Alibaba Health Information Technology (241 HK)

1HFY27 Preview: Lowers FY27 Revenue Growth Target To 7-10% yoy On Subsidy Optimisation; Earnings Guidance Unchanged

Highlights

- Ali Health lowered its FY27 revenue growth target from 10-15% to 7-10% yoy, while keeping its adjusted net profit guidance unchanged at Rmb1.9b-2.3b. This reflects proactive optimisation of product-price subsidies, with savings redeployed into B2C+O2O supply-chain integration.
- We lower our FY27 revenue growth estimate from 12.4% to 8.5% yoy, while maintaining FY27-29 revenue and adjusted net profit CAGRs of 12% and 15% on innovative drugs momentum, deepened Alibaba synergies, and expanding AI adoption. Maintain BUY with a lower target price of HK$4.00.

Analysis

- **Lowered FY27 revenue guidance to 7-10% yoy while keeping profit guidance intact.** At its 1HFY27 results preview call on 18 September, Alibaba Health Information Technology (Ali Health) cut its FY27 revenue growth target from 10-15% to 7-10% yoy and reiterated its adjusted net profit forecast of Rmb1.9b-2.3b. The revision is a deliberate strategic choice. The company is actively reducing product-price subsidies. Transaction volume will be impacted, while the growth driver has already shifted from subsidy-driven to demand-driven. This is supported by a more mature online-pharmacy user mindset, expanding innovative-drug supply eg GLP-1 and cardiovascular products, and improving B2C+O2O fulfilment experience. Management expects the impact to be relatively even across 1HFY27 and 2HFY27.
- **Subsidy savings to be redeployed into B2C and O2O supply-chain integration.** Profit saved from lower subsidies will be redeployed into longer-term supply-chain capabilities and accelerated B2C+O2O integration, with flash-sale medicine transaction links already connected to the main search channel. Management emphasised that the priority is fulfilment speed, assortment breadth, and service consistency rather than price, viewing these investments as building structural user-experience and stickiness advantages. The gross-margin impact of lower platform subsidies should be limited, as most subsidies sit below gross profit. Self-operated original-drug subsidies will be reduced more modestly.
- **Drugs remain the growth engine while non-drug categories turn softer.** Ali Health's growth is shifting from subsidy-led to demand-led, as online drug purchasing habits are entrenched, proactive search traffic rises, and repurchase behaviour becomes less price-sensitive. Drugs, especially innovative/original drugs, remains the primary growth engine and is guided for a high double-digit growth in FY27. Subsidies will remain concentrated on drugs. Non-drug categories are expected to deliver a low single-digit growth, as the company will no longer use heavy price subsidies to chase volume.

Key Financials

Year to 31 Mar (Rmbm)	2025	2026	2027F	2028F	2029F
Net turnover	30,598	34,255	37,181	41,673	46,677
EBITDA	1,536	1,889	2,245	2,613	3,034
Operating profit	1,479	1,836	2,192	2,560	2,981
Net profit (rep./act.)	1,432	1,936	2,058	2,371	2,730
Net profit (adj.)	1,950	2,326	2,234	2,569	2,951
EPS (Fen)	12.1	14.4	13.8	15.9	18.2
PE (x)	21.7	18.2	19.0	16.5	14.4
P/B (x)	2.6	2.4	2.5	2.3	2.1
EV/EBITDA (x)	21.9	17.8	15.0	12.8	11.1
Dividend yield (%)	0.0	7.4	2.4	2.8	3.2
Net margin (%)	4.7	5.7	5.5	5.7	5.8
Net debt/(cash) to equity (%)	-13.6	-30.4	-52.2	-55.6	-58.8
Interest cover (x)	588.8	1347.7	1601.3	1863.9	2164.3
ROE (%)	9.3	11.3	11.9	13.6	14.5
Consensus net profit	-	-	2,279	2,678	3,071
UOBKH/Consensus (x)	-	-	0.98	0.96	0.96

Source: Ali Health, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$3.06
Target Price	HK$4.00
Upside	+30.4%
Previous TP	HK$5.20

