

The very important thing you should have is

PATIENCE



Jack Ma Quotes via Gecko&Fly

Alibaba

[NYSE:BABA]



Kingsley Ye

Spring 2021

Professor: Dr. John M. Longo CFA





Alibaba Group Holding Limited (NYSE: BABA)

Consumer discretionary | Internet retail

Key statistics	
First Trading Date	2014.9.19
52 Week Range	\$189.53 - \$319.32
EV (Bill)	\$555.78
Market Cap (Bill)	\$608.28
3-Mo Avg Daily Vol (Mil)	17.53
Basic Shares (Bill)	2.71
Diluted EPS (TTM)	\$8.84
Institutional	39.86%
Top 10 Inst Hldrs	11.52%
Beta (5Y Monthly)	0.82
Div. Yield (TTM)	0%
ROE (6yr average)	15%+
Rev Growth (6yr CAGR)	30%+

Recommendation:	BUY	Current Price:	\$223 (2021.4.09)
Target Price:	\$286	Upside:	28%

Market leader in 3 fast-growing industries

E-commerce, cloud computing, and fintech are all the fastest growing industries in China, with a growth rate of up to 20%. Alibaba is the market leader in these three industries, and has a CAGR of at least 30% since 2014 IPO.

Margin of safety (Attractive valuation + Wide moat + high ROE)

After a huge sell-off, driven by certain bad events including new threats in E-commerce and suspension of IPO of Ant Group, this is the time to buy Alibaba (BABA) with a significant margin of safety. It is traded at lower P/E multiples compared to Chinese tech giants (Tencent, JD, PDD) and US tech giants (FAANG). In addition, it has a strong network effect among SMEs in China, and maintained a ROE of at least 15% since 2014 IPO.

Catalyst (Bad news gradually realized)

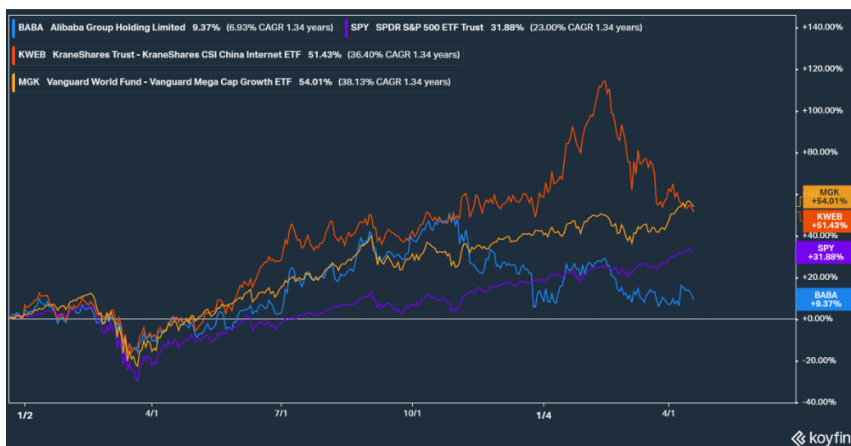
The founder of Alibaba reappeared after giving a speech. According to relevant media reports, Ant Financial has passed the three-month rectification and the China Securities Regulatory Commission has approved it. Ant Financial will be listed before the end of the year according to former Alibaba executives. In addition, Alibaba accepted the anti-monopoly fine of US\$2.8 billion in April.

Investment recommendation: Buy rating, target price of \$286

With the conclusion of the anti-monopoly regulatory investigation, short-term risks have been eliminated. The company is a leader in China's e-commerce and cloud computing industries with sustained high growth potential, and its current valuation is relatively attractive. Besides, Charlie Munger's invested heavily in Alibaba (19% portfolio weight) in 2021 first quarter. Based on the SOTP (Sum of the Parts) valuation, the target price is \$286, which corresponds to 22x forward P/E ratios. The expected upside is 28%.

Valuation		
Business Lines	Calculate d value	Valuation weight
Core business	¥ 3574	69.98%
Cloud computing	¥ 588	11.52%
Digital media and entertainment	¥ 139	2.72%
Innovation initiatives and others	¥ 34	0.66%
Ant Group	¥ 314	6%
Net cash	¥ 950	9%
Total equity value	¥ 5108	100%
Diluted shares outs. (Mil)		2750
Target price (USDCNY=6.5)		\$286

Performance		
Name	1yr Performance	2021YTD Performance
BABA	12.16%	4.71%
SPY	49.56%	13.14%
KWEB(China Internet)	53.06%	-2.4%
MGK	59.15%	11.36%





1. Executive summary

Market leader in China's e-commerce, cloud computing, and fintech industry

E-commerce, cloud computing, and financial technology are all the fastest growing industries in China, with a growth rate of up to 20%. Alibaba is the market leader in these three industries. In 2020, the e-commerce business line accounts for nearly 85% of its revenue, and cloud computing accounts for nearly 8% of its revenue. Alibaba holds 33% of Ant Group's shares and is not included in the statement. Therefore, the main business is still based on e-commerce, and cloud computing infrastructure and payment financial technology services have laid the foundation for e-commerce.

Attractive valuation + Wide moat + High ROE—— margin of safety

After a huge sell-off, driven by certain bad events including new threats in e-commerce and suspension of IPO of Ant Group, this is the time to buy Alibaba (BABA) with a significant margin of safety. It is traded at lower multiples compared to Chinese tech giants (Tencent, JD, PDD) and US tech giants (FAANG). At the current price, BABA's wide moat and its leadership position within China's e-commerce, cloud computing, and fintech areas represent a rare opportunity for reverse investment. In addition, it has a strong network effect among SMEs in China, and maintained a ROE of at least 15% since 2014 IPO.

Jack Ma reappeared + Ant Group' IPO + Execution of Antitrust—— catalyst (bad news already price in)

The founder of Alibaba reappeared after giving a speech. According to relevant media reports, Ant Financial has passed the three-month rectification and the China Securities Regulatory Commission has approved it. Ant Financial will be listed before the end of the year according to former Alibaba executives. In addition, the anti-monopoly law imposed a fine of US\$2.8 billion on Alibaba in April.

Investment recommendation: Buy rating, target price of \$286

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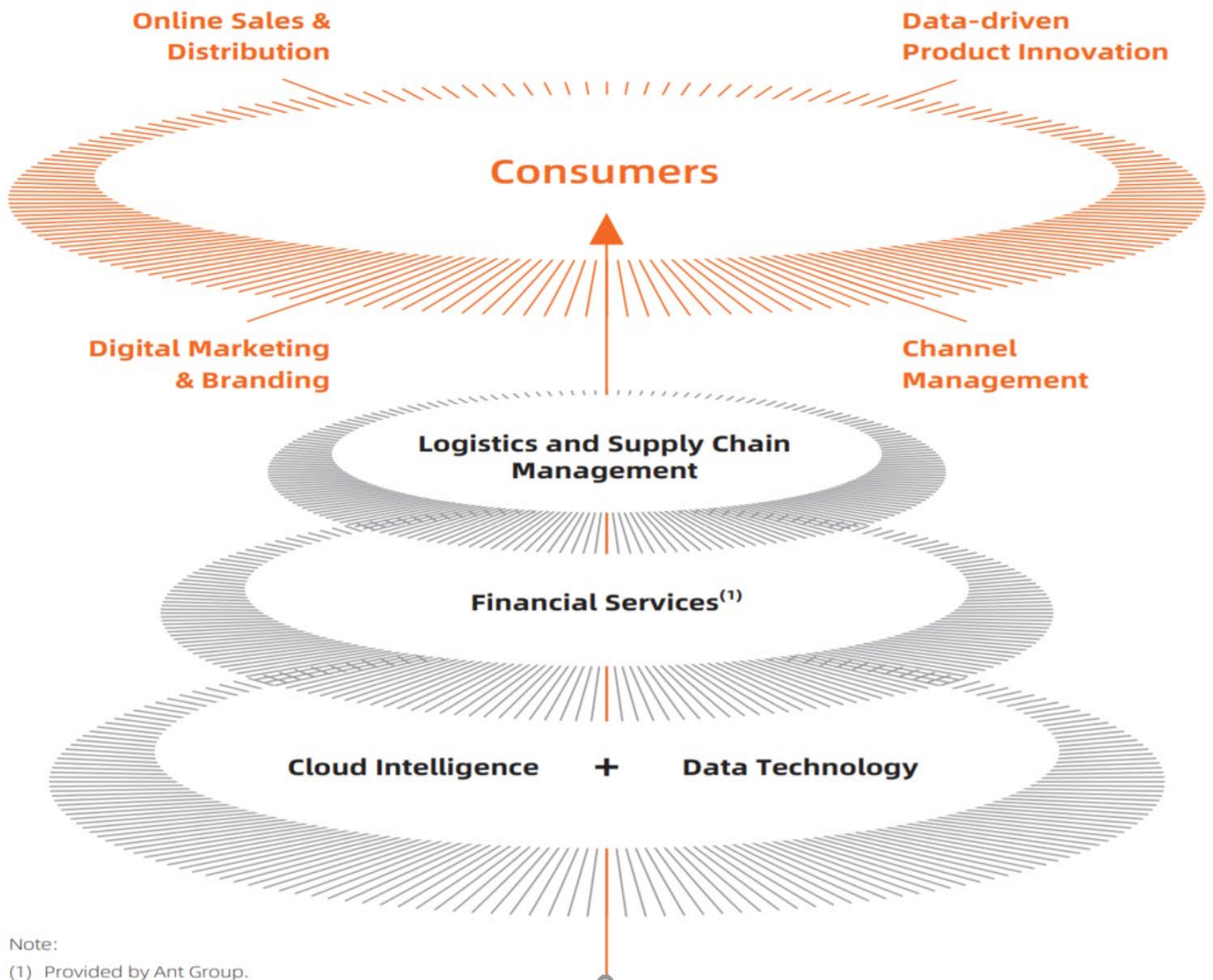
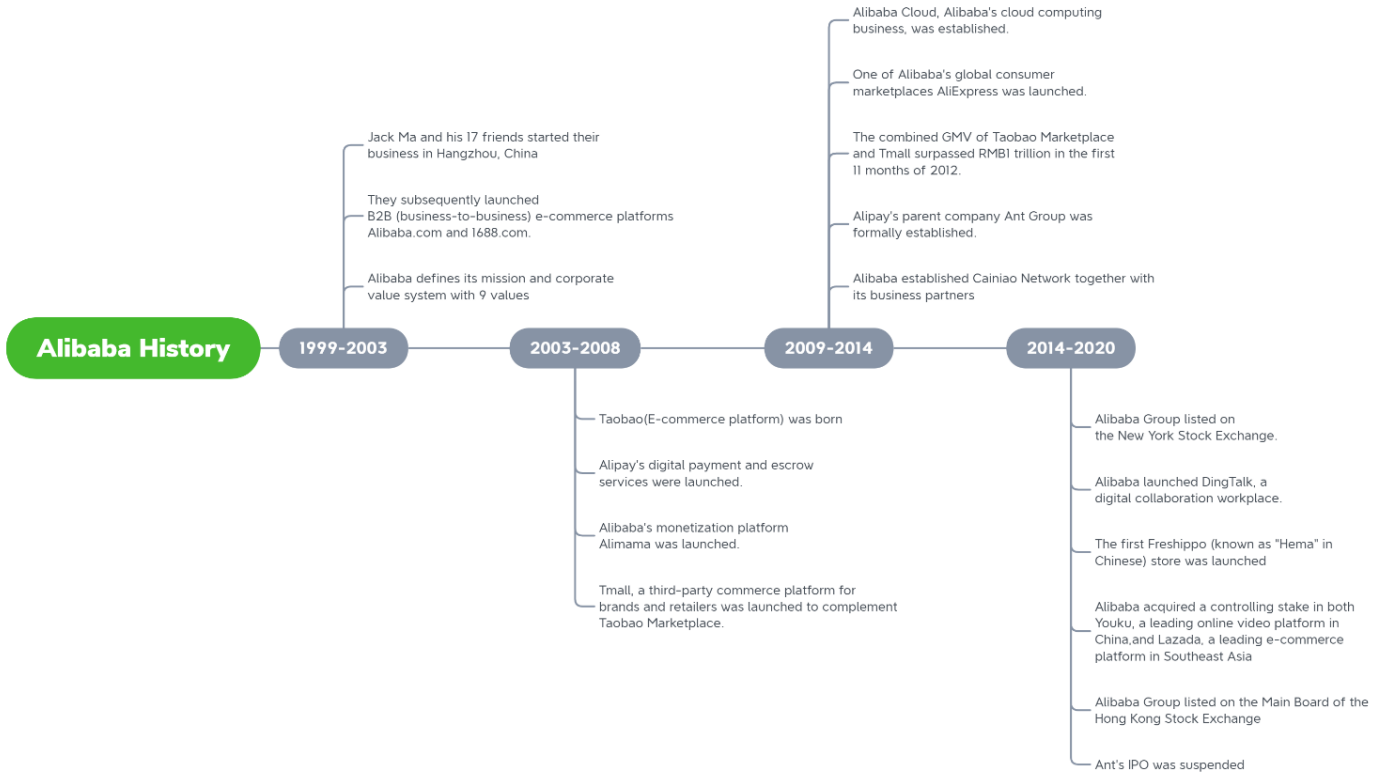


2. Company overview

2.1 History

Alibaba was founded in 1999 by 18 individuals with different background, led by a former English teacher Jack Ma who hold a vision to empower small businesses with technology and innovation, so they can sell their products domestically and globally.





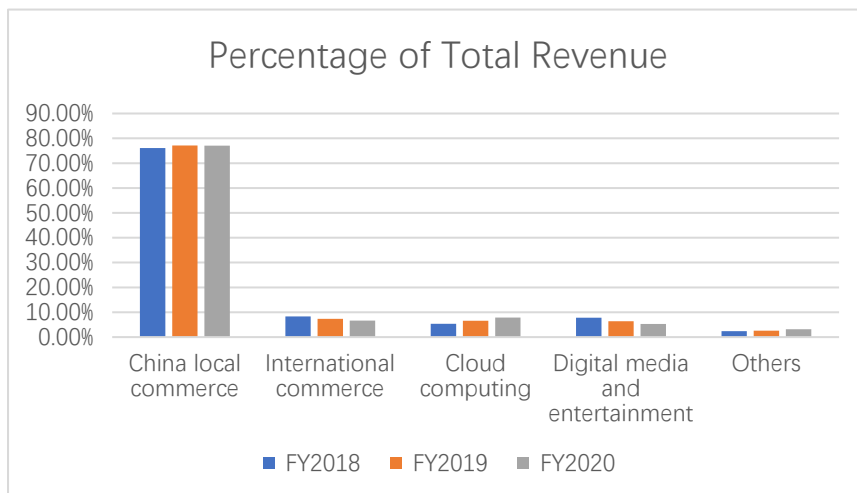
Note:
(1) Provided by Ant Group.



2.2 Business overview

	Core Commerce <i>China Commerce Retail</i> 淘天集团 天猫 Tmall.com 聚划算 农村淘宝 天猫超市 阿里妈妈 CIB, Taobao.com 阿里全球 Tmall Global FRESHIPPO 菜鸟直连 <i>China Commerce Wholesale</i> 阿里巴巴 1688.com <i>International Commerce Retail</i> AliExpress Lazada <i>International Commerce Wholesale</i> Alibaba.com <i>Cainiao Logistics Services</i> 菜鸟 菜鸟国际 <i>Local Consumer Services</i> 饿了么 口碑	Cloud Computing Alibaba Cloud	Digital Media & Entertainment UC UC News YOUKU 优酷 Tudou 阿里体育 阿里影业 阿里音乐 阿里影业 大麦	Innovation Initiatives & Others 高德地图 amap.com AliOS 钉钉 天猫精灵 芝麻信用	Un-allocated ⁽²⁾	Consolidated
FY20 Revenue (MM)	RMB436,104 US\$61,590 35% YoY	RMB40,016 US\$5,651 62% YoY	RMB26,948 US\$3,806 12% YoY	RMB6,643 US\$938 42% YoY	-	RMB509,711 US\$71,985 35% YoY
FY20 Adjusted EBITA (MM)	RMB165,800 US\$23,415	RMB(1,414) US\$(199)	RMB(11,116) US\$(1,570)	RMB(8,815) US\$(1,245)	RMB(7,319) US\$(1,034)	RMB137,136 US\$19,367
FY20 Adjusted EBITA Margin (%)	38%	(4%)	(41%)	(133%)	-	27%

Source: Alibaba Group FY2020 Results Presentation



Alibaba business are comprised of 4 main categories and 1 unconsolidated party:

- **Core commerce**
- **Cloud computing**
- **Digital media and entertainment**
- **Innovation initiatives**
- **Ant Group**

Total Revenue Breakdown

	Year ended March 31, 2020		
	RMB MM	% of Revenue	YoY %
Core commerce:			
China commerce retail			
- Customer management	175,396	34%	20%
- Commission	71,086	14%	15%
- Others ⁽¹⁾	86,268	17%	115%
	332,750	65%	34%
China commerce wholesale	12,427	3%	24%
International commerce retail	24,323	5%	24%
International commerce wholesale	9,594	2%	17%
Cainiao logistics services	22,233	4%	49%
Local consumer services	25,440	5%	41%
Others	9,337	2%	82%
Total core commerce	436,104	86%	35%
Cloud computing	40,016	8%	62%
Digital media and entertainment	26,948	5%	12%
Innovation initiatives and others	6,643	1%	42%
Total	509,711	100%	35%

Source: Alibaba Group FY2020 Results Presentation

Alibaba digital economy generated RMB 7053 billion(US\$1 trillion) in GMV in the twelve months ended March 31, 2020, which mainly included GMV of RMB6,589 billion (US\$945 billion) transacted through our China retail marketplaces.



a) Core Commerce

1. Retail commerce -china

- Largest retail commerce business in the world in terms of GMV in the twelve months ended March 31, 2020 --- Analysys
- 1.1 **Taobao Marketplace**, China's largest mobile commerce destination for social community
- 1.2 **Tmall**, the world's largest third-party online and mobile commerce platform for brands and retailers. In fiscal year 2020, 65% of our revenue comes from our retail commerce business in China
- 1.3 **Freshippo (盒马)**, Alibaba proprietary grocery retail chain, provides a new shopping experience through the convergence of online and offline activities by using retail stores to warehouse and fulfill online orders

2. Wholesale commerce -china

- 2.4 **1688.com**, China's leading integrated domestic wholesale marketplace in 2019 by revenue, connects wholesale buyer and seller --- Analysys
- 2.5 **Lingshoutong (零售通)** connects FMCG brand manufacturers and their distributors directly to small retailers in China

3. Retail Commerce – Cross-border and Global

- 3.6 **Lazada**, a leading and fast-growing e-commerce platform in Southeast Asia for SMEs, regional and global brands, is serving over 70 million unique consumers in the twelve months ended March 31, 2020
- 3.7 **AliExpress**, one of our global retail marketplaces, enables consumers from around the world to buy directly from manufacturers and distributors in China and around the world.
- 3.8 **Kaola**, an import e-commerce platform in China, it operates Trendyol, a leading e-commerce platform in Turkey, and Daraz, a leading e-commerce platform across South Asia with key markets in Pakistan and Bangladesh.

4. Wholesale Commerce – Cross-border and Global

- 4.9 **Alibaba.com**, China's largest integrated international online wholesale marketplace in 2019 by revenue --- Analysys

5. Logistics Services

- 5.10 **Cainiao Network**, a logistics data platform and global fulfillment network that primarily leverages the capacity and capabilities of logistics partners.

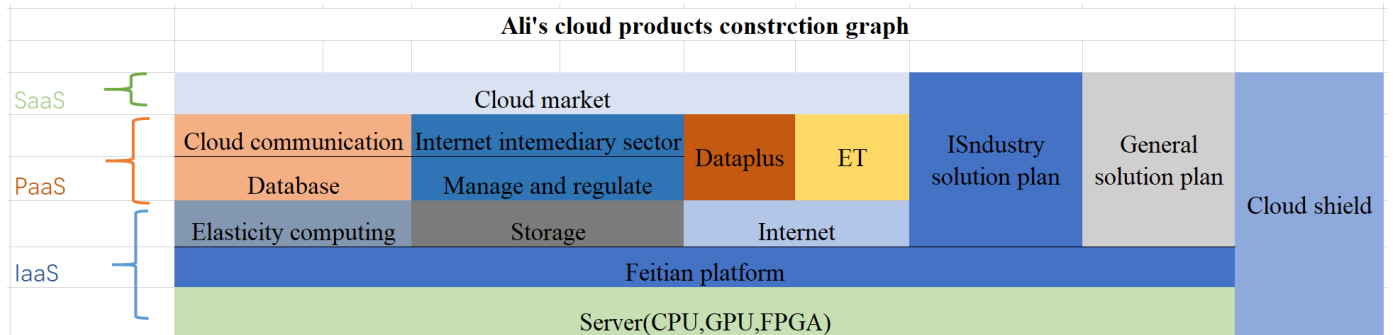
6. Consumer Services

- 6.11 **Ele.me(饿了么)**, a leading on demand delivery and local services platform, to enable consumers to order food and groceries anytime and anywhere
- 6.12 **Koubei(口碑)**, a leading restaurant and local services guide platform for in-store consumption
- 6.13 **Fliggy(飞猪)**, a leading online travel platform, provides comprehensive services to meet consumers' travel needs.
- 6.14 **Alibaba Health**, internet healthcare platforms, engages in pharmaceutical and healthcare product sales business, establishes and explores digital health using cloud computing and big data technologies.



b) Cloud Computing

7. Internet infrastructure



7.15 **Alibaba Cloud**, offers a complete suite of cloud services, including elastic computing, database, storage, network virtualization services, large-scale computing, security, management and application services, big data analytics, a machine learning platform and IoT services, serving our digital economy and beyond.

