

# ALIBABA

China

IT/Internet/e-commerce- Software&Services

October 5, 2017

BUY

## Company description

Alibaba Group (BABA) is a Chinese Internet company with business units ranging from its core eCommerce platforms to supporting businesses such as cloud computing, payments and marketing services. The eCommerce businesses combine to make BABA the largest online and mobile commerce company in the world by gross merchandise value. BABA operates under a marketplace model (i.e. inventory is sourced via third-party sellers) and partners with third-party logistics providers to ensure delivery to end-customers (i.e. it does not own warehousing facilities). Alibaba Group went public on September 19, 2014 at a price of \$68 per ADS.

## Recent developments

**September 2017:** Best Inc., a Chinese logistics provider backed by Alibaba, priced its U.S. IPO at the bottom of expectations, raising USD 450m after it revised terms of the deal to cope with tepid investor demand. Best Inc is slashing its proposed U.S. share sale by as much as half. The weak response forced Alibaba-backed Best Inc. to cut the price and number of shares on offer. Both Alibaba and Cainiao were investors in BEST before the Company listed on the New York Stock Exchange on September 20, 2017.

On September 28, Alibaba, Best's largest shareholder, invested an additional USD 100m into the IPO, further strengthening its partnership with BEST and ongoing support for the growth of BEST's Smart Supply Chain platform.

**September 26, 2017:** Alibaba announced that as a further step to implement its New Retail strategy, the company has agreed to make an additional investment of RMB 5.3bn (US\$807m) to increase its ownership of Cainiao Smart Logistics Network, the logistics affiliate of Alibaba, to a majority stake of 51%. Alibaba also announced its intention to invest RMB 100bn (US\$15.2bn) over the next 5 years to further strengthen its global logistics network.

**August 17, 2017:** Alibaba Group announced June Quarter 2017 results (corresponding at Q1 results as year-end March). The results were better-than-expected including a 56% increase in revenue and a 65% jump in adjusted EPS. The company, founded by Chinese billionaire Jack Ma, reiterated its strategy of going beyond traditional e-commerce to provide logistics, payments, cloud and other services to online merchants and physical-store retailers.

## Investment conclusion

Alibaba reiterated its FY18 revenue growth guidance of 45%-49% and noted intentions to step up investment in the back half of the year in core commerce for New Retail and B2C promotions. This strategy should have a negative impact on margins in the next few quarters, though we believe it will bear fruit in the longer term.

We expect Alibaba to remain the leading eCommerce company. Its leadership position enables it to benefit from industry growth and economies of scale.

The stock has gained 104% this year, compared with advances of 31% for Amazon.com Inc. and 14% for the S&P 500.

## Performance



	1m	3m	12 m
Absolute perf.	+5.3%	+23.5%	+67.2%
S&P 500 perf	+3.8%	+4.9%	+18.2%

## Market data

Share price ADS (USD), as of October 5, 2017:	178.89
52-wk range:	86.01 –180.87
Mkt cap (USD m):	458'165
Nb of shares issued:	2'561m
Bloomberg ticker:	BABA:US
Isin:	USD1609W1027

## Financial summary (In mio Rmb/CNY) & Valuation

Year-end March	2016	2017	2018e	2019e
Net sales	101'143	158'273	236'518	312'902
Oper. income	32'425	43'251	75'526	107'537
Net income	7'460	43'675	59'743	85'549
EPS (adj.)	29.07	17.52	22.7	32.56
DPS	0	0	0	0
Div. yield (%)	-	-	-	-
P/E (x)	55.3	47.1	35.3	26.3

Source: Bloomberg

## Equity rating—Bloomberg consensus

		Nb of analysts
Buys	96%	48
Holds	4%	2
Sells	0%	0