Alibaba Group (9988 HK)

1QFY27: In-line Results; Cloud Revenue And EBITA Margin Beat; High Capex/FCF Outflow

Highlights

- Alibaba's 1QFY27 revenue was largely in line. Revenue grew 9% yoy to Rmb269.0b, in line with estimates. Non-GAAP net profit was Rmb20.7b, down 38% yoy, missing our forecast, due to its investment in technology businesses and user experience. In 2QFY27, management expects: a) accelerating growth in cloud revenue and a continuous improvement in EBITA margin, b) a further narrowing of quick commerce losses, and c) a recovery in e-commerce EBITA margin. Maintain BUY with a lower target price of HK$188.00 (US$192.00).

1QFY27 Results

Year to 31 Mar (Rmbm)	4QFY25	3QFY26	4QFY26	QoQ	YoY	UOB	Variance	Cons	Variance
Revenue	247,652	243,380	268,953	11%	8.6%	269,874	-0.3%	268,517	0.2%
Total Alibaba E-commerce Group	198,812	198,754	205,862	4%	3.5%	206,000	0%		
AI Cloud and Compute Services	33,418	41,626	48,437	16%	44.9%	48,437	0%		
AI Labs and Applications	2,882	3,000	3,338	11%	15.8%	3,338	0%		
- Others	28,629	35,429	28,803	-19%	0.6%	28,803	0%		
- Unallocated	519	641	783	22%	50.9%	783	0%		
Gross profit	111,223	83,988	102,857	22%	-7.5%	107,949	-5%	109,864	-6.4%
GPM	44.9%	34.5%	38.2%	4 ppt	-666.8%	40.0%	(2 ppt)	40.9%	(3 ppt)
Non-GAAP Operating profit	38,182	1,860	18,123	874%	-52.5%	22,686	-20%		
Non-GAAP OPM	15.4%	0.8%	6.7%	6 ppt	-867.9%	8.4%	(167 bps)		
Non-GAAP net profit	33,510	86	20,715	23987%	-38.2%	25,437	-19%	25,348	-18.3%
Non-GAAP diluted EPS	16.99	10.58	4.39	-58%	-74.1%	6.06	-27%		

Source: Alibaba, UOB Kay Hian

Analysis

- **E-commerce broadly in line. In 1QFY27,** Alibaba Group's (Alibaba) customer management revenue (CMR) declined **7% yoy**, or grew **1% on a like-for-like basis** excluding the contra-revenue impact from the new merchant incentive programme, while e-commerce group adjusted EBITA declined just 1%. Quick commerce revenue grew **45% yoy**, driven by Freshippo and Taobao Instant Commerce.
- **Cloud was the clear highlight.** AI Cloud & Compute revenue grew **45%** (vs 38% in 4QFY26) **yoy**, in line with our expectations, while AI-related revenue reached Rmb12.4b and maintained triple-digit growth for the 12th consecutive quarter. Cloud adjusted EBITA margin reached **11.6% (vs** 9% in 4QFY26), albeit not being directly comparable following the T-Head integration, supported by improving operating efficiency. AI-related revenue reached Rmb12.4b vs (vs Rmb9b in 4QFY26), equivalent to US$7.3b annualised run rate. AI labs and applications grew 16% yoy to Rmb3.3b, while adjusted EBITA loss widened to Rmb13.9b from Rmb3.2b, reflecting higher AI investment and Qwen App inference costs.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Year to 31 Mar (Rmbm)	996,347	1,023,670	1,133,719	1,275,436	1,436,169
Net turnover	181,839	96,055	148,698	213,234	262,318
EBITDA	140,905	50,150	82,320	138,304	182,368
Operating profit	129,470	105,904	67,802	112,631	149,477
Net profit (rep./act.)	158,122	60,658	99,211	146,384	183,217
Net profit (adj.)	855.3	326.5	536.0	794.2	998.4
EPS (Fen)	12.7	33.1	20.2	13.6	10.8
PE (x)	2.1	2.0	1.7	1.5	1.3
P/B (x)	11.5	21.9	14.1	9.8	8.0
EV/EBITDA (x)	0.1	0.1	0.1	0.1	0.1
Dividend yield (%)	13.0	10.3	6.0	8.8	10.4
Net margin (%)	(7.1)	(5.2)	(2.7)	(2.6)	(6.8)
Net debt/(cash) to equity (%)	996,347	1,023,670	1,133,719	1,275,436	1,436,169
ROE (%)	12.8	10.1	6.0	8.8	10.3
Consensus net profit	-	-	90,874.2	127,983.4	165,118.4
UOBKH/Consensus (x)	-	-	1.09	1.14	1.11

Source: Alibaba Group, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$126.20
Target Price	HK$188.00
Upside	49.0%
Previous TP	HK$190.00

Stock Data

Sector	Consumer Discretionar
Bloomberg ticker	9988 HI
Shares issued (m)	19,176.
Market cap (US$m)	2,420,076.
Market cap (US$m)	308,577.
3-mth avg daily t'over (US$m)	1,447.

