

COMPANY UPDATE

Alibaba Group (9988 HK)

Key Takeaways From Apsara Conference 2024

On 19 Sep 24, Alibaba Apsara Conference 2024 (“云栖大会”) kicked off in Hangzhou. AliCloud officially launched Qwen 2.5, with its flagship model, Qwen 2.5-72B surpassing Llama 405B in performance. AliCloud is committed to investing in AI infrastructure, laying the foundation for AI-driven innovation. AliCloud also reiterated its focus on foundational model development, application innovation and open-source initiatives. Maintain BUY with a target price of HK\$95.00 (US\$95.00).

WHAT'S NEW

- Release of open-source Qwen 2.5 Model.** AliCloud CTO Mr. Zhou Jingren unveiled the latest generation of the open-source model, Qwen 2.5, from Tongyi Qianwen. Qwen 2.5 encompasses a range of large language models (LLM), multimodal models, math models, and code models across various sizes. The newly released Qwen 2.5 model supports up to 128,000 context lengths, can generate up to 8,000 words and supports 29 languages. Based on 18 trillion tokens of pre-training data, Qwen 2.5 outperforms previous models by 18% in overall performance, with stronger programming and mathematical abilities. Qwen 2.5 is available in various sizes, from 0.5b to 72b parameters, catering to different application scenarios from low-power devices such as headphones to enterprise-level applications. The flagship 72B model is designed for high-end research and enterprise use. As of mid-Sep 24, Tongyi Qianwen's open-source models have been downloaded over 40m times, making it the second-largest model group globally, just behind Llama.
- Overview of key remarks from Mr. Eddie Wu,** Alibaba Group's CEO and Chairman & CEO of Alibaba Cloud Intelligence. Over the past 22 months, the speed of AI development has surpassed any other period in history, but AliCloud is still in the early stages of the Artificial General Intelligence (AGI) revolution. AliCloud also believes the greatest potential of AI lies not on mobile screens, but in penetrating and taking over the digital world, and ultimately transforming the physical world. The core of the internet revolution over the past 30 years was to connect people, information, commerce and factories to foster global collaboration efficiency. However, GenAI creates new value through productivity supply, which could be tens of times greater than the connection-based value of the mobile internet.
- Price reduction for its three main Qwen-Turbo models** to boost AI adoption across industries, but we expect limited impact on revenue growth. The price of Qwen-Turbo has been reduced by 85%, now costing as low as Rmb0.30 per million tokens, while Qwen-Plus and Qwen-Max saw price cuts of 80% and 50% respectively. In addition, Alibaba Cloud's BaiLian platform is offering new users over 50m free tokens and 4,500 image generation credits. Nevertheless, we expect the impact of price reductions to be minimal as AliCloud saw robust demand for AI-related products and anticipates a double-digit revenue growth from external customers in 2H24, gradually accelerating thereafter.

KEY FINANCIALS

Year to 31 Mar (Rmbm)	2023	2024	2025F	2026F	2027F
Net turnover	868,687.0	941,168.0	1,011,139.6	1,098,618.4	1,189,498.6
EBITDA	141,874.0	170,022.0	197,426.8	191,626.0	218,572.5
Operating profit	100,351.0	113,350.0	147,965.1	157,256.5	189,835.8
Net profit (rep./act.)	72,509.0	79,741.0	110,291.7	119,358.8	145,454.7
Net profit (adj.)	141,379.0	157,479.0	142,861.1	161,050.7	182,013.9
EPS (Fen)	655.0	796.8	754.7	888.4	989.2
PE (x)	10.7	8.8	9.3	7.9	7.1
P/B (x)	1.5	1.5	1.2	1.0	0.9
EV/EBITDA (x)	9.1	7.6	6.6	6.7	5.9
Dividend yield (%)	1.0	1.6	1.9	2.1	2.3
Net margin (%)	8.3	8.5	10.9	10.9	12.2
Net debt/(cash) to equity (%)	(13.4)	(18.0)	(28.3)	(34.8)	(40.6)
Interest cover (x)	8.4	9.5	22.5	30.4	34.4
ROE (%)	7.4	8.0	10.2	9.6	10.3
Consensus net profit	-	-	151,555	165,670	178,132
UOBKH/Consensus (x)	-	-	0.94	0.97	1.02