- Alibaba Cloud is the world's third largest and Asia Pacific's largest Infrastructure as a Service provider by revenue in 2019 in U.S. dollars --- Gartner
- Alibaba Cloud is also China's largest provider of public cloud services by revenue in 2019, including Platform as a Service, or PaaS, and IaaS services --- IDC

c) Digital Media and Entertainment

8. Media and Entertainment

8.16 **Youku**, an long-form video platform in China, serves as a key distribution platform for digital media and entertainment content.

8.17 **Alibaba Pictures**, an Internet-driven integrated platform that covers content production, promotion and distribution, intellectual property licensing and integrated management, cinema ticketing management and data services for the entertainment industry

d) Innovation Initiatives

9. Efficiency tools

9.18 **Amap**, the largest provider of mobile digital map, navigation and real-time traffic information in China by monthly active users

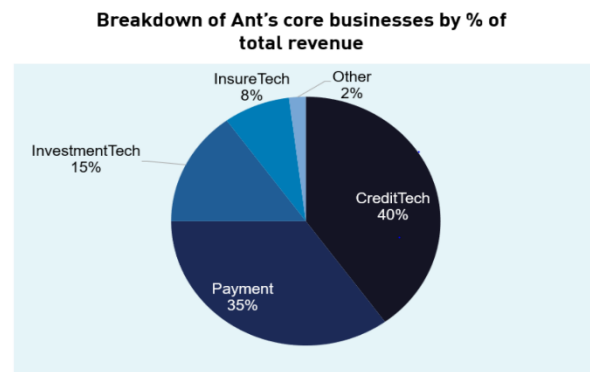
9.19 **DingTalk**, a digital collaboration workplace that offers new ways of working, sharing and collaborating for modern enterprises and organizations.

e) Ant Group

10. Financial Technology Services

10.20 **Ant Group**, provide digital payment services and digital financial services through its Alipay app.

- 2019, Alibaba held a 33% stake in Ant Financial. 2020, IPO attempt of its Ant Group was failed.



Data from Tech Buzz China and Ant Group IPO prospectus as of June 30, 2020.

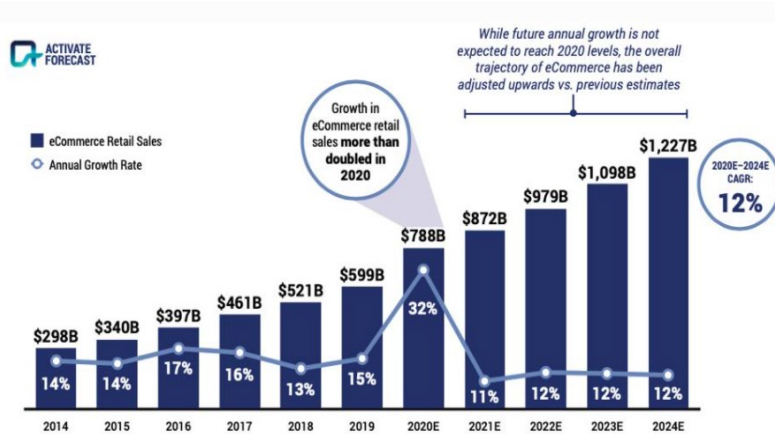


3. Industry analysis

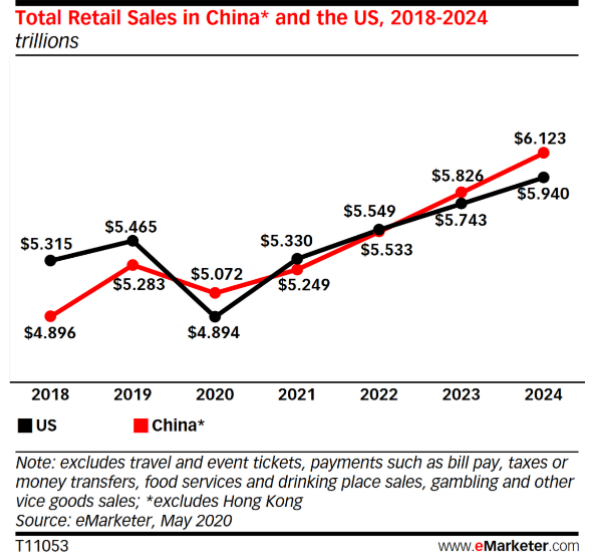
Alibaba is a comprehensive Internet company in China, whose business involves different industries, including e-commerce, cloud computing, financial technology, and entertainment. Here, considering the degree of impact on revenue and net profit, only the first three industries in China will be discussed.

3.1 E-commerce

3.1.1 Global E-commerce



E-commerce growth has been huge in 2020, and will continue to grow in the future. ACTIVATE CONSULTING



New studies projected that worldwide retail e-commerce sales will reach a new high by 2021. E-commerce businesses should anticipate a 29% compounded annual growth rate, from \$298B in 2014 to \$872B in 2021. However, the future CAGR is projected to be lower at 12% from 2020E-2024E.

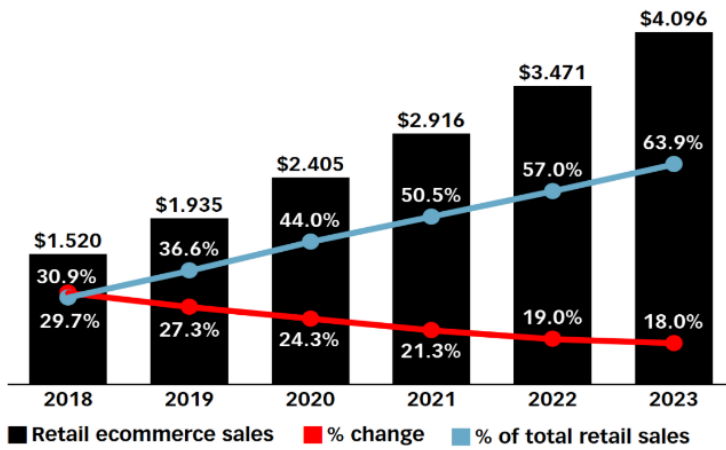
For the first time in a century in 2020, China has surpassed the United States to become the largest retail market, because this year China's retail market reached \$5.072 trillion, while the US's \$4.894 trillion.



3.1.2 China E-commerce

3.1.2.1 Past: Monopoly by tech giants

Retail Ecommerce Sales in China, 2018-2023
trillions, % change and % of total retail sales



Note: includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes or money transfers, food services and drinking place sales, gambling and other vice good sales; excludes Hong Kong; converted at the exchange rate of US\$1=RMB6.616629
Source: eMarketer, May 2019

T10368 www.eMarketer.com

Higher growth rate than global

China's retail e-commerce sales in 2019 will grow much faster than total retail, increasing 27.3% year over year to \$1.935 trillion. By 2023, retail e-commerce sales will represent 63.9% of total retail sales.

Over 50% of the GMV from 5 companies

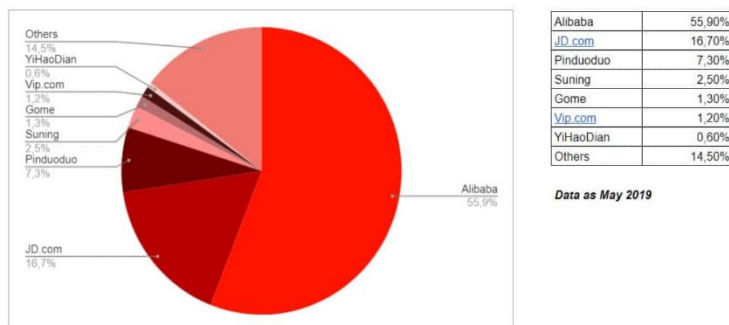
The biggest digital commerce companies (percentage of the global e-commerce market):

- 1) Taobao.com+TMall.com: 14%+15%=29%
- 2) Amazon: 13%
- 3) JD.com: 9%
- 4) Pinduoduo: 4%
- 5) eBay: 3%



Just a few e-commerce marketplace giants control the \$3.4 trillion global e-commerce space. **ACTIVATE CONSULTING**

Leading Chinese Online Retailers - Market Share %



Three kings' monopoly in E-commerce

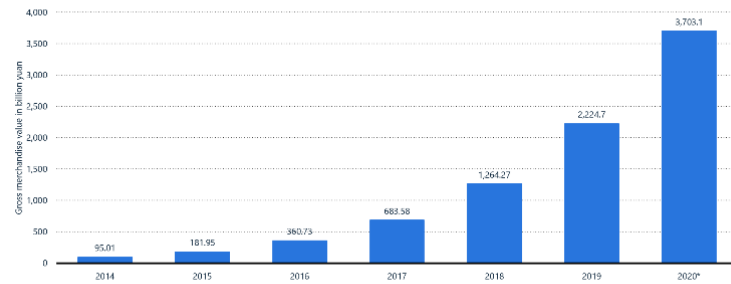
As of May 2019, Alibaba, JD.com and Pinduoduo together accounted for 80% of the market share. Alibaba's e-commerce business has a market share of 56%, surpassing the total of other companies



3.1.2.2 Future: Centralization to decentralization of user traffic

Gross merchandise value of social commerce market in China from 2014 to 2019 with an estimate for 2020 (in billion yuan)

Market size of social e-commerce industry in China 2014-2020



Notes: China, 2014 to 2019
Further information regarding this statistic can be found on page 36
Sources: DA:4100 Insights; Internet Society of China; Various sources (huangqi); ID: 1129864

Current trends in e-commerce | statista

China's e-commerce industry has gone from centralization to decentralization of traffic by giants

From the perspective of the competitive landscape, the industry has gone through 4 stages:

- 1) Alibaba
- 2) Alibaba, JD
- 3) Alibaba, JD, Pinduoduo
- 4) Alibaba, JD, Pinduoduo, social commerce

The number of active buyers of Chinese online retailer Pinduoduo surpassed Alibaba for the first time in 2020. Pinduoduo reports that the number of active buyers in 2020 is 788.4 million, and Alibaba reports 779 million.

At the same time, short video software (Douyin, Kuaishou) and community group buying are on the rise, which may become a new threat to Alibaba.

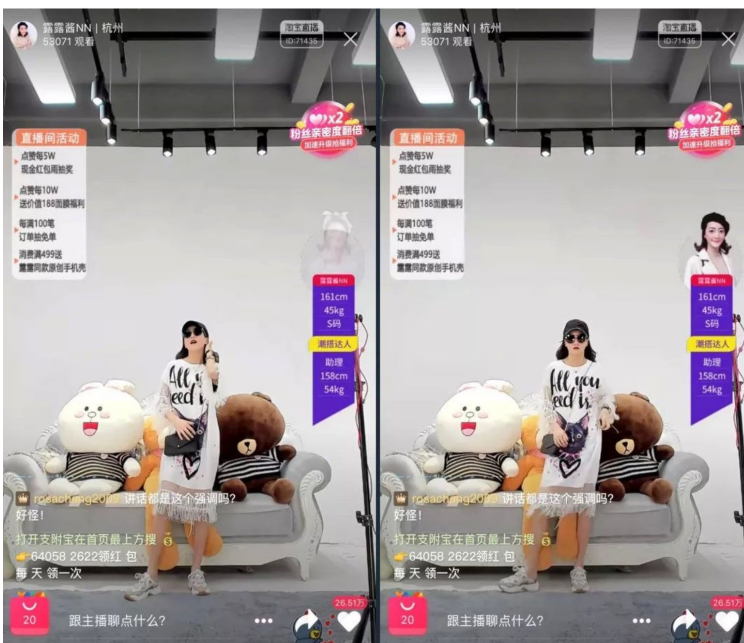
3.1.2.2.1 Alibaba VS PDD& social e-commerce



Pinduoduo has adopted a **differentiated development strategy** and redefines an e-commerce: to provide customers with the most cost-effective products. In terms of implementation, by directly connecting users and factories, a large amount of traffic is collected into a limited number of products, creating explosive models to achieve "small profits but quick turnover".

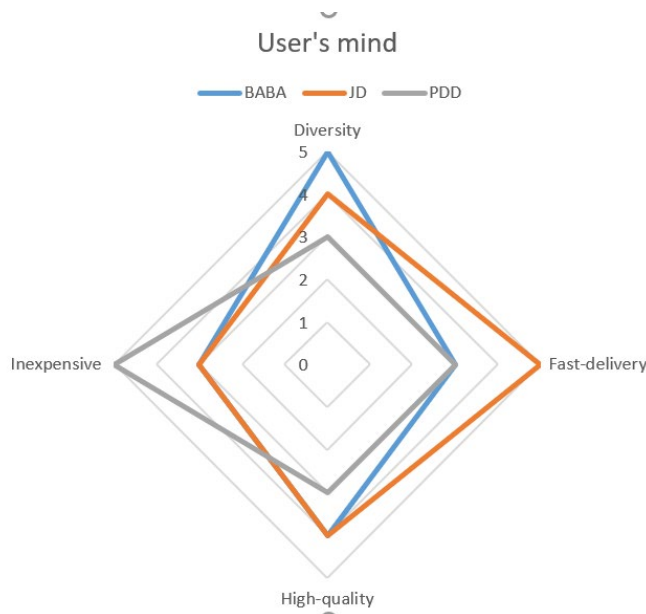
On March 26, 2020, Taobao officially released Taobao special edition. Taobao special edition will usher in major adjustments. The core of the revision will be on the supply side. In the future, Taobao special edition products will get rid of the dependence on Taobao's original store products.

Since its launch in 2016, [Taobao Live] has steadily accounted for half of the live broadcast marketing; for Alibaba itself, from the disclosure of Double Eleven data in 2019, it can be seen that the total transaction volume of Tmall is 268.4 billion yuan, which is brought by [Taobao Live]. Close to 20 billion transactions, up to 7.45%. Alibaba continues to invest through Taobao live broadcast, sign live broadcast, in order to deal with the competitors of **social e-commerce**





3.1.2.2.2 Occupation of user mind



For a centralized platform, there are two most important points:

1. Occupy users' minds.
2. Control flow distribution.

These two points match each other. Centralized platforms use traffic distribution to shape different user minds in consumers' minds, which in turn influences consumers' buying behavior to a large extent.

The minds that each platform ultimately brings to users are different, and it is difficult to achieve how fast and easy it is to occupy at the same time. Even if it is as powerful as Taobao, it is difficult to do it at the same time, so a separate App is needed to compete with Pinduoduo. In order to control traffic, Taobao prevents sellers from opening stores on multiple platforms. This measure therefore violates the anti-monopoly law

3.1.2.2.3 How to recentralize and break the flow logic? (Future prediction)

There could be some inspiration from the Amazon e-commerce model: **customer-centric, self-built logistics with heavy assets, monthly subscription payment** together build the moat of Amazon.

In the United States, where labor costs are high, the delivery service is unexpectedly implemented next day, and offline leading mid-to-high-end supermarkets and streaming media businesses are bound to ensure the retention of paid members.

Simply put, in the highly competitive domestic e-commerce market, to break the flow logic and make a differentiated moat, it may require JD's logistics and service quality + Ali's rich SKU + other value-added services (local service, entertainment, etc.) .

At this stage, Alibaba e-commerce has established differentiated competitiveness based on efficiency and service. The new entrants in the e-commerce industry, live broadcasts, community group purchases, and WeChat ecology will become new threats.



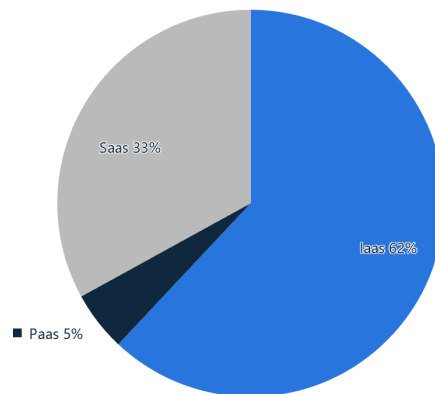
3.2 Cloud computing

Cloud computing (IAAS/PAA/SAAS)

Cloud computing is divided into IAAS, PAAS, SAAS. Alibaba Cloud focuses on IAAS and PAAS, which are the basis of information technology. The following mainly discusses IAAS and PAAS

Market share of public cloud computing in China in 2018, by segment

Market share of public cloud computing in China 2018, by segment

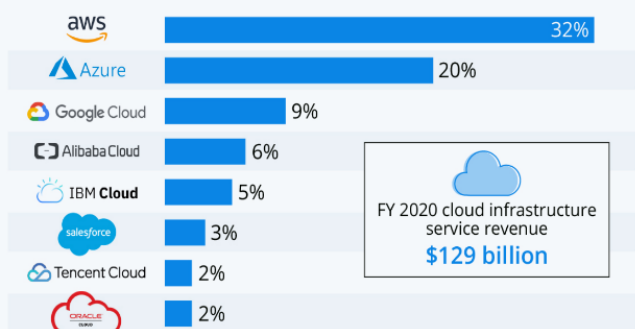


Note(s): China; 2018
Further information regarding this statistic can be found on page 36.
Source(s): Forward Intelligence (Qianzhan); CAICT; ID_1034041

3.2.1 Global cloud computing

Amazon Leads \$130-Billion Cloud Market

Worldwide market share of leading cloud infrastructure service providers in Q4 2020*



FY 2020 cloud infrastructure service revenue
\$129 billion

* includes platform as a service (PaaS) and infrastructure as a service (IaaS) as well as hosted private cloud services

Source: Synergy Research Group

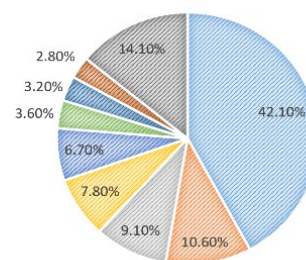


By the fourth quarter of 2020, Amazon's market share in the global cloud infrastructure market will reach 32%, still exceeding the total market share of its two biggest competitors, Microsoft and Google.

Alibaba Cloud ranked 4th globally, while ranked 1st domestically. It occupied 42% of market share in IAAS+PAAS.

2020Q3 IAAS+PAAS MARKET SHARE

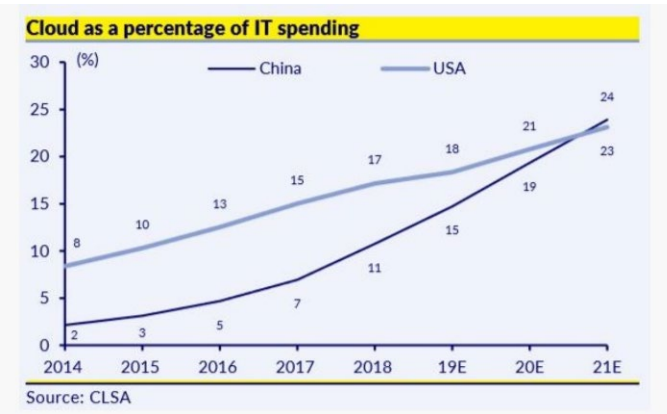
Legend: Alibaba, Tencent, Huawei, China telecom, AWS, Baidu, Kingsoft, Azure, Others



Source: IDC



3.2.2 Higher growth & Greater IT spending in China



Market size and YOY growth rate of public cloud market in China (2015-2021e)



Source: IDC China, 2018

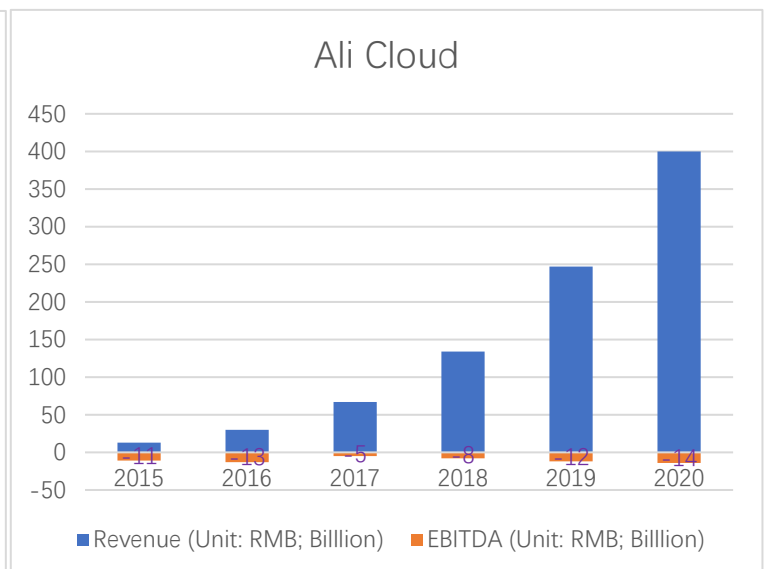
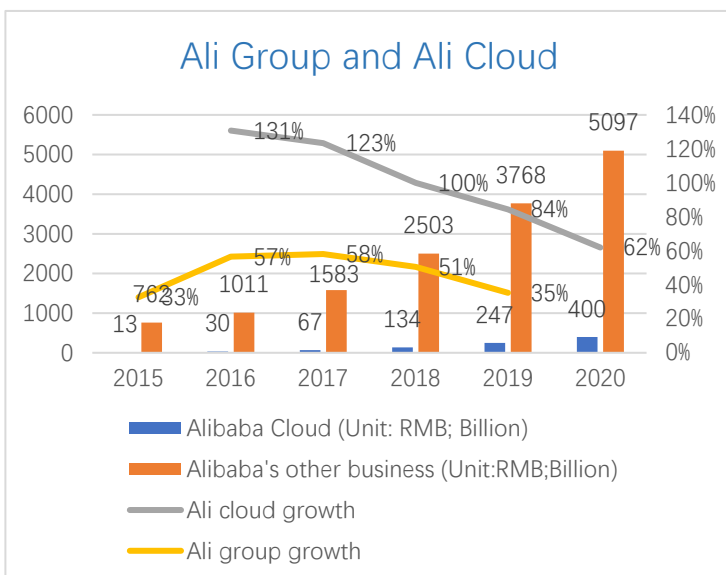
In China, the cloud computing industry has been growing at over 30% every year from 2015 to 2019 and the trend will likely continue into the near future. Cloud computing services provide customers flexible computer processing resources – especially data storage and computing power – based on the need of the customers.

