

Alibaba (BABA US)

FUNDAMENTAL VIEW ¹

As of 06 Sep 2024

- We maintain our O/P recommendation on Alibaba (A1/A+/A+) post its largely in-line F1Q25 results. Revenues decelerated due to a small contraction of customer management revenues; EBITDA margin declined due to higher operating losses for its international ecommerce segment. Alibaba's FOCF fell due to higher capex on GPUs for the cloud business and one-off working capital investment. Net cash decreased (albeit still substantial at RMB 187 bn) as the company allocated idle cash to long-term fixed deposit and debt securities, and fund share repurchase. We expect topline growth to improve and EBITDA margin to stabilize over the next 6-12 months, and Alibaba to maintain a net cash position; we continue to view Alibaba as a core holding in China and Asia IG credits, and we prefer its 31.

RISKS & CATALYSTS

As of 06 Sep 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 16 Oct 2024

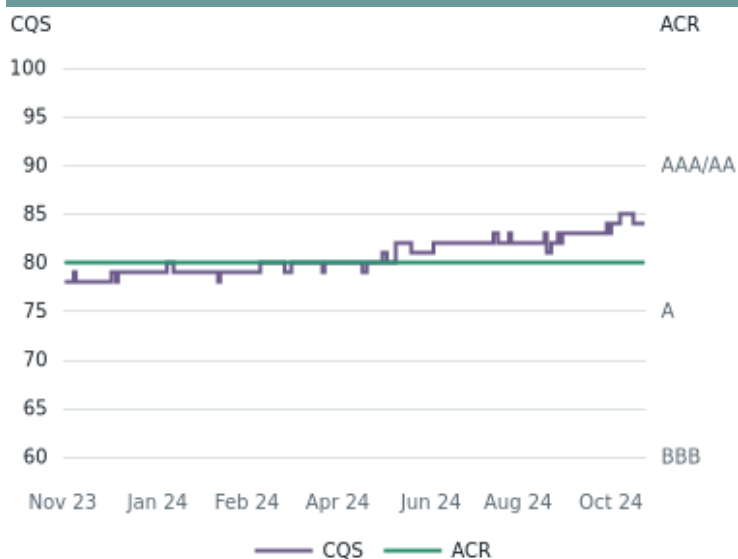
CURRENT CQS

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CQS OUTLOOK ³



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



KEY METRICS

As of 06 Sep 2024

CNY BN	FY21	FY22	FY23	FY24	LTM F1Q25
Debt to Book Cap	12.1%	11.6%	12.6%	13.3%	16.5%
Debt/Total Equity	13.8%	13.1%	14.4%	15.3%	19.7%
Debt/Total Assets	8.8%	8.3%	9.2%	9.7%	11.6%
Gross Leverage	0.8x	0.9x	0.9x	0.9x	1.1x
Interest Coverage	39.9x	32.2x	29.6x	24.0x	22.3x
EBITDA Margin	24.9%	18.5%	20.2%	20.3%	19.6%

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

BUSINESS DESCRIPTION

As of 06 Sep 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 (43% of F2Q25 revenue; China e-commerce incl. Taobao, Tmall, Taobao Deals, Taocaicai, 1688.com), International Digital Commerce (11%; incl. Lazada, AliExpress, Trendyol and Daraz), Cloud Intelligence Group (10%; incl. AliCloud, AI), logistic provider Cainiao (10%), Local Consumer Services (6%; incl. Ele.me, Amap), and Digital Media and Entertainment (2%, incl. Youku & Alibaba Pictures) and Others (18%; 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.
- Alibaba had a market capitalization of RMB 1.4 tn as of 6 September 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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