Source: Alibaba Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$87.20
Target Price	HK\$95.00
Upside	+8.9%

COMPANY DESCRIPTION

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

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	9988 HK Equity
Shares issued (m):	19,345.5
Market cap (HK\$m):	1,677,995.1
Market cap (US\$m):	212,143.8
3-mth avg daily t'over (US\$m):	452.0

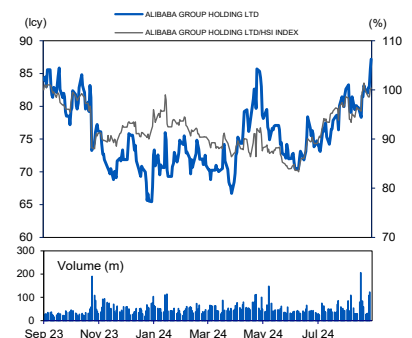
Price Performance (%)

52-week high/low	HK\$92.35/HK\$64.89			
<b>1mth</b>	<b>3mth</b>	<b>1mth</b>	<b>3mth</b>	<b>1mth</b>
(0.3)	(6.8)	8.1	(15.5)	1.9

Major Shareholders

	<b>%</b>
Ma Jack Yun	4.5
Vanguard Group Inc	3.7
BlackRock	2.6
FY25 NAV/Share (RMB)	59.30
FY25 Net Cash/Share (RMB)	16.92

PRICE CHART



Source: Bloomberg

ANALYST(S)

**Julia Pan Meng Yao**  
+8621 5404 7225 ext 808  
juliapan@uobkayhian.com

**Soong Ming San**  
+603 21471912  
mingsan@uobkayhian.com

ESSENTIALS

- Unveiling of other foundation models.** The Qwen-Max flagship model, Qwen2.5, Qwen2-VL, Qwen2.5-Audio, and Qwen2.5-Math models were unveiled at the conference. For instance, AliCloud announced the upgrades of flagship model Qwen-Max, whose performance is on par with GPT-4. The Qwen-Max model saw a further upgrade in parameter size, leading to more intelligent models that can serve professionals in finance, law, research, healthcare, and education through applications such as the Tongyi App and API calls. Moreover, the Qwen2-VL visual language model added video understanding capabilities, surpassing GPT-4's abilities by supporting over 20 minutes of video comprehension and integrating visual intelligence for mobile devices with multilingual support. The Qwen2.5-Audio model blends speech recognition and understanding, identifying music, emotions and environmental sounds with low latency.
- Developing a solid moat around AI infrastructure.** Mr. Eddie Wu revealed that, "In the new computing power market, over 50% of new demand is driven by AI, and AI computing power demand is now dominant. This trend will continue to expand". At the conference, AliCloud unveiled its AI-optimised Panjiu G-series servers, which support up to 16 GPUs per machine and 1.5TB of shared memory, designed for high-performance computing. In networking, Alibaba Cloud's HPN7.0 architecture was introduced to meet the demands of large-scale AI infrastructure, connecting over 100,000 GPUs, effectively transforming data centres into supercomputers. In storage, the CPFS system was upgraded to support massive data handling in large-scale AI training, improving bandwidth and reducing storage costs.
- Accelerating AI application progress.** The newly upgraded Qwen Max model has seen significant improvements, particularly in Chinese text understanding, generation, Q&A, and general knowledge. The model has also expanded its "family of applications", with upgrades to its intelligent coding assistant, Tongyi Lingma, which has over 5m downloads and has helped developers write over 10b lines of code. In addition, Tongyi introduced a "PPT creation" function that can generate visually appealing presentations from a single sentence, long text, audio, or video. The AI-powered presentation tool allows users to smartly arrange content and images while continuously refining them. Other tools include a real-time translation assistant and a note-taking & reading assistant, which can distinguish speakers, summarise key points, and allow users to highlight important content while listening.