Stock Data

Sector	Health Care
Bloomberg ticker	241 HK
Shares issued (m)	16,175
Market cap (HK$m)	49,577
Market cap (US$m)	6,319
3-mth avg daily t'over (US$m)	40

Price Performance (%)

52-week high/low				HK$7.42/HK$2.85
1mth	3mth	6mth	1yr	YTD
(5.8)	(0.9)	(36.5)	(50.9)	(35.3)

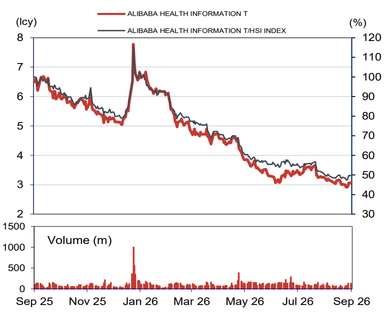
Major Shareholders (%)

Alibaba Group Holding Limited	69.27

Balance Sheet Metrics

FY27 NAV/Share (Rmb)	1.04
FY27 Net Cash/Share (Rmb)	0.54

Price Chart



Source: Bloomberg

Company Description

Alibaba Health Information Technology is Alibaba's healthcare arm, operating pharmaceutical direct sales, the Tmall pharmacy e-commerce platform and healthcare and digital services in China.

- **Health products regulatory impact is contained, with single-digit growth expected in 2HFY27.** Ali Health expects health supplements to return to single-digit growth in 2HFY27, with regulatory tightening having limited impact on its self-operated business, where the category accounts for roughly 10% of 1P revenue. The review mainly targets overseas-branded merchants misrepresenting domestic goods as imports, while Tmall's strict vetting shields larger compliant merchants. Platform remediation is complete, and management does not view health products as a subsidy focus, reinforcing that the regulatory impact is contained and growth should stabilise at a modest pace.
- **Hydrion AI remains on track towards year-end targets.** Hydrion, its doctor-focused medical AI, remains on track towards year-end targets, with the FY27 investment plan unchanged and commercialisation models under exploration. The company reiterated its focus on professional ToB applications rather than consumer-facing AI. The incremental spending from the subsidy pull-back is directed at the supply chain instead of AI. Advertising and commission revenue is expected to remain stable. Ads are largely non-drug driven, and the modest growth in health supplements should largely offset the softer performance in devices or nourishing products.
- **Management transition does not alter the dual-wheel strategy.** The leadership change at Ali Health was completed this month, with Mr Yu Yong, former 1688 CEO, now serving as Chairman and CEO, bringing extensive e-commerce and B2B supply-chain expertise. Mr Shen Difan remains an Executive Director and continues to lead Hydrion medical AI and the traceability-code businesses. He will also support group-level medical-AI initiatives. The company reaffirmed its dual-wheel strategy of pharmaceutical full-stack retail plus medical AI. Under Mr Yu's leadership, Ali Health expects faster group-resource synergies across Flash Sale, Freshippo, and Amap, reinforcing execution stability and strategic continuity.
- **Long-term growth story remains intact despite near-term moderation.** Despite the near-term moderation in top-line growth, we continue to see structural opportunities supported by sustained innovative drug momentum, expanding AI adoption, and deepened Alibaba ecosystem synergies. We maintain our FY27-29 revenue and adjusted net profit CAGR estimates of 12% and 15%, respectively.

Valuation/Recommendation

- **Maintain BUY with a lower target price of HK$4.00,** based on 1.5x P/S and 26.8x PE for FY27F, reflecting accelerated investment. It is currently trading at 1.0x P/S and 16.4x PE for FY28F, while its peer JD Health (6618 HK) is trading at 1.0x P/S and 12.4x PE for 2027F.

