Alibaba Group Holding Limited

EQUITY RESEARCH REPORT

MARCH, 2025

FINANCIAL REPORT

Alibaba Group
阿里巴巴集团

Key Highlights

- DCF Valuation (FCFF & Excess Return)
- Scenario Forecasting & Sensitivity Analysis
- Monte Carlo Simulations & Value at Risk (VaR)
- Business Resilience & Industry Analysis
- DuPont, Altman Z-Score & Ratio Screening
- Relative Valuation (CCA) & Key Value Drivers
- Economic, Strategic & Competitive Outlook

research@varhedge.com www.varhedgeresearch.com +1 (823) 422-7596

Disclaimer: This report is for informational purposes only and does not constitute investment advice. VARHEDGE RESEARCH and its affiliates do not assume any responsibility for investment decisions made based on this report. The information herein is believed to be accurate as of the publication date but is not guaranteed. Past performance is not indicative of future results. All opinions and estimates are subject to change without notice.

Table of CONTENTS

Alibaba Group
阿里巴巴集团

Alibaba Group Holding Limited | ¥889.1

NYSE: BABA | HKSE: 9988.HK

https://www.alibabagroup.com

Company Overview

Alibaba Group Holding Limited, through its subsidiaries, provides technology infrastructure and marketing reach to help merchants, brands, retailers, and other businesses to engage with their users and customers in the People's Republic of China and internationally. It operates digital retail platforms under the Taobao and Tmall names; wholesale marketplaces through 1688.com and Alibaba.com.

Market Cap	**¥2,293,884 mn**	*As of*	**August 26, 2025**
Sector	**Consumer Cyclical**		
Industry	**Internet Retail**		
Founded	**1999**		

Valuation Output Ranges

		52W Range	
Current Price	**¥889.1**	**¥566.35**	**¥1061.27**
Free Cash Flow to Firm	**¥522.1 - ¥1224.9**		
Excess Return Model	**¥628.3 - ¥1732.8**		
Relative Valuation	**¥621 - ¥2151.3**		

P/L Highlights

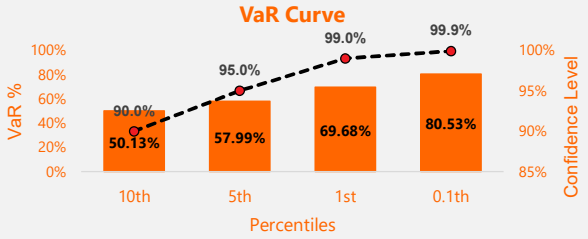
Sales^{ttm}	**¥996,347 mn**	**YoY Growth**	**5.9%**
EBITDA^{ttm}	**¥207,510 mn**	**Core Margin**	**14.8%**
Profit^{ttm}	**¥129,470 mn**	**Net Margin**	**13.0%**

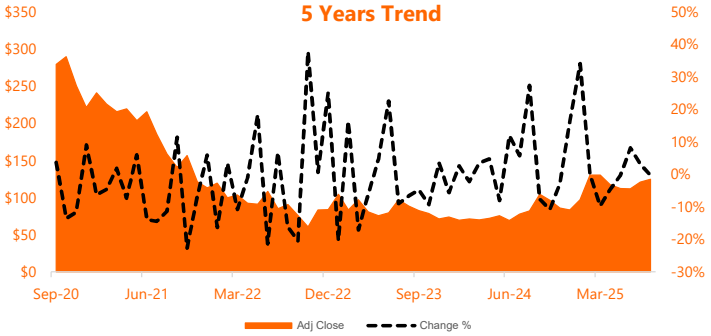
Balance Sheet Overview

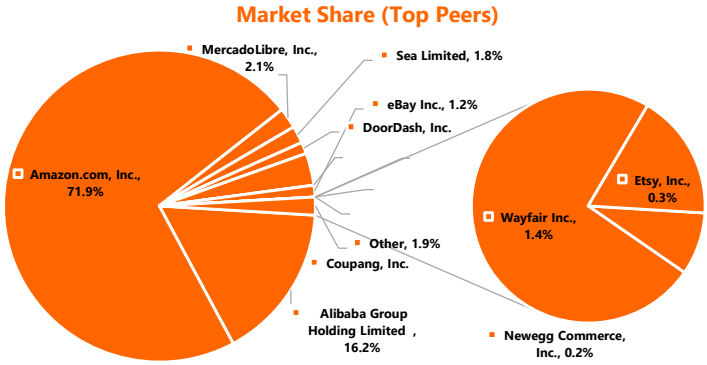
values in ¥ mn	**Mar-25**
Cash, Cash Equivalents & Short Term Investment	428,093
Total Debt	248,347
Invested Capital	910,123
Total Shareholders' Equity	**1,090,106**
Debt-to-Equity	22.8%
Equity Ratio	60.4%
Debtor Turnover Ratio	7.7x
Creditor Turnover Ratio	2.8x

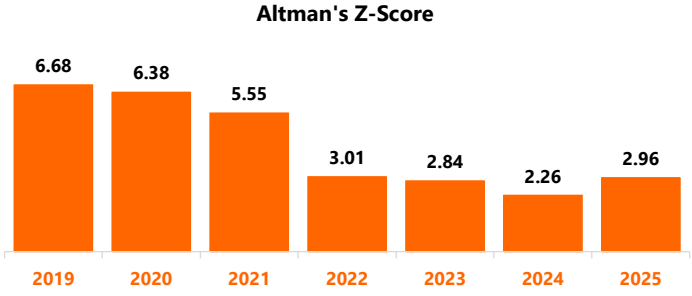
Cash Flow Overview

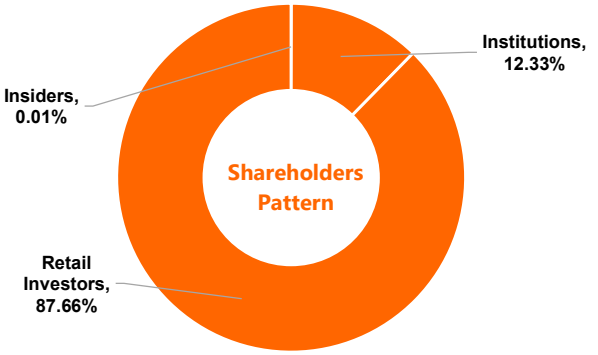
values in ¥ mn	**Mar-25**
Cash from Operating Activity	163,509
Cash from Investing Activity	(185,415)
Cash from Financing Activity	(76,215)
Net Cash Flow	**(98,121)**
CFO/Sales	16.4%
CFO/Total Assets	9.1%
CFO/Total Debt	65.8%

