

Alibaba Group (9988 HK)

2QFY27 Preview: Cloud Growth Accelerates; Losses Continue To Narrow

Highlights

- Alibaba will report its 2QFY27 results in late-November, with revenue guided to grow 9% yoy to Rmb270b, slightly below our estimates. Adjusted EBITA should reach Rmb29b, above our Rmb22b forecast, supported by improving cloud profitability and narrowing instant retail and AI Labs and Applications losses. Cloud revenue growth should exceed 50% yoy, with EBITA margin reaching 12%, driven by higher MaaS contribution and T-Head cost efficiencies.
- Maintain BUY with a higher target price of HK\$189.00 (US\$194.00).

Analysis

- Group profitability expected to improve.** Alibaba Group's (Alibaba) September-quarter revenue is guided to grow 9% yoy to around Rmb270b, below our previous forecast of 11%, mainly reflecting weaker-than-expected Alibaba E-Commerce Group revenue, partly offset by accelerating cloud revenue growth. Group adjusted EBITA could reach Rmb29.4b, up from Rmb9.1b in the same quarter last year and Rmb27.3b in the previous quarter, exceeding our previous forecast of around Rmb21.9b and market consensus. The earnings improvement is primarily driven by higher cloud profitability and narrowing losses in instant retail and AI Labs and Applications.
- E-commerce profitability remains resilient.** Alibaba E-Commerce Group revenue is guided at around Rmb199b for the September quarter, slightly below our previous forecast of Rmb204b, amid continued macroeconomic headwinds. Under the revised accounting treatment, which nets merchant subsidies against revenue, customer management revenue (CMR) is guided to decline by mid-single digits yoy, while growing 1% yoy on a like-for-like basis, both broadly in line with our expectations. The narrowing gap between reported and like-for-like CMR growth suggests a moderating impact from merchant subsidies.
- Cloud revenue growth continues to accelerate.** AI Cloud and Compute Services revenue growth is likely to accelerate to over 50% yoy in the September quarter, in line with our forecast and up from 45% yoy in the June quarter, driven by sustained AI-related demand. Management expects further acceleration in the December quarter and remains confident in sustaining around 50% growth in 2027 (vs 11% in 1QFY27). Cloud EBITA margin is expected to reach 12%, supported by a higher contribution from high-margin Model-as-a-Service (MaaS) revenue and cost efficiencies from self-developed T-Head chips. We believe the improving revenue mix and increasing adoption of proprietary chips should further strengthen cloud profitability. Management also sees potential to achieve its long-term margin target of 20% by end-27.

Key Financials

Year to 31 Mar (Rmbm)	2025	2026	2027F	2028F	2029F
Net turnover	996,347	1,023,670	1,121,562	1,282,050	1,442,972
EBITDA	181,839	96,055	159,732	193,307	251,980
Operating profit	140,905	50,150	86,240	102,851	149,948
Net profit (rep./act.)	129,470	105,904	70,887	101,301	136,458
Net profit (adj.)	158,122	60,658	102,618	138,710	173,682
EPS (fen)	855.3	326.5	554.4	755.9	950.6
PE (x)	10.8	28.4	16.7	12.3	9.7
P/B (x)	1.8	1.7	1.4	1.3	1.1
EV/EBITDA (x)	10.3	19.6	11.8	9.7	7.5
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Net margin (%)	13.0	10.3	6.3	7.9	9.5
Net debt/(cash) to equity (%)	(7.1)	(5.2)	(1.6)	2.6	1.0
ROE (%)	12.8	10.1	6.1	7.7	9.2
Consensus net profit (Rmbm)	-	-	105,236.8	147,434.0	184,136.8
UOBKH/Consensus (x)	-	-	0.98	0.94	0.94

Source: Alibaba Group, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	HK\$108.80
Target Price	HK\$189.00
Upside	73.7%
Previous TP	HK\$188.00

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	9988 HK
Shares issued (m)	19,902.0
Market cap (US\$m)	2,165,333.2
Market cap (US\$m)	275,905.4
3-mth avg daily t'over (US\$m)	1,156.5

Price Performance (%)

