Alibaba Group

Cloud margin inflection arrives

27 May 2026

Company Overview

Alibaba is China's largest e-commerce platform company, with Taobao and Tmall having monthly active users (MAUs) of over 800mn. It has an extensive e-commerce ecosystem including Alipay, Cainiao Logistics, and AliCloud. Its revenue is derived from e-commerce (86%), cloud computing (8%), digital media & entertainment (5%) (i.e., Youku, Tudou, and UCWeb), and innovation initiatives and others (1%) (i.e., Dingtalk and AutoNavi).

Investment Overview

Leading e-commerce player in China. Alibaba is the largest e-commerce player in China, operating Taobao and Tmall Group (TTG). Gross merchandise value (GMV) has been stabilising since the beginning of 2024, while quick commerce serves as a structural lever for new user acquisition and engagement. The company also derives revenue from cloud computing, digital media & entertainment (e.g., Youku and Tudou), and other innovation initiatives (e.g., Dingtalk).

Cloud re-acceleration and margin inflection underway. We revise FY27F/28F adjusted earnings by -13%/-12% to reflect heavier upfront AI investment. Cloud remains the clear bright spot — external cloud revenue accelerated to +40% y/y in Mar quarter, and management has pinned hard quantitative MaaS targets (>RMB30bn by Dec'26). We raise our cloud revenue growth forecasts to 45%/42%/40% in FY27F/28F/29F (from 40%/40%/–), and now expect cloud EBITA margin to step up from c.9% in FY26F to 10%/11.5%/13.5% in FY27F/28F/29F as MaaS mix shift, ~2x server replacement pricing, and deeper T-Head deployment flow through.

MaaS / cloud margin as key share-price drivers. As cloud transitions from a scale-led phase to a meaningful profit engine — contributing an expected c.19%/21%/26% of Group EBITA in FY27F/28F/29F. The MaaS opportunity is underpinned by three industry tailwinds: (1) the industry-wide shift from chatbot interactions to agentic AI workloads; (2) rising enterprise willingness to pay as AI delivers genuine productivity returns; and (3) AI coding emerging as the single biggest demand driver. T-Head's proprietary chip scale-up further reinforces Alibaba's structural margin and supply resilience advantages over peers reliant on rented third-party compute.

Maintain BUY; SOTP-based TPs raised to HKD202 / USD204. Our TPs comprise: (1) core commerce: HKD118, based on unchanged 15x FY27F P/E; and (2) cloud: HKD84, based on unchanged 6x FY27F P/S. The TP uplift reflects a rolled-forward valuation base capturing the now-stronger cloud growth and margin trajectory, while unchanged multiples leave room for further re-rating as MaaS monetisation milestones are delivered.

Risks

Slower-than-expected MaaS monetisation, T-Head foundry capacity bottlenecks, sustained macro drag on physical-goods CMR, and prolonged quick commerce competition.

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Key Financial Data

Bloomberg Ticker	9988HK
Sector	Consumer Discretionary Distribution
Share Price (HKD)	132.80
DBS Rating	BUY
12-mth Target Price (HKD)	202.00
Market Cap (USDbn)	369.4
Fwd. P/E (x)	22.1
P/Book (x)	2.0
ROE (%)	10.2

Closing Price as of 26 May 2026
Source: Twelve Data, DBS, Visible Alpha

Indexed Share price vs Composite Index Performance

Source: S&P

Financial Summary (CNYmn)

FY Mar	FY2025(A)	FY2026(A)	FY2027(F)	FY2028(F)	FY2029(F)
Sales	996,347	1,023,670	1,123,018	1,266,374	1,457,398
% y/y	*5.9*	*2.7*	*9.7*	*12.8*	*15.1*
Gross Profit	398,062	407,534	447,086	504,157	580,206
% y/y	*12.2*	*2.4*	*9.7*	*12.8*	*15.1*
EBITDA	224,863	50,051	192,600	241,012	295,828
% y/y	*(7.2)*	*(77.7)*	*284.8*	*25.1*	*22.7*
Net Profit (Loss)	129,470	105,904	93,760	130,267	172,475
% y/y	*62.4*	*(18.2)*	*(11.5)*	*38.9*	*32.4*
FCF	77,537	8,877	53,861	81,091	124,392
% y/y	*(48.2)*	*(88.6)*	*506.8*	*50.6*	*53.4*
CAPEX	(85,972)	(67,336)	(130,000)	(140,000)	(140,000)
% y/y	*161.1*	*(21.7)*	*93.1*	*7.7*	*0.00*
EBITDA Margin (%)	22.6	4.9	17.2	19.0	20.3
Net Margin (%)	13.0	10.3	8.3	10.3	11.8
ROA (%)	7.3	5.7	4.8	6.3	7.7
ROE (%)	13.0	10.2	8.5	10.9	13.0
Tax Rate (%)	22.0	22.7	23.0	23.0	23.0

Source: DBS

Valuation Metrics

FY Mar	FY2025(A)	FY2026(A)	FY2027(F)	FY2028(F)	FY2029(F)
PE (x)	16.7	20.2	22.1	15.4	11.3
P/B (x)	2.1	2.0	1.8	1.6	1.4
Dividend Yield (%)	1.6	1.6	0.8	0.9	0.9
EV/EBITDA (x)	8.5	40.3	10.0	7.6	5.7
FCF Yield (%)	4.0	0.4	2.8	4.4	7.4
Net DPS (HKD)	1.9	2.0	1.1	1.1	1.2
BV Per Share (HKD)	58.6	65.3	73.2	82.9	96.1

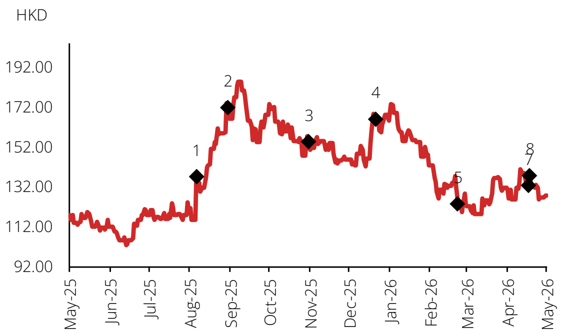
Source: DBS

Credit & Cashflow Metrics

FY Mar	FY2025(A)	FY2026(A)	FY2027(F)	FY2028(F)	FY2029(F)
Debt / Equity (x)	0.2	0.2	0.2	0.1	0.1
Net Debt / Equity (x)	cash	cash	cash	cash	cash
Debt / Assets (x)	0.1	0.1	0.1	0.1	0.1
EBITDA / Int Exp (x)	nm	nm	nm	nm	nm
Debt / EBITDA (x)	0.9	3.9	1.0	0.8	0.7
Receivables Days	63.3	80.9	85.9	83.8	80.1
Days Payable	207.0	218.2	222.6	198.4	173.2
Inventory Days	nm	nm	nm	nm	nm

Source: DBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions

S.No.	Date	Closing Price	12-m Target price	Rating
1	1-Sep-25	HKD115.70	HKD161.00	BUY
2	25-Sep-25	HKD174.00	HKD223.00	BUY
3	26-Nov-25	HKD157.80	HKD213.00	BUY
4	16-Jan-26	HKD164.60	HKD213.00	BUY
5	20-Mar-26	HKD132.00	HKD213.00	BUY
6	20-Mar-26	HKD132.00	HKD196.00	BUY
7	13-May-26	HKD132.80	HKD202.00	BUY
8	14-May-26	HKD132.80	HKD202.00	BUY

Source: DBS

Analysts: Andy YU
Edmond FOK

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**Share price appreciation + dividends*

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