

Alibaba Group Holding Limited

Asia Satellite*

Recommended since 29.06.2021

28.03.2023



Country HK	Market capitalization (bn) HKD 1810,9	Perf. since reco. (%)
Sector Internet & Direct Marketing Retail	Free float 99,6%	Alibaba Group -61,1
Factset 9988-HK	Closing price HKD 85,25	Sector -43,6
ISIN KYG017191142	ESG Risk score* 26,4 Medium risk	

Profile
Alibaba is the leading e-commerce operator in China, earning revenues of \$132,9bn in its 2022 financial year. Its Core Commerce businesses encompass: (1) the B2C (Tmall, Taobao) and B2B (1688, LST) platforms in China, alongside (2) its International business activities in the shape of its B2C (AliExpress, Lazada and Kaola) and B2B (Alibaba) platforms. Alibaba also owns bricks-and-mortar retail businesses in Intime and Hema. Alibaba Group invests heavily in technologies and offers a range of cloud computing (Alibaba Cloud), logistics, media and marketing (Youku, Pictures, Alimama) services, coupled with payment services via its Ant Group subsidiary.

Strengths/opportunities

- ⊕ User retention rate on its platform of 98%.
- ⊕ Highly profitable e-commerce business model (>15% EBITDA margin).
- ⊕ No 1 in strategic investment in content, cloud computing and fintech.

Weaknesses/threats

- ⊖ Antitrust laws and government regulations might make a dent in Alibaba's profitability.
- ⊖ Fierce competition (Tencent, Pinduoduo, JD) with adverse impact on

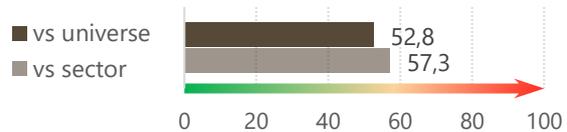
Investment case

- ⊕ Alibaba has developed into a conglomerate group focused on Big Data, capitalising on transactional data from its e-commerce, financial services and logistics operations, enabling it to offer competitive cloud-computing solutions. This networking effect has allowed Alibaba to extend its reach into other fast-growing sectors, such as online media and entertainment or blockchain activities.
- ⊕ Its e-commerce business model can be described as being 'asset-light'. Alibaba acts as the intermediary between businesses and consumers, thereby running no inventory risks. Furthermore, Alibaba monetises its business operations via Customer Management Services. At the end of its Q2 FY 2023, 65% of its revenues were generated by retail in China (Taobao, Tmall and other smaller businesses it owns). International trading (retail and wholesale) delivered 8% of its revenues. Logistics services accounted for 7% of revenues. As leader in China, Alibaba makes considerable investments to defend its No 1 position in a country where online shopping is expanding at an estimated CAGR of 12% for 2022-2025.
- ⊕ Alibaba Cloud ranks as one of the Top Four cloud providers worldwide and is the leading cloud service provider in China, comfortably ahead of its nearest rivals Tencent and Baidu. This business sector is not turning a profit yet and delivered just 10% of group revenues, but it is operating in a fast-expanding marketplace (>25% of growth for the next 3 years).
- ⊕ Alibaba is diversifying its income streams: consumer services (ele.me), online media & entertainment (Youku), which generated 6% and 4% respectively. Lastly, Alibaba is pumping sizeable investments into a variety of various businesses and start-ups both in China and elsewhere in the world.

Valuation

Alibaba shares are trading at attractive levels, valued at P/E ratios of 12x for 2023e and 11x for 2024e, which, in our view, makes Alibaba an investment opportunity. Alibaba has been affected by negative news flow relating to the fierce competition in China, regulations and the impact of Zero-Covid policy.

ESG risk vs. universe & sector (percentile)*



USD	03/2022	2023e	2024e
Sales revenue (mio)	132 931	126 597	139 721
Sales growth	25,6%	-4,8%	10,4%
EBIT adjusted (mio)	14 885	14 265	17 298
% of sales	11,2%	11,3%	12,4%
Net income (mio)	9 655	9 372	16 064
Net income growth	-56,4%	-2,9%	71,4%
FCF/Sales	81,6%	84,2%	107,7%
Net debt/Ebitda	-2,3x	-1,7x	-2,2x
Dividend yield	0,0%	0,0%	0,0%
PE	32,2x	11,2x	10,1x
P/BV	1,6x	1,6x	1,5x

Factset estimates

ESG - risks and key points

- ⊕ Ranked as 'Medium Risk' on account of its use of personally identifiable information (PII).
- ⊕ Alibaba remains exposed to antitrust investigations by China's regulatory agencies (anti-competitive practices, compliance with Internet laws, and its Variable Interest Entity structure).
- ⊕ Strict supervision of fintech sector risks and cooperation with financial institutions in these business areas.

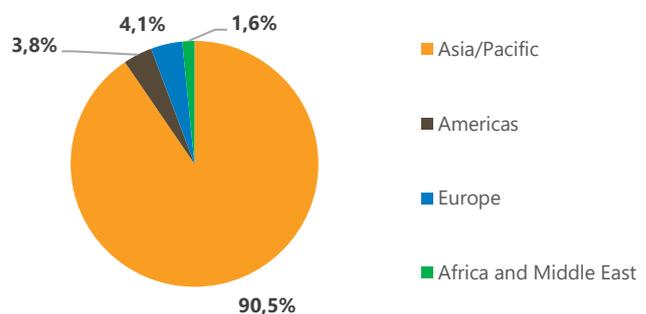
5-year performance vs sector



— MSCI World Index / Internet & Direct Marketing Retail -IND
— Alibaba Group Holding Limited Sponsored ADR

Source: FactSet

Sales breakdown - 03/2022



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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