

Alibaba (BABA US)

FUNDAMENTAL VIEW ¹

As of 07 Dec 2022

- We have an Outperform on Alibaba, and we remain constructive on its credit outlook.
- Alibaba reported a decent set of F2Q23 results, with growth showing signs of emerging recovery and its profitability margins improved. Looking ahead, we expect Alibaba growth to continue to rebound on the back of China's reopening, and for its profitability to remain stable. We also expect Alibaba to maintain its healthy leverage metrics and net cash position in the next 6-12 months.
- We think that Alibaba \$-bonds are trading at attractive levels compared to its A-rated US tech and China corporate peers. We have a preference for its \$-bonds with maturity <5Y. We expect Alibaba's spreads to tighten against its aforementioned peers as China gradually reopens, alongside a supportive tech regulation environment.

RISKS & CATALYSTS

As of 15 Sep 2022

- Resurgence in COVID-19 cases may cause supply chain disruptions if production suspensions are implemented.
- Regulatory clampdown (e.g. US SEC delisting risk, anti-monopoly guidelines, data security laws) may adversely affect Alibaba. 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.

CREDIT QUALITY SCORE (CQS) ²

As of 27 Feb 2023

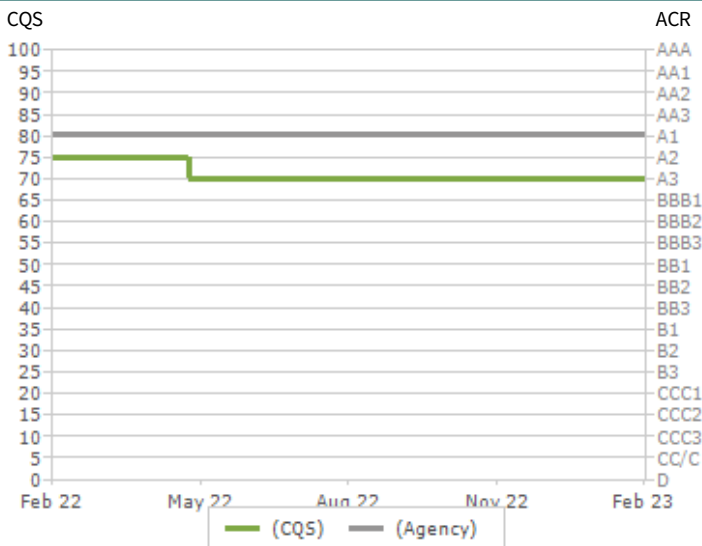
CURRENT CQS

70

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

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



KEY METRICS

As of 15 Sep 2022

CNY BN	LTM F1Q22	FY22	FY21	FY20	FY19
Debt to Book Cap	12.2%	11.6%	12.1%	12.5%	17.9%
Net Debt to Book Cap	n/m	n/m	n/m	n/m	(7.9%)
Debt/Total Equity	0.1x	0.1x	0.1x	0.1x	0.2x
Debt/Total Assets	8.9%	8.3%	8.8%	9.6%	13.9%
Gross Leverage	1.2x	1.1x	1.2x	1.0x	1.6x
Net Leverage	n/m	n/m	n/m	n/m	n/m
Interest Coverage	26.2x	27.3x	28.7x	24.3x	15.9x
EBITDA Margin	15.0%	15.7%	17.9%	24.7%	22.0%

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

BUSINESS DESCRIPTION

As of 07 Dec 2022

- Founded in 1999, Alibaba is now the largest retail commerce company in the world based on gross merchandise volume (GMV). GMV transacted on Alibaba's China retail marketplaces was RMB 8.3 tn for the year ended 31 March 2022.
- The company's business segments comprise Core Commerce (73.0% of F2Q23 revenue), Cloud Computing (10.0%), Digital Media and Entertainment (4.1%, which includes Youku and UC Browser), Cainiao (6.5%), Local Consumer Services (6.3%), and Innovation Initiatives/Others (0.2%, which includes Amap, DingTalk and Tmall Genie).
- Alibaba's core online market places include Taobao and Tmall. The "New Retail" business fuses online and offline shopping through physical stores such as Sun Art and Hema supermarkets. Alibaba also operates outside China through Lazada and AliExpress. As of 31 March 2022, annual active consumers on Alibaba's China retail marketplaces reached 903 mn.
- Alibaba had a market capitalization of RMB 1.69 tn as of 7 December 2022.

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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