In the past, the development of cloud in the United States was ahead of China. The important reason is the high labor cost in the United States and the low labor cost in China. Therefore, American companies pay more attention to saving labor costs. As China's labor costs increase, the digital transformation of enterprises has become a major trend, and more and more enterprises will incur higher IT expenditures.

3.2.3 Ali cloud

3.2.3.1 Ali Cloud (First quarter turn losses into profits)

A particular reason for the bullishness is Alibaba's cloud computing department. Last quarter, cloud revenue increased by 50%, and the department just recorded its adjusted EBITA for the first quarter. Most people believe that cloud technology is still in its early stages, especially in China, so the sector may have considerable value in the future, but it has not yet made any contribution to the company's overall operating profit.



3.2.3.2 Strong moat for Ali cloud in China (Regulation moat)

Because information construction belongs to the national infrastructure, foreign giants such as AWS cannot get a fair opportunity to compete in China. Because of Chinese government's regulation, it has become Alibaba Cloud's powerful means to resist attacks from foreign cloud computing giants.



3.2.3.3 Comparison of Microsoft team & Dingtalk:

新时代·新平台·新赛道

阿里巴巴智慧医疗新生态大会

【大会日程】

- 13:30-14:00 嘉宾签到
- 14:00-14:30 数字新时代云+新型操作系统 - 云钉一体背后的思考
- 14:30-15:00 后疫情时代催生互联网赛道下的新机会
- 15:00-15:30 数改助力医改 - 阿里云如何布局智慧医疗新赛道
- 15:30-15:50 HIT企业的云化之路
- 15:50-16:50 云钉智慧医疗生态合作案例分享
- 16:50-17:10 阿里云加速器智慧医疗赛道明星加速计划正式发布

2021年4月25日
网商路699号阿里巴巴滨江园区报告厅

On 2020.9.27, Alibaba announced a new round of strategic deployment: upgrading DingTalk to Dingding Business Unit, fully integrating with Alibaba Cloud, and integrating all related forces of the group to ensure the full implementation of the "cloud and nailing integration" strategy.

In fact, Ali is a bit similar to Microsoft a few years ago, not only in today's 2B business (enterprise office + cloud intelligence), but also in similar doubts by investors.

Microsoft, which is re-founding the global smart economy infrastructure of the next era, closed the store and focused more on enterprise services. Driven by Azure and the SaaS-based Office section, Microsoft's stock price rose by 6 times more during Nadella's tenure from 2014.

On 2021.4.25, on the press conference, management team further discussed their plans to expand their business in healthcare sector by digitalizing the healthcare system with Ali cloud and Dingding



SaaS flywheel + free model

Microsoft's Teams, like Ali Dingding, is also completely free. This is the core reason why they can surpass Slack in the short term. Teams is actually just a free module of Office 365. Although they are also open to the public as a free independent app, DingTalk integrated in Alibaba Cloud is the same as Teams integrated in Office 365.

Now, DingTalk's 15 million organizations and 300 million users constitute Alibaba Cloud's business flywheel, and Teams' 75 million daily activities have also made Office 365 and Microsoft Azure clouds extremely successful, and Microsoft's competitor Slack has also been hit hard.



Teams does not charge, Dingding does not charge, Android does not charge, and the operating system does not charge. The latter services are the main sources of revenue.

SaaS Ecosystem Creation: The Similarities between Microsoft and Ali

Microsoft's partner network is a truly gargantuan moat. When it comes to enterprise, it is easy to focus on the biggest companies, where Microsoft will engage directly, and challengers like Slack can build up sales forces to compete. Underneath those companies, though, are tens of thousands of smaller businesses that, even if they have IT directors of their own, rely on outside vendors to build up their technical infrastructure. Here Microsoft has invested heavily in training and equipping these vendors; critically, the company also overhauled its incentive program such that it shares its subscription revenue for Azure and Office 365 with its partners, as opposed to one-off payments for acquiring customers.

The result is that these partners are heavily motivated to offer and implement Microsoft-centric solutions: not only does everything (generally) work together, they also make more money in the process. This, then, is the context of the Teams daily active users announcement: Microsoft wasn't simply pounding its chest, it was sending a message to its partners that pushing Teams is a winning strategy.

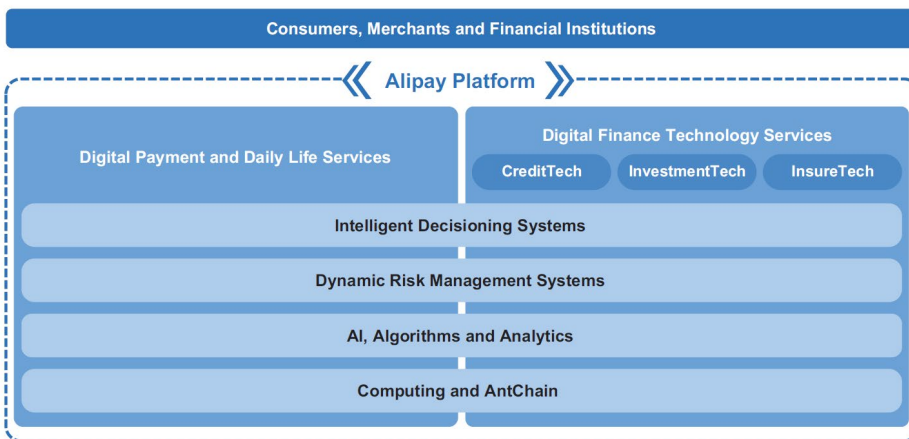
Dingding has exactly the same model as Teams, which solves the needs of flexible customers in the digital age, solving the problems of corporate finance, CRM, government affairs, taxation, finance, employee medical care, and salary problems.

You will be working, studying, and meeting at Dingding, which is exactly the existence of an operating system in the digital service era



It seems pretty clear that Teams makes Office 365 better: it is absolutely easier to collaborate, share documents, etc. Probably the best way to think about it is as the operating system for Office, scalable across devices in a way that Windows is not. That puts it firmly on the sustaining technology side of the equation, in a way that PCs versus mainframes, Google versus Windows, and Facebook versus Google were not. The analogies Butterfield makes simply don't make sense. Teams is certainly not doomed, much less Microsoft. Quite the opposite, in fact, as the daily active user numbers indicate.

3.3 Fintech



Fintech companies mainly provide services to the retail end (including small business customers):

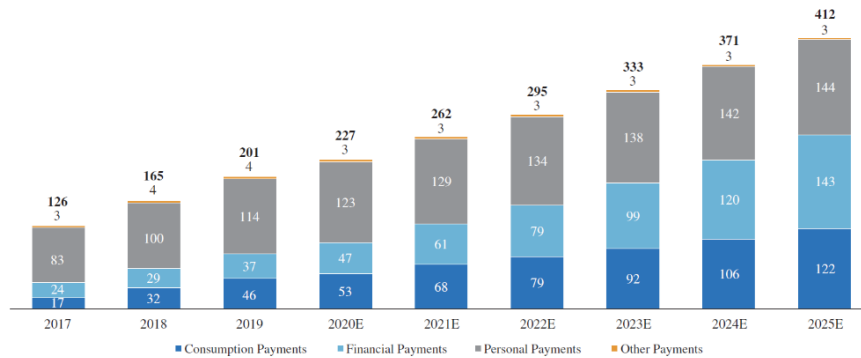
- 1) Transaction services,
- 2) Asset management,
- 3) Consumer finance,
- 4) Insurance



Transaction services

China Digital Payments Transaction Volume

In RMB Trillions



China's mobile payments users reached 87.2% of the total mobile Internet population in China in 2019, according to iResearch.

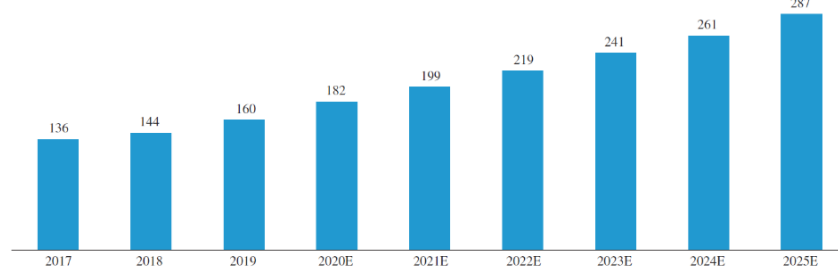
It is projected to grow at a CAGR about 22% from 2019 to 2025.

Source: iResearch analysis

Asset management

China Personal Investable Assets

In RMB Trillions

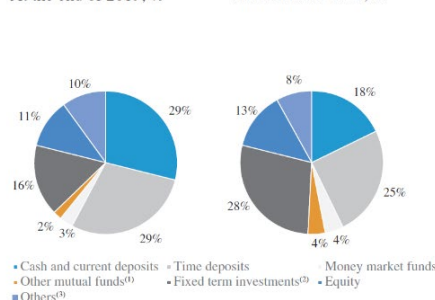


According to Oliver Wyman Consulting, the scale of Chinese personal investable assets is expected to grow from 160 trillion yuan in 2019 to 287 trillion yuan in 2025, with a compound annual growth rate of 10.3% during the period.

Source: Oliver Wyman analysis

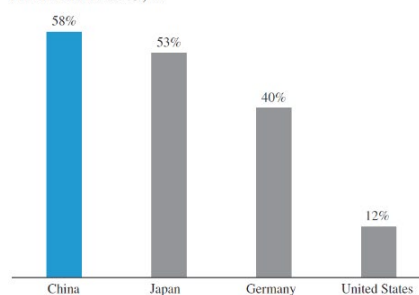
China Personal Investable Assets Breakdown

At the end of 2019, %



Cash and Deposits as % of Personal Investable Assets

At the end of 2019, %



The disposable income of Chinese residents is growing steadily, and the products provided by existing asset management and wealth management institutions cannot meet the changes in residents' allocation needs.

According to government reports, "Our country's household assets are dominated by physical assets, housing accounts for nearly 70%, and the home ownership rate reaches 96%; at the same time, financial assets account for a relatively low proportion of only 20%, and households prefer risk-free financial assets."

Source: Oliver Wyman analysis

Source: Oliver Wyman analysis

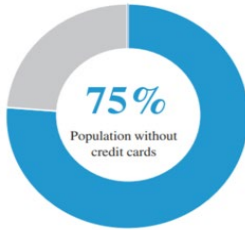
In this context, fintech companies fill the gaps in traditional bank wealth management by building online wealth management platforms.



Consumer finance

China's Population That Does Not Own Credit Cards⁽¹⁾

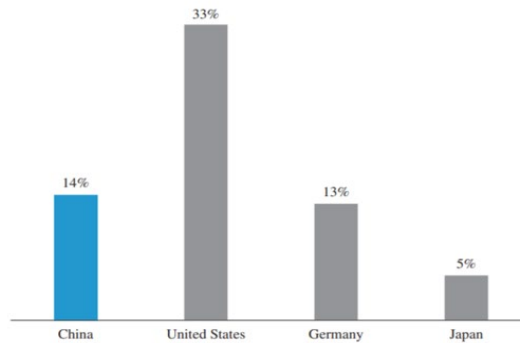
At the end of 2019, %



Source: Oliver Wyman analysis

Consumer Credit Balance to Cash and Deposits Ratio

At the end of 2019, %



Source: Oliver Wyman analysis

According to the prospectus of Ant Group, the scale of online consumer credit in my country is expected to grow from 6 trillion yuan in 2019 to 19 trillion yuan in 2025, with an average annual compound growth rate of 20.4% during the period.

Consumer finance is the fastest-growing financial sub-industry since 2017.

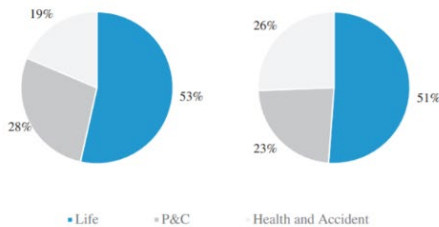
At present, only the balance of consumer loans (excluding housing loans and business loans) on the bank's table is about 14 trillion yuan. Taking 26 independent consumer finance companies as an example, the current industry scale is nearly 500 billion yuan, and the annualized growth in recent years is about 35%.

Insurance

China Insurance Premiums Breakdown

2019, %

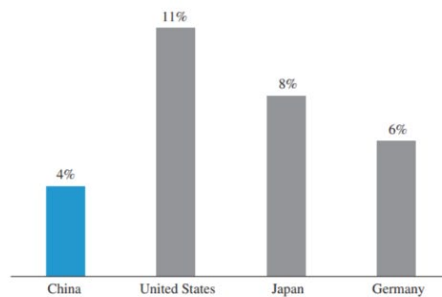
2025, %



Source: Oliver Wyman analysis

Insurance Penetration

2019, Total premiums⁽¹⁾ as % of GDP



Source: Oliver Wyman analysis

The scale of China's online insurance premiums in 2019 is 0.3 trillion. Driven by digital technology, it is expected to reach a scale of 1.9 trillion in 2025, with an average annual compound growth rate of 38.1% during the period.

Note:

(1) Including life, health and accident, and P&C premiums

The accumulation of personal wealth, the improvement of insurance awareness and the trend of population aging will promote the continued rapid growth of the insurance market, which is expected to drive a premium of 1.4 trillion by 2022, a compound annual growth rate of 9.7%. In 2019, China's premiums amounted to 4.3 trillion yuan, accounting for 4% of GDP, but still significantly lower than the United States (11%), Japan (8%) and Germany (6%).

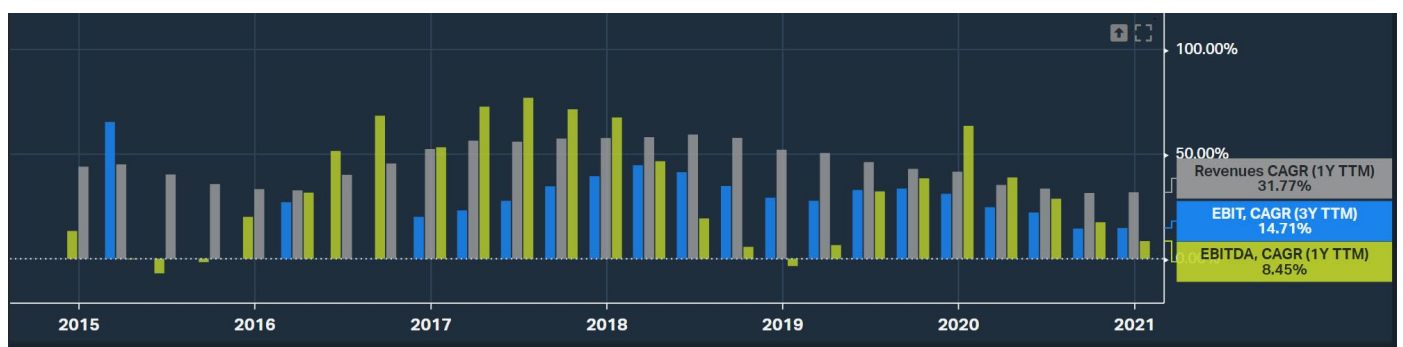


4. Financial statement analysis

4.1 Alibaba FSA

4.1.1 Revenue & Future Growth

Alibaba had a steadily growing sales revenue in the past five years, where the number nearly doubled from 2018 to 2020. Around 77% of the total revenue came from local China e-commerce. Until 2020, Alibaba has possessed 779 million annual active customers shopping on its platform, which is the highest number in the global market. The increasing popularity of short videos and live streaming on social media in China has already and will continue contributing to Alibaba's future revenue growth. At the same time, there is more competition in the market since new businesses keep entering into the e-commerce market. Though, we can expect Alibaba to maintain the leading position in the market because of its effective business model and existing loyal clients.



In addition to e-commerce, Alibaba has also extended its services to cloud computing in 2009, including elastic compute, data storage, relational databases, big-data processing, anti-DDoS protection and content delivery networks. As data privacy has become the trend of the digital world, Alibaba upholds its core value to provide clients with their services under the assurance of absolute security. The revenue generated from cloud computing services has been growing significantly in the past three years.

Acquisitions

Alibaba's acquisitions in the recent three years also add value to its future growth. In 2018, Alibaba acquired full ownership of China online delivery platform Ele.me, with which it could provide a seamless online and offline consumer experience in the local services sector. In 2020, it acquired Kaola, an e-commerce platform from NetEase that focuses on cross-border transactions. Although it has a slow growth before the acquisition, Kaola is going to adopt membership model similar to Costco that can effectively drive user engagement and retention. This acquisition, along with Alibaba-owned Taobao Global, is a source of competition for its key competitors in the cross-border e-commerce sector, such as JD, VIP, and Suning Global.

Company Strategy & Future Trend

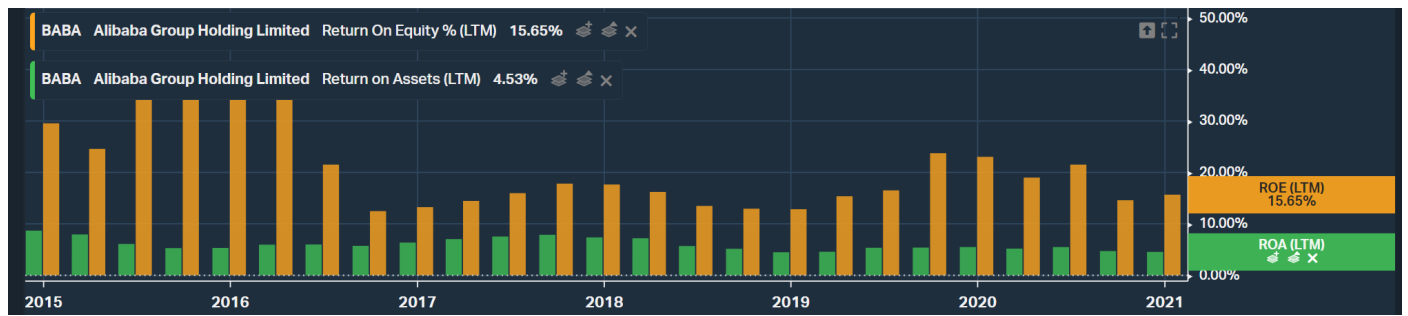
"To make it easy to do business anywhere" is the mission statement of Alibaba. In the April 12th, 2021 conference call, Alibaba has expressed its positive attitude toward the RMB18.23 billion fine from the anti-monopoly investigation. They believe this is an affirmation from the authority that their business model has succeeded, and they will further improve their consumer & client services in the future, in compliance with the law. In the long run, stated by Alibaba, there will be lower entry cost for merchants who want to open their business on the platform, and more free matured services, tools, and training available to them. In the near future, Alibaba indicated that they do not see any potential investigation coming.



The recent trends in the e-commerce market do provide Alibaba with a likely chance for future sales growth. As China's cross-border e-commerce grows rapidly in the recent 5 years, Alibaba has set its goal to expand globalization in the next 5 years. The acquisition of Kaola in 2019 has reflected Alibaba's resolution to further expand its market share in the cross-border e-commerce sector. On the top of that, the social commerce which combines the social media and e-commerce platform has brought a hot new trend into China and is believed to be the key in 2021. Combining the positive market trend of e-commerce and Alibaba's resolution to expand and improve its services, we could reasonably expect it to have a stable sales revenue growth in the next 5 years.

4.1.2 Profitability Analysis

ROA&ROE (economic moat)



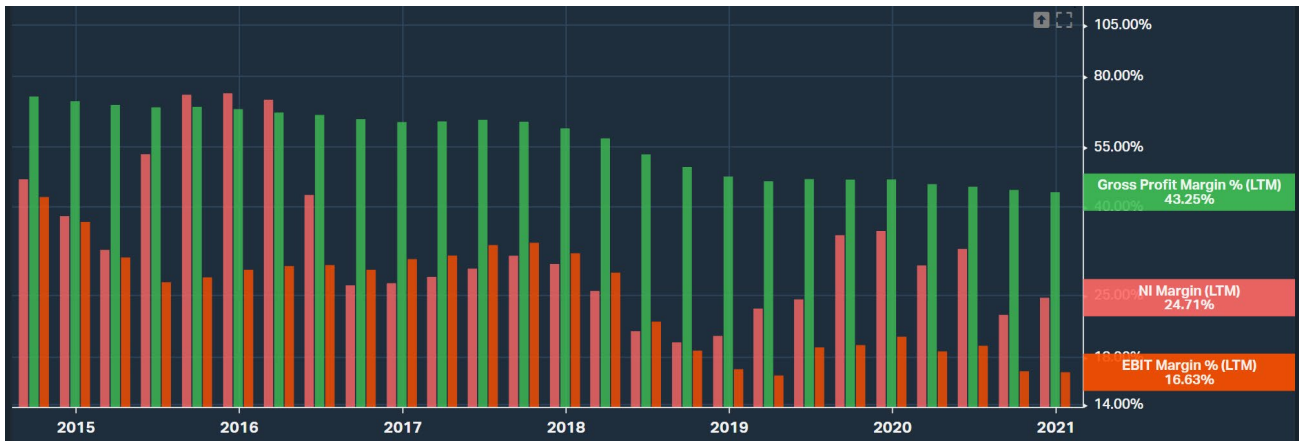
Alibaba's ROA in the past three years maintained at a much higher value than the industry average, indicating that its management has effective capital controls to ensure profitably reinvested earnings. The acquisitions of Ele.me and Kaola have added value to Alibaba's strategy on investments. As stated above, Alibaba acquired full ownership of Kaola and plans to upgrade it with the membership-based-model that brings cross-border brands into China with relatively low prices. The upward trend of ROA indicates Alibaba's strong potential for capitalizing on future growth with a low financial risk.