Price Performance (%)

52-week high/low: HK$186.2/HK$88.65.92

1mth	3mth	6mth	1yr	YTD
8.0	(4.3)	(18.4)	6.7	(11.6)

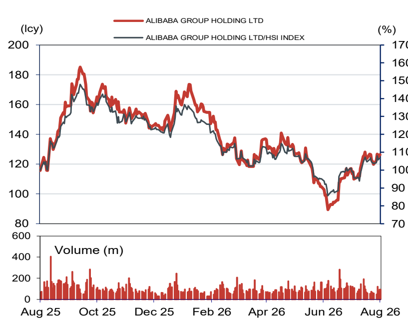
Major Shareholders (%)

JP Morgan Chase & Co	5.44

Balance Sheet Metrics

FY26 NAV/Share (Rmb$)	62.64
FY26 Net Debt/Share (Rmb$)	1.69

Price Chart



Source: Bloomberg

Company Description

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

- **Capex/FCF remains the key concern. C**apex surged 75% yoy to Rmb67.7b, significantly higher than our Rmb40b estimated, from Rmb26.9b last quarter, driven by hardware delivery timing, incremental CPU capacity for agent demand and higher chip pricing. This drove FCF to -Rmb44.7b, vs -Rmb18.8b a year ago. Alibaba has deployed Rmb190b of its Rmb380b three-year AI capex plan. Management stressed that quarterly capex should not be annualised. AI compute currently has a three-year payback, which could shorten to 2.5 years or even two years through higher AI gross margins, proprietary T-Head chips and co-built/prepaid capacity. At a three-year payback, growth below 33% could theoretically generate positive cash flow; with improving economics, management believes it can eventually sustain >40% growth while remaining cash-flow positive.
- **Cloud growth to accelerate above 50%.** External cloud revenue grew 45% yoy in the June quarter, marking the ninth consecutive quarter of acceleration. Management expects growth to exceed 50% in the September quarter and accelerate further in the December quarter and March quarter. The US$100b external cloud revenue target, previously framed over five years, could be achieved earlier.
- **All other revenue grew 1% yoy to Rmb28.8b 1% in 1QFY27**, with adjusted EBITA loss of Rmb-3.3b (vs Rmb0.7b in 4QFY26), mainly driven by increased investment into technology-related businesses.
- **Quick-commerce losses continue to narrow. U**nit economy improved qoq on higher average order value and fulfillment efficiency. Management expects September quarter losses to be lower than or at least no higher than the June quarter, maintains its target for FY27 losses to decline ~50% yoy, and reiterated FY29 profitability.
- **AI revenue/MaaS scaling up rapidly.** AI-related products have delivered triple-digit growth for 12 consecutive quarters. They account for 35% of external cloud revenue, and could potentially reach 50% by end-FY27. AI product annualised revenue reached Rmb49.5b and is expected to approach US$10b in the September quarter. MaaS annualised run rate exceeded Rmb16b in Aug 26, with management confident of reaching ~Rmb30b by end-FY27.

Valuation/Recommendation

- Maintain BUY with a lower target price of HK$188.00 (US$192.00). Our target price implies 31x FY27F PE and 21x FY28F PE. Alibaba is trading at 21x FY27F PE, against a 41% EPS three-year CAGR from FY27-30.

Earnings Revision/Risk

- We lower our FY27 earnings estimate by 6.6% due to higher-than-expected spending on AI. This represents revenue and earnings growths of 11%/58% for FY27 respectively, implying a net margin of 9%.
- Risks: a) Margin pressure stemming from AI investment, and b) slower-than-expected monetisation upon investment of AI capex.

Share Price Catalyst

- a) 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.

12-Month Forward PE Band

Source; Bloomberg UOB Kay Hian

1QFY27 segment revenue and adjusted EBITA margin

Segment	1QFY26 Revenue (Rmb m)	1QFY26 Adj. EBITA	1QFY26 Margin	1QFY27 Revenue (Rmb m)	1QFY27 Adj. EBITA	1QFY27 Margin	yoy
Alibaba E-commerce Group	198,812	39,988	20.1%	205,862	39,749	19.3%	**-0.8ppt**
AI Cloud & Compute Services	33,418	2,419	7.2%	48,437	5,628	11.6%	**+4.4ppt**
AI Labs & Applications	2,882	-3,224	-111.9%	3,338	-13,861	-415.2%	**-303.3ppt**
All Others	28,629	687	2.4%	28,803	-3,343	-11.6%	**-14.0ppt**
Consolidated	247,652	38,844	15.7%	268,953	27,329	10.2%	**-5.5ppt**