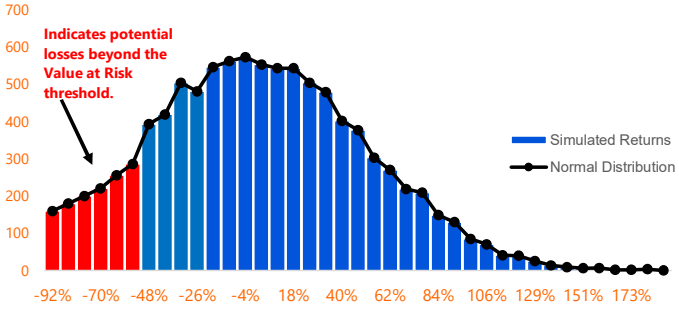












www.varhedgeresearch.com

Economic, Industry & Strategic Outlook

Executive Summary

Alibaba Group is China's largest e-commerce and cloud services conglomerate, with a diverse portfolio including online retail (Taobao, Tmall), cloud computing (Alibaba Cloud), digital media, logistics (Cainiao), and local consumer services (Ele.me, Amap). Its strategy emphasizes a "user-first, AI-driven". The core growth drivers are digital commerce in China and abroad, plus a rapidly expanding cloud/AI business. Recent quarters saw strong cloud adoption and triple-digit growth in AI-related products. Alibaba has open-sourced advanced large language models (Qwen3 series) to spur ecosystem development. Future growth will hinge on improving consumer engagement via AI personalization, expanding the cloud platform globally, and leveraging its logistics network to enable faster delivery. At the same time, industry trends (e.g. booming global e-commerce, AI adoption) support Alibaba's businesses, though risks include slowing Chinese consumption, intensifying competition from rivals like JD.com, Pinduoduo and Sea (Shopee), and regulatory pressures (antitrust, data laws, trade tensions). Alibaba also commits to ambitious ESG goals (e.g. carbon neutrality by) and social initiatives (rural revitalization, accessible navigation for the). In summary, Alibaba's outlook is underpinned by digital commerce scale and AI/cloud innovation, but is tempered by macroeconomic and geopolitical uncertainties.

Business Model & Revenue Segmentation

Alibaba operates as a platform ecosystem. Its consumer commerce arm includes Taobao (C2C marketplace) and Tmall (branded B2C), generating fees from merchants (commissions, ads) and membership services. It also owns local services (Ele.me food delivery, Amap mapping) and new retail ventures (Sun Art hypermarkets, Freshippo grocery) that integrate online and offline sales. Global commerce is handled by Alibaba International Digital Commerce (AIDC), which includes cross-border retail (AliExpress serving Europe, Lazada in Southeast Asia) and wholesale (Alibaba.com). Revenues in commerce are predominantly transaction-based (merchant commissions, online marketing fees) and increasingly from direct retail sales (Sun Art, Freshippo).

The Cloud Intelligence Group provides infrastructure (IaaS), platform and data services to enterprises. Revenue comes from usage-based cloud computing services, specialized AI/cloud solutions, and enterprise SaaS (e.g. the DingTalk business app). Cainiao Smart Logistics is Alibaba's network partner, earning fees by coordinating warehousing and delivery (though much of Alibaba's commerce uses Cainiao). Digital media & entertainment (Youku video, Alibaba Pictures, mobile games) mainly sell advertising and content licenses. Other units (travel portal Fliggy, fintech ecosystem via affiliate Ant Group, logistics partnerships) bring smaller revenues.

Geographically, China is by far Alibaba's largest market. In Q4 FY2025 (ending Mar 2025), Taobao/Tmall domestic commerce revenue was RMB 93.0 billion, roughly 3.6× the RMB 25.7 billion from international commerce in that. In full FY2025, domestic retail business drove ~80%+ of revenue (e.g. total China commerce vs. international). Thus, a majority of sales stem from Chinese consumers and companies. Client concentration is moderate: on the consumer side Alibaba's "clients" are millions of merchants, retailers and advertisers rather than a few large accounts. On the cloud side, Alibaba's customers range from Chinese and global enterprises (e.g. banks, manufacturers, tech startups) to government agencies; no single client dominates, though large contracts (e.g. major banks) can involve multi-year cloud deals. (By comparison, Western cloud rivals often name top-10 enterprise clients, but Alibaba generally cites millions of users.)
Revenue segmentation (FY2024): Alibaba reports seven main. For context, analysts estimate about half of Alibaba's group GMV is from Taobao/Tmall, with roughly 10–15% each from international retail (Lazada/AliExpress), logistics, and. Smaller shares come from local services (Ele.me/Amap) and digital media. Direct retail sales (Sun Art, Freshippo, Alibaba Health, Intime) appear in "All Others". Overall, e-commerce commerce (consumer + international) accounts for the bulk of revenue, with cloud and advertising as leading growth drivers.

Key revenue sources include:

- **Merchant services (Taobao/Tmall):** advertising and commission fees from >10 million active merchants.
- **Direct retail (New Retail):** sales of groceries and goods via Alibaba's owned brands (Sun Art, Freshippo).
- **Cloud & AI services:** pay-as-you-go compute/storage and AI platform services to enterprises (China and increasingly abroad).
- **Logistics coordination:** Cainiao fees from volume-based logistics deals.
- **Others**: digital media ads (Youku), travel bookings (Fliggy commissions), DingTalk subscriptions, etc.
- **By customer type:** Most revenues come from third-party merchants and advertisers on Alibaba's platforms, and from corporate/government customers on the cloud. There is limited revenue concentration risk in consumers – Alibaba's model crowds a vast base of small merchants – but some reliance on large retailers for sales is normal in branded retail (e.g. leading supermarket and brand partners on Tmall). For cloud, contracts with large clients can contribute significant recurring revenue, but the market is competitive and fragmented.

Industry Overview & Value Chain

Alibaba competes and operates across several major industries:

- **Global E-commerce**: Retail e-commerce worldwide was about $6.9 trillion in 2025, and rising ~8%. Internet commerce penetration is now ~21% of total retail. China is the largest e-commerce market by far – projected to exceed $2 trillion by late-– driven by billions of online shoppers (2.77 billion globally as of, ~900 million in China). The industry value chain involves manufacturers → online marketplaces → logistics/fulfillment → consumers. Major value chain nodes include payment services (Alipay), shipping networks, and data analytics. Alibaba's position: it owns two of the world's largest marketplaces (Taobao #1 and Tmall #2 by), dominating China's e-tail. Its Lazada and AliExpress platforms extend Alibaba's presence into Southeast Asia and Europe, respectively. Alibaba's platforms connect manufacturers, brands, SMEs and consumers; Alibaba also bridges offline stores via New Retail. Its ecosystem spans the chain from suppliers (through wholesale business) to consumer doorstep (via Cainiao). In this chain, Alibaba controls the transaction and data layer (platform algorithms, payments via Alipay) and influences logistics via Cainiao's.

