Alibaba Group (9988 HK)

2Q27: Cloud Revenue Beat; Margin Expansion; FCF Outflow Narrows

Highlights

- Alibaba's 2QFY27 results were mixed. Revenue rose 9.6% yoy to Rmb271.5b, broadly in line with our and consensus estimates. Adjusted EBITA more than doubled yoy to Rmb32.6b, beating our estimate by 6.1%, supported by a higher cloud EBITA margin and narrower quick commerce losses. Non-GAAP net profit rose 92.3% yoy to Rmb19.9b but missed our and consensus by 29%. Capex reached Rmb50.5b (+60% yoy), down from Rmb67.7b last quarter. Maintain BUY with a lower target price of HK$134.00 (US$137.00).

2Q27 Results

Year to 31 Mar (Rmbm)	2QFY26	1QFY27	2QFY27	QoQ	YoY	UOB	Variance	Cons	Variance
Revenue	247,795	268,953	271,519	1%	9.6%	269,802	0.6%	270,534	0.4%
E-commerce Group	193,429	224,327	197,237	-12%	2.0%	198,578	-1%		
AI Cloud and Compute	39,914	41,626	60,973	46%	52.8%	59,736	2%		
AI Labs and Applications	2,940	3,000	4,435	48%	50.9%	3,338	33%		
- Others	29,118	41,667	27,714	-33%	-4.8%	28,803	-4%		
Gross profit	97,014	102,857	103,043	0%	6.2%	107,921	-5%	106,834	-3.5%
GPM	39.2%	38.2%	38.0%	(0 ppt)	-120.0%	40.0%	(2 ppt)	39.5%	(2 ppt)
Non-GAAP Operating profit	8,247	18,123	31,980	76%	287.8%	29,020	10%		
Non-GAAP OPM	3.3%	6.7%	11.8%	5 ppt	845.0%	10.8%	102 bps		
Non-GAAP net profit	10,352	20,715	19,909	-4%	92.3%	28,084	-29%	28,174	-29.3%
Non-GAAP diluted EPS	8.77	4.39	26.12	494%	197.8%	8.32	214%		

Source: Alibaba, UOB Kay Hian

Analysis

- **E-commerce revenue broadly in line, with narrower quick commerce losses.** In 2QFY27, Alibaba e-commerce group revenue rose 2% yoy to Rmb197.2b. Customer management revenue (CMR) declined 5% yoy or grew 1% on a like-for-like basis excluding the contra-revenue impact of the new business development programme. China quick commerce revenue rose 22% yoy to Rmb58.8b, led by Freshippo. E-commerce group adjusted EBITA rose 243% yoy to Rmb38.9b, mainly on narrower China quick commerce losses as Taobao Instant Commerce continued to improve its unit economics.
- **Cloud growth accelerated with stronger profitability.** AI cloud & compute revenue rose 53% yoy (vs. 45% in 1QFY27), driven by 67% growth (vs 45% in 1QFY27) in recurring external revenue, and ahead of management's prior guidance of over 50%. Adjusted EBITA increased 121% yoy to Rmb8.8b, with margin expanding to 14.5% from 11.6% in 1QFY27. AI-related product revenue reached Rmb17.9b in 2QFY27, equivalent to a US$10.7b annualised run rate and approximately 38% of external cloud revenue. Management expects cloud revenue growth of 30-45% yoy in FY28 and over 50% yoy in CY28.

Key Financials

Year to 31 Mar (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	996,347	1,023,670	1,120,155	1,249,361	1,429,173
EBITDA	181,839	96,055	170,329	224,283	301,115
Operating profit	140,905	50,150	96,874	132,950	194,809
Net profit (rep./act.)	129,470	105,904	129,861	109,848	155,422
Net profit (adj.)	158,122	60,658	100,553	153,214	198,115
EPS (Fen)	855.3	326.5	530.1	814.7	1,057.9
PE (x)	8.0	21.0	12.9	8.4	6.5
P/B (x)	1.3	1.2	1.0	0.9	0.8
EV/EBITDA (x)	7.3	13.9	7.8	5.9	4.4
Dividend yield (%)	0.2	0.1	0.1	0.1	0.1
Net margin (%)	13.0	10.3	11.6	8.8	10.9
Net debt/(cash) to equity (%)	(7.1)	(5.2)	(6.7)	(2.0)	(2.6)
ROE (%)	12.8	10.1	10.9	7.9	10.0
Consensus net profit	-	-	110,254.9	153,105.6	193,713.8
UOBKH/Consensus (x)	-	-	0.91	1.00	1.02