52-week high/low			HK\$175.00/HK\$88.65	
1mth	3mth	6mth	1yr	YTD
(0.5)	(3.4)	(20.2)	(29.5)	(23.8)

Major Shareholders (%)

JP Morgan Chase & Co	5.44
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Balance Sheet Metrics

FY26 NAV/Share (Rmb\$)	64.61
FY26 Net Debt/Share (Rmb\$)	1.07

Price Chart



Source: Bloomberg

Company Description

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

- **Instant retail losses continue to moderate.** Instant retail losses are expected to narrow to approximately Rmb9b in the September quarter, compared with around Rmb10b in the June quarter. Management reportedly indicated that market share remained stable, while unit economics continued to improve, with the profitability gap versus competitors narrowing. Improving average order value and operating efficiency should support further loss reduction, although competition remains intense.
- **AI Labs and Applications losses narrow.** AI Labs and Applications is projected to record an adjusted EBITA loss of Rmb10b-11b in the September quarter, narrowing from Rmb13.9b in the June quarter, reflecting improving cost efficiency despite continued investment in AI models and applications. Looking ahead, management reportedly expects cloud EBITA to be sufficient to offset AI Labs and Applications losses in the December quarter, implying a potential breakeven in their combined adjusted EBITA. We believe further cloud margin expansion and improving AI inference economics will be important to achieving this target.
- **Long-term cloud infrastructure investment.** Alibaba continues to target over 20GW of global data centre capacity by 2032, with plans to increase reliance on leased infrastructure and reduce the proportion of self-built capacity from approximately 50% in the near term to one-third over the longer term. We believe this shift could help ease upfront funding pressure, although long-term investment requirements remain substantial. We forecast FY27 capex of Rmb225.5b (+85% yoy). Following the completion of its HK\$80b equity placement in Aug 26, Alibaba plans to allocate 60% of net proceeds towards expanding global computing infrastructure, with the remaining 40% earmarked for hyperscale AI data centres and cloud infrastructure upgrades. We believe the proceeds, equivalent to around 31% of our FY27 capex forecast, should help alleviate near-term funding pressure. Management also indicated that no further equity issuance is planned for the remainder of FY27, while exploring alternative financing options.

Valuation/Recommendation

- **Maintain BUY with a higher target price of HK\$189.00 (US\$194.00).** Our target price implies 30x FY27F PE and 23x FY28F PE. Alibaba is trading at 18x FY27F PE, against a 35% EPS three-year CAGR from FY27-30.

Earnings Revision/Risk

- We keep our FY27 revenue forecast largely unchanged at Rmb1,122b, up 10% yoy, and raise our earnings estimate by 6.1% to Rmb102.6b, reflecting further margin expansion in AI Cloud and faster-than-expected loss reductions in AI Labs and Applications and quick commerce.
- **Risks:** a) Margin pressure stemming from AI investment, and b) slower-than-expected monetisation upon investment of AI capex.

Share Price Catalyst

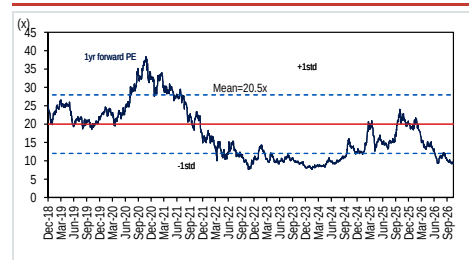
- a) Accelerating growth of cloud hyperscalers; b) solid progress in self-sufficiency chip development, reducing reliance on US chips; and c) AI integration to empower business segments.