“ROE is one the most important indicators in the investment process. If a company has a higher ROE than industry average, it reflects the company has a higher competitive edge” --- Buffett

An ROE between 15% and 25% is also relatively high in the industry, indicating the high profit Alibaba generated with the money shareholders have invested. Alibaba maintains the value that “customer first, employees second, shareholders third”. The premium customer services, along with the high employee embracement is able to assure Alibaba's sustainability in earning profit for its shareholders.



Margins



In the past three years Alibaba had fairly high gross profit margins in the range between 40% - 60%, which is much higher than that of its biggest competitor, JD. This suggests that Alibaba is a highly valued company and possesses strong liquidity in cash to pay other indirect costs or one-time expenses. In April 2021, Alibaba was fined RMB18.23 billion for anti-monopoly investigation, and they stated that they have more than sufficient liquidity to cover the penalty, showing its ability to survive under catastrophe. Although the historical trend of the margin is downward in the past three years, we could expect it to become positive soon and maintain a steady pace because of its strong profitability. The downward trend could be possibly attributed to losses from other investments or initiatives.

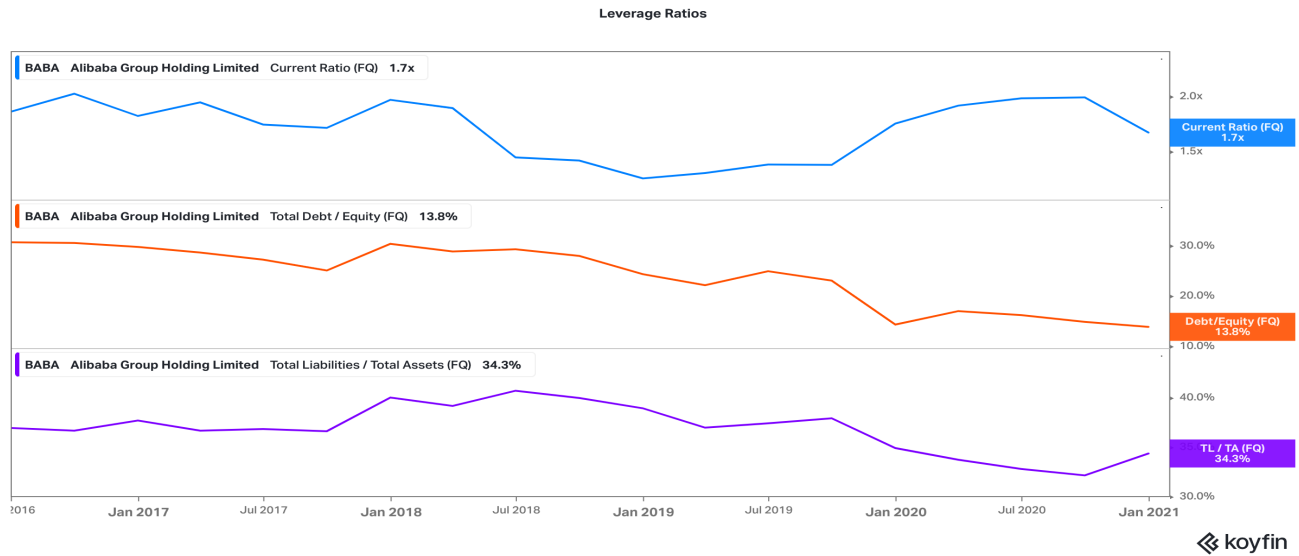
The operating profit margin of Alibaba maintained a high value which ensures the company's profitability. However, there was a plummet from 2018 to 2019 where the EBIT margin has decreased by 17.6%, suggesting potential volatility in the long run. Though, we could still expect the margin to increase and maintain a competitive number because of Alibaba's steadily growing revenue and relatively lower operating expenses under its innovative business model. Since Alibaba's e-commerce platform works as a middleman who connects the buyers and the sellers, they do not need physical warehouses or products; moreover, they could earn profit by selling advertising spaces to merchants with a rather low cost.

4.1.3 Safety (Liquidity & Financial Leverage Analysis)

On the one hand, Alibaba has a lot of cash on its balance sheet and owns a lot of shares in private companies such as Ant Group and listed companies. As of December 31, 2021, its balance sheet includes US\$47.8 billion in cash, US\$22.1 billion in short-term securities, US\$36.8 billion in other publicly traded equity securities, and another US\$28.4 billion in equity investment objects such as Ant Group. These assets add up to US\$135.1 billion, while short-term and long-term debt is only around US\$18 billion.



Leverage Ratios



Alibaba held a healthy current ratio between the range of 1.3x to 2.00x, a Debt-to-Equity ratio lower than 0.5x, and a debt-to-assets ratio lower than 0.5x. This highlights the company’s ability to pay short-term obligations and reflects that Alibaba is appropriately financing with shareholder’s equity and debt in a low-risk way. In 2021, Alibaba holds a debt-to-equity ratio of 13.8%, this may suggest that the company is not taking enough advantage from the borrowing.

4.2 Comparison of BABA, JD, PDD (Financial perspective)

4.2.1 Growth



Conclusion: Alibaba has a declining growth rate while JD and PDD are growing at a faster rate, which could be one of the reasons that Alibaba is trading at a lower multiple.

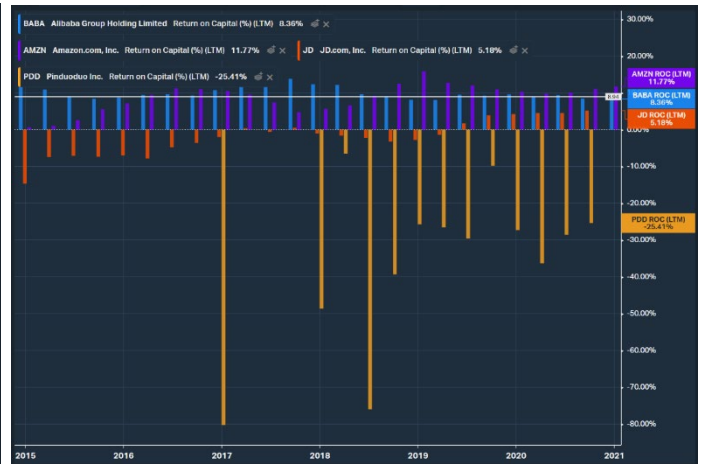
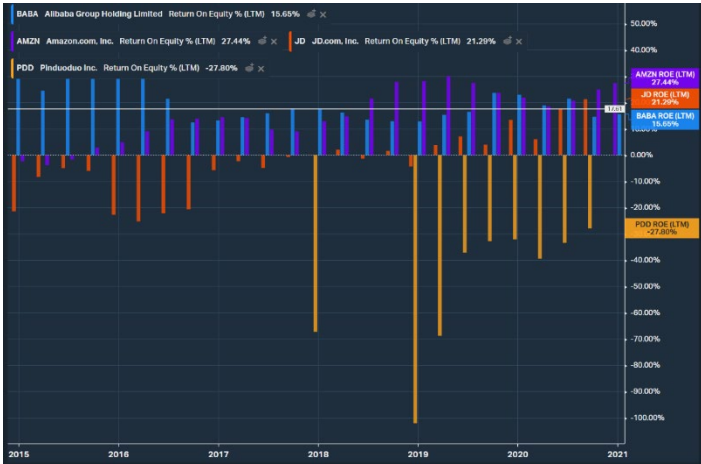


4.2.2 Profitability

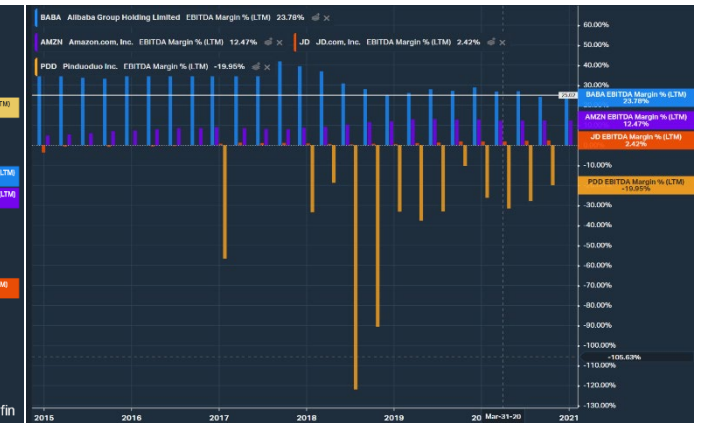
ROIC and ROE are the 2 most important metrics for Buffett to determine the strength of economic moat of the target company.

No.	Ticker	Market Cap	Dividend	ROA	ROE	ROI	Curr R	Quick R	LTDebt/Eq	Debt/Eq	Gross M	Oper M	Profit M	Earnings	Price	Change	Volume
1	AMZN	1634.23B	-	7.90%	27.10%	13.90%	1.10	0.90	0.53	0.55	39.60%	5.90%	5.50%	Feb 02/a	3277.71	0.48%	2,322,805
2	BABA	728.22B	-	11.10%	18.90%	6.70%	1.70	1.70	0.11	0.13	42.80%	16.20%	24.70%	Feb 02/b	267.85	-0.40%	9,220,641
3	PDD	242.43B	-	-8.80%	-29.00%	-27.80%	1.40	1.40	0.19	0.29	77.60%	-21.60%	-17.30%	Nov 12/b	196.59	-1.61%	2,560,468
4	JD	152.69B	-	9.20%	25.40%	7.00%	1.20	0.90	0.09	0.13	14.70%	1.80%	4.10%	Nov 16/b	99.31	0.31%	3,229,147

4.2.2.1 ROE, ROIC



4.2.2.2 Gross margin & EBITDA margin



Conclusion: Alibaba has a higher ROE and EBITDA margin compared to other e-commerce giants.

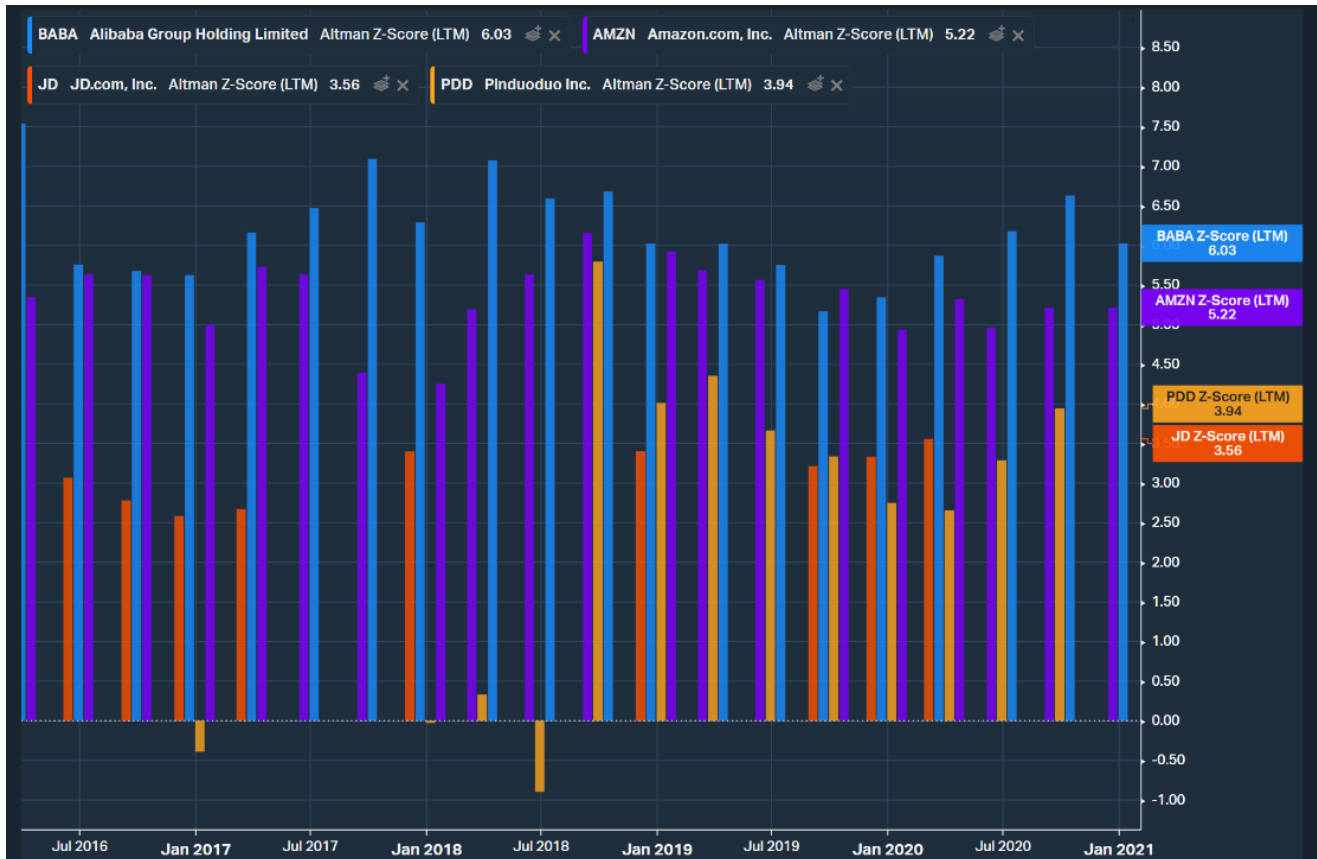


4.2.3 Safety (Liquidity & leverage analysis)

Total: 40 #1 save as portfolio | create alert Auto Refresh: 3min | off Page 1/2

No.	Ticker	Market Cap	Dividend	ROA	ROE	ROI	Curr R	Quick R	LTDebt/Eq	Debt/Eq	Gross M	Oper M	Profit M	Earnings	Price	Change	Volume
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- BABA has the lowest Debt/equity ratio
- BABA has the highest current ratio and quick ratio
- BABA has the highest Altman Z-score above 3

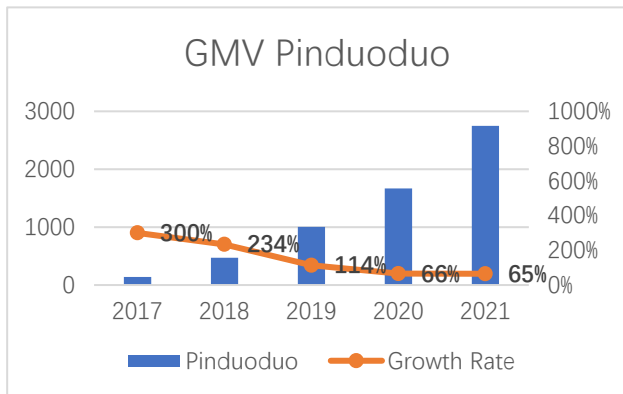
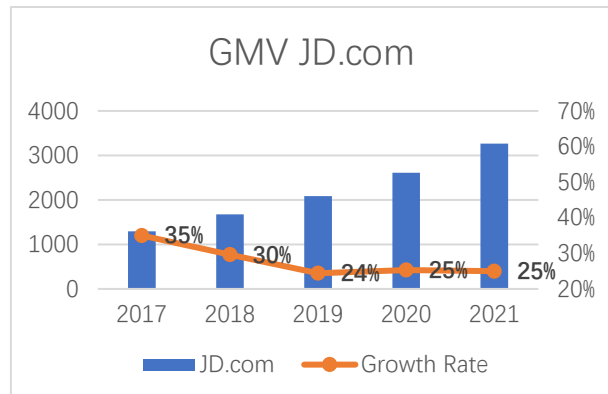
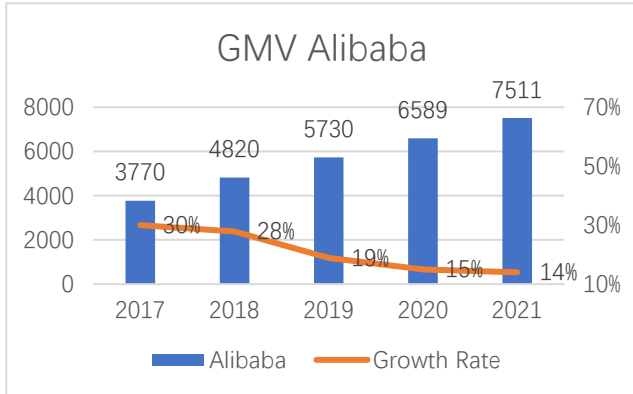


Conclusion: It is pretty safe from liquidity and solvency prospective

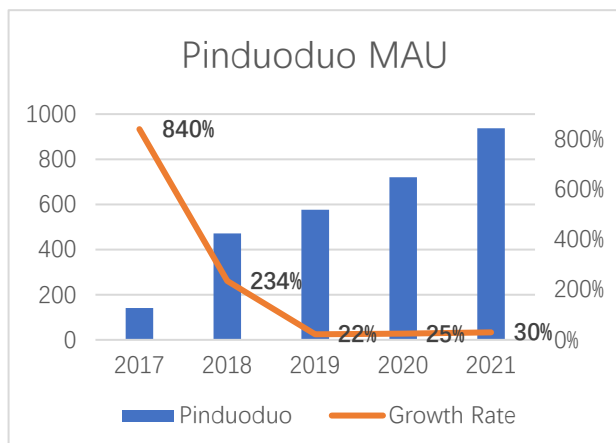
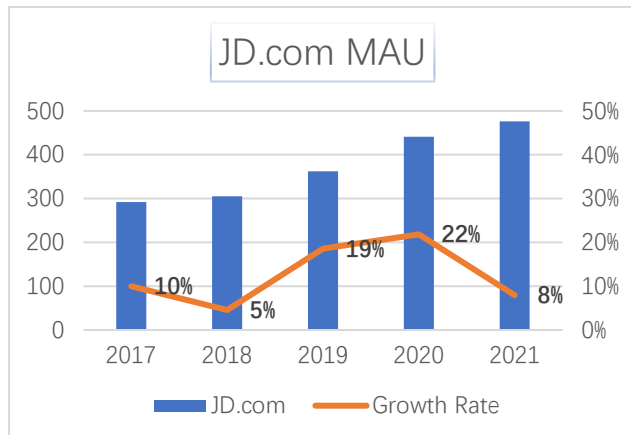
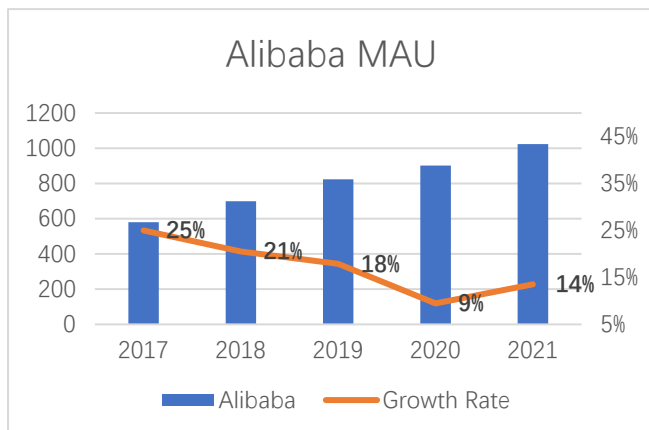


4.3 Comparison of BABA, JD, PDD (Operating perspective)

GMV

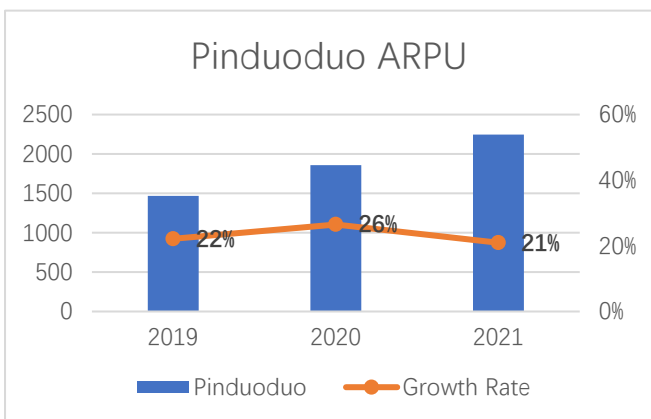
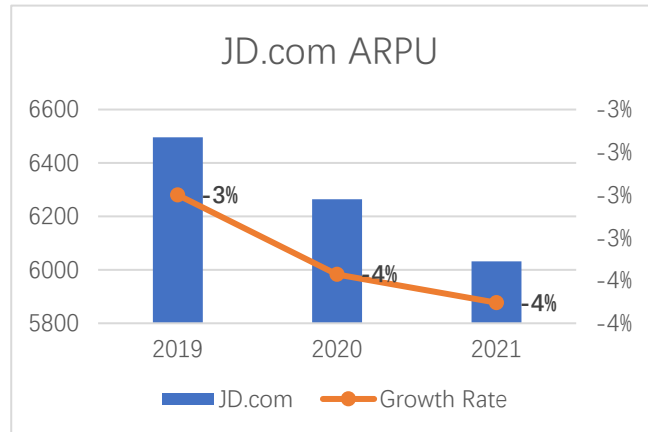
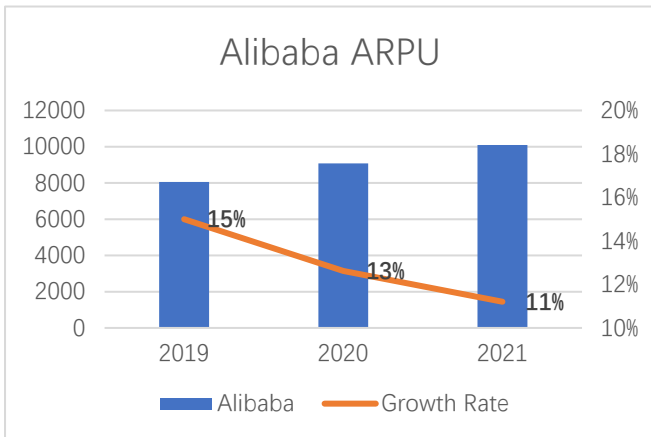


MAU

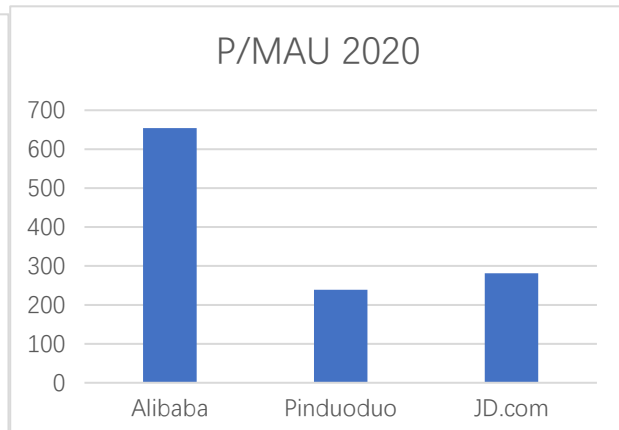
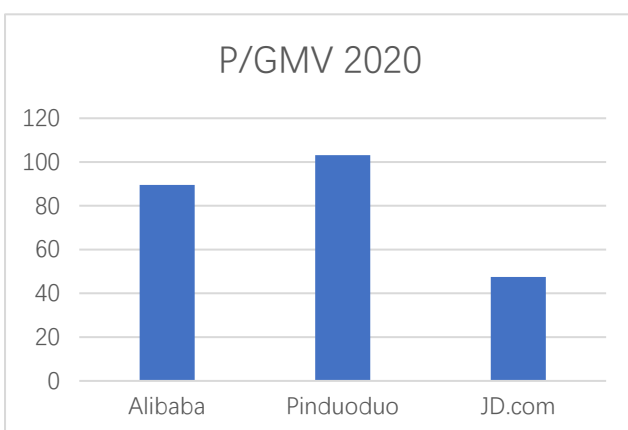




ARPU



Valuation (operating metrics):





Conclusion:

Business model difference:

Amazon = Prime members * (Online retail + Logistic system + Cloud service)

JD.com = Online retail + Logistic system

Alibaba = Online retail + Cloud service + Financial service (Square)

PDD = Online retail + Amazon fresh (agriculture food)

The business models of the e-commerce industry can be divided into two categories:

1. e-commerce platforms (commodity malls)
2. self-operated e-commerce (department stores)

Alibaba and Pinduoduo are typical representatives of the platform model. They mainly provide online sales services and traffic for merchants, and they do not buy or sell goods themselves.