Source;UOB Kay Hian

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)	(HK$) per share
Core commerce	Alibaba China E-commerce Group	696	265	2	5	1,323	100	1,323	69
Instant Commerce +Ele.me	Quick Commerce	242		1		242	100	242	13
International commerce	Alibaba International Digital Commerce Group	234	23	1	50	1,169	100	1,169	61
Cloud Computing, other	Cloud Intelligence Group	30		20		600		600	31
All Others	Freshippo, Cainiao, Alibaba Health, Hujing DME, Amap, Intelligent Information Platform	128	5		20	102	100	102	5
Total Core+initiatives valuation	Alibaba China E-commerce Group								
Net cash	Quick Commerce							3,436	179
Total	Alibaba International Digital Commerce Group							136	7
# of shares								3,608	188

Source: UOB Kay Hian

Profit & Loss

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Net turnover	1,023,670.0	1,133,719.2	1,275,436.4	1,436,168.7
EBITDA	96,055.0	148,697.9	213,234.1	262,318.5
Deprec. & amort.	45,905.0	66,377.9	74,929.8	79,950.9
EBIT	50,150.0	82,320.1	138,304.3	182,367.5
Total other non-operating income	3,830.0	263.0	(0.0)	(0.0)
Associate contributions	2,785.0	2,367.4	1,658.4	1,758.4
Net interest income/(expense)	77,719.0	12,337.0	12,240.3	12,142.7
Pre-tax profit	134,484.0	97,287.5	152,203.1	196,268.6
Tax	(30,045.0)	(32,533.8)	(43,229.7)	(51,180.7)
Minorities	1,465.0	3,048.2	3,657.8	4,389.4
Net profit	105,904.0	67,801.9	112,631.3	149,477.3
Net profit (adj.)	60,658.0	99,210.7	146,383.8	183,217.2

Balance Sheet

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Fixed assets	282,699.0	393,392.2	469,254.7	513,795.0
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	112,899.7	120,475.8	197,528.6
Other current assets	479,239.0	519,411.0	568,796.8	623,937.0
Total assets	1,909,570.0	2,109,965.8	2,321,364.7	2,586,641.7
ST debt	28,224.0	28,224.0	28,224.0	28,224.0
Other current liabilities	448,174.0	504,189.5	559,035.0	626,887.3
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	1,208,366.3	1,359,700.2	1,551,383.5
Minority interest	57,539.0	57,539.0	57,539.0	57,539.0
Total liabilities & equity	1,909,570.0	2,109,966.8	2,321,365.7	2,586,642.7

Cash Flow

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Operating	76,213.0	147,207.1	189,362.8	237,751.0
Profit fo the year	134,484.0	97,287.5	152,203.1	196,268.6
Tax	(30,045.0)	(32,533.8)	(43,229.7)	(51,180.7)
Deprec. & amort.	45,905.0	66,377.9	74,929.8	79,950.9
Associates	(2,785.0)	(2,367.4)	(1,658.4)	(1,758.4)
Working capital changes	90,385.3	15,843.6	5,459.6	12,712.1
Non-cash items	0.0	1.0	1.0	1.0
Other operating cashflows	(161,731.3)	2,598.4	1,657.4	1,757.4
Investing	(67,336.0)	(245,232.0)	(229,366.7)	(213,035.0)
Capex (growth)	(122,021.0)	(170,057.9)	(146,675.2)	(122,074.3)
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)	(18,630.3)	7,576.1	77,052.8
Beginning cash & cash equivalent	147,230.0	131,530.0	112,899.7	120,475.8
Changes due to forex impact	(4,004.0)	0.0	0.0	0.0
Ending cash & cash equivalent	131,530.0	112,899.7	120,475.8	197,528.6

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	9.4	13.1	16.7	18.3
Pre-tax margin	13.1	8.6	11.9	13.7
Net margin	10.3	6.0	8.8	10.4
ROA	5.7	3.4	5.1	6.1
ROE	10.1	6.0	8.8	10.3
Growth				
Turnover	2.7	10.8	12.5	12.6
EBITDA	(47.2)	54.8	43.4	23.0
Pre-tax profit	(16.4)	(27.7)	56.4	29.0
Net profit	(18.2)	(36.0)	66.1	32.7
Net profit (adj.)	(61.6)	63.6	47.5	25.2
EPS	(61.8)	64.2	48.2	25.7
Leverage				
Debt to total capital	6.3	6.0	5.7	5.4
Debt to equity	7.1	6.7	6.3	5.9
Net debt/(cash) to equity	(5.2)	(2.7)	(2.6)	(6.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.