- **Cloud Computing**: The cloud market is highly concentrated globally. In IaaS/PaaS, **AWS (~32%) and Microsoft Azure (~23%) lead, followed by Google (~10%), and Alibaba Cloud (~7–8%). Alibaba Cloud is #3 globally and #1 in Asia-. In China specifically, cloud infrastructure spending (Q1 2025) is ~$11.6B; Alibaba Cloud held a commanding 33% share (Huawei 18%, Tencent 10%). Cloud computing value chain: hardware providers (e.g. Intel, NVIDIA), datacenter operators (Alibaba Cloud), platform providers (PaaS, SaaS vendors) and end enterprises. Alibaba's advantage is scale and integration: it operates massive datacenters in China and abroad, provides IaaS/PaaS for AI, and bundles with other Alibaba services. It competes with AWS/Alibaba Tencent globally and with Huawei/Tencent domestically.

- **Logistics & Delivery**: E-commerce growth drives express delivery volumes (China handles >100 billion parcels per). The logistics chain includes warehousing, freight transport, and last-mile delivery. Alibaba's Cainiao Network is not a single carrier but an alliance platform that optimizes delivery. It has global aspirations – creating overseas e-commerce "e-hubs" and deploying robotics. Cainiao's role is as an infrastructure layer: it enables faster, cheaper delivery by integrating partners' fleets. For example, Alibaba partners with Maersk to co-develop ocean and intermodal logistics. Alibaba's investments in autonomous vehicles (L4 delivery robots) and warehousing technologies aim to accelerate the logistics. Competitors: In China, major couriers include SF Express, Yunda, ZTO; Alibaba relies on partnerships with them via Cainiao. In SEA, Lazada uses DHL, Ninja Van, etc.

- **Digital Services (Media, Entertainment, Fintech):** Alibaba's segment includes Youku (video streaming), Alibaba Pictures, gaming, cloud office (DingTalk), and travel (Fliggy). Digital content is monetized via advertising, subscriptions, and licensing. Alibaba once held fintech (Ant Group) but spun it off under regulatory pressure. The value chain here involves content creators, distribution platforms, advertisers and consumers. Alibaba's media services compete with Tencent Video, iQIYI, and ByteDance (TikTok/Douyin), though this segment has been a smaller contributor to revenue. Alibaba's advantage is distribution via its ecosystem and capital for content investment.
- In each value chain, Alibaba leverages synergies (e.g. using Alibaba Cloud AI to power e-commerce search, using logistics data to improve supply chains). Its open platform strategy ("open ecosystem") aims to make partners co-invest in value chain (Scope 3+ decarbonization as an).

Market Share & Competitive Positioning

- **China E-Commerce**: Alibaba dominates China's online retail. Taobao/Tmall combined account for roughly 45–50% of China's e-commerce. JD.com is the second-largest by sales (led by first-party sales and technology-driven). Pinduoduo (social group-buy model) is fastest-growing and has nearly caught up to JD (doubling revenue). Reuters notes Alibaba "in a battle" with JD.com and Pinduoduo for. PDD's growth has surged by social commerce, but Alibaba retains brand and scale advantages. In the global ranking of marketplaces by GMV, Alibaba's platforms occupy the top two. Domestically, Alibaba's key competitors:

    - JD.com: Focuses on quality and delivery (24-hour tech-driven supply chain), strong with electronics and first-party.
    - Pinduoduo: Targets price-sensitive consumers via group deals and C2M.
    - New Entrants: Douyin/TikTok and ByteDance are entering e-commerce/social commerce rapidly (TikTok-Shop in SEA). Alibaba leads on variety and depth of ecosystem, but competition from JD/PDD limits its growth rate.

- **International E-Commerce**: In Southeast Asia, Shopee (Sea Ltd) is the market leader (~52% of platform GMV in), dwarfing Lazada's share. Alibaba's Lazada has ceded ground but is profitable and focusing on higher-end goods with AI-logistics. Lazada and Alibaba's other global channels (AliExpress, Trendyol in Europe) still grow (~25% annual growth), but Alibaba trails Shopee and TikTok in SEA. Globally, Amazon remains the #1 e-retailer outside China; Alibaba has minimal presence in the US/EU retail market beyond wholesale (Alibaba.com). AliExpress competes with Amazon/Allegro/Rakuten in cross-border retail. Alibaba's strategy is that international commerce will be a future growth, but currently it holds only a single-digit share of SEA/Global e-tail markets versus Shopee's majority.

- **Cloud Infrastructure**: Globally, Alibaba Cloud is #3 behind AWS and (≈8% share). In China, Alibaba Cloud is clearly #1 with ~33% market, ahead of Huawei Cloud (~18%) and Tencent Cloud (~10%). (Tencent Cloud is strong in entertainment/tech sectors, Huawei in government/business). AWS/Azure have limited China direct operations due to regulation. Alibaba Cloud competes internationally with AWS/Azure/GCP and regionally with Tencent/Huawei. Its strengths are extensive APAC infrastructure and AI services; weaknesses include being barred or limited by some foreign governments (e.g. U.S. scrutiny) and lower mindshare outside Asia.

- **Digital Media/Services**: Alibaba's Youku trails Tencent Video and iQIYI in China. In gaming and entertainment, Alibaba invests (Ali Games, pictures), but it is not the top player (Tencent leads mobile games, ByteDance dominating short video). In these verticals, Alibaba is a smaller player leveraging its platform for cross-promotion.

Overall, Alibaba's competitive positioning is strong in China e-commerce and leading in Asian cloud. It leverages a broad ecosystem (payment with Alipay, logistics with Cainiao) to create barriers for pure-play competitors. However, its international share is modest and growing amid stiff incumbents (AWS/Sea/Tencent in their domains). Alibaba is focused on technology (AI, cloud) to differentiate, aiming to reaccelerate growth relative to.

Technological Trends & Strategic Initiatives

Alibaba is pushing multiple technology fronts as strategic initiatives:

- **AI and Machine Learning**: Alibaba has integrated AI throughout its platforms. At its April 2025 conference, Alibaba Cloud announced new AI offerings: the Qwen series of large language models (flagship Qwen3-235B) and associated PaaS enhancements. These Qwen models are fully open-source on ModelScope and Hugging. Independent tests show Qwen3 variations outperform competitors on coding and reasoning. Alibaba has also built an AI coding assistant (Lingma) and is adding AI to search and recommendation ("AI is becoming part of every part of our platform"). The company sees AI as a core growth engine: for example, it reports AI workloads on its cloud grew triple-digits for seven consecutive.