Ali is similar to a shopping mall, it is a commercial real estate business that sells traffic, and it charges merchants advertising fees and commissions;

Pinduoduo is similar to small commodity City, and its business model is similar to Taobao. The difference is that it uses Tencent to take away the sinking market traffic pool that Ali can't reach;

JD.com is a typical representative of the self-operated model. It purchases goods from merchants and sells directly to consumers.

Comparison to US grocery stores:

Pinduoduo	—— refined recommendation (Demand drives supply)	--- Costco
Alibaba	—— multi-product search (Supply drives demand)	--- Walmart
JD	—— national logistics system	--- Amazon Prime delivery

Pinduoduo is like the online version of Costco, providing users with refined recommendations; Alibaba, like Walmart, gathers a large number of new products and brands, with a relatively large traffic pool; JD.com guarantees brand quality through strong quality control and logistics experience to gain market share;

Future expectation:

The e-commerce industry is facing a stage from traffic concentration to decentralization.

Alibaba will increase its information infrastructure, Pinduoduo will go to the upstream agricultural product life sciences field, and JD.com will continue to improve its logistics system in China.



5. Valuation

Instead of using DCF valuation method, internet giants are used to be valued with SOTP method, since they have a higher growth rate, more diversified businesses and constantly reinvested their free cash flow to expand their market share. Alibaba group can be treated as a combination of 3 main businesses and 2 less-important businesses. In this SOTP valuation, enterprise value is considered to be the metric of each business lines.

"It is better to be roughly right than precisely wrong." Warren Buffett & Charlie Munger can constantly come up with an easy-to-calculate price.

5.1 SOTP

2021.4.9						
SOTP		(in billion)				EV =MC+Total debt -Cash & cash equivalents
Core business	Valuation foundation	Valuation metrics		Multiples(x)	Value	Weight
Core commerce	FY22E EV/EBIT	FY22E EBIT=	¥179	20.0x	¥3,574	69.98%
Cloud computing	FY22E EV/Rev	FY22E Revenue=	¥84	7.0x	¥588	11.52%
Digital media and entertainment	FY22E EV/Rev	FY22E Revenue=	¥35	4.0x	¥139	2.72%
Innovation initiatives and others	FY22E EV/Rev	FY22E Revenue=	¥11	3.0x	¥34	0.66%
Intercorporate investment	Valuation foundation	Valuation metrics		Ownership percentage	Value	Weight
Ant group	Last round of transaction	¥950.00		33%	¥314	6%
Enterprise value					¥4,648	91%
Total debt					¥146	
Cash and cash equivalents					¥605	
Net cash					¥459	9%
Total equity value					¥5,108	91%

Total equity value (in billion)	¥5,108
Diluted shares outs. (in million)	2750
Price per share(¥)	¥1,857
USD/CNY(MA60)	6.5
Price per share(\$)	\$286
Current price	\$223
Target price	\$286
Expected return	28%
FY22E EPS(\$) by Koyfin	13.14
Implied Forward PE	22



Conclusion: Target price is \$286. Expected return is 28%.



Assumption:

1. Core commerce

Ticker	Name	Sector	Market Cap	Return On Equity % (TTM)	P/E (LTM)	P/E (NTM)	Diluted EPS Before Extra, CAGR (5Y TTM)	Total Revenues, CAGR (5Y TTM)	EBIT, CAGR (5Y TTM)	EV/EBITDA (LTM)	EV/EBIT (LTM)	EV/Sales (LTM)	Country
Unclassified													
-700	Tencent Holdings Limited	Communication Services	\$774.72s	25.28%	-	-	30.12%	36.20%	27.93%	29.8x	39.3x	11.1x	China
BABA	Alibaba Group Holding Limited	Consumer Discretionary	\$647.14s	17.18%	26.9x	22.3x	32.13%	55.03%	38.61%	24.8x	-	6.3x	China
PDD	Pinduoduo Inc.	Consumer Discretionary	\$167.23s	-16.93%	-	-	74.83%	-	-	-	-141.8x	17.1x	China
JD	JD.com, Inc.	Consumer Discretionary	\$120.64s	30.62%	15.9x	40.5x	627.95%	32.73%	32.61%	33.2x	47.2x	0.9x	China
BIDU	Baidu, Inc.	Communication Services	\$78.09s	10.43%	21.6x	20.9x	7.42%	10.03%	5.89%	12.3x	31.8x	4.0x	China
NTES	NetEase, Inc.	Communication Services	\$74.49s	14.78%	38.7x	25.8x	1.14%	26.43%	14.86%	23.3x	29.2x	5.7x	China
VIPS	Vipshop Holdings Limited	Consumer Discretionary	\$19.43s	22.93%	21.7x	16.2x	38.97%	20.43%	23.26%	14.5x	21.4x	1.1x	China
+ Add Ticker + New Group													
MEDIAN			120.64B	17.18%	21.7X	22.3X	32.13%	29.58%	25.60%	24.0X	30.5X	5.7X	
AVERAGE			268.82B	14.90%	24.9X	25.1X	116.08%	30.14%	23.85%	23.0X	4.5X	6.6X	
US													
AAPL	Apple Inc.	Information Technology	\$2,209.28s	82.09%	36.4x	30.5x	14.98%	4.59%	0.86%	25.4x	26.2x	7.4x	United States
AMZN	Amazon.com, Inc.	Consumer Discretionary	\$1,688.02s	27.44%	81.2x	71.5x	89.47%	29.26%	59.29%	31.8x	68.2x	4.5x	United States
GOOGL	Alphabet Inc.	Communication Services	\$1,516.23s	19.00%	39.0x	33.2x	48.23%	19.47%	16.32%	24.8x	34.1x	7.9x	United States
FB	Facebook, Inc.	Communication Services	\$855.55s	25.42%	30.3x	27.2x	23.24%	36.82%	39.32%	19.9x	23.0x	9.5x	United States
NFLX	Netflix, Inc.	Communication Services	\$237.77s	29.62%	89.8x	54.8x	69.43%	29.82%	71.86%	52.3x	51.0x	10.1x	United States
+ Add Ticker + New Group													
MEDIAN			1,516.23B	27.44%	39.0X	33.2X	48.23%	29.26%	39.32%	25.4X	34.1X	7.9X	
AVERAGE			1,301.37B	36.71%	55.3X	43.4X	49.07%	23.99%	37.53%	30.8X	40.5X	7.9X	

Financial result assumption:

Considering high growth of revenue above 30% in the past few years, I assume it will continue to grow at least for 30% for FY22. Product development expense/SG&A/D&A will grow proportionally. Therefore, FY2022 EBIT = 178,711million is obtained.

RMB in millions	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Income Statement						
Revenue	250,266	376,844	509,711	697,818	911,217	1,184,027
Cost of Revenue	107,044	206,929	282,367	383,800	501,169	592,013
Gross Profit	143,222	169,915	227,344	314,018	410,048	592,013
Product development expenses	22,754	37,435	43,080	56,066	71,874	94,174
SG&A	43,540	64,669	78,870	104,673	136,683	201,285
D&A	7,120	10,727	13,388	17,445	22,780	31,969
Impairment of goodwill	494	-	576	-	-	-
Operating Profit (EBIT)	69,314	57,084	91,430	135,835	178,711	264,586
Interest and investment income, net	30,495	44,106	72,956	86,567	115,417	129,028
Interest income (Expense)	(3,566)	(5,190)	(5,180)	(4,026)	(4,222)	(4,396)
Other income, net	4,160	221	7,439	3,940	3,867	5,082
Pretax Income (EBT)	100,403	96,221	166,645	222,316	293,773	394,300
Tax Expense	18,199	16,553	20,562	33,347	44,066	59,145
Share of results of equity investees	(20,792)	566	(5,733)	(5,733)	(5,733)	(5,733)
Net loss attributable to noncontrolling interests	2,681	7,652	9,083	6,004	8,293	10,569
Net Income	64,093	87,886	149,433	189,239	252,267	339,991

Revenue Assumptions & Growth Rates	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Core Commerce:						
Growth in China commerce retail		40%	34%	40%	31%	30%
Growth in China commerce wholesale		39%	24%	40%	30%	30%
Growth in International commerce retail		38%	24%	35%	30%	30%
Growth in International commerce wholesale		23%	17%	20%	15%	15%
Growth in Cainiao logistics services		120%	49%	40%	40%	40%
Growth in Local consumer services		-	41%	0%	15%	15%
Growth in Others		90%	82%	50%	40%	30%
Growth in Total Commerce		51%	35%	37%	31%	30%
Growth in Cloud computing		84%	62%	50%	40%	40%
Growth in Digital media and entertainment		23%	12%	15%	12%	10%
Growth in Innovation initiatives and others		42%	42%	30%	30%	30%

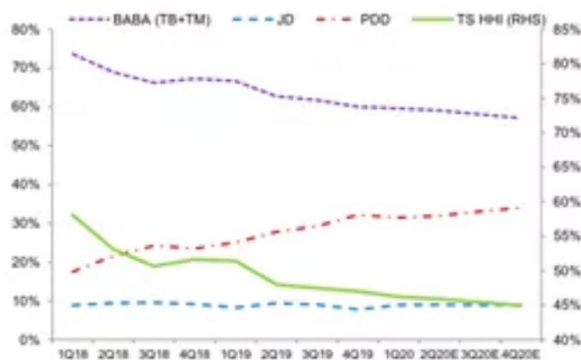


Revenue	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Core Commerce:						
China commerce retail	176,559	247,615	332,750	465,850	610,264	793,343
China commerce wholesale	7,164	9,988	12,427	17,398	22,617	29,402
International commerce retail	14,216	19,558	24,323	32,836	42,687	55,493
International commerce wholesale	6,625	8,167	9,594	11,513	13,240	15,226
Cainiao logistics services	6,759	14,885	22,233	31,126	43,577	61,007
Local consumer services	-	18,058	25,440	25,440	29,256	33,644
Others	2,697	5,129	9,337	14,006	19,608	25,490
Total Commerce	214,020	323,400	436,104	598,168	781,248	1,013,605
Cloud computing						
Cloud computing	13,390	24,702	40,016	60,024	84,034	117,647
Digital media and entertainment	19,564	24,077	26,948	30,990	34,709	38,180
Innovation initiatives and others	3,292	4,665	6,643	8,636	11,227	14,595
Total Revenue	250,266	376,844	509,711	697,818	911,217	1,184,027

Assumptions & Growth Rates	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Assumptions						
Gross Profit Margin	57.2%	45.1%	44.6%	45.0%	45.0%	50.0%
SG&A Margin	17.4%	17.2%	15.5%	15.0%	15.0%	17.0%
D&A Margin	2.8%	2.8%	2.6%	2.5%	2.5%	2.7%
Tax Rate	18.1%	17.2%	12.3%	15.0%	15.0%	15.0%
Interet expense rate	-2.93%	-4.40%	-3.56%	3.0%	3.0%	3.0%
Growth rates						
Revenue Growth		50.6%	35.3%	36.9%	30.6%	29.9%
EBIT Growth		-17.6%	60.2%	48.6%	31.6%	48.1%
Net Income Growth		37.1%	70.0%	26.6%	33.3%	34.8%

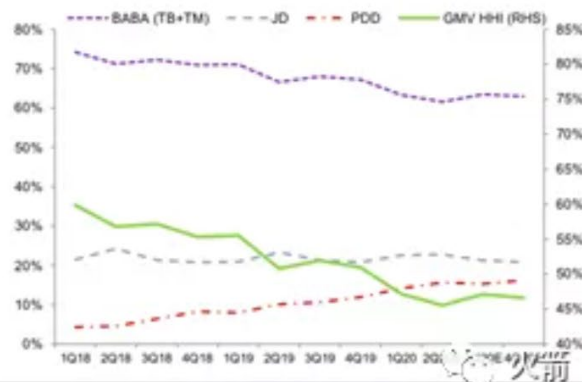
Multiples assumption:

Exhibit 9: We note that competition among e-commerce players has continued to drive down industry HHI (Herfindahl-Hirschman Index) score for e-commerce players on time spent during 1Q20...
Share of user time spent on BABA/JD/PDD and TS (time spent) HHI (Herfindahl-Hirschman Index)...



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 10: ...with a continuous decline in GMV HHI...
Share of GMV on BABA/JD/PDD and GMV HHI



Source: Company data, Goldman Sachs Global Investment Research

The decreasing market share of Alibaba is one of the reasons why it is trading at a low multiple.

Since e-commerce is the major profitable business and it is used as a source of fund to support other business lines, it is common to use P/E from a shareholder equity's perspective and EV/EBITA from an enterprise perspective. As we can see the price multiples above, for Chinese internet-giant, their P/E, EV/EBIT and EV/EBITDA are in a range of [22,30].

The other way is to use PEG metric which balances the value (growth) and price (P/E). Traditionally, a PEG=1 is considered to be a fair value. Last 5yr revenue CAGR, EBIT CAGR, EPS CAGR median numbers are in a range of [25,32], which imply the P/E range of [25,32].

Conclusion: Choosing the lower band of these 2 methods, EV/EBIT=22 is used. To gain more margin of safety, I will discount it to EV/EBIT = 20. This is a margin safety of 10%.



2. Cloud computing

Cloud computing has been growing rapidly and will continue this trend for next few years as we discussed in industry analysis.

Ticker	Name	Sector	Market Cap	Return On Equity % (LTM)	P/E (LTM)	P/E (NTM)	Diluted EPS Before Extra. Costs (5Y TTM)	Total Revenues, CAGR (5Y TTM)	EBIT, CAGR (5Y TTM)	EV/EBITDA (LTM)	EV/EBIT (LTM)	EV/Sales (LTM)	Country
US													
- AAPL	Apple Inc.	Information Technology	\$2,210.76e	82.09%	36.4x	30.5x	14.99e	4.59%	0.86e	25.5x	26.2x	7.4x	United States
- AMZN	Amazon.com, Inc.	Consumer Discretionary	\$1,688.07e	27.44%	81.2x	71.5x	89.47e	23.26%	59.29e	31.8x	68.2x	4.5x	United States
- GOOGL	Alphabet Inc.	Communication Services	\$1,514.63e	19.00%	38.9x	33.1x	48.23e	19.47%	16.32e	24.8x	34.1x	7.9x	United States
- FB	Facebook, Inc.	Communication Services	\$855.58e	25.42%	30.3x	27.2x	23.24e	36.62%	39.32e	19.9x	23.0x	9.5x	United States
- NFLX	Netflix, Inc.	Communication Services	\$238.07e	29.62%	89.9x	54.9x	69.43e	29.82%	71.86e	52.4x	51.1x	10.1x	United States
+ Add Ticker + New Group													
MEDIAN			1,514.63B	27.44%	38.9X	33.1X	48.23%	29.26%	39.32%	25.5X	34.1X	7.9X	
AVERAGE			1,301.42B	36.71%	55.4X	43.5X	49.07%	23.99%	37.53%	30.9X	40.5X	7.9X	
Cloud													
- CRM	salesforce.com, Inc.	Information Technology	\$209.02e	10.80%	52.5x	67.4x	107.54e	26.09%	42.18e	48.0x	409.1x	9.8x	United States
+ Add Ticker + New Group													
MEDIAN			209.02B	10.80%	52.9X	67.4X	107.54%	26.09%	42.18%	48.0X	409.1X	9.8X	
AVERAGE			209.02B	10.80%	52.9X	67.4X	107.54%	26.09%	42.18%	48.0X	409.1X	9.8X	

In 2020, cloud computing companies are on the fire, especially most of the SaaS stocks are trading at around PS is around 10. Companies focusing on IaaS+PaaS usually traded in a lower PS at around [6,8]. As we can see from these US cloud computing giants, they are traded at a range of [6,10] and this number includes other lower growth business lines.

股票代码	股票简称	最新价(美元)	涨跌幅(%)	市销率(ps.ttm)2020.06.16	总市值(亿美元)2020.06.16	上市日期
ZM.O	Zoom Video	242.56	1.48	82.56	US\$684.27	20190418
SHOP.N	Shopify	805.76	0.04	59.87	US\$944.88	20150521
TEAM.O	Atlassian	172.51	1.04	29.90	US\$423.39	20151210
VEEV.N	Veeva Systems	223.81	0.65	28.09	US\$336.04	20131016
NOW.N	ServiceNow	398.46	1.52	20.44	US\$759.88	20120629
ADBE.O	Adobe	411.67	2.57	16.47	US\$1,983.40	19860815
WDAY.O	Workday	181.14	1.76	11.14	US\$425.70	20170920

Since BABA is a more mature company and it is experiencing the lowest revenue growth rate this year at around 35%. According to Peter Lynch, a PEG=1 can be treated as a fair price for most companies. However, in my opinion, it is a bargain given the fact that Alibaba is a great company dominating the e-commerce market in China and has high growth potential in the cloud industry in the future, let alone many mature companies in the cloud industry in trading at around 40P/E(LTM) and 10 P/S.

From historical data, under normal circumstances, a software company with strong productization capabilities has a net profit margin of about 30% (except for individual companies, such as Microsoft Office), which is E/S=30%. The conversion between PE and PS is $P/S=(P/E)*(E/S)$, we can get 10 times P/S which is approximately equivalent to 33 times P/E.

No.	Ticker	Market Cap	P/E	Fwd P/E	PEG	P/S	P/B
1	MSFT	1846.32B	36.49	30.29	2.18	12.05	14.21
2	ADBE	237.46B	45.93	37.61	2.76	18.45	18.09
3	ORCL	184.98B	19.13	13.47	1.76	4.69	23.71
4	SQ	121.63B	589.09	237.79	14.92	15.90	58.78

Conclusion:

Since Alibaba is the cloud computing market leader which growing at an increasing growth rate, I would prefer to pay EV/Sales = 7 for this business. Alibaba is considered to be expand its SaaS production line, and it should be traded above median number EV/Sales=10. This is a margin safety of 30%.



