

Alibaba (BABA US)

FUNDAMENTAL VIEW ¹

As of 15 Apr 2024

- We maintain our Outperform recommendation on Alibaba (A1/A+/A+) post its F3Q24 results. Topline growth decelerated to 5.1% YoY, and missed estimates by 0.4 ppt. EBTIDA margins declined on lower monetization rates and expanding losses of its international eCommerce segment. FOCF declined but Alibaba's balance sheet remained rock solid, and its net cash position expanded. Over the next few quarters, we expect Alibaba's topline growth to pick up but EBITDA margin to remain under pressure; we expect its strong FOCF generation to continue to support its credit profile; we see limited downwards rating pressure on Alibaba over the next 6-12 months.
- We continue to prefer holding longer-dated Alibaba \$ bonds (7-20Y) for carry, and will wait for market pullbacks to add.

RISKS & CATALYSTS

As of 15 Apr 2024

- While Chinese policymakers have adopted an increasingly friendly stance towards tech platforms, regulatory clampdown (e.g. anti-monopoly guidelines, data security laws, personal information protection laws) may still affect Alibaba as it increases compliance cost. There are regulatory risks given the corporate structure which uses variable interest entities (VIEs) to circumvent China's restrictions on foreign ownership of Internet Content Providers (ICPs).
- Alibaba does not control Alipay but relies on Alipay to conduct substantially all the payment processing and escrow services on its marketplaces.
- Alibaba may be subject to lawsuits for items listed on its marketplaces, which may be pirated, counterfeit, or illegal.
- Intensifying competition amongst eCommerce platforms may result in slower topline growth and weaker EBITDA margins for Alibaba as its increase incentives and promotional activities to defend its market share.

CREDIT QUALITY SCORE (CQS)²

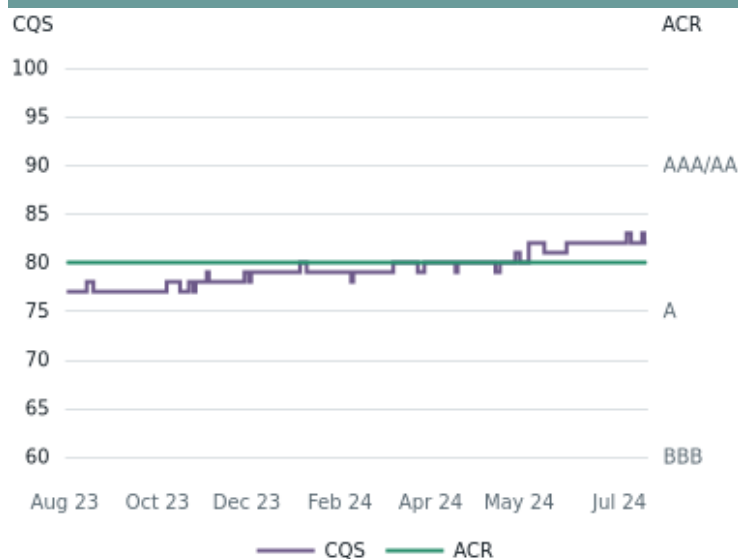
As of 25 Jul 2024

CURRENT CQS

82

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS

KEY METRICS

As of 15 Apr 2024

CNY BN	FY20	FY21	FY22	FY23	LTM F3Q24
Debt to Book Cap	12.5%	12.1%	11.6%	12.6%	12.7%
Debt/Total Equity	14.3%	13.8%	13.1%	14.4%	14.5%
Debt/Total Assets	9.6%	8.8%	8.3%	9.2%	9.1%
Gross Leverage	0.8x	0.8x	0.9x	0.9x	0.9x
Interest Coverage	30.4x	39.9x	32.2x	29.6x	25.6x
EBITDA Margin	30.9%	24.9%	18.5%	20.2%	20.7%

Alibaba has historically maintained a net cash position. Year-end: 31 March

BUSINESS DESCRIPTION

As of 15 Apr 2024

- Founded in 1999, Alibaba is the largest retail commerce company in the world based on gross merchandise volume (GMV) as of 31 March 2023.
- The company's business segments comprise Taobao & Tmall Group (46% of F2Q24 revenue; China e-commerce incl. Taobao, Tmall, Taobao Deals, Taocaicai, 1688.com), International Digital Commerce (10%; incl. Lazada, AliExpress, Trendyol and Daraz), Cloud Intelligence Group (11%; incl. AliCloud, AI), logistic provider Cainiao (10%), Local Consumer Services (5%; incl. Ele.me, Amap), and Digital Media and Entertainment (2%, incl. Youku & Alibaba Pictures) and Others (17%; incl. Freshippo, Fliggy, Alibaba Health, Intelligent Information Platform, SunArt, DingTalk).
- Taobao/Tmall is Alibaba's core business and the main EBITA & cash generation unit of the group. Alibaba's annual active consumer exceeded 1 bn in June-2022. In FY23, Alibaba's China retail marketplaces added 50 million annual active consumers.
- Alibaba had a market capitalization of RMB 1.31 tn as of 15 April 2024.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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