- **Cloud & Infrastructure:** Alibaba is rapidly enhancing its cloud infrastructure. In 2024–25 it has enabled distributed inference (PAI-Elastic Algorithm Service) boosting AI throughput (e.g. +92% concurrency on Qwen2.5). New cloud services (e.g. Smart Studio for branded image generation, AI Doc for document analytics) address enterprise. Alibaba Cloud is also partnering on hardware; for instance, it has developed its own AI inference chip (Hanguang 800) to accelerate deep learning workloads. It has strategic alliances (e.g. with NVIDIA to co-develop automotive AI platforms) to stay at cutting-edge.

- **Platform Digitization:** Alibaba is digitizing traditional industries. Its New Retail concept merges offline retail with online data: e.g. Freshippo (Hema) grocery stores use RFID and mobile apps for inventory and quick delivery. Ele.me and Amap are bringing AI to local services (Ele.me's Silent Rider program uses AI matching to employ hearing-impaired delivery). Alibaba encourages merchants on Tmall to use data analytics tools. Its Cainiao logistics cloud optimizes routing and is deploying IoT (autonomous vehicles and). These initiatives illustrate Alibaba helping digitize supply chains, brick-and-mortar retail and city services through its technology and investment.
- Open Ecosystem: Strategically, Alibaba has opened much of its tech. Beyond releasing AI models (Qwen), it shares data and tools via DAMO Academy (its R&D arm). For example, its e-commerce platforms allow third-party developers to build on them, and Cainiao offers logistics APIs to partners. Alibaba's open-source focus (Scope 3+ decarbonization, model open-sourcing) is meant to broaden adoption and innovation across its ecosystem.

In summary, Alibaba is investing heavily in cutting-edge tech to differentiate its core businesses and create new services. AI/LLMs and cloud infrastructure are explicit growth bets. Tactical examples include improved global logistics technology (Cainiao's AI-driven deliveries to Europe in 5), the adoption of 5G/cloud integration for streaming, and partnerships (e.g. with Maersk on). These moves aim to keep Alibaba at the forefront of e-commerce/cloud as the digital economy evolves.

Regulatory & Geo-Political Environment

Alibaba's businesses face a complex regulatory landscape and geopolitical tensions:

- **China Tech Regulation**: Since 2020, Chinese authorities have significantly tightened oversight of big tech. Alibaba was the poster child of this: in April 2021 it received a record 18.2 billion RMB antitrust fine (~$2.8B) for abusing market. The government also forced the restructuring of Ant Group and imposed new rules on platform exclusivity. Alibaba claims compliance, but Chinese regulation remains unpredictable. New laws (Data Security Law, PIPL) require data localization and stricter user privacy compliance, which raise costs and constrain cross-border services. Ongoing Chinese policies (e.g. "common prosperity" directives) may pressure Alibaba to invest in social welfare projects or cap certain monetization strategies.

- **China–US Trade & Tech Tensions:** Geopolitically, U.S.-China relations impact Alibaba. U.S. tariffs and sanctions on Chinese tech can complicate trade flows. For example, Chinese firms face export controls on advanced semiconductors and cloud technologies. CFO Eddie Wu explicitly cited "uncertainties in global trade regulations" as a headwind for Alibaba's international. Although some trade restrictions have eased, the risk of renewed tariffs or tech export bans remains (e.g. the U.S. continuing to restrict AI chips to China).

- **International Compliance:** As Alibaba expands globally, it must comply with foreign regulations (e.g. EU competition law, U.S. export rules). For instance, stricter controls on Chinese cloud services in some countries (national security reviews) pose challenges. The Hong Kong listing of Alibaba Cloud Intelligence (late 2023) was partly motivated by strategic alignment with regulators. Additionally, the global push on antitrust/competition (EU, U.S.) puts Alibaba under scrutiny in international markets.

- **Overall Risk & Mitigation:** The cumulative effect of regulation is a risk to Alibaba's growth: fines, forced business changes, or strained government relations can slow execution. Alibaba's mitigation has been multi-fold: it cooperated with Chinese regulators (paying fines, restructuring), diversified into cloud and international markets, and aligned with official goals (e.g. rural revitalization, ESG). Alibaba also shares that it closely monitors and engages with regulators worldwide to ensure compliance. Nonetheless, geo-political risk remains material: Alibaba's shares, like other Chinese tech stocks, have been volatile on regulatory. Future scenarios (e.g. a new antitrust probe, or heightened export curbs on AI chips) could force strategic pivots.

Client Mix & Geography-Based Risk

Alibaba's exposure by geography and customer segment shapes its risk profile:

- **China-Heavy Revenue**: Most of Alibaba's revenue originates in Greater China. The Taobao/Tmall consumer base (800M+) is primarily Chinese. Local services (food delivery, maps) and much of cloud revenue come from China. By contrast, international commerce is still a smaller part: e.g. in FY2025 Alibaba's international retail segment totaled RMB133. versus domestic commerce on the order of RMB900B+. In quarterly terms (Q1 FY2026), China commerce was ~RMB93B vs international ~. Thus, Alibaba is concentrated in China's economy. Risk: any slowdown in Chinese consumer spending or increased domestic competition directly hits the bulk of Alibaba's business. To diversify, Alibaba has expanded geographically: Lazada in SEA, new Alibaba.com B2B offices globally, data centers in Singapore/EU (cloud), etc. These efforts aim to reduce reliance on China, but internationally Alibaba's market share is still modest.

- **Customer Industries:** Alibaba's customer base is split between retailers/consumers and enterprises. On the retail side, its "clients" are the hundreds of thousands of merchants and brands on Taobao/Tmall (ranging from mom-and-pop vendors to big name retailers). On the enterprise side, customers include banks, manufacturers, e-commerce firms (for digital supply chain), and government agencies (for cloud services). If one vertical (e.g. manufacturing) suffers, Alibaba has exposure via its cloud and B2B. Likewise, if retail (consumer spending) falters, Alibaba's merchant revenues and new retail sales drop. The mix of customers is broad; Alibaba cites millions of worldwide customers in cloud and hundreds of millions of active consumer accounts, which dilutes single-customer risk.

- **Regional Strategies:** To hedge China risk, Alibaba pursues international growth. Its globalization strategy includes: improving cross-border e-commerce (faster shipping via, local warehousing in Europe/US), expanding AliExpress and Lazada, and localizing services (e.g. supporting local languages and merchants). It also invests in markets like India via joint ventures. For Chinese regulation risk, Alibaba structured Ant Group as a separate company, and spun out cloud in Hong Kong, to limit direct spillover.