3. Digital media and entertainment / Innovation initiatives and others

Ticker	Name	Sector	Market Cap	Return On Equity % (LTM)	PE (LTM)	P/E (NTM)	Dividend Payout Ratio Extra, CAGR (5Y TTM)	Total Revenue CAGR (5Y TTM)	EBIT CAGR (5Y TTM)	EV/EBITDA (LTM)	EV/EBIT (LTM)	EV/Sales (LTM)	Country
Unclassified													
-700	Tencent Holdings Limited	Communication Services	\$ 774.72a	25.28%	-	-	30.12%	36.20%	27.93%	29.8x	39.3x	11.1x	China
-BABA	Alibaba Group Holding Limited	Consumer Discretionary	\$ 647.69a	17.18%	26.9x	22.4x	32.13%	55.03%	38.61%	24.8x	-	6.3x	China
-PDD	Pinduoduo Inc.	Consumer Discretionary	\$ 167.26e	-16.93%	-	-	74.83%	-	-	-	-141.8x	17.1x	China
-JD	JD.com, Inc.	Consumer Discretionary	\$ 120.53a	30.62%	15.9x	40.5x	627.95%	32.73%	32.61%	33.2x	47.1x	0.9x	China
-BIDU	Baidu, Inc.	Communication Services	\$ 77.51a	10.43%	21.4x	20.7x	7.42%	10.03%	5.83%	12.2x	31.6x	3.9x	China
-NTES	NetEase, Inc.	Communication Services	\$ 74.54a	14.78%	38.7x	25.8x	1.14%	26.43%	14.86%	23.3x	29.2x	5.7x	China
-VIPS	Vipshop Holdings Limited	Consumer Discretionary	\$ 19.34a	22.93%	21.6x	16.1x	38.97%	20.43%	23.26%	14.4x	21.3x	1.1x	China
+ Add Ticker + New Group													
MEDIAN			120.53B	17.18%	21.6X	22.4X	32.13%	29.58%	25.60%	24.0X	30.4X	5.7X	
AVERAGE			268.81B	14.90%	24.9X	25.1X	116.08%	30.14%	23.85%	23.0X	4.5X	6.6X	
Media & entertainment													
-IQ	IQIYI Inc.	Communication Services	\$ 12.16a	-73.15%	-	-	5.71%	41.06%	15.97%	11.4x	-18.5x	2.9x	China
-1060	Alibaba Pictures Group Limited	Communication Services	\$ 3.63a	-6.60%	-	-	-	-	-	-	-74.8x	9.1x	Hong Kong
+ Add Ticker + New Group													
MEDIAN			7.89B	-39.87%			5.71%	41.06%	15.97%	11.4X	-46.6X	6.0X	
AVERAGE			7.89B	-39.87%			5.71%	41.06%	15.97%	11.4X	-46.6X	6.0X	

For 3,4 business lines, they are less-important businesses. They are mostly unprofitable business. For entertainment giants, such as Tencent and NetEase in China, they are trading at EV/Sales = 11 and 6 respectively. For other small media or collaborative software subsidiaries, they are experiencing fierce competitions and have no economic moat. Therefore, I would prefer to pay EV/Sales= 4 for digital media and EV/Sales= 3 for innovation initiatives and others. This is a margin safety of 0%.

Conclusion:

Since these 2 business lines are TO-C services which are dominated by Tencent, Alibaba does not have a competitive edge in this area and were extremely unprofitable. Therefore, my assumption can be regarded as a fair value in this section.

4. Ant group

Ant Group is an affiliate company of Alibaba. After the failed IPO in November 2020, this fintech company is transforming into a financial holding company structure. Prior to this, regulators put pressure on the company to comply with regulations and capital requirements similar to those of banks. Ant's valuation may be affected as a result, because the valuation of technology companies is much higher than that of financial companies. The Ant Group IPO valued the company at approximately US\$315 billion (¥ 2184 billion), which is equivalent to more than 31 times its expected net profit in 2021.

According to Ant's 2020 profit and analysis of comparable companies, Warburg Pincus of the United States valued Ant at the end of last year (2020) at slightly more than US\$200 billion. Other sources said that Warburg Pincus had privately sold part of its holdings in Ant based on a valuation of US\$190 billion (¥ 1330 billion) in early 2020.

Ant once raised US\$14 billion in 2018, the single largest financing in the world. At that time, it was regarded as a technology company and it was valued at approximately US\$150 billion (¥ 1050 billion).

Conclusion:

Under the circumstances that the impact of corporate restructuring on profitability is still unclear, I would use the last-round transaction with a 10% discount (¥ 950 billion) as the value of Ant group, which is equivalent to about 15 times its expected net profit in 2021. This number is between the US banks and Chinese banks valuation metrics. This is a margin safety of 10%.



5. Valuation summary:

Total margin of safety of 11% for the target price \$286

Current price : \$236 (2021.4.09) , Upside: 28%

Business lines	Weight	Margin of safety
Core commerce	70%	10%
Cloud computing	11.52%	30%
Digital media and entertainment	2.72%	0
Innovation initiatives and others	0.66%	0
Ant group	6%	10%
Net cash	9%	0
Total		11%



5.2 Football field

Target Company	Alibaba Group Holding Limited
Date of Valuation	2021/4/9
Stock Price	223.00

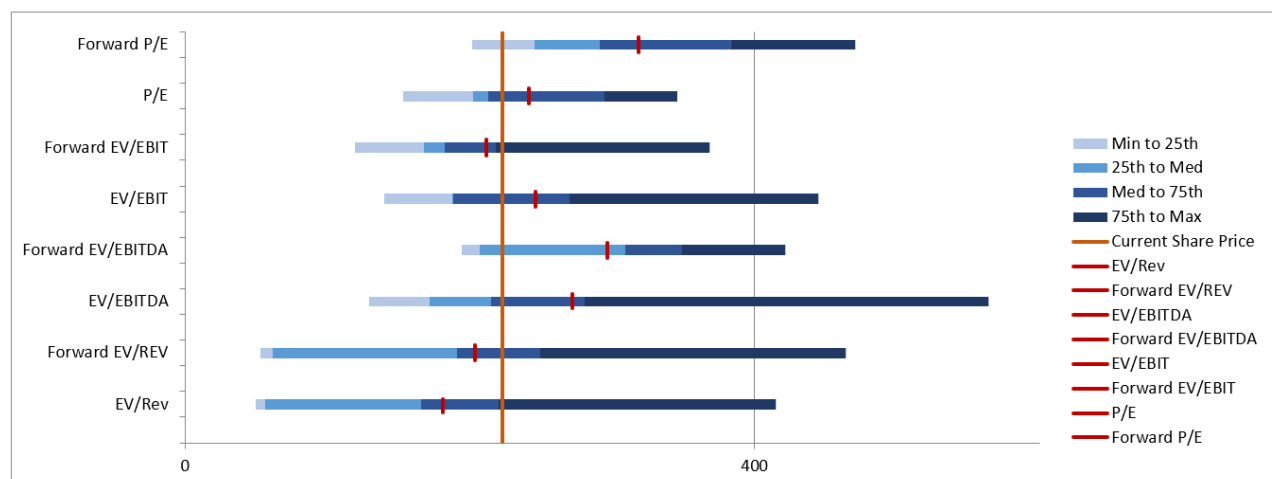
Comps Profile	Description
(1). JD.com, Inc.	JD.com, Inc., through its subsidiaries, operates as an e-commerce company and retail infrastructure service provider in the People's Republic of China. It operates in two
(2). Tencent Holdings Limited	Tencent Holdings Limited, an investment holding company, provides value-added services (VAS) and Internet advertising services in Mainland China, the United States,
(3). Baidu, Inc.	Baidu, Inc. provides internet search services primarily in China. Its Baidu Core segment offers products for users, including Baidu App to access search, feed, and other services
(4). NetEase, Inc.	NetEase Building, No. 599 Wangshang Road, Binjiang District, Hangzhou, Zhejiang Province, 310052, China
(5). Vipshop Holdings Limited	Vipshop Holdings Limited operates as an online discount retailer for various brands in the People's Republic of China. It operates through four segments, Vip.com, Shan Shan
(6).	
(7).	
(8). Alibaba Group Holding Limited	Alibaba Group Holding Limited, through its subsidiaries, provides online and mobile commerce businesses in the People's Republic of China and internationally. It operates

Revenue		EBITDA		EBIT		EPS	
Most Recent FY	Forward FY	Most Recent FY	Forward FY	Most Recent FY	Forward FY	Most Recent FY	Forward FY
114,045.7	142,518.0	1,833.0	3,980.8	1,635.3	2,242.4	4.84	1.99
73,715.7	90,503.2	26,309.0	33,776.5	19,159.0	27,013.5	2.53	2.46
16,373.4	19,314.9	5,089.8	4,942.8	2,369.4	3,030.0	9.93	10.34
11,264.9	13,613.65	2,751.9	3,024.6	2,223.2	2,581.7	2.75	4.13
15,575.9	19,053.3	1,025.5	1,445.6	896.1	1,204.1	1.31	1.75
98,510.3	135,552.7	23,429.3	37,724.0	16,381.4	18,501.2	8.86	11.21

	EV/Revenue		EV/EBITDA		EV/EBIT		P/E	
Enterprise Value	Most Recent FY	Forward FY	Most Recent FY	Forward FY	Most Recent FY	Forward FY	Most Recent FY	Forward FY
\$117,175	1.0x	0.8x	63.9x	29.4x	71.7x	52.3x	17.3x	42.0x
\$817,523	11.1x	9.0x	31.1x	24.2x	42.7x	30.3x	33.2x	34.2x
\$69,252	4.2x	3.6x	13.6x	14.0x	29.2x	22.9x	22.8x	21.9x
\$64,584	5.7x	4.7x	23.5x	21.4x	29.0x	25.0x	39.0x	26.0x
\$18,968	1.2x	1.0x	18.5x	13.1x	21.2x	15.8x	24.0x	18.0x
\$0	NA	NA	NA	NA	NA	NA	NA	NA
\$0	NA	NA	NA	NA	NA	NA	NA	NA
Mean	4.7x	3.8x	30.1x	20.4x	38.8x	29.2x	27.3x	28.4x
Median	4.2x	3.6x	23.5x	21.4x	29.2x	25.0x	24.0x	26.0x
Min	1.0x	0.8x	13.6x	13.1x	21.2x	15.8x	17.3x	18.0x
25th percentile	1.2x	1.0x	18.5x	14.0x	29.0x	22.9x	22.8x	21.9x
75th percentile	5.7x	4.7x	31.1x	24.2x	42.7x	30.3x	33.2x	34.2x
Max	11.1x	9.0x	63.9x	29.4x	71.7x	52.3x	39.0x	42.0x



Implied Value Per Share								
	EV/Rev	Forward EV/REV	EV/EBITDA	Forward EV/EBITDA	EV/EBIT	Forward EV/EBIT	P/E	Forward P/E
Mean	\$181.32	\$203.81	\$272.25	\$296.21	\$246.17	\$211.47	\$241.64	\$318.44
Median	\$165.69	\$191.27	\$214.82	\$309.13	\$188.61	\$182.73	\$213.05	\$291.16
Min	\$49.34	\$53.11	\$129.59	\$194.59	\$139.91	\$119.51	\$152.87	\$201.78
25th percentile	\$56.26	\$61.78	\$171.86	\$206.96	\$187.54	\$167.98	\$202.14	\$245.61
75th percentile	\$220.33	\$249.20	\$280.55	\$348.80	\$269.84	\$218.53	\$294.52	\$383.24
Max	\$414.98	\$463.65	\$564.45	\$421.59	\$444.96	\$368.61	\$345.60	\$470.43



5.2.1 Comparison of BABA, JD, PDD, AMZN (Valuation)

No.	Ticker	Market Cap	P/E	Fwd P/E	PEG	P/S	P/B	P/C	P/FCF
1	AMZN	1638.66B	78.71	49.33	2.05	4.24	17.59	19.42	63.21
2	BABA	728.06B	29.95	22.17	8.60	7.31	5.00	10.20	27.75
3	PDD	246.16B	-	590.56	-	36.42	54.39	34.95	69.72
4	JD	151.86B	34.81	43.68	5.82	1.42	6.57	8.09	26.32

- BABA has the lowest P/E (LTM, NTM)
- BABA has the lowest P/B
- BABA has the lowest P/C
- BABA has the lowest P/FCF.

Conclusion:

As we can see from the graph above, Alibaba is trading below the median multiples of Chinese tech-giants in terms of Forward P/E, P/E, EV/EBIT, Forward EV/EBITDA, EV/EBITDA and around the median multiples for Forward EV/EBIT, Forward EV/REV, EV/Rev.

Besides, we can see BABA is relatively cheaper than other e-commerce giants in terms of P/E (LTM, NTM), P/B, P/C, P/FCF. They have a huge deviation in P/S because of their differences in a business model which leads to differences in revenue recognition. Among the four e-commerce companies, Alibaba and Pinduoduo are platform-based companies that have a light asset, while JD and Amazon are mostly self-operated businesses that have a heavy asset.

Overall, Alibaba is undervalued compared with other Chinese and US technology companies.



6. Risk

6.1 New threats in E-commerce & Cloud-computing

Pinduoduo & Private domain traffic (Douyin, Kuaishou, community group buying)

Based on China's national conditions, Pinduoduo takes a differentiated route and uses low-cost and refined recommendations to consumers in third- and fourth-tier cities. The number of active buyers of Chinese online retailer Pinduoduo surpassed Alibaba for the first time in 2020. Pinduoduo reports that the number of active buyers in 2020 is 788.4 million, and Alibaba reports 779 million. At the same time, short video software (Douyin, Kuaishou) and community group buying are on the rise, which may become a new e-commerce shopping method.

Threat in China: Huawei Cloud

Huawei is the world's leading provider of ICT (information and communication) infrastructure and smart terminals, and Huawei Cloud is growing at a fast speed. Huawei's business is more extensive, with overseas communication business accounting for 50% of total revenue; while 90% of Alibaba's business is in China

Threat in global: AWS Cloud

Amazon AWS and Alibaba Cloud are the largest IaaS & PaaS vendors in the global and Chinese markets, respectively. Alibaba has more advantage in the South-east area, while Amazon is better in Europe. However, India will become a key area in the battle between Alibaba Cloud and AWS Cloud

6.2 Spinoff of Ali cloud

From rumors in media in China, Alibaba Cloud may be independent. (Alibaba entrepreneur) said that after Ant's listing was frustrated, he heard the news that Alibaba Cloud would merge into Ant, similar to the way JD Cloud merged into JD Technology (formerly JD Digital).

Another former Alibaba Cloud executive said that he has heard rumors of Alibaba Cloud's independence, but no exact information has been obtained, but he believes that it will definitely be split. He has not heard of the rumors of Alibaba Cloud being merged into Ant.

If it becomes reality in the following year, the spinoff of Ali Cloud will decrease the valuation of Alibaba Group significantly.

6.3 Regulatory issue (Antitrust)

China fines Alibaba \$2.8 Billion in landmark Antitrust case

The party's market share exceeds 50%. One is from the perspective of platform service revenue. From 2015 to 2019, the party's online retail platform service revenue accounted for 86.07%, 75.77%, 78.51%, 75.44%, and 71.17% of the total service revenue of 10 major online retail platforms in China. The second is from the perspective of platform commodity transaction volume. Platform commodity transaction volume refers to the commodity transaction value on the online retail platform, which is a comprehensive reflection of the operating status of all operators on the platform and the consumption status of consumers. From 2015 to 2019, the parties' online retail platform merchandise transactions accounted for 76.21%, 69.96%, 63.58%, 61.70%, and 61.83% of the total domestic online retail merchandise transactions in China.

Related markets are highly concentrated. According to the market share of platform service revenue, from 2015 to 2019, the HHI index (Herfindahl-Hirschman index) of China's domestic online retail platform service market was 7408, 6008, 6375, 5925, 5350, and CR4 index (market concentration Index) are respectively 99.68, 99.46, 98.92, 98.66, 98.45, indicating that the relevant market is highly concentrated and the number of competitors is small. In the past five years, the market share of the parties has been relatively stable, and the parties have maintained a strong competitive advantage for a long time. Other competitive platforms have limited competition constraints on the parties.



6.4 Political issue

Ants threaten the ruling party

In addition to concerns about financial system risks and anger at Jack Ma's critical remarks, there is another important reason why Ant's IPO was suspended: an investigation by the central government found that behind the layers of opaque investment vehicles that hold shares of Ant Group, it is a small circle of well-connected Chinese dignitaries, some of whom are connected to political families that pose potential challenges to the Chinese president.

Ant Group will now undergo rectification and will become a financial company that needs to comply with the capital requirements of the banking industry. Stricter regulations mean that the company may have to raise funds to strengthen its capital base, opening the door for large state-owned banks or other types of government-controlled entities to purchase equity. The equity of existing shareholders may be diluted as a result.

--- WSJ



7. Why Buffett like it?

7.1 Charlie Munger Bought Alibaba

Charlie Munger (Warren Buffett's longtime partner) is the chairman of the Daily Journal Corporation. Daily Journal, historically published a legal newspaper and more recently began selling courthouse software.

It takes cash flow from its core businesses and reinvests it into equities, mostly large U.S. banks.

The company that the Daily Journal acquired shares of was **Alibaba Group** (NYSE: BABA). At the end of March, the holding company reportedly owned 165,320 shares in the Chinese tech company, giving it a 19% portfolio weight. The position was worth around \$37.5 million, making it the company's third-largest position behind **Bank of America** and **Wells Fargo**.

7.2 Valuation is cheaper than all of the FAANG stocks in the U.S.

Buffett once said, "You pay a high price for a cheery consensus."

It is because of many disputes and short-term disadvantages that have brought reverse investment opportunities.

Sufficient high liquidity assets

On the one hand, Alibaba has a lot of cash on its balance sheet and owns a lot of shares in private companies such as Ant Group and listed companies. As of December 31, 2021, its balance sheet includes US\$47.8 billion in cash, US\$22.1 billion in short-term securities, US\$36.8 billion in other publicly traded equity securities, and another US\$28.4 billion in equity investment objects such as Ant Group. These assets add up to US\$135.1 billion, while short-term and long-term debt is only around US\$18 billion.

Cheaper than FAANG, higher growth rate

BABA is cheaper than FAANG stock in terms of PE-TTM and PE-NTM, with 5-year revenue and EBIT CAGR about 2 times higher than the median.

	Ticker	Name	Sector	Market Cap	Return On Equity % (LTM)	P/E (LTM)	P/E (NTM)	EV/Sales (LTM)	Revenues, CAGR (5Y TTM)	EBIT, CAGR (5Y TTM)	Country	
<input type="checkbox"/>	BABA	Alibaba Group Hol...	Consumer Discretionary	\$ 605.42B	17.18%	24.6x	20.1x	5.9x	55.03%	38.61%	China	
<input type="checkbox"/>	FB	Facebook, Inc.	Communication Services	\$ 887.78B	25.42%	30.9x	28.0x	9.8x	36.82%	39.32%	United States	
<input type="checkbox"/>	AAPL	Apple Inc.	Information Technology	\$ 2,232.73B	82.09%	36.8x	30.9x	7.3x	4.59%	0.86%	United States	
<input type="checkbox"/>	AMZN	Amazon.com, Inc.	Consumer Discretionary	\$ 1,698.12B	27.44%	82.4x	72.5x	4.4x	29.26%	59.29%	United States	
<input type="checkbox"/>	GOOGL	Alphabet Inc.	Communication Services	\$ 1,535.72B	19.00%	39.1x	33.2x	7.8x	19.47%	16.32%	United States	
<input type="checkbox"/>	NFLX	Netflix, Inc.	Communication Services	\$ 245.94B	29.62%	91.5x	55.9x	10.3x	29.82%	71.86%	United States	
+ Add Ticker		+ New Group										
	MEDIAN			1,211.75B	26.43%	37.9X	32.1X	7.6X	29.54%	38.96%		
	AVERAGE			1,200.95B	33.46%	50.9X	40.1X	7.6X	29.16%	37.71%		

7.3 Powerful economic moat → Wide economic moat → Strong Roe=15%+ since 2014

As a Chinese Internet giant, Alibaba is the leader in corporate services. With strong IT infrastructure construction capabilities and extensive network effects, it has maintained a 30% growth rate of operating income and 15%+ ROE since ipo.

"ROE is one the most important indicators in the investment process. If a company has a higher ROE than industry average, it reflects the company has a higher competitive edge(wide moat)" --- Buffett



Source

External source:

<https://app.koyfin.com/>
<https://www.statista.com/>
<https://www.alibabagroup.com/cn/global/home>
<https://www.forbes.com/sites/johnkoetsier/2020/10/21/44-of-global-ecommerce-is-owned-by-4-chinese-companies/?sh=7c24dbc21645>
<https://www.motaword.com/blog/ecommerce-market-in-china#:~:text=China's%20eCommerce%20market%20size%20is,for%202020%20is%20at%2020.1%25>
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<https://cn.reuters.com/article/exclusive-ant-group-valuation-sources-03-idCNKBS2B80QU>

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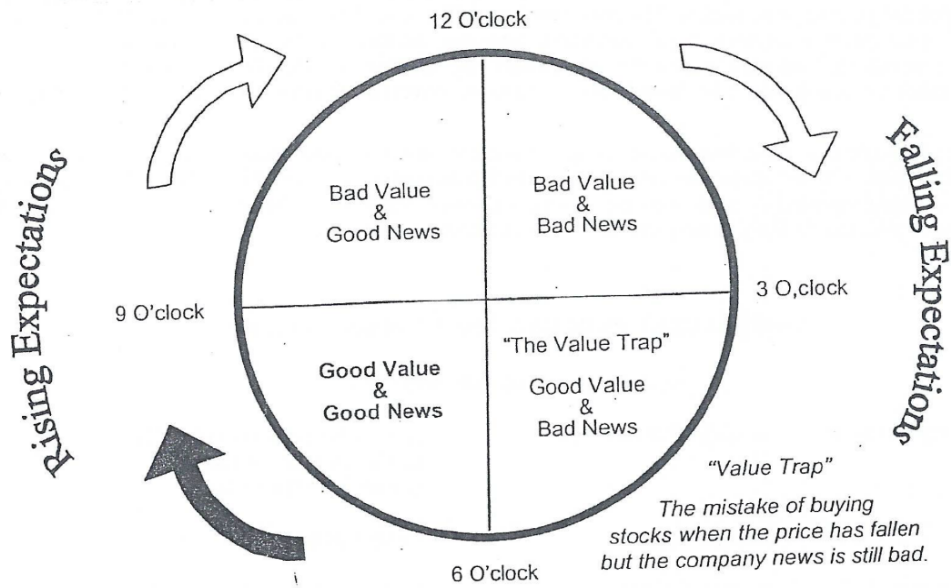
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Appendix

When We Buy Stocks: The Investment Clock of a Small Capitalization Value Stock



Our investment strategy is focused on buying stocks at 6 O'clock on the investment clock, when they are statistically cheap (good value) and when the company news is growing or encouraging with respect to future business prospects (good news). We focus on selling stocks at 9 O'clock on the investment clock, when valuations have risen due to continuing good news.