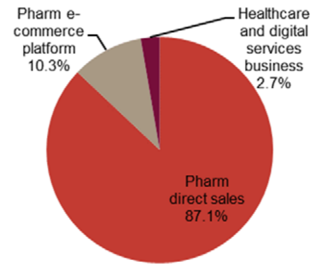
Earnings Revision/Risk

- We fine-tune our FY27 revenue and adjusted net profit growth estimates from 12.4% and -1.1% yoy to 8.5% and -4.0% yoy respectively, reflecting the lowered revenue guidance and the deliberate subsidy pull-back, while keeping our FY28-29 estimates unchanged.

Share Price Catalyst

- a) Solid 1HFY27 results with clarity on subsidy savings and investment pace, b) continued launches and accelerating online penetration of innovative drugs, c) deepened Alibaba ecosystem synergies, d) accelerated B2C+O2O integration, and e) expanding AI adoption.

Segmental Revenue (FY26)



Source: UOB Kay Hian

Profit & Loss

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Net turnover	34,255	37,181	41,673	46,677
EBITDA	1,889	2,245	2,613	3,034
Deprec. & amort.	53	53	53	53
EBIT	1,836	2,192	2,560	2,981
Total other non-operating income	961	750	750	750
Associate contributions	-	-	-	-
Net interest income/(expense)	(1)	(1)	(1)	(1)
Pre-tax profit	2,274	2,417	2,785	3,206
Tax	(338)	(359)	(414)	(476)
Minorities	(0)	-	-	-
Net profit	1,936	2,058	2,371	2,730
Net profit (adj.)	2,326	2,234	2,569	2,951

Balance Sheet

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Fixed assets	27	20	13	6
Other LT assets	7,644	7,656	7,673	7,693
Cash/ST investment	5,434	8,758	10,066	11,571
Other current assets	9,988	5,972	6,614	7,329
Total assets	23,093	22,405	24,366	26,598
ST debt	-	-	-	-
Other current liabilities	5,093	5,499	6,135	6,843
LT debt	-	-	-	-
Other LT liabilities	143	143	143	143
Shareholders' equity	17,855	16,777	18,119	19,663
Minority interest	1	1	1	1
Total liabilities & equity	23,093	22,420	24,399	26,651

Cash Flow

Year to 31 Mar (Rmbm)	2026	2027F	2028F	2029F
Operating	1,237	2,503	2,876	3,303
Pre-tax profit	2,274	2,417	2,785	3,206
Tax	(338)	(359)	(414)	(476)
Deprec. & amort.	53	53	53	53
Associates	-	-	-	-
Working capital changes	(790)	(20)	(24)	(27)
Non-cash items	-	-	-	-
Other operating cashflows	37	412	475	546
Investing	2,021	(473)	(539)	(612)
Capex (growth)	(7)	(7)	(7)	(7)
Investments	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Others	2,028	(466)	(532)	(605)
Financing	(14)	(3,137)	(1,029)	(1,186)
Dividend payments	-	(3,137)	(1,029)	(1,186)
Proceeds from borrowings	-	-	-	-
Loan repayment	-	-	-	-
Others/interest paid	(14)	-	-	-
Net cash inflow (outflow)	3,243	(1,107)	1,308	1,505
Beginning cash & cash equivalent	2,218	9,865	8,758	10,066
Changes due to forex impact	(28)	-	-	-
Ending cash & cash equivalent	5,434	8,758	10,066	11,571

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
Gross margin	24.0	24.3	24.4	24.5
Pre-tax margin	6.6	6.5	6.7	6.9
Net margin	5.7	5.5	5.7	5.8
ROA	8.7	9.0	10.1	10.7
ROE	11.3	11.9	13.6	14.5
Growth				
Turnover	12.0	8.5	12.1	12.0
Gross profit	10.5	9.8	12.8	12.7
Pre-tax profit	45.8	6.3	15.2	15.1
Net profit	35.2	6.3	15.2	15.1
Net profit (adj.)	19.3	(4.0)	15.0	14.9
EPS	18.8	(4.0)	15.0	14.9
Leverage				
Debt to total capital	-	-	-	-
Debt to equity	-	-	-	-
Net debt/(cash) to equity	(30.4)	(52.2)	(55.6)	(58.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.