

# Alibaba (09988.HK)

Increased Investment in Flash Sales Weighs on Short-Term Profits  
China | Internet

### Company background

The company provides technological infrastructure and marketing platforms, operating seven business segments. The China Commerce segment includes retail commerce businesses such as Taobao, Tmall, and Hema, as well as wholesale businesses. The International Commerce segment comprises international retail and wholesale commerce businesses, including Lazada and AliExpress. The Local Services segment includes location-based businesses such as Ele.me, Amap, and Fliggy. The Cainiao segment covers domestic and international end-to-end logistics services and supply chain management solutions. The Cloud segment offers public and hybrid cloud services to enterprises both in China and internationally, including Alibaba Cloud and DingTalk. The Digital Media and Entertainment segment includes platforms such as Youku, Quark, and Alibaba Pictures, along with other content and distribution platforms, as well as online gaming businesses. The Innovation Initiatives and Others segment encompasses Damo Academy, Tmall Genie, and other businesses.

### Financial performance

For FY2025Q4, the company achieved total revenue of RMB 236.5 billion, a year-on-year increase of 6.6%; operating profit was RMB 28.5 billion, up 92.8% year-on-year; adjusted EBITA reached RMB 32.6 billion, an increase of 36.1% year-on-year; adjusted net profit was RMB 29.8 billion, rising 22.2% year-on-year.

For full Year FY2025, the company reported total revenue of RMB 996.3 billion, a year-on-year increase of 5.9%; operating profit was RMB 140.9 billion, up 24.3% year-on-year; adjusted EBITA amounted to RMB 173.1 billion, growing 4.9% year-on-year, primarily driven by revenue growth and improved operational efficiency, partially offset by increased investments in e-commerce and technology sectors. Adjusted net profit was RMB 158.1 billion, remaining stable year-on-year.

By revenue type, Taotian Group revenue reached RMB 449.8 billion, up 3.4% year-on-year, accounting for 45.1% of total revenue. Alibaba International Digital Commerce Group revenue was RMB 132.3 billion, an increase of 28.9% year-on-year, representing 13.3% of total revenue. Cloud Intelligence Group revenue amounted to RMB 118.0 billion, growing 11.0% year-on-year, accounting for 11.8% of total revenue. Local Services Group revenue reached RMB 66.9 billion, up 12.2% year-on-year, representing 6.7% of total revenue.

### Taobao and Tmall Group: GMV demonstrated steady growth and monetization rate improved, but increased investment in flash sales weighed on profits

Driven by national policies to expand domestic demand and boost consumption, coupled with the platform's continued efforts to enhance price competitiveness and optimize the consumer experience, we expect Taotian Group's GMV growth in FY2026Q1 to accelerate compared to the previous quarter. The deeper application of site-wide promotion tools, along with the additional 0.6% basic software service fee introduced by Taobao since September 2024, collectively contributed to a year-on-year improvement in Taotian Group's overall monetization rate. As a result, we anticipate that customer management revenue will increase by 7.7% year-on-year in FY2026, reaching RMB 347 billion.

However, substantial investments in flash sales are putting pressure on short-term profits. On July 2, 2025, Taobao Flash Sales announced that it would provide direct subsidies totaling RMB 50 billion to merchants and consumers over the next 12 months. The initiative yielded significant results shortly after its launch—on July 7, daily orders for Taobao Flash Sales combined with Ele.me exceeded 80 million (compared to just over 60 million on June 23 of the same year), with non-food orders surpassing 13 million and daily active users exceeding 200 million.

