price implies 28.4x FY27F PE. Alibaba is trading at 18x FY27F PE, 1SD below the historical average, against a 31% EPS three-year CAGR from FY27-30.

Earnings Revision/Risk

- We leave our FY27 revenue and earnings forecasts largely unchanged.
- **Risks:** a) Margin pressure stemming from food delivery investment amid intense competition to seize market share, and b) slower-than-expected monetisation upon investment of AI capex.

Share Price Catalyst

- a) Re-accelerating growth of cloud hyperscalers; b) solid progress in self-sufficiency chip development, reducing reliance on US chips; and c) AI integration to empower business segments.

SOTP-Based Valuation

Description	Business Unit	FY27 Revenue (HK$,b)	EBITA (HK$,b)	EV / Revenue (x)	EV / EBITA (x)	Value (HK$,b)	% BABA holding (%)	Value to BABA (HK$,b)	per share (HK$)
Core commerce	Alibaba China E-commerce Group	522	216	2	6	1,299	100	1,299	68
Instant Commerce +Ele.me	Quick Commerce	117		1		117	100	117	6
International commerce	Alibaba International Digital Commerce Group	171	10	0	8	82	100	82	4
Cloud Computing, other	Cloud Intelligence Group	219	22	5	50	1,097	100	1,097	57
Maas		30		20		600		600	31
All Others	Freshippo, Cainiao, Alibaba Health, Hujing DME, Amap, Intelligent Information Platform	284	11		20	228	100	228	12
Total Core+initiatives valuation								3,423	179
Investees									7
Net cash								84	4
Total								3,529	190
# of shares								19,159	

Source: UOB Kay Hian

Profit & Loss

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Net turnover	1,023,670.0	1,130,222.1	1,264,983.6	1,408,475.9
EBITDA	96,055.0	146,986.1	206,990.9	262,725.0
Deprec. & amort.	45,905.0	60,381.4	68,732.6	77,027.9
EBIT	50,150.0	86,604.7	138,258.3	185,697.2
Total other non-operating income	3,830.0	2,312.0	0.0	(0.0)
Associate contributions	2,785.0	3,625.6	3,453.6	3,553.6
Net interest income/(expense)	77,719.0	6,207.0	6,109.1	6,010.2
Pre-tax profit	134,484.0	98,749.3	147,820.9	195,260.9
Tax	(30,045.0)	(24,773.9)	(34,593.6)	(43,672.0)
Minorities	1,465.0	1,318.5	1,582.2	1,898.6
Net profit	105,904.0	75,293.9	114,809.5	153,487.5
Net profit (adj.)	60,658.0	109,549.8	151,363.4	190,279.3

Balance Sheet

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Fixed assets	282,699.0	353,655.2	428,187.9	494,424.5
Other LT assets	1,016,102.0	1,084,262.9	1,162,837.4	1,251,381.1
Cash/ST investment	131,530.0	154,669.8	170,829.9	231,359.9
Other current assets	479,239.0	518,448.0	565,918.4	616,311.1
Total assets	1,909,570.0	2,111,036.0	2,327,773.6	2,593,476.7
ST debt	28,224.0	28,224.0	28,224.0	28,224.0
Other current liabilities	448,174.0	498,582.0	554,512.3	616,289.7
LT debt	47,450.0	52,195.0	57,414.5	63,156.0
Other LT liabilities	259,452.0	259,452.0	259,452.0	259,452.0
Shareholders' equity	1,068,731.0	1,215,044.0	1,370,631.7	1,568,816.0
Minority interest	57,539.0	57,539.0	57,539.0	57,539.0
Total liabilities & equity	1,909,570.0	2,111,037.0	2,327,774.6	2,593,477.7

Cash Flow

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Operating	76,213.0	143,243.8	190,419.8	240,001.4
Profit fo the year	134,484.0	98,749.3	147,820.9	195,260.9
Tax	(30,045.0)	(24,773.9)	(34,593.6)	(43,672.0)
Deprec. & amort.	45,905.0	60,381.4	68,732.6	77,027.9
Associates	(2,785.0)	(3,625.6)	(3,453.6)	(3,553.6)
Working capital changes	90,385.3	11,199.0	8,459.9	11,384.7
Non-cash items	0.0	1.0	1.0	1.0
Other operating cashflows	(161,731.3)	1,312.6	3,452.6	3,552.6
Investing	(67,336.0)	(199,498.5)	(221,839.7)	(231,808.2)
Capex (growth)	(122,021.0)	(124,324.4)	(139,148.2)	(140,847.6)
Investment	206,803.0	227,483.3	250,231.6	275,254.8
Others	(152,118.0)	(302,658.4)	(332,924.1)	(366,216.5)
Financing	(20,573.0)	79,394.6	47,580.0	52,336.9
Dividend payments	0.0	0.0	0.0	0.0
Proceeds from borrowings	24,259.0	4,745.0	5,219.5	5,741.5
Loan repayment	0.0	1.0	1.0	1.0
Others/interest paid	(44,832.0)	74,648.6	42,359.5	46,594.4
Net cash inflow (outflow)	(11,696.0)	23,139.8	16,160.0	60,530.0
Beginning cash & cash equivalent	147,230.0	131,530.0	154,669.8	170,829.9
Changes due to forex impact	(4,004.0)	0.0	0.0	0.0
Ending cash & cash equivalent	131,530.0	154,669.8	170,829.9	231,359.9

Key Metrics

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	9.4	13.0	16.4	18.7
Pre-tax margin	13.1	8.7	11.7	13.9
Net margin	10.3	6.7	9.1	10.9
ROA	5.7	3.7	5.2	6.2
ROE	10.1	6.6	8.9	10.4
Growth				
Turnover	2.7	10.4	11.9	11.3
EBITDA	(47.2)	53.0	40.8	26.9
Pre-tax profit	(16.4)	(26.6)	49.7	32.1
Net profit	(18.2)	(28.9)	52.5	33.7
Net profit (adj.)	(61.6)	80.6	38.2	25.7
EPS	(61.8)	82.2	38.8	26.3
Leverage				
Debt to total capital	6.3	5.9	5.7	5.3
Debt to equity	7.1	6.6	6.2	5.8
Net debt/(cash) to equity	(5.2)	(6.1)	(6.2)	(8.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.