Source: Alibaba Group, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$80.55
Target Price	HK$134.00
Upside	66.4%
Previous TP	HK$189.00

Stock Data

Sector	Consumer Discretionar
Bloomberg ticker	9988 HI
Shares issued (m)	19,902.(
Market cap (US$m)	1,603,102.9
Market cap (US$m)	204,347.1
3-mth avg daily t'over (US$m)	1,077.(

Price Performance (%)

52-week high/low				HK$174.20/HK$80.20
1mth	3mth	6mth	1yr	YTD
(26.0)	(35.1)	(39.6)	(47.9)	(43.6)

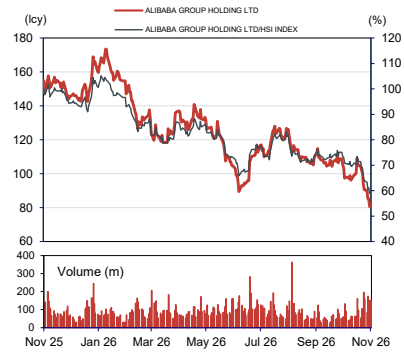
Major Shareholders (%)

JP Morgan Chase & Co	5.44

Balance Sheet Metrics

FY26 NAV/Share (Rmb$)	66.14
FY26 Net Debt/Share (Rmb$)	4.45

Price Chart



Source: Bloomberg

Company Description

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

- **BIS restrictions and domestic chip supply.** Alibaba remains confident in its domestic chip supply chain, with increasing production capacity and a rising contribution from domestic compute to overall capacity. While new US restrictions could affect product launches in 2027, domestic capacity expansion has exceeded expectations. Management reiterated its target of US$100b external cloud revenue by 2030, with an operating margin above 20%.
- **Domestic chip supply and margin upside.** By 1Q27, T-Head chips are expected to support large-scale model training, with most incremental AI chip supply from 2027 onward sourced internally, prioritising Alibaba and strategic partners. Third-party chips will support inference demand. Supply constraints in 2027-28 should sustain favourable gross margins, while in-house chips improve procurement efficiency and profitability.
- **MaaS monetisation and ARR outlook.** Management emphasised application differentiation alongside model development. Despite slower domestic model launches over the past two months, Alibaba maintains its Rmb30b ARR target for 2027, supported by new models in December. ARR remains volatile, annualised from both the latest 28 days and one week, with potential upside in December followed by normalisation in January.
- **AI applications scaled with improving loss trends.** AI labs & applications revenue rose 51% yoy to Rmb4.4b (vs +16% last quarter), while adjusted EBITA losses narrowed to Rmb10.5b from Rmb13.9b in the previous quarter, reflecting more disciplined investment.
- **Capex moderated sequentially, with narrower FCF outflow.** Capex reached Rmb50.5b (+60% yoy), down from Rmb67.7b last quarter and 20% below expectations. FCF outflow narrowed to Rmb34.5b from Rmb44.7b, supported by lower quick commerce losses and higher cloud portability.
- **Quick commerce losses continued to narrow.** Taobao Instant Commerce improved unit economics qoq while maintaining market share, supported by higher average order value and a greater mix of higher-value orders. Narrower quick commerce losses were the main driver of the 243% yoy increase in e-commerce group's adjusted EBITA to Rmb38.9b.

Valuation/Recommendation

- Maintain BUY with a lower target price of HK$134.00 (US$137.00). Our target price implies 23x/15x FY27F/FY28 PE. Alibaba is trading at 14x FY27F PE.

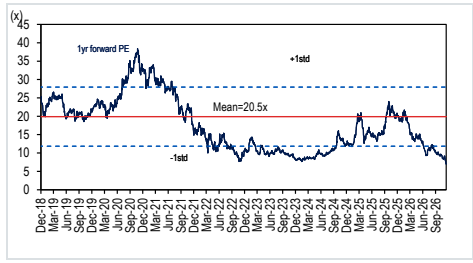
Earnings Revision/Risk

- We lower our cloud revenue to 36% yoy from previous 50% for FY28. We lower our FY27 earnings estimates by 7.7% due to higher-than-expected spending on AI, representing with revenue and earnings growths of 9%/66% 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