- **Currencies & Macroeconomic Sensitivity:** Alibaba's costs (e.g. cloud infrastructure) and revenues are mainly in RMB, with some USD denominated international revenue. A falling yuan vs. dollar (e.g. due to US Fed hikes) could increase costs for imported tech hardware but might make Chinese exports more competitive (helping AliExpress). Conversely, US inflation or supply chain shocks could squeeze Alibaba's global sales. Macro factors (like China's inflation at near-0%) indirectly influence Alibaba through consumer demand.
- In sum, Alibaba is most exposed to the Chinese economy and regulatory regime, with international diversification still in early stages. However, by building capabilities in key regions (Southeast Asia, Europe) and across industries, Alibaba seeks to cushion geographic concentration risk. The balance of its client mix – heavy consumer/retail versus growing enterprise/cloud – means Alibaba must navigate both retail-cycle swings and enterprise IT cycles.

ESG Profile

Alibaba emphasizes sustainable and responsible business practices across Environmental, Social, and Governance dimensions:

- **Environmental**: In 2021 Alibaba pledged full carbon neutrality (Scopes 1 & 2) by 2030, and to halve its Scope 3 (value-chain) emissions intensity by. Alibaba Cloud aims to neutralize Scope 1–3 emissions also by 2030. Furthermore, Alibaba introduced a pioneering "Scope 3+" initiative to facilitate 1.5 gigatons of carbon reduction in its ecosystem by. Its carbon strategy focuses on energy efficiency, renewables, and digital solutions to lower emissions. Though progress metrics are not fully public, Alibaba reportedly has joined the Science-Based Targets initiative and set interim goals in line with Paris climate benchmarks. The company also invests in green logistics (e.g. electric delivery vehicles, intelligent routing) to shrink Cainiao's footprint.

- **Social:** Alibaba highlights social impact programs. For example, its 2025 ESG report notes rural revitalization efforts (10th year of its "Three Hours for a Better World" program) and inclusion initiatives: Amap's "Wheelchair Navigation" provided over 100 million accessible routes for the visually impaired, and Ele.me's "Silent Rider" program created jobs for over 4,200 hearing-impaired delivery. Alibaba has policies on employee rights and diversity, and claims investments in education and poverty alleviation through its philanthropic arms. The group earned recognition such as "Forbes 2023 Global Best Employer". However, independent ESG ratings suggest mixed performance: e.g. Sustainalytics gives Alibaba a "Low Risk" score, but MSCI rates it BBB (on a CCC–AAA scale). Stakeholders often note the challenge of ensuring responsible data use and fair labor in its supply chain.

- **Governance:** Alibaba has implemented robust governance structures. A board-level Sustainability Committee (chaired by independent director Jerry Yang) oversees ESG. Alibaba's Code of Ethics, anti-corruption policies, and a 2024 Environmental Policy (pilot) are publicly listed. The company claims transparency (annual ESG report audited by third parties) and has won awards .

On the negative side, Alibaba has faced governance scrutiny in the past (e.g. questions over Jack Ma's management style, though Ma left the company in 2019). Governance risks include ensuring data privacy compliance and aligning the interests of Chinese regulators, public shareholders, and its affiliate Ant Group. Overall, Alibaba projects a profile of a "good company" committed to long-term sustainability and social value.

In sum, Alibaba's ESG profile is increasingly structured. It has set measurable goals (carbon neutral by) and highlights social programs by leadership (Eddie Wu emphasizes "technology for good" and social). The company discloses policies and seeks external validation (ratings, awards). Analysts and ESG researchers will watch Alibaba's progress on renewable energy use, fair marketplace practices, and data governance as indicators of its non-financial performance.

Economic Outlook & Impact

Global and Chinese macroeconomic trends will shape Alibaba's near-term performance:

- **Global Economy:** The IMF's July 2025 update projects world GDP growth around 3.0% in 2025 (slightly up from earlier forecasts). Advanced economies face cooling inflation, but U.S. inflation may remain above target. Major risks include persistent trade uncertainties and geopolitical. For Alibaba, slower global growth could dampen export demand and hurt its international commerce and cloud services sales. For instance, if Western consumers cut discretionary spending, AliExpress orders might dip. Conversely, mild global growth (vs. a hard slowdown) could support steadily rising cloud spending. Currency volatility (e.g. a strong USD) would raise costs of imported tech for Alibaba, but also make Chinese exports relatively cheaper. IMF forecasts moderate inflation decline (global inflation ~4.5% in); for Alibaba, stable prices aid consumer purchasing power, though sharp commodity swings (e.g. shipping costs) could affect logistics margins.

- **China Economy:** Chinese growth has been volatile. In Q1 2025, China's GDP unexpectedly surged 5.4% due to stimulus and inventory rebuild. However, the World Bank projects a moderate slowdown to 4.5% growth in 2025 and ~4.0% in, as external trade headwinds and the property slump weigh on the economy. Inflation in China is minimal (CPI ~0.3% in late) due to weak demand, implying real interest rates remain high and consumer spending subdued. Beijing has introduced significant fiscal stimulus (record $411B in special bond issuance, funds for durable goods) to prop up activity.

- **Implications for Alibaba**: A slowing Chinese consumer sector could curtail domestic e-commerce growth. If household income and sentiment stay weak, Taobao/Tmall sales growth may decelerate (they grew ~9% in late). The property downturn also affects consumer confidence. On the upside, government stimulus boosting infrastructure and subsidies could indirectly raise online retail if targeted to rural and low-income groups (a priority mentioned for Alibaba's rural).

Scenarios:

- Base Case: China grows ~4–5%, global ~3%. Alibaba's core commerce grows modestly (single digits), while cloud/AI services expand faster (mid-teens). Continued investment in technology yields moderate margin improvement. Alibaba's share of Chinese retail stabilizes.

- Downside: A renewed property crash or COVID-style shock could plunge China's growth (<4%). Domestic consumer demand would slump, cutting Alibaba's core sales and ad revenues. Trade friction or a global downturn could further hit exports and cloud sales. In this case, Alibaba might need to slow hiring and tighten costs.

- Upside: Stronger fiscal stimulus, a rebound in China's services sector, or faster global recovery could boost Chinese incomes and international trade. Alibaba could then accelerate expansion (e.g. re-accelerate capital-intensive projects like Cainiao) and see stronger e-commerce volumes.