Financial statement analysis

Assumptions & Growth Rates	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Assumptions						
Gross Profit Margin	57.2%	45.1%	44.6%	45.0%	45.0%	50.0%
SG&A Margin	17.4%	17.2%	15.5%	15.0%	15.0%	17.0%
D&A Margin	2.8%	2.8%	2.6%	2.5%	2.5%	2.7%
Tax Rate	18.1%	17.2%	12.3%	15.0%	15.0%	15.0%
Interet expense rate	-2.93%	-4.40%	-3.56%	3.0%	3.0%	3.0%
Growth rates						
Revenue Growth		50.6%	35.3%	36.9%	30.6%	29.9%
EBIT Growth		-17.6%	60.2%	48.6%	31.6%	48.1%
Net Income Growth		37.1%	70.0%	26.6%	33.3%	34.8%

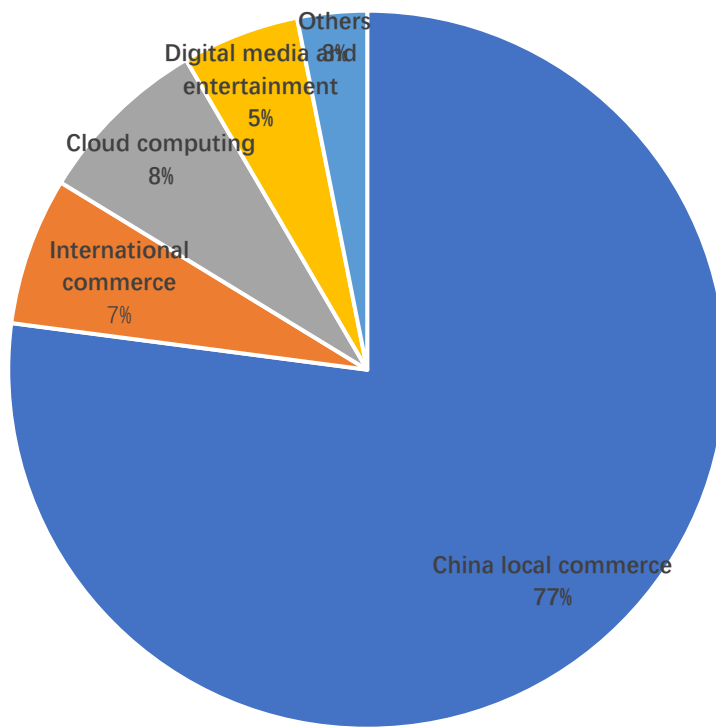
Percentage of Total Revenue	FY2018	FY2019	FY2020
China local commerce	76.11%	77.10%	77.07%
International commerce	8.33%	7.36%	6.65%
Cloud computing	5.35%	6.55%	7.85%
Digital media and entertainment	7.82%	6.39%	5.29%
Others	2.39%	2.60%	3.14%

Revenue Assumptions & Growth Rates	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Core Commerce:						
Growth in China commerce retail		40%	34%	40%	31%	30%
Growth in China commerce wholesale		39%	24%	40%	30%	30%
Growth in International commerce retail		38%	24%	35%	30%	30%
Growth in International commerce wholesale		23%	17%	20%	15%	15%
Growth in Cainiao logistics services		120%	49%	40%	40%	40%
Growth in Local consumer services		-	41%	0%	15%	15%
Growth in Others		90%	82%	50%	40%	30%
Growth in Total Commerce		51%	35%	37%	31%	30%
Growth in Cloud computing		84%	62%	50%	40%	40%
Growth in Digital media and entertainment		23%	12%	15%	12%	10%
Growth in Innovation initiatives and others		42%	42%	30%	30%	30%

Revenue	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Core Commerce:						
China commerce retail	176,559	247,615	332,750	465,850	610,264	793,343
China commerce wholesale	7,164	9,988	12,427	17,398	22,617	29,402
International commerce retail	14,216	19,558	24,323	32,836	42,687	55,493
International commerce wholesale	6,625	8,167	9,594	11,513	13,240	15,226
Cainiao logistics services	6,759	14,885	22,233	31,126	43,577	61,007
Local consumer services	-	18,058	25,440	25,440	29,256	33,644
Others	2,697	5,129	9,337	14,006	19,608	25,490
Total Commerce	214,020	323,400	436,104	598,168	781,248	1,013,605
Cloud computing	13,390	24,702	40,016	60,024	84,034	117,647
Digital media and entertainment	19,564	24,077	26,948	30,990	34,709	38,180
Innovation initiatives and others	3,292	4,665	6,643	8,636	11,227	14,595
Total Revenue	250,266	376,844	509,711	697,818	911,217	1,184,027



FY2021 Revenue Distribution



■ China local commerce ■ International commerce ■ Cloud computing ■ Digital media and entertainment ■ Others



RMB in millions						
Balance Sheet	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Assets						
Current Assets:						
Cash and cash equivalents	199,309	189,976	330,503	470,351	605,049	806,641
Short-term investments	6,086	3,262	28,478	28,478	28,478	28,478
Restricted cash and escrow receivables	3,417	8,518	15,479	15,773	20,596	24,329
Investment securities	4,815	9,927	4,234	4,234	4,234	4,234
Prepayments, receivables and other assets	43,228	58,590	84,229	104,673	136,683	177,604
Total current assets	256,855	270,273	462,923	623,508	795,039	1,041,287
Investment securities	38,192	157,090	161,329	161,329	161,329	161,329
Prepayments, receivables, and other assets	16,897	28,018	57,985	69,782	91,122	118,403
Investments in equity investees	139,700	84,454	189,632	189,632	189,632	189,632
Property and equipment, net	66,489	92,030	103,387	113,387	123,387	133,387
Land use rights, net	9,377	-	-	-	-	-
Intangible assets, net	27,465	68,276	60,947	60,947	60,947	60,947
Goodwill	162,149	264,935	276,782	276,782	276,782	276,782
Total Assets	717,124	965,076	1,312,985	1,495,367	1,698,238	1,981,767
Liabilities						
Current liabilities						
Current bank borrowings	6,028	7,356	5,154	5,154	5,154	5,154
Current unsecured senior notes	-	15,110	-	-	-	-
Income tax payable	13,689	17,685	20,190	20,190	20,190	20,190
Escrow money payable	3,053	8,250	3,014	3,014	3,014	3,014
Accrued expenses, accounts payable and other liabilities	81,165	117,711	161,536	210,301	274,613	324,391
Merchant deposits	9,578	10,762	13,640	13,640	13,640	13,640
Deferred revenue and customer advances	22,297	30,795	38,338	38,338	38,338	38,338
Total current liabilities	135,810	207,669	241,872	290,637	354,949	404,727
Deferred revenue	993	1,467	2,025	2,541	3,078	3,605
Deferred tax liabilities	19,312	22,517	43,898	(20,129)	(21,109)	(21,979)
Non-current bank borrowings	34,153	35,427	39,660	42,414	45,907	49,030
Non-current unsecured senior notes	85,372	76,407	80,616	80,616	80,616	80,616
Other liabilities	2,045	6,187	25,263	11,165	14,205	16,878
Total liabilities	277,685	349,674	433,334	407,244	477,646	532,877
Shareholder's equity						
Commitments and contingencies	-	-	-	-	-	-
Mezzanine equity	3,001	6,819	9,103	9,103	9,103	9,103
Shareholder's equity:						
Additional paid-in capital	186,764	231,783	343,707	343,707	343,707	343,707
Treasury shares, at cost	(2,233)	-	-	-	-	-
Restructuring reserve	(361)	(97)	-	-	-	-
Subscription Receives	(163)	(49)	(51)	(51)	(51)	(51)
Statutory reserves	4,378	5,068	6,100	6,100	6,100	6,100
Accumulated other comprehensive loss:						
Cumulative translation adjustments	(3,594)	(2,592)	(387)	(387)	(387)	(387)
Unrealized gains(losses) on interest rate swaps and others	8,677	257	(256)	(256)	(256)	(256)
Retained earnings	172,353	257,886	406,287	555,720	744,959	997,226
Total shareholder's equity	365,821	492,256	755,400	904,833	1,094,072	1,346,339
Noncontrolling interests	70,616	116,326	115,147	115,147	115,147	115,147
Total equity	436,437	608,582	870,547	1,019,980	1,209,219	1,461,486
Total liabilities, mezzaninen equity and equity	717,123	965,075	1,312,984	1,436,327	1,695,968	2,003,466
Balance Sheet Assumptions	2018A	2019A	2020A	2021E	2022E	2023E
days receivable	12	15	20	15	15	15
Prepayments to sales	17.27%	15.55%	16.52%	15%	15%	15%
Additional long-term Investment securities		118,898.0	4,239.0	4000	4000	4000
long-term Prepayments to sales	6.75%	7.43%	11.38%	10%	10%	10%
Additional Investments in equity investees		-55,246.0	105,178.0	0	0	0
Additional PPE		25,541.0	11,357.0	10000	10000	10000
Days payable	277	208	209	200	200	200
Deferred tax liabilities	-541.56%	-433.85%	-847.45%	500%	500%	500%
Non-current bank borrowings to assets	4.76%	3.67%	3.02%	4%	4%	4%
Non-current unsecured senior notes to assets	11.90%	7.92%	6.14%	7%	7%	7%
Other liabilities to assets	0.29%	0.64%	1.92%	1%	1%	1%



RMB in millions						
Cash Flow Statement	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Net Income	64,093	87,886	149,433	189,239	252,267	339,991
Cash flow from operating activities						
Add: D&A	7,120	10,727	13,388	17,445	22,780	31,969
Short-term investments	(6,086)	2,824	(25,216)	-	-	-
Restricted cash and escrow receivables	(3,417)	(5,101)	(6,961)	(294)	(4,823)	(3,733)
Investment securities	(43,007)	(124,010)	1,454	-	-	-
Prepayments, receivables and other assets	(60,125)	(26,483)	(55,606)	(32,241)	(53,350)	(68,202)
Investments in equity investees	(139,700)	55,246	(105,178)	-	-	-
Land use rights	(9,377)	9,377	-	-	-	-
Intangible assets	(27,465)	(40,811)	7,329	-	-	-
Goodwill	(162,149)	(102,786)	(11,847)	-	-	-
Current bank borrowings	6,028	1,328	(2,202)	-	-	-
Current unsecured senior notes	-	15,110	(15,110)	-	-	-
Income tax payable	13,689	3,996	2,505	-	-	-
Escrow money payable	3,053	5,197	(5,236)	-	-	-
Accrued expenses, accounts payable and other liabilities	81,165	36,546	43,825	48,765	64,312	49,778
Merchant deposits	9,578	1,184	2,878	-	-	-
Deferred revenue and customer advances	22,297	8,498	7,543	-	-	-
Deferred revenue	993	474	558	516	537	527
Deferred tax liabilities	19,312	3,205	21,381	(64,027)	(980)	(869)
Total cash from operating activities	(223,998)	(57,593)	22,938	159,405	280,743	349,459
Cash flow from investing activities						
Property and equipment, net	(73,609)	(36,268)	(24,745)	(27,445)	(32,780)	(41,969)
Cash flow from financing activities						
Non-current bank borrowings	34,153	1,274	4,233	2,754	3,493	3,123
Non-current unsecured senior notes	85,372	(8,965)	4,209	-	-	-
Other liabilities	2,045	4,142	19,076	(14,098)	3,040	2,673
Mezzanine equity	3,001	3,818	2,284	-	-	-
Additional paid-in capital	186,764	45,019	111,924	-	-	-
Treasury shares, at cost	(2,233)	2,233	-	-	-	-
Restructuring reserve	(361)	264	97	-	-	-
Subscription Receives	(163)	114	(2)	-	-	-
Statutory reserves	4,378	690	1,032	-	-	-
Cumulative translation adjustments	(3,594)	1,002	2,205	-	-	-
Unrealized gains(losses) on interest rate swaps and others	8,677	(8,420)	(513)	-	-	-
Noncontrolling interests	70,616	45,710	(1,179)	-	-	-
Retained Earnings	108,260	(2,353)	(1,032)	(39,806)	(63,028)	(87,724)
Net Cash Flow	128,095	(107,946)	(22,294)	(125,876)	(83,579)	(146,398)
Starting cash Flow	-	199,308	189,975	330,502	411,311	602,779
Ending Cash Flow	199,308	189,975	330,502	411,311	602,779	828,341



Financial Ratio	2018A	2019A	2020A	2021E	2022E	2023E
Growth Ratios						
Sales Growth (%)		50.58%	35.26%	36.90%	30.58%	29.94%
Gross Profit Growth (%)		18.64%	33.80%	38.12%	30.58%	44.38%
Operating Profit Growth (%)		-17.64%	60.17%	48.57%	31.57%	48.05%
Net Income Growth (%)		37.12%	70.03%	26.64%	33.31%	34.77%
Short-term Investments Growth (%)		-46.40%	773.02%	0.00%	0.00%	0.00%
SGA Growth		48.53%	21.96%	32.72%	30.58%	47.26%
Liquidity Ratios						
Current Ratio (x)	1.89x	1.30x	1.91x	2.15x	2.24x	2.57x
Cash Ratio (x)	1.47x	0.91x	1.37x	1.62x	1.70x	1.99x
Quick Ratio (x)						
Liquidity Ratios						
Receivables Turnover (x)						
Payables Turnover (x)						
Fixed Assets Turnover (x)		4.75x	5.22x	6.44x	7.70x	9.22x
Total Assets Turnover (x)		0.45x	0.45x	0.50x	0.57x	0.64x
Solvency Ratios						
Debt-to-Assets (%)	38.72%	36.23%	33.00%	27.23%	28.13%	26.89%
Debt-to-Equity (%)	75.91%	71.03%	57.36%	45.01%	43.66%	39.58%
Long-term Debt-to-Equity (%)	32.67%	22.72%	15.92%	13.60%	11.56%	9.63%
Times Interest Earned (%)	-1943.75%	-1099.88%	-1765.06%	-3374.07%	-4233.02%	-6019.18%
Profitability Ratios						
Gross Profit Margin (%)	57.23%	45.09%	44.60%	45.00%	45.00%	50.00%
Operating Margin (%)	27.70%	15.15%	17.94%	19.47%	19.61%	22.35%
Net Margin (%)	25.61%	23.32%	29.32%	27.12%	27.68%	28.71%
Return on Total Assets (%)		28.02%	38.17%	45.03%	57.02%	67.29%
Return on Equity (%)		20.48%	23.95%	22.80%	25.24%	27.86%
Basic Earning Power (%)		6.79%	8.03%	9.67%	11.19%	14.38%
Additional Information						
Effective Tax Rate	28.39%	18.83%	13.76%	17.62%	17.47%	17.40%



SOTP Valuation

2021.4.9											
SOTP	(in billion)	EV = MC + Total debt - Cash & cash equivalents									
Core business		Valuation foundation		Valuation metrics		Multiples(x)		Value		Weight	
Core commerce	FY22E EV/EBIT	FY22E EBIT=	¥179	20.0x	¥3,574	69.98%					
Cloud computing	FY22E EV/Rev	FY22E Revenue=	¥84	7.0x	¥588	11.52%					
Digital media and entertainment	FY22E EV/Rev	FY22E Revenue=	¥35	4.0x	¥139	2.72%					
Innovation initiatives and others	FY22E EV/Rev	FY22E Revenue=	¥11	3.0x	¥34	0.66%					
Intercorporate investment		Valuation foundation		Valuation metrics		Ownership percentage		Value		Weight	
Ant group	Last round of transaction	¥950.00		33%		¥314		6%			
						Enterprise value		¥4,648		91%	
Total debt								¥146			
Cash and cash equivalents								¥605			
Net cash								¥459		9%	
								Total equity value		¥5,108 100%	
Total equity value (in billion)		¥5,108									
Diluted shares outs. (in million)		2750									
Price per share (¥)		¥1,857									
USD/CNY(MA60)		6.5									
Price per share (\$)		\$286									
Current price		\$223									
Target price		\$286									
Expected return		28%									
FY22E EPS(\$ by Koyfin)		13.14									
Implied Forward PE		22									

Business lines	Weight	Margin of safety
Core commerce	70%	10%
Cloud computing	11.52%	30%
Digital media and entertainment	2.72%	0
Innovation initiatives and others	0.66%	0
Ant group	6%	10%
Net cash	9%	0
Total		11%

Ticker	Name	Sector	Market Cap	Return On Equity % (LTM)	P/E (LTM)	P/E (NTM)	Total Revenue, CAGR (5Y TTM)	EBIT, CAGR (5Y TTM)	EV/EBITDA (LTM)	EV/EBIT (LTM)	EV/Sales (LTM)	Country
Unclassified												
• BABA	Alibaba Group Holding Limited	Consumer Discretionary	\$599.04b	17.18%	27.2x	22.6x	55.03%	38.61%	25.1x	-	6.4x	China
• 700	Tencent Holdings Limited	Communication Services	\$744.89b	25.28%	-	-	36.20%	27.93%	29.8x	39.0x	11.1x	China
• VIPS	Vipshop Holdings Limited	Consumer Discretionary	\$20.02b	22.93%	20.9x	15.6x	20.43%	23.26%	13.9x	21.7x	1.0x	China
• BIDU	Baidu, Inc.	Communication Services	\$78.17b	10.43%	21.7x	20.9x	10.03%	5.83%	12.4x	31.3x	4.0x	China
• JD	JD.com, Inc.	Consumer Discretionary	\$124.65b	30.62%	16.2x	39.8x	32.73%	32.61%	33.9x	49.1x	1.0x	China
• PDD	Pinduoduo Inc.	Consumer Discretionary	\$173.72b	-16.93%	-	-	-	-	-	-141.9x	17.4x	China
• NTES	NetEase, Inc.	Communication Services	\$72.87b	14.78%	38.5x	25.8x	28.43%	14.86%	23.2x	28.6x	5.7x	China
+ Add Ticker + New Group												
MEDIAN			124.65B	17.18%	21.7X	22.6X	29.58%	25.60%	24.1X	29.9X	5.7X	
AVERAGE			259.05B	14.90%	24.9X	24.9X	30.14%	23.85%	23.0X	4.6X	6.6X	
US												
• FB	Facebook, Inc.	Communication Services	\$886.61b	25.42%	30.8x	27.9x	36.82%	39.32%	20.2x	23.1x	9.7x	United States
• AAPL	Apple Inc.	Information Technology	\$2,287.68b	82.09%	36.5x	30.6x	4.59%	0.86%	25.5x	27.0x	7.4x	United States
• NFLX	Netflix, Inc.	Communication Services	\$246.43b	29.62%	91.1x	55.7x	29.82%	71.86%	53.1x	51.4x	10.2x	United States
• AMZN	Amazon.com, Inc.	Consumer Discretionary	\$1,713.02b	27.44%	81.5x	71.7x	29.26%	59.29%	31.9x	68.4x	4.5x	United States
• GOOGL	Alphabet Inc.	Communication Services	\$1,546.34b	19.00%	38.6x	32.8x	19.47%	16.32%	24.5x	34.9x	7.8x	United States
+ Add Ticker + New Group												
MEDIAN			1,546.34B	27.44%	38.6X	32.8X	29.26%	39.32%	25.5X	34.9X	7.8X	
AVERAGE			1,338.02B	36.71%	55.7X	43.7X	23.99%	37.53%	31.0X	40.9X	7.9X	
Media & entertainment												
• IQ	IQIYI, Inc.	Communication Services	\$13.62b	-73.15%	-	-	41.06%	15.97%	12.4x	-18.9x	3.2x	China
• 1060	Alibaba Pictures Group Limited	Communication Services	\$3.49b	-6.60%	-	-	-	-	-	-72.3x	8.8x	Hong Kong
+ Add Ticker + New Group												
MEDIAN			8.55B	-39.87%			41.06%	15.97%	12.4X	-45.6X	6.0X	
AVERAGE			8.55B	-39.87%			41.06%	15.97%	12.4X	-45.6X	6.0X	
MEDIAN			124.65B	17.18%	30.1X	27.7X	29.58%	25.60%	24.1X	29.9X	6.0X	
AVERAGE			534.54B	3.91%	40.3X	34.3X	31.73%	25.78%	22.2X	0.0X	6.8X	



Football field valuation

Target Company **Alibaba Group Holding Limited**
Date of Valuation **2021/4/9**
Stock Price **223.00**

Comps Profile

Description

(1).	JD.com, Inc.	JD.com, Inc., through its subsidiaries, operates as an e-commerce company and retail infrastructure service provider in the People's Republic of China. It operates
(2).	Tencent Holdings Limited	Tencent Holdings Limited, an investment holding company, provides value-added services (VAS) and Internet advertising services in Mainland China, the United
(3).	Baidu, Inc.	Baidu, Inc. provides internet search services primarily in China. Its Baidu Core segment offers products for users, including Baidu App to access search, feed, and
(4).	NetEase, Inc.	NetEase Building, No. 599 Wangshang Road, Binjiang District, Hangzhou, Zhejiang Province, 310052, China
(5).	Vipshop Holdings Limited	Vipshop Holdings Limited operates as an online discount retailer for various brands in the People's Republic of China. It operates through four segments,
(6).		
(7).		
(8).	Alibaba Group Holding Limited	Alibaba Group Holding Limited, through its subsidiaries, provides online and mobile commerce businesses in the People's Republic of China and internationally.