EARNINGS REVISION/RISK

- We leave our forecasts largely unchanged.
- Risks.** a) Intensified competition among e-commerce peers, and b) continued investment in new initiatives may drag on margin.

VALUATION/RECOMMENDATION

- Maintain BUY with a target price of HK\$95.00 (US\$95.00)** that implies 11x FY25F PE, below its historical mean of 22x, against a 13% EPS CAGR from FY25-28. We believe the favourable outlook stems from AliCloud and TIG's strategic implementations to foster monetisation in 2H24. Alibaba is trading at 10.5x FY25F PE, 1SD below its historical mean.

SHARE PRICE CATALYST

- a) New retail segment to see profits and economies of scale, b) continued strong growth in the international business, c) potential listing of Ant Financial, and d) upcoming spin-off events over the next 6-12 months.

SOTP VALUATION (BASED ON 12-MONTH FORWARD)

Description	Business Unit	FY25 Revenue (HK\$b)	EBITA(HK\$b)	EV / Revenue	EV / EBITA	Value (HK\$,b)	% BABA holding (%)	Value to BABA (HK\$b)
Core+initiatives								
Core commerce business	Taobao Tmall Commerce Group	347	139	2	5	694	100	694
International commerce	Global Digital Commerce Group	151		2		301	100	301
Cainiao	Cainiao Smart Logistics	127	5		15	76	51	39
Ele.me+ Amap	Local Services Group	74		1		74	100	74
Cloud Computing, other	Cloud Intelligence Group	129	8	3	42	323	100	323
Youku Tudou	Digital Media and Entertainment Group	24		1		24	100	24
Other initiatives		333	7		6	40	100	40
Total Core+initiatives valuation								1,495
Total investees valuation						461		96
Net cash								266
Total								1,857
# of shares								19,525

Source: UOB Kay Hian

QWEN 2.5 UPGRADE



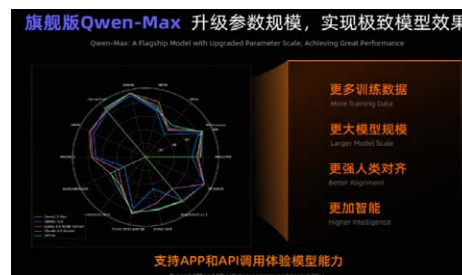
Source: Alibaba Cloud, UOB Kay Hian

QWEN PRICE REDUCTION UP TO 85%



Source: Alibaba Cloud, UOB Kay Hian

QWEN MAX



Source: Alibaba Cloud, UOB Kay Hian

TONGYI WANXIANG



Source: Alibaba Cloud, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (RMBm)	2024	2025F	2026F	2027F
Net turnover	941,168	1,011,140	1,098,618	1,189,499
EBITDA	170,022	197,427	191,626	218,573
Deprec. & amort.	56,672	49,462	34,370	28,737
EBIT	113,350	147,965	157,256	189,836
Total other non-operating income	6,157	257	0	0
Associate contributions	(7,735)	1,033	61	(111)
Net interest income/(expense)	(17,911)	(8,766)	(6,300)	(6,363)
<b>Pre-tax profit</b>	<b>93,861</b>	<b>140,490</b>	<b>151,017</b>	<b>183,362</b>
Tax	(22,529)	(36,778)	(37,533)	(45,531)
Minorities	8,677	7,060	6,354	7,624
Preferred dividends	(268)	(479)	(479)	0
<b>Net profit</b>	<b>79,741</b>	<b>110,292</b>	<b>119,359</b>	<b>145,455</b>
Net profit (adj.)	157,479	142,861	161,051	182,014