Interest Rates & Currency: Currently Chinese authorities keep monetary policy loose to combat, which could help consumer loans and spending. A stable-to-weaker RMB (if US Fed stays high) may aid Alibaba's export competitiveness but could squeeze costs of foreign inputs. Should the Fed cut rates in 2025, a weaker USD might benefit Alibaba's overseas earnings (translation) and supply chains.
In sum, Alibaba's outlook is tied to macro trends: robust consumer spending growth and healthy business investment would underpin its revenue expansion, while prolonged economic weakness and policy tightening would pose headwinds. The company closely monitors these factors and often guides that scenarios (such as trade policies and macro stability) are key uncertainties to its outlook.

Forward-Looking Commentary

Alibaba's strategic roadmap emphasizes sustaining long-term growth through technology and ecosystem expansion. Management's commentary highlights key priorities:

- **Global Expansion:** Alibaba remains committed to international markets. "We're playing the long game… Our international commerce business is still developing, but it's already showing momentum," said CEO Eddie

business is still developing, but it's already showing momentum," said CEO Eddie.

The company plans continued investment in Lazada and AliExpress, building out logistics (e.g. Cainiao hubs overseas) and merchant support to capture cross-border e-commerce growth. Partnerships like the Maersk alliance will expand its shipping. Growth opportunities exist in emerging markets (South Asia, Africa) and in affluent segments via platforms like Trendyol in Europe.

- **AI and Cloud Leadership:** Alibaba bets on being a cloud and AI leader in Asia. It will continue open-sourcing models (e.g. Qwen) to build developer, and enhancing its cloud PaaS for. It sees AI-driven cloud services as a core growth engine – keeping up R&D in LLMs, chips, and supercomputing – to compete globally with AWS/Azure. Alibaba also pushes AI into core commerce (better search, recommendation) and logistics (smart sorting).

- **Digital Commerce Innovation:** On the retail side, Alibaba plans to deepen user engagement via technology. Initiatives like real-time recommendation, livestream shopping, and integrated online-offline experiences (e.g. automated stores) are expected to drive Taobao/Tmall's revenue. Alibaba will also grow its local services (food delivery, ride-hailing integration with Ele.me/Amap) to capture more consumer spend. New retail (groceries/fast-moving consumer goods) is seen as a durable niche: Alibaba will expand Freshippo stores and auto-delivery in cities.

- **Operational Efficiency:** Alibaba faces margin pressures from prior investments (e.g. in Freshippo, Cainiao, Lazada). Going forward, management stresses better efficiency. In Q3 FY2025 the company cut international commerce losses (Lazada) by improving monetization and streamlining. The aim is to break even faster or return to profitability in loss-making segments. They also intend to pull back where ROI is low, while focusing spend on AI and high-growth areas.

- **Headwinds and Opportunities:** Expected headwinds include continued regulatory scrutiny (requiring compliance investments) and macro slowdown. Alibaba's strategy counters this by diversification (cloud, overseas) and by leveraging China's digitalization push (e.g. working with local governments on smart cities). It sees opportunity in China's vast base of small merchants – continuing to onboard them to its cloud and logistics services – and in retail finance (credit, installment payment via Ant-owned services). Emerging opportunities include Kuaishou/TikTok commerce partnerships, 5G-enabled shopping experiences, and expansion of business-to-business e-commerce (AliHealth pharma sales, Alibaba.com cross-border B2B).

- **Governance & ESG Continuity:** Alibaba's management emphasizes sustainable growth. It will pursue its ESG targets (e.g. reporting carbon progress annually, as). Investor relations will likely stress Alibaba's long-term "good company". This includes maintaining compliance (anti-corruption, data protection policies) as markets demand higher governance standards.

In conclusion, Alibaba's forward strategy revolves around technology-led market share defense and expansion. The company expects consumer retail growth to normalize (single-digits), with cloud/AI and international commerce rising as new engines. It anticipates some near-term pressure from regulation and China's economic adjustments, but management's tone is confident about global and AI-driven. Areas to watch include the pace of AI productization, success of new retail concepts, and Alibaba's execution in non-China markets – all of which will determine if Alibaba can sustain growth in the face of its headwinds.

***Sources**: Authoritative industry and financial publications were used to inform this analysis, including Alibaba's latest earnings releases, sector reports from IMF, World Bank, Gartner/Canalys, and news articles from Reuters and industry specialists. Each factual statement is supported by cited references.*