27 Aug 2025

### Accumulate

CMP HKD 124.5  
(Closing price as of 25 Aug)  
Target HKD 144 (+15.7%)

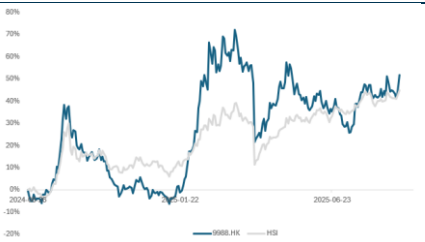
#### COMPANY DATA

O/S SHARES (BN) :	19.07
MARKET CAP (HKD BN) :	2,370
52 - WK HI/LO (HKD):	143.95/75.40

#### SHARE HOLDING PATTERN, %

JPMorgan Chase & Co.	2.28%
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#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY24	FY25	FY26E	FY27E
Revenue	941,168	996,347	1,043,586	1,160,074
Net profit	80,009	130,109	114,889	137,479
EPS	4.19	6.82	6.02	7.21
P/E ratio, x	30	18	21	17
Dividend Yield, %	1.42%	1.72%	1.72%	1.73%

Source: Company reports, Phillip Securities Est.

#### Research Analyst

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Despite the rapid growth in daily order volume for Taobao Flash Sales and Ele.me, the overall subsidy level remains high, leading to short-term profit pressure on Taotian Group. We project that Taotian Group's adjusted EBITA will decrease by 14.2% year-on-year to RMB 148.5 billion in FY2026, with the corresponding adjusted EBITA margin declining from 17.4% to 14.2%.

### Cloud Intelligence Group: AI Continues to Drive Cloud Revenue Growth

We forecast that Cloud Intelligence Group's revenue will increase by 22.1% year-on-year to RMB 144.1 billion in FY2026. We believe that the trend of AI democratization driven by DeepSeek will continue to boost overall model training and application demand, further accelerating the growth of cloud service demand and revenue. The company's strategic focus is clearly directed toward public cloud, and by proactively scaling back low-margin businesses while continuously optimizing its revenue structure, it has effectively mitigated, to some extent, the profit pressure caused by price reductions in public cloud products. As a result, we expect Cloud Intelligence Group's adjusted EBITA to reach RMB 13.2 billion in FY2026, with an adjusted EBITA margin of 9.2%.

### Company valuation

Flash sales order volume is expected to continue growing and is likely to drive increased traffic to the core e-commerce platform. Going forward, it will be essential to closely monitor the stability of the business's fulfillment capabilities and the growth of merchant supply. Accordingly, we project the company's FY26-28 operating revenue to be RMB 1,044 billion / 1,160 billion / 1,260 billion, with adjusted net profit of RMB 138 billion / 158 billion / 185 billion, corresponding to EPS of RMB 6.02 / 7.21 / 8.42. Given the company's high growth potential, we applied a SOTP valuation method and derived a target price of HKD 144. The current stock price implies FY2026-2028 P/E ratios of 21x / 17x / 15x. We assign an "Accumulate" rating.

### Risk factors

1) Intensifying competition; 2) Intensified trade friction; 3) Deteriorated market demand.

## Financials

### Key Financial Data

Mar Y/E	FY24	FY25	FY26E	FY27E	FY28E
<b>Valuation Ratio</b>					
P/E ratio	30	18	21	17	15
Dividend Yield, %	1.42%	1.72%	1.72%	1.73%	2.02%
<b>Per share data(RMB)</b>					
EPS	4	7	6	7	8
BVPS	52	53	53	55	58
<b>Growth &amp; Margin</b>					
<b>Growth</b>					
Net Revenue Growth	9.12%	7.96%	4.77%	11.20%	8.60%
Gross Profit Growth	11.24%	12.18%	-0.50%	10.91%	6.61%
EBIT Growth	3.01%	0.72%	0.74%	-3.50%	1.48%
Net Profit Growth	9.93%	62.62%	-11.70%	19.66%	16.85%
<b>Margin</b>					
Gross Profit Margin	37.70%	39.95%	37.95%	37.87%	37.18%
EBIT Margin	17.53%	17.37%	14.23%	15.08%	15.94%
Net Profit Margin	8.50%	13.06%	11.01%	11.85%	12.75%
<b>Key Ratios</b>					
ROE	8.11%	12.88%	11.29%	13.08%	14.48%
ROA	4.53%	7.21%	6.40%	7.47%	8.47%