### CASH FLOW

Year to 31 Mar (RMBm)	2024	2025F	2026F	2027F
<b>Operating</b>	<b>182,593</b>	<b>161,849</b>	<b>168,224</b>	<b>186,791</b>
Pre-tax profit	93,861	140,490	151,017	183,362
Tax	(22,529)	(36,778)	(37,533)	(45,531)
Deprec. & amort.	56,672	49,462	34,370	28,737
Associates	549	(3,282)	(14,344)	3,480
Working capital changes	36,299	8,676	20,371	20,224
Non-cash items	0	0	0	1
Other operating cashflows	17,741	3,282	14,344	(3,481)
<b>Investing</b>	<b>(21,824)</b>	<b>(78,591)</b>	<b>(80,626)</b>	<b>(82,375)</b>
Capex (growth)	(27,579)	(24,574)	(21,207)	(17,013)
Capex (maintenance)	0	0	0	1
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	1
Others	5,755	(54,018)	(59,419)	(65,363)
<b>Financing</b>	<b>(108,244)</b>	<b>73,053</b>	<b>49,905</b>	<b>54,896</b>
Dividend payments	n.a.	n.a.	n.a.	n.a.
Issue of shares	(10,061)	67,484	43,780	48,158
Proceeds from borrowings	(13,179)	5,569	6,125	6,738
Loan repayment	0	0	0	1
Others/interest paid	(85,004)	0	0	(1)
<b>Net cash inflow (outflow)</b>	<b>52,525</b>	<b>156,310</b>	<b>137,504</b>	<b>159,312</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>191,211</b>	<b>248,125</b>	<b>404,435</b>	<b>541,939</b>
Changes due to forex impact	4,389	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>248,125</b>	<b>404,435</b>	<b>541,939</b>	<b>701,251</b>

### BALANCE SHEET

Year to 31 Mar (RMBm)	2024	2025F	2026F	2027F
Fixed assets	185,161	179,559	171,881	161,717
Other LT assets	826,804	861,535	915,470	979,272
Cash/ST investment	248,125	404,435	541,939	701,251
Other current assets	504,739	534,930	569,659	605,914
<b>Total assets</b>	<b>1,764,829</b>	<b>1,980,459</b>	<b>2,198,949</b>	<b>2,448,154</b>
ST debt	12,749	12,749	12,749	12,749
Other current liabilities	408,758	447,625	502,725	559,204
LT debt	55,686	61,255	67,380	74,118
Other LT liabilities	175,037	175,037	175,037	175,037
Shareholders' equity	997,272	1,168,467	1,325,731	1,511,719
Minority interest	115,327	115,327	115,327	115,327
<b>Total liabilities &amp; equity</b>	<b>1,764,829</b>	<b>1,980,459</b>	<b>2,198,949</b>	<b>2,448,154</b>

### KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
<b>Profitability</b>				
EBITDA margin	18.1	19.5	17.4	18.4
Pre-tax margin	10.0	13.9	13.7	15.4
Net margin	8.5	10.9	10.9	12.2
ROA	4.5	5.9	5.7	6.3
ROE	8.0	10.2	9.6	10.3
<b>Growth</b>				
Turnover	8.3	7.4	8.7	8.3
EBITDA	19.8	16.1	(2.9)	14.1
Pre-tax profit	15.7	49.7	7.5	21.4
Net profit	10.0	38.3	8.2	21.9
Net profit (adj.)	11.4	(9.3)	12.7	13.0
EPS	21.6	(5.3)	17.7	11.3
<b>Leverage</b>				
Debt to total capital	5.8	5.5	5.3	5.1
Debt to equity	6.9	6.3	6.0	5.7
Net debt/(cash) to equity	(18.0)	(28.3)	(34.8)	(40.6)
Interest cover (x)	9.5	22.5	30.4	34.4

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Analyst Certification/Regulation AC**

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W