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	687	172	1	4	687	100	687	35
Instant Commerce +Ele.me	Quick Commerce	238	-14	1		119	100	119	6
Cloud Computing, other	Cloud Intelligence Group	212	25	5	42	1,061	100	1,061	54
AI Labs and Maas	AI Model	47		5		237		237	12
All Others	Freshippo, Cainiao, Alibaba Health, Hujing DME, Amap, Intelligent Information Platform	104	3		5	16	100	16	1
Total Core+initiatives valuation								2,119	108
Net cash								284	14
Total								2,637	134
# of shares								19,164	

Source: UOB Kay Hian

Profit & Loss

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Net turnover	1,023,670.0	1,120,154.8	1,249,361.4	1,429,173.3
EBITDA	96,055.0	170,328.7	224,283.0	301,115.2
Deprec. & amort.	45,905.0	73,454.7	91,333.4	106,306.2
EBIT	50,150.0	96,874.0	132,949.6	194,809.0
Total other non-operating income	3,830.0	1,138.0	(245.0)	0.0
Associate contributions	2,785.0	6,896.0	5,954.6	5,782.6
Net interest income/(expense)	77,719.0	86,420.0	6,111.0	6,012.1
Pre-tax profit	134,484.0	191,328.0	144,770.2	206,603.7
Tax	(30,045.0)	(64,306.4)	(37,476.7)	(54,247.5)
Minorities	1,465.0	2,838.9	2,555.0	3,066.0
Net profit	105,904.0	129,860.5	109,848.5	155,422.2
Net profit (adj.)	60,658.0	100,552.9	153,214.3	198,114.6

Balance Sheet

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Fixed assets	282,699.0	440,288.4	577,957.1	688,443.7
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	167,790.9	114,622.9	134,090.6
Other current assets	479,239.0	515,675.7	561,616.5	622,010.6
Total assets	1,909,570.0	2,208,018.0	2,417,033.9	2,695,926.1
ST debt	28,224.0	28,224.0	28,224.0	28,224.0
Other current liabilities	448,174.0	505,303.0	555,734.7	626,121.5
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	1,305,304.9	1,458,669.7	1,661,433.6
Minority interest	57,539.0	57,539.0	57,539.0	57,539.0
Total liabilities & equity	1,909,570.0	2,208,019.0	2,417,034.9	2,695,927.1

Cash Flow

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Operating	76,213.0	221,413.6	203,362.9	268,655.1
Profit fo the year	134,484.0	191,328.0	144,770.2	206,603.7
Tax	(30,045.0)	(64,306.4)	(37,476.7)	(54,247.5)
Deprec. & amort.	45,905.0	73,454.7	91,333.4	106,306.2
Associates	(2,785.0)	(6,896.0)	(5,954.6)	(5,782.6)
Working capital changes	90,385.3	20,692.3	4,490.9	9,992.7
Non-cash items	0.0	1.0	1.0	1.0
Other operating cashflows	(161,731.3)	7,140.0	6,198.6	5,781.6
Investing	(67,336.0)	(299,205.1)	(307,576.6)	(305,336.6)
Capex (growth)	(122,021.0)	(224,031.0)	(224,885.1)	(214,376.0)
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)	36,260.9	(53,168.0)	19,467.7
Beginning cash & cash equivalent	147,230.0	131,530.0	167,790.9	114,622.9
Changes due to forex impact	(4,004.0)	0.0	0.0	0.0
Ending cash & cash equivalent	131,530.0	167,790.9	114,622.9	134,090.6

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	9.4	15.2	18.0	21.1
Pre-tax margin	13.1	17.1	11.6	14.5
Net margin	10.3	11.6	8.8	10.9
ROA	5.7	6.3	4.8	6.1
ROE	10.1	10.9	7.9	10.0
Growth				
Turnover	2.7	9.4	11.5	14.4
EBITDA	(47.2)	77.3	31.7	34.3
Pre-tax profit	(16.4)	42.3	(24.3)	42.7
Net profit	(18.2)	22.6	(15.4)	41.5
Net profit (adj.)	(61.6)	65.8	52.4	29.3
EPS	(61.8)	62.4	53.7	29.9
Leverage				
Debt to total capital	6.3	5.6	5.3	5.0
Debt to equity	7.1	6.2	5.9	5.5
Net debt/(cash) to equity	(5.2)	(6.7)	(2.0)	(2.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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