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	692	192	2	6	1,154	100	1,154	60
Instant Commerce +Ele.me	Quick Commerce	231	-35	1		231	100	231	12
Cloud Computing, other	Cloud Intelligence Group	222	27	5	42	1,111	100	1,111	58
AI Labs and Maas	AI Model	43		13		564		564	29
All Others	Freshippo, Cainiao, Alibaba Health, Hujing DME, Amap, Intelligent Information Platform	112	3		10	34	100	34	2
Total Core+initiatives valuation								3,093	161
Net cash								208	11
Total								3,616	189
# of shares								19,164	

Source: UOB Kay Hian

12-Month Forward PE Band



Source: Bloomberg UOB Kay Hian

Profit & Loss

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Net turnover	1,023,670.0	1,121,561.8	1,282,050.0	1,442,971.8
EBITDA	96,055.0	159,732.0	193,307.4	251,979.6
Deprec. & amort.	45,905.0	73,491.6	90,456.0	102,031.2
EBIT	50,150.0	86,240.4	102,851.4	149,948.3
Total other non-operating income	3,830.0	263.0	(232.0)	(0.0)
Associate contributions	2,785.0	2,367.4	19,647.7	19,475.7
Net interest income/(expense)	77,719.0	12,337.0	7,333.0	7,236.3
Pre-tax profit	134,484.0	101,207.8	129,600.1	176,660.3
Tax	(30,045.0)	(33,369.3)	(31,042.9)	(43,494.2)
Minorities	1,465.0	3,048.2	2,743.4	3,292.1
Net profit	105,904.0	70,886.7	101,300.6	136,458.2
Net profit (adj.)	60,658.0	102,618.5	138,709.9	173,682.4

Cash Flow

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Operating	76,213.0	154,857.4	198,771.4	248,036.0
Profit to the year	134,484.0	101,207.8	129,600.1	176,660.3
Tax	(30,045.0)	(33,369.3)	(31,042.9)	(43,494.2)
Deprec. & amort.	45,905.0	73,491.6	90,456.0	102,031.2
Associates	(2,785.0)	(2,367.4)	(19,647.7)	(19,475.7)
Working capital changes	90,385.3	13,295.3	9,526.1	12,838.7
Non-cash items	0.0	1.0	1.0	1.0
Other operating cashflows	(161,731.3)	2,598.4	19,878.7	19,474.7
Investing	(67,336.0)	(299,486.5)	(300,640.0)	(278,547.0)
Capex (growth)	(122,021.0)	(224,312.4)	(217,948.5)	(187,586.3)
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)	114,052.3	51,045.7	56,149.2
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)	109,306.3	45,825.2	50,406.8
Net cash inflow (outflow)	(11,696.0)	(30,576.7)	(50,822.9)	25,638.2
Beginning cash & cash equivalent	147,230.0	131,530.0	100,953.3	50,130.4
Changes due to forex impact	(4,004.0)	0.0	0.0	0.0
Ending cash & cash equivalent	131,530.0	100,953.3	50,130.4	75,768.6

Balance Sheet

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Fixed assets	282,699.0	440,532.9	572,142.5	660,114.5
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	100,953.3	50,130.4	75,768.6
Other current assets	479,239.0	516,063.1	570,618.0	625,810.3
Total assets	1,909,570.0	2,141,812.3	2,355,728.3	2,613,074.6
ST debt	28,224.0	28,224.0	28,224.0	28,224.0
Other current liabilities	448,174.0	498,293.5	562,374.5	630,405.5
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	1,246,108.8	1,390,724.3	1,574,298.2
Minority interest	57,539.0	57,539.0	57,539.0	57,539.0
Total liabilities & equity	1,909,570.0	2,141,813.3	2,355,729.3	2,613,075.6

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	9.4	14.2	15.1	17.5
Pre-tax margin	13.1	9.0	10.1	12.2
Net margin	10.3	6.3	7.9	9.5
ROA	5.7	3.5	4.5	5.5
ROE	10.1	6.1	7.7	9.2
Growth				
Turnover	2.7	9.6	14.3	12.6
EBITDA	(47.2)	66.3	21.0	30.4
Pre-tax profit	(16.4)	(24.7)	28.1	36.3
Net profit	(18.2)	(33.1)	42.9	34.7
Net profit (adj.)	(61.6)	69.2	35.2	25.2
EPS	(61.8)	69.8	36.3	25.8
Leverage				
Debt to total capital	6.3	5.8	5.6	5.3
Debt to equity	7.1	6.5	6.2	5.8
Net debt/(cash) to equity	(5.2)	(1.6)	2.6	1.0
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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