

Alibaba (BABA US)

FUNDAMENTAL VIEW ¹

As of 06 Jan 2025

- We maintain our Outperform recommendation on Alibaba post its F2Q25 results; the improving topline growth and take rate of its domestic eCommerce segment was a highlight though the widening losses at its international eCommerce and logistics arm, Cainiao, which are still at a ramp-up stage weighed on overall EBITDA margin and cash flow; shareholder rewards continued burning cash, but was expected and manageable. We expect Alibaba's debt metrics to be stable over the next 6-12 month, on an acceleration of topline growth, stabilizing EBITDA margin, and healthy FOCF, which can cover its shareholder rewards. We continue viewing Alibaba as a core holding in China and Asia IG credits; and for investors looking to add duration in Asia credits, we recommend Alibaba's 31 and its new 30.

RISKS & CATALYSTS

As of 10 Dec 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).
- Intensifying competition amongst eCommerce platforms may result in slower topline growth and weaker EBITDA margins.
- Alibaba does not control Alipay but relies on Alipay to conduct substantially all the payment processing and escrow services on its marketplaces.
- US-China tension may escalate under the new Trump Administration, including additional chip sanctions, which may result in higher volatility. Failing to secure a stable supply of advanced AI chips and/or find domestic alternatives could weigh on the long-term AI development of Tencent against international peers.

CREDIT QUALITY SCORE (CQS)²

As of 13 Jan 2025

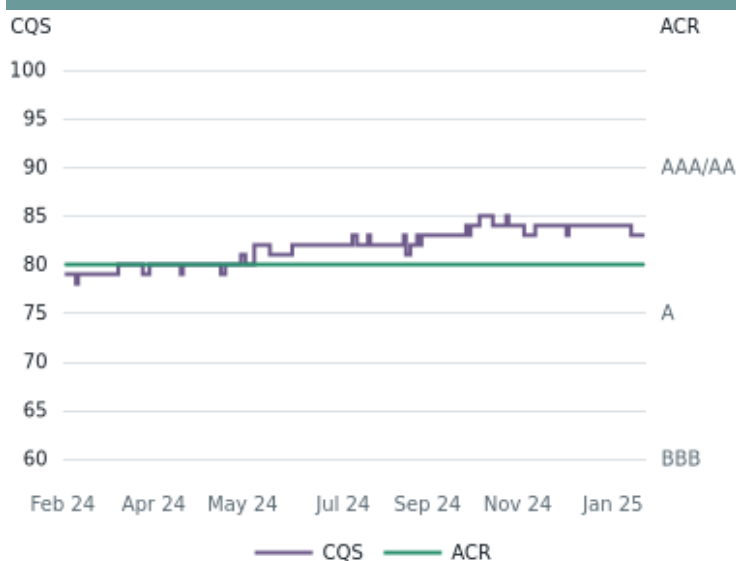
CURRENT CQS

83

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

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



KEY METRICS

As of 10 Dec 2024

CNY BN	FY21	FY22	FY23	FY24	LTM F2Q25
Debt to Book Cap	12.1%	11.6%	12.6%	13.3%	16.1%
Debt/Total Equity	13.8%	13.1%	14.4%	15.3%	19.1%
Debt/Total Assets	8.8%	8.3%	9.2%	9.7%	11.5%
Gross Leverage	0.8x	0.9x	0.9x	0.9x	1.1x
Interest Coverage	39.9x	32.2x	29.6x	24.0x	20.8x
EBITDA Margin	24.9%	18.5%	20.2%	20.3%	19.3%

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

BUSINESS DESCRIPTION

As of 10 Dec 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 (38% of F2Q25 revenue; China e-commerce incl. Taobao, Tmall, Taobao Deals, Taocaicai, 1688.com), International Digital Commerce (12%; incl. Lazada, AliExpress, Trendyol and Daraz), Cloud Intelligence Group (11%; incl. Alibaba Cloud, AI), logistic provider Cainiao (10%), Local Consumer Services (7%; incl. Ele.me, Amap), and Digital Media and Entertainment (3%, incl. Youku & Alibaba Pictures) and Others (20%; 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 1.6 tn as of 10 December 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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