Company	Ticker	Fiscal Year End	Current Share	52-Wk. High	% of 52-Wk. High	# Diluted Shares	Equity Value	Enterprise Value	Revenue		EBITDA		EBIT		EPS	
									Most Recent FY	Forward FY	Most Recent FY	Forward FY	Most Recent FY	Forward FY	Most Recent FY	Forward FY
1	JD.com, Inc		\$83.51	\$108.24	77.15%	1,551.70	\$129,582	\$117,175	114,045.7	142,518.0	1,833.0	3,980.8	1,635.3	2,242.4	4.84	1.99
2	Tencent Holdings Limited		\$84.10	\$99.40	84.61%	9,523.70	\$800,943	\$817,523	73,715.7	90,503.2	26,309.0	33,776.5	19,159.0	27,013.5	2.53	2.46
3	Baidu, Inc.		\$226.55	\$354.82	63.85%	353.60	\$80,108	\$69,252	16,373.4	19,314.9	5,089.8	4,942.8	2,369.4	3,030.0	9.93	10.34
4	NetEase, Inc.		\$107.27	\$134.33	79.86%	691.00	\$74,124	\$64,584	11,264.9	13,613.65	2,751.9	3,024.6	2,223.2	2,581.7	2.75	4.13
5	Vipshop Holdings Limited		\$31.50	\$46.00	68.48%	678.70	\$21,379	\$18,968	15,575.9	19,053.3	1,025.5	1,445.6	896.1	1,204.1	1.31	1.75
8	Alibaba Group Holding Limited		\$223.00	\$319.20	69.86%	2,711.10	\$604,575	\$572,024	98,510.3	135,552.7	23,429.3	37,724.0	16,381.4	18,501.2	8.86	11.21

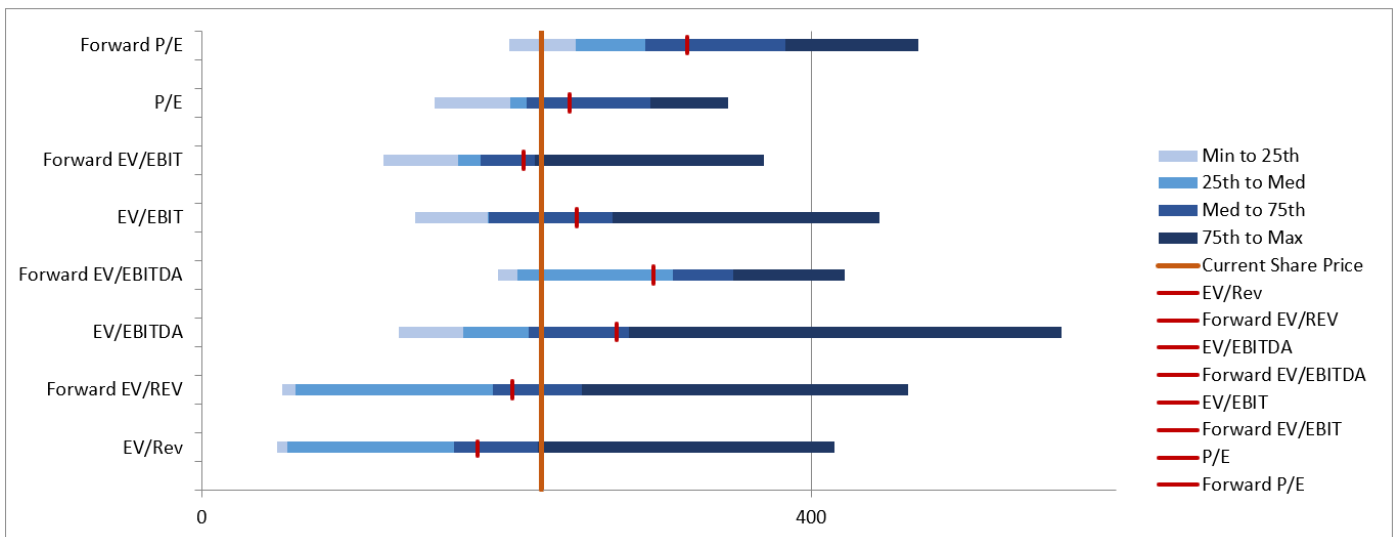
Company	Ticker	Fiscal Year End	Current Share Price	52-Wk. High	% of 52-Wk. High	# Diluted Shares	Equity Value	Enterprise Value	EV/Revenue		EV/EBITDA		EV/EBIT		P/E	
									Most Recent FY	Forward FY	Most Recent FY	Forward FY	Most Recent FY	Forward FY	Most Recent FY	Forward FY
1	JD.com, Inc		\$83.51	\$108.24	77.15%	1,551.70	\$129,582	1.0x	0.8x	63.9x	29.4x	71.7x	52.3x	17.3x	42.0x	
2	Tencent Holdings Limited		\$84.10	\$99.40	84.61%	9,523.70	\$800,943	11.1x	9.0x	31.1x	24.2x	42.7x	30.3x	33.2x	34.2x	
3	Baidu, Inc.		\$226.55	\$354.82	63.85%	353.60	\$80,108	4.2x	3.6x	13.6x	14.0x	29.2x	22.9x	22.8x	21.9x	
4	NetEase, Inc.		\$107.27	\$134.33	79.86%	691.00	\$74,124	5.7x	4.7x	23.5x	21.4x	29.0x	25.0x	39.0x	26.0x	
5	Vipshop Holdings Limited		\$31.50	\$46.00	68.48%	678.70	\$21,379	1.2x	1.0x	18.5x	13.1x	21.2x	15.8x	24.0x	18.0x	
0	0		\$0.00	\$0.00	0.00%	0.00	\$0	0	NA	NA	NA	NA	NA	NA	NA	
0	0		\$0.00	\$0.00	0.00%	0.00	\$0	0	NA	NA	NA	NA	NA	NA	NA	



Mean	4.7x	3.8x	30.1x	20.4x	38.8x	29.2x	27.3x	28.4x
Median	4.2x	3.6x	23.5x	21.4x	29.2x	25.0x	24.0x	26.0x
Min	1.0x	0.8x	13.6x	13.1x	21.2x	15.8x	17.3x	18.0x
25th percentile	1.2x	1.0x	18.5x	14.0x	29.0x	22.9x	22.8x	21.9x
75th percentile	5.7x	4.7x	31.1x	24.2x	42.7x	30.3x	33.2x	34.2x
Max	11.1x	9.0x	63.9x	29.4x	71.7x	52.3x	39.0x	42.0x

Implied Value Per Share								
	EV/Rev	Forward EV/REV	EV/EBITDA	Forward EV/EBITDA	EV/EBIT	Forward EV/EBIT	P/E	Forward P/E
Mean	\$181.32	\$203.81	\$272.25	\$296.21	\$246.17	\$211.47	\$241.64	\$318.44
Median	\$165.69	\$191.27	\$214.82	\$309.13	\$188.61	\$182.73	\$213.05	\$291.16
Min	\$49.34	\$53.11	\$129.59	\$194.59	\$139.91	\$119.51	\$152.87	\$201.78
25th percentile	\$56.26	\$61.78	\$171.86	\$206.96	\$187.54	\$167.98	\$202.14	\$245.61
75th percentile	\$220.33	\$249.20	\$280.55	\$348.80	\$269.84	\$218.53	\$294.52	\$383.24
Max	\$414.98	\$463.65	\$564.45	\$421.59	\$444.96	\$368.61	\$345.60	\$470.43

Valuation range								
Min	\$49.34	\$53.11	\$129.59	\$194.59	\$139.91	\$119.51	\$152.87	\$201.78
Min to 25th	\$6.92	\$8.67	\$42.27	\$12.36	\$47.63	\$48.47	\$49.27	\$43.83
25th to Med	\$109.43	\$129.49	\$42.97	\$102.17	\$1.07	\$14.75	\$10.91	\$45.55
Med to 75th	\$54.64	\$57.93	\$65.72	\$39.67	\$81.23	\$35.81	\$81.47	\$92.07
75th to Max	\$194.65	\$214.45	\$283.90	\$72.79	\$175.12	\$150.08	\$51.09	\$87.19





DCF for fun

Date of valuation	Apr-21		Important: Before you run this spreadsheet, go into preferences in Excel and check under Calculation options. There should be a check against the iteration box. If there is not, you will get circular reasoning errors.	
Company name	Alibaba Group Holding Limited		Numbers from your base year below (in consistent units)	
	This year	Last year	Last 10Y	Years since last 10Y
Country of Incorporation	United States			
Industry (US)	Retail (Online)			
Industry (Global)	Retail (Online)			
Revenues	\$ 77,581.58	\$ 57,368.30		1
Operating Income or EBIT	\$ 14,407.91	\$ 9,376.86		1
Interest expense	\$ (788.43)	\$ (789.95)		
Book value of equity	\$ 132,503.50	\$ 92,630.69		
Book value of debt	\$ 18,306.85	\$ 4,911.07		
Do you have R&D expenses to capitalize?	Yes	If you want to capitalize R&D, you have to input the numbers into the R&D worksheet.		
Do you have operating lease commitments?	No	If you have operating leases, please enter your lease commitments in the lease worksheet below and I will convert to debt.		
Cash and Marketable Securities	\$ -	\$ -		
Cross holdings and other non-operating assets	\$ -	\$ -		
Minority interests	\$ 1,382.50	\$ -		
Number of shares outstanding =	2668.30			
Current stock price =	\$ 225.30			
Effective tax rate =	12.80%			
Marginal tax rate =	21.00%			
The value drivers below: (Your assumption)				
Revenue growth rate for next year	30.00%			
Operating Margin for next year	25.00%			
Compounded annual revenue growth rate - years 2-5 =	25.00%	Growth Lever		
Target pre-tax operating margin (EBIT as % of sales in year 10) =	20.00%	Profitability Lever		
Year of convergence	3.00	Speed of convergence level		
Sales to capital ratio (for computing reinvestment) =	20.00	Efficiency of Growth Lever		
Market numbers				
Riskfree rate	1.72%			
Initial cost of capital =	8.82%			
Other inputs				
Do you have employee options outstanding?	No			
Number of options outstanding =				
Average strike price =				
Average maturity =				
Standard deviation on stock price =				
Default assumptions.				
In stable growth, I will assume that your firm will have a cost of capital similar to that of typical mature companies (riskfree rate + 4.5%)	No	Mature companies generally see their risk levels approach the average. Though some sectors, even in stable growth, may have higher risk.		
Do you want to override this assumption =	No	Mature companies find it difficult to generate returns that exceed the cost of capital. But there are significant exceptions among companies with long-lasting competitive advantages.		
I will assume that your firm will earn a return on capital equal to its cost of capital after year 10. I am assuming that whatever competitive advantages you have today will fade over time.	No	Many young, growth companies fail, especially if they have trouble raising cash. Many distressed companies fail, because they have trouble making debt payments. Tough to estimate but a key input.		
Do you want to override this assumption =	No	This can be zero, if the assets will be worth nothing if the firm fails.		
I will assume that your firm has no chance of failure over the foreseeable future.	V	Check the financial statements. An NOL will shield your income from taxes, even after you start making money.		
Do you want to override this assumption =	No	If yes, you will be asked to enter a normal risk free rate and your growth in perpetuity will be adjusted accordingly. Enter your estimate of what the riskfree rate (in your currency of choice) will be after year 10.		
What do you want to be your proceeds in failure to?	V	This is an option to let you use a negative growth rate in perpetuity or to even liquidate the firm. This can be negative, if you feel the company will decline (and disappear) after growth is done. If you feel it exceed the risk free rate, you are on your own in uncharted territory.		
Enter the distress proceeds as percentage of book or fair value.		Cash that is trapped in foreign markets (and subject to additional tax) or cash that is being discounted by the market (because of management mistrust). Additional tax due on trapped cash or discount being applied to cash balance because of mistrust.		
I will assume that your effective tax rate will adjust to your marginal tax rate by your terminal year. If you override this assumption, I will leave the tax rate at your effective tax rate.	No			
Do you want to override this assumption =	No			
I will assume that you have no losses carried forward from prior years (NOL) coming into the valuation. If you have a money losing company, you may want to override this.	No			
Do you want to override this assumption =	No			
I will assume that today's risk free rate will prevail in perpetuity. If you override this assumption, I will change the riskfree rate after year 10.	No			
Do you want to override this assumption =	No			
I will assume that the growth rate in perpetuity will be equal to the risk free rate. This allows for both valuation consistency and prevents "impossible" growth rates.	No			
Do you want to override this assumption =	No			
I have assumed that none of the cash is trapped (in foreign countries) and that there is no additional tax liability coming due and that cash is a neutral asset.	No			
Do you want to override this assumption	No			
If yes, enter trapped cash (if taxes) or entire balance (if mistrust)				
& Average tax rate of the foreign markets where the cash is trapped				

Computed numbers: Here is what your company's numbers look like, relative to industry.
If you are not working in US dollars, you should add the inflation differential to the industry averages.

	Company	Industry (US data)	Industry (Global data)
Revenue growth in the most recent year =	35.26%	18.27%	14.43%
Pre-tax operating margin in the most recent year =	17.46%	6.71%	5.06%
Sales to capital ratio in most recent year =	0.47	1.05	1.59
Return on invested capital in most recent year =	7.19%	9.99%	6.69%
Standard deviation in stock prices =	55.97%	51.87%	51.87%
Cost of capital =	7.68%	9.15%	9.15%

Valuation Output Feedback (for you to use to fine tune your inputs, if you want)

Revenues in year 10, based on your revenue growth =	\$ 418,847
Pre-tax Operating Income in year 10, based on your operating margin =	\$ 83,789
Return on invested capital in year 10, based on your sales/capital ratio =	35.89%

Check the Diagnostics worksheet for more details.

Estimation of Current Cost of Capital

Inputs			
Equity			
Number of Shares outstanding =	2668.30		
Current Market Price per share =	\$ 225.30		
Approach for estimating beta	Multibusiness (US)		
If direct input, enter levered beta (or regression b)	0.82		
Unlevered beta =	0.82		
Riskfree Rate =	1.72%		
What approach do you want to use to input ERP?	Operating regions		
Direct input for ERP (if you choose "will input")	6.00%		
Equity Risk Premium used in cost of equity =	8.69%		
Debt			
Book Value of Straight Debt =	\$ 18,306.85		
Interest Expense on Debt =	\$ (788.43)		
Average Maturity =	3		
Approach for estimating pre-tax cost of debt	Actual rating		
If direct input, input the pre-tax cost of debt	4.000%		
If actual rating, input the rating	A1/A+		
If synthetic rating, input the type of company	1		
Pre-tax Cost of Debt =	2.70%		
Tax Rate =	21%		
Book Value of Convertible Debt =	0		
Interest Expense on Convertible =	0		
Maturity of Convertible Bond =	0		
Market Value of Convertible =	0		
Debt value of operating leases =	\$ -		
Preferred Stock			
Number of Preferred Shares =	0		
Current Market Price per Share =	70		
Annual Dividend per Share =	5		
Output			
Estimating Market Value of Straight Debt =	\$ 14,659.76		
Estimated Value of Straight Debt in Convertible =	\$ -		
Value of Debt in Operating leases =	\$ -		
Estimated Value of Equity in Convertible =	\$ -		
Levered Beta for equity =	0.84		
		Equity	Debt
Market Value	\$ 601,167.99	\$ 14,659.76	\$ -
Weight in Cost of Capital	97.62%	2.38%	0.00%
Cost of Component	8.98%	2.13%	7.14%
			Capital
			\$ 615,827.75
			100.00%
			8.82%

Operating Countries ERP calculator

Country	Revenues	ERP	Weight	Weighted ERP
United States of America	71985	6.80%	100.00%	6.80%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		7.39%	0.00%	0.00%
		0.00%	0.00%	0.00%
Total	71985		100.00%	6.80%

Operating Regions ERP calculator

Region	Revenues	ERP	Weight	Weighted ERP
		16.18%	0.00%	0.0000%
		8.83%	0.00%	0.0000%
		6.81%	0.00%	0.0000%
		17.64%	0.00%	0.0000%
		13.36%	0.00%	0.0000%
		11.08%	0.00%	0.0000%
		9.95%	0.00%	0.0000%
		6.80%	0.00%	0.0000%
		8.42%	0.00%	0.0000%
China	67195	8.83%	93.35%	8.2394%
International	4790	6.80%	6.65%	0.4525%
Total	71985		100.00%	8.6919%

Multi Business (US Industry Averages)

Business	Revenues	EV/Sales	Estimated Value	Unlevered Beta
Retail (Online)	\$ 61,590.00	3.4182	\$ 210,529.13	1.1594
Entertainment	\$ 3,806.00	4.7188	\$ 17,959.75	1.2017
Computer Services	\$ 5,651.00	1.2818	\$ 7,243.69	0.9529
Telecom. Equipment	\$ 938.00	3.5023	\$ 3,285.12	0.8360
		0.0000	\$ -	0.0000
		0.0000	\$ -	0.0000
		0.0000	\$ -	0.0000
		0.0000	\$ -	0.0000
		0.0000	\$ -	0.0000
		0.0000	\$ -	0.0000
		0.0000	\$ -	0.0000
Company	\$ 71,985.00		\$ 239,017.68	1.1519

Multi Business (Global Industry Averages)



	Base year	1	2	3	4	5	6	7	8	9	10	Terminal year		
Revenue growth rate		30.00%	25.00%	25.00%	25.00%	25.00%	20.34%	15.69%	11.03%	6.38%	1.72%	1.72%	Check these revenues against a. Overall market size b. Largest companies in this market	
Revenues	\$ 77,581.58	\$ 100,856.06	\$ 126,070.07	\$ 157,587.59	\$ 196,984.49	\$ 246,230.61	\$ 296,323.77	\$ 342,811.04	\$ 380,629.95	\$ 404,898.92	\$ 411,863.18	\$ 418,897.22		
EBIT (Operating margin)	17.46%	25.00%	21.67%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%		
EBIT (Operating income)	\$ 13,544.21	\$ 25,214.01	\$ 27,315.18	\$ 31,517.52	\$ 39,396.90	\$ 49,246.12	\$ 59,264.75	\$ 68,562.21	\$ 76,125.99	\$ 80,979.78	\$ 82,372.64	\$ 83,889.44	\$ 70,248.24	This is how much your operating income grew over the ten-year period.
Tax rate	12.80%	12.80%	12.80%	12.80%	12.80%	12.80%	14.44%	16.08%	17.72%	19.36%	21.00%	21.00%		
EBIT(1-t)	\$ 11,810.55	\$ 21,986.62	\$ 23,818.84	\$ 27,483.28	\$ 34,354.09	\$ 42,942.62	\$ 50,706.92	\$ 57,537.40	\$ 62,636.46	\$ 65,302.10	\$ 65,074.38	\$ 66,193.66		
- Reinvestment	\$ -	\$ 1,163.72	\$ 1,260.70	\$ 1,575.88	\$ 1,969.84	\$ 2,462.31	\$ 2,504.66	\$ 2,324.36	\$ 1,890.95	\$ 1,213.45	\$ 348.21	\$ 15,901.27	\$ 32,618.38	This is how much capital you invested over the ten year period.
FCFF	\$ -	\$ 20,822.90	\$ 22,558.14	\$ 25,907.40	\$ 32,384.25	\$ 40,480.31	\$ 48,202.26	\$ 55,213.04	\$ 60,745.52	\$ 64,088.65	\$ 64,726.17	\$ 50,292.39		
NOL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Cost of capital		8.82%	8.82%	8.82%	8.82%	8.82%	8.49%	8.16%	7.82%	7.49%	7.16%	7.16%		
Cumulated discount factor PV(FCFF)		0.9189	0.8444	0.7760	0.7131	0.6553	0.6040	0.5585	0.5179	0.4818	0.4496			
		\$ 19,134.92	\$ 19,049.08	\$ 20,103.89	\$ 23,092.75	\$ 26,525.95	\$ 29,114.42	\$ 30,833.89	\$ 31,461.76	\$ 30,879.67	\$ 29,103.06			
Terminal cash flow	\$ 50,292.39													
Terminal cost of capital	7.16%													
Terminal value	\$ 924,492.48													
PV(Terminal value)	\$ 415,682.91													
PV (CF over next 10 yrs)	\$ 259,299.40													
Sum of PV	\$ 674,982.30													
Probability of failure =	0.00%													
Proceeds if firm fails =	\$ 0.00													
Value of operating assets	\$ 674,982.30													
- Debt	\$ 18,306.85													
- Minority interests	\$ 1,382.50													
+ Cash	\$ -													
+ Non-operating assets	\$ -													
Value of equity	\$ 655,292.96													
- Value of options	\$ 0.00													
Value of equity in common	\$ 655,292.96													
Number of shares	2,668.30													
Estimated value /share	\$ 245.58													
Price	\$ 225.30													
Price as % of value	91.74%													
Implied variables													After year 10	
Sales to capital ratio		20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00		
Invested capital	\$ 164,598	\$ 165,762	\$ 167,023	\$ 168,599	\$ 170,569	\$ 173,031	\$ 175,536	\$ 177,860	\$ 179,751	\$ 180,964	\$ 181,312			
ROIC	7.18%	13.26%	14.26%	16.30%	20.14%	24.82%	28.89%	32.35%	34.85%	36.09%	35.89%	7.16%		
													Compare this return on capital in year 10 against a. the industry average(column E of worksheet) b. the return on capital after year 10 If it is too high (low), you may want to lower (raise) your sales to capital ratio	

Important news

THE WALL STREET JOURNAL.

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除了对金融系统风险的担忧和对马云批评言论的愤怒外，蚂蚁IPO被叫停还有一个重要原因：中央政府的一项调查发现，在持有蚂蚁集团股权的层层不透明投资工具的背后，是一个由人脉广泛的中国权贵组成的小圈子，其中一些人与那些对习近平构成潜在挑战的政治家族有关联。