### Consolidated Statement of Profit or Loss

Mar Y/E, RMB mn	FY24	FY25	FY26E	FY27E	FY28E
<b>REVENUE</b>	941168	996347	1043586	1160074	1259563
Cost of revenue	586323	598285	647512	720775	791219
Gross profit	354845	398062	396074	439298	468344
R&D expenses	-52256	-57151	58441	63224	66757
Selling, administrative and general expenses	-157126	-188260	213935	220414	217904
Operating profit	113350	140905	115222	151168	182807
Finance income	-9964	20759	16352	5856	6357
Finance costs	-7947	-9596	-5792	-5854	-12395
Profit before income tax and share of results of equity investees	101596	155455	131087	157004	183123
Income tax expenses	-22529	-35445	-27528	-32971	-38456
<b>Net profit</b>					
– Equity holders of the Company	80009	130109	114889	137479	160642
– Non-controlling interests	8677	4133	2660	3157	3695

### Consolidated Statement of Financial Position

Mar Y/E, RMB mn	FY24	FY25	FY26E	FY27E	FY28E
<b>Current assets</b>					
Accounts receivable	143536	202175	222393	244632	269095
Cash and cash equivalents	248125	145487	117497	142366	172778
Others	361203	326387	326387	326387	326387
<b>Total current assets</b>	<b>752864</b>	<b>674049</b>	<b>666276</b>	<b>713385</b>	<b>768259</b>
<b>Non-current assets</b>					
PPE	185161	203348	193181	183522	174345
Others	826804	926830	934559	943995	955053
<b>Total non-current assets</b>	<b>1011965</b>	<b>1130178</b>	<b>1127740</b>	<b>1127516</b>	<b>1129399</b>
<b>Total Assets</b>	<b>1764829</b>	<b>1804227</b>	<b>1794016</b>	<b>1840901</b>	<b>1897658</b>
<b>Current liabilities</b>					
Accounts payable	297883	332537	365791	402370	442607
Others	123624	102809	126743	159909	206653
<b>Total current liabilities</b>	<b>421507</b>	<b>435346</b>	<b>492533</b>	<b>562279</b>	<b>649260</b>
<b>Non-current liabilities</b>					
Long-term debt	55686	49909	49909	49909	49909
Others	175037	228866	204840	185755	170088
<b>Total non-current liabilities</b>	<b>230723</b>	<b>278775</b>	<b>254749</b>	<b>235664</b>	<b>219997</b>
<b>Total liabilities</b>	<b>652230</b>	<b>714121</b>	<b>747282</b>	<b>797943</b>	<b>869257</b>
Equity attributable to equity holders of the Company	871217	941323	948959	982759	1041090
Non-controlling interests	115327	68535	68535	68535	68535
<b>Total equity</b>	<b>986544</b>	<b>1009858</b>	<b>1017494</b>	<b>1051294</b>	<b>1109625</b>
<b>Total liabilities and equity</b>	<b>1764829</b>	<b>1804227</b>	<b>1794016</b>	<b>1840901</b>	<b>1897658</b>

## Consolidated Statement of Cash Flow

Mar Y/E, RMB mn	FY24	FY25	FY26E	FY27E	FY28E
CFO	182593	163509	124566	185209	209282
Profit before tax	71332	125976	114889	137479	160642
Depreciation and Amortization	26640	29260	28675	28101	27539
Change in working capital	-13749	-23988	-43060	-5499	-7834
Others	98370	32261	24062	25128	28935
CFI	-21824	-185415	-18335	-18752	-21650
Short term and long term investment, net	5755	-101137	-18335	-18752	-21650
Purchase of property, equipment and intangible assets	-27579	-84278	0	0	0
CFF	-108244	-76215	-178002	-141586	-157221
Cash paid for distribution of dividends	1031	1738	0	0	0
Cash received from financing	-109275	-77953	-178002	-141586	-157221
Effect of exchange rate changes on cash	4389	965	0	0	0
Net Change in Cash	-108244	-76215	-178002	-141586	-157221
Cash, CE and Restricted cash at Beg	229510	286424	189268	117497	142366
Cash, CE and Restricted cash at Y/E	286424	189268	117497	142366	172778

Current Price as of: Aug 25

Exchange rate: HKD/RMB = 0.91

Source: PSHK Est.

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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