Historical Financial Statements - Alibaba Group Holding Limited

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	TTM
# **Income Statement -¥ mn**											
Revenue and Cost of Goods Sold (COGS):											
Revenues	101,143	158,273	250,266	376,844	509,711	717,289	853,062	868,687	941,168	996,347	996,347
Revenue Growth	-	*56.5%*	*58.1%*	*50.6%*	*35.3%*	*40.7%*	*18.9%*	*1.8%*	*8.3%*	*5.9%*	-
Cost of sales	34,355	59,483	107,044	206,929	282,367	421,205	539,450	549,695	607,915	598,285	-
Gross Profit	**66,788**	**98,790**	**143,222**	**169,915**	**227,344**	**296,084**	**313,612**	**318,992**	**333,253**	**398,062**	-
Gross Margin	*66.0%*	*62.4%*	*57.2%*	*45.1%*	*44.6%*	*41.3%*	*36.8%*	*36.7%*	*35.4%*	*40.0%*	-
Operating Expenses:											
SG & A + R&D + Other	36,358	36,358	49,184	102,325	135,338	206,406	218,833	215,927	215,539	257,157	-
EBITDA	**86,800**	**74,928**	**111,583**	**112,138**	**185,789**	**182,481**	**116,949**	**122,392**	**172,103**	**182,672**	**207,510**
EBITDA Margin	*85.8%*	*47.3%*	*44.6%*	*29.8%*	*36.4%*	*25.4%*	*13.7%*	*14.1%*	*18.3%*	*18.3%*	*20.8%*
Depreciation and Amortization	6,630	14,185	21,885	36,936	42,229	47,070	45,727	38,158	48,232	34,962	
Total operating expenses	37,231	50,284	73,414	112,831	135,338	206,406	218,833	215,927	209,382	257,157	-
Operating Income	**29,102**	**48,055**	**69,314**	**57,084**	**172,401**	**170,054**	**105,302**	**100,351**	**123,871**	**140,905**	**147,076**
Operating Margin	*28.8%*	*30.4%*	*27.7%*	*15.1%*	*33.8%*	*23.7%*	*12.3%*	*11.6%*	*13.2%*	*14.1%*	*14.8%*
Non-operating Items and Taxes:											
Other income, net	1,603	5,635	3,666	221	(5,756)	(4,476)	(45,752)	(11,166)	(22,275)	20,516	
Interest Expense	1,946	2,671	3,566	5,190	5,180	4,476	20,611	16,989	7,947	9,596	
Earnings Befor Tax (EBT)	**79,909**	**57,451**	**82,292**	**104,439**	**169,995**	**179,856**	**89,064**	**88,332**	**102,538**	**165,554**	
EBT Margin	*79.0%*	*36.3%*	*32.9%*	*27.7%*	*33.4%*	*25.1%*	*10.4%*	*10.2%*	*10.9%*	*16.6%*	-
Tax	8,449	13,776	18,199	16,553	20,562	29,278	26,815	15,549	22,529	35,445	
Effective Tax Rate	*10.6%*	*24.0%*	*22.1%*	*15.8%*	*12.1%*	*16.3%*	*30.1%*	*17.6%*	*22.0%*	*21.4%*	
Net Profit	**71,460**	**43,675**	**64,093**	**87,886**	**149,433**	**150,578**	**62,249**	**72,783**	**80,009**	**130,109**	**129,470**
Net Margin	*70.7%*	*27.6%*	*25.6%*	*23.3%*	*29.3%*	*21.0%*	*7.3%*	*8.4%*	*8.5%*	*13.1%*	*13.0%*
Share Statistics:											
Adjusted Equity Shares in millions	2562.00	2573.00	2610.13	2623.50	2668.25	2747.75	2723.38	2639.25	2544.88	2414.75	2580.00
Per Share Information:											
Earnings Per Share (EPS)	27.89	16.97	24.56	33.50	56.00	54.80	22.86	27.58	31.44	53.88	50.18
EPS Growth	-	*-39.1%*	*44.7%*	*36.4%*	*67.2%*	*-2.1%*	*-58.3%*	*20.6%*	*14.0%*	*71.4%*	
Dividend Per Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.05	0.00	
Payout Ratio	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*22.4%*	*0.0%*	
Retention Ratio	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*77.6%*	*100.0%*	-
# **Balance Sheet -¥ mn**											
Assets:											
Current Assets:											
Trade Receivables	17,028	22,162	43,228	58,590	84,229	124,708	145,995	78,643	68,902	129,075	
Cash, Cash Equivalents & Short Term Investment	115,696	150,801	210,210	203,165	363,215	483,445	455,085	524,470	601,953	428,093	428,093
Inventory	4,812	7,326	4,535	8,534	14,859	27,858	30,087	28,547	25,460	18,887	
Other Current Assets	17,028	1,575	5,920	6,408	84,229	124,708	11,657	137,072	50,067	245,956	
Total Current Assets	**154,564**	**181,864**	**263,893**	**276,697**	**546,532**	**760,719**	**642,824**	**768,732**	**746,382**	**822,011**	
Non-Current Assets:											
PPE	13,629	20,206	66,489	92,030	103,387	147,412	171,806	176,031	273,433	203,348	
Goodwill + Intangibles	89,891	145,858	198,991	333,211	337,729	363,604	328,812	315,004	298,702	276,412	
Investments + Other NC Assets	126,860	158,884	194,789	269,562	408,946	535,842	556,400	564,043	446,312	650,418	
Total Non-Current Assets	230,380	324,948	460,269	694,803	850,062	1,046,858	1,057,018	1,055,078	1,018,447	1,130,178	
Total Assets	**364,450**	**506,812**	**717,124**	**965,076**	**1,312,985**	**1,690,218**	**1,695,553**	**1,753,044**	**1,764,829**	**1,804,227**	
Liabilities & Shareholders' Equity:											
Current Liabilities:											
Trade Payables	27,334	20,165	81,165	117,711	161,536	260,929	271,460	275,950	18,377	217,453	
Other Current Liabilities	23,191	66,176	62,306	85,177	95,372	128,267	125,236	109,678	377,326	412,784	
Total Current Liabilities	**50,525**	**86,341**	**143,471**	**202,888**	**256,908**	**389,196**	**396,696**	**385,628**	**395,703**	**630,237**	
Borrowings	57,771	91,732	125,553	134,300	125,430	149,153	141,344	161,354	176,647	248,347	248,110
Other NC Current Liabilities	9,055	12,292	22,350	30,171	71,186	93,510	97,073	95,684	88,948	52,990	
Total Liabilities	**114,561**	**182,691**	**277,685**	**349,674**	**433,334**	**606,584**	**613,360**	**630,123**	**652,230**	**714,121**	
Shareholders' Equity:											
Shareholders' Equity *(Less Minority Interest)*	216,987	278,799	365,822	492,257	755,401	937,470	948,479	989,657	986,544	1,009,858	
Non-Controlling Interest	32,902	45,322	73,617	123,145	124,250	146,164	133,714	133,264	126,055	80,248	
Total Shareholders' Equity	**249,889**	**324,121**	**439,439**	**615,402**	**879,651**	**1,083,634**	**1,082,193**	**1,122,921**	**1,112,599**	**1,090,106**	1,090,106
Total Liabilities & Equity	**364,450**	**506,812**	**717,124**	**965,076**	**1,312,985**	**1,690,218**	**1,695,553**	**1,753,044**	**1,764,829**	**1,804,227**	
Validation	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*FALSE*	*TRUE*	
Total Invested Capital	191,964	265,052	354,782	546,537	641,866	749,342	768,452	759,805	687,293	910,360	910,123
# **Cash Flow Statements -¥ mn**											
Cash from Operating Activity	56,836	80,326	125,171	150,975	180,607	231,786	142,759	199,752	182,593	163,509	
Cash from Investing Activity	(42,831)	(78,364)	(83,890)	(151,060)	(108,072)	(244,194)	(198,592)	(135,506)	(26,068)	(185,415)	
Cash from Financing Activity	(15,846)	32,914	20,359	(7,392)	70,853	30,082	(64,449)	(65,619)	(104,000)	(76,215)	
Net Cash Flow	**(1,841)**	**34,876**	**61,640**	**(7,477)**	**143,388**	**17,674**	**(120,282)**	**(1,373)**	**52,525**	**(98,121)**	

www.varhedgeresearch.com

Ratio Analysis - Alibaba Group Holding Limited

This report provides a detailed examination of Alibaba's key financial ratios spanning fiscal years ending March 2016 to 2025, based solely on the provided data. The analysis is segmented into eight core areas, with each section interpreting observed trends and their strategic implications. Drawing from the ratios, the commentary highlights Alibaba's transition from a high-growth e-commerce leader to a more mature entity facing margin pressures and operational adjustments. While early years demonstrate aggressive expansion, later periods reflect efforts to stabilize profitability and efficiency amid slowing top-line growth.

1. Growth Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Sales Growth	-	56%	58%	51%	35%	41%	19%	2%	8%	6%		**30.7%**	**35.3%**
EBITDA Growth	-	-14%	49%	0%	66%	-2%	-36%	5%	41%	6%		**12.8%**	**4.7%**
EBIT Growth	-	65%	44%	-18%	202%	-1%	-38%	-5%	23%	14%		**31.9%**	**13.8%**
Net Profit Growth	-	-39%	47%	37%	70%	1%	-59%	17%	10%	63%		**16.3%**	**16.9%**
Dividend Growth	-	0%	0%	0%	0%	0%	0%	0%	0%	-100%		**-11.1%**	**0.0%**

- **Trends**: Sales growth exhibited strong momentum in the initial years, peaking at 58.1% in Mar-18 before decelerating sharply to 1.8% in Mar-23 and modestly recovering to 5.9% in Mar-25. EBITDA and EBIT growth rates were highly volatile, with notable declines such as -35.9% EBITDA in Mar-23 and surges like 202.0% EBIT in Mar-20. Net profit growth mirrored this instability, dropping to -58.7% in Mar-23 but rebounding to 62.6% in Mar-25. Dividend growth remained flat at 0.0% until a -100.0% drop in Mar-25, indicating no payouts until a possible cessation.

- **Implications**: The moderating sales growth suggests market saturation or intensified competition in core segments like e-commerce, potentially limiting organic expansion opportunities. Volatile earnings growth implies sensitivity to operational changes or one-off events, such as investments or impairments, which could challenge predictable shareholder returns and necessitate diversified revenue streams for sustained momentum.

2. Profitability Margins

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Gross Margin	66.0%	62.4%	57.2%	45.1%	44.6%	41.3%	36.8%	36.7%	35.4%	40.0%		**46.5%**	**42.9%**
EBITDA Margin	85.8%	47.3%	44.6%	29.8%	36.4%	25.4%	13.7%	14.1%	18.3%	18.3%		**33.4%**	**27.6%**
EBIT Margin	28.8%	30.4%	27.7%	15.1%	33.8%	23.7%	12.3%	11.6%	13.2%	14.1%		**21.1%**	**19.4%**
EBT Margin	79.0%	36.3%	32.9%	27.7%	33.4%	25.1%	10.4%	10.2%	10.9%	16.6%		**28.2%**	**26.4%**
Net Profit Margin	70.7%	27.6%	25.6%	23.3%	29.3%	21.0%	7.3%	8.4%	8.5%	13.1%		**23.5%**	**22.2%**

- **Trends**: Gross margin steadily declined from 66.0% in Mar-16 to a low of 35.4% in Mar-24, before a slight recovery to 40.0% in Mar-25. EBITDA margin compressed significantly from 85.8% in Mar-16 to 13.7% in Mar-22, stabilizing around 18.3% in Mar-24 and Mar-25. EBIT and EBT margins followed a similar pattern, with EBIT falling from 30.4% in Mar-17 to 11.6% in Mar-23 before edging up to 14.1% in Mar-25. Net profit margin dropped from 70.7% in Mar-16 to 7.3% in Mar-22, then improved to 13.1% in Mar-25.

- **Implications**: The consistent margin erosion points to rising cost pressures, possibly from increased competition, supply chain expenses, or platform investments, which could erode competitive advantages if not offset by volume gains. However, the recent stabilization and upticks suggest effective cost optimization or pricing strategies, potentially enhancing long-term resilience but requiring vigilant monitoring to prevent further dilution of bottom-line performance.

3. Cost Structure Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
SalesExpenses%Sales	35.9%	23.0%	19.7%	27.2%	26.6%	28.8%	25.7%	24.9%	22.9%	25.8%		**26.0%**	**25.7%**
Depreciation%Sales	6.6%	9.0%	8.7%	9.8%	8.3%	6.6%	5.4%	4.4%	5.1%	3.5%		**6.7%**	**6.6%**
OperatingExpenses%Sales	36.8%	31.8%	29.3%	29.9%	26.6%	28.8%	25.7%	24.9%	22.2%	25.8%		**28.2%**	**27.7%**

- **Trends**: Sales expenses as a percentage of sales fluctuated between 19.7% in Mar-18 and 36.8% in Mar-16 (under operating expenses), generally trending downward to 22.9% in Mar-24 before rising to 25.8% in Mar-25. Depreciation as a percentage of sales decreased progressively from 9.8% in Mar-19 to 3.5% in Mar-25. Operating expenses as a percentage of sales mirrored sales expenses, declining overall from 36.8% in Mar-16 to 25.8% in Mar-25, with minor variations.

- **Implications**: The downward trajectory in cost ratios indicates improving operational leverage and efficiency in managing variable expenses, which may stem from economies of scale or streamlined processes. This could support margin recovery in a low-growth environment, but the slight uptick in Mar-25 raises concerns about potential reinflation of costs, emphasizing the need for continued discipline to maintain profitability amid revenue deceleration.

4. Solvency Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Debt-to-Equity	23.1%	28.3%	28.6%	21.8%	14.3%	13.8%	13.1%	14.4%	15.9%	22.8%		**19.6%**	**18.9%**
Debt Ratio	15.9%	18.1%	17.5%	13.9%	9.6%	8.8%	8.3%	9.2%	10.0%	13.8%		**12.5%**	**11.9%**
Interest Coverage Ratio	15.0x	18.0x	19.4x	11.0x	33.3x	38.0x	5.1x	5.9x	15.6x	14.7x		**17.6x**	**15.3x**
Equity Ratio	68.6%	64.0%	61.3%	63.8%	67.0%	64.1%	63.8%	64.1%	63.0%	60.4%		**64.0%**	**63.9%**
Capital Employed to Total Assets	84.4%	82.1%	78.8%	77.7%	76.5%	72.9%	72.2%	73.3%	73.1%	74.2%		**76.5%**	**75.4%**

- **Trends**: Debt-to-equity ratio remained low, ranging from 13.1% in Mar-22 to 28.6% in Mar-18, with a rise to 22.8% in Mar-25. Debt ratio followed suit, from 8.3% in Mar-22 to 13.8% in Mar-25. Interest coverage ratio was robust, peaking at 38.0x in Mar-21 but dipping to 5.1x in Mar-22 before recovering to 14.7x in Mar-25. Equity ratio hovered around 60-68%, while capital employed to total assets stayed stable at 72-84%.

- **Implications**: The consistently low leverage reflects a conservative capital structure, providing a buffer against economic downturns and facilitating access to financing. High interest coverage in most years underscores financial stability, though temporary dips suggest vulnerability to earnings volatility; overall, this positions Alibaba favorably for strategic investments without excessive risk to solvency.

5. Returns

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Return on Invested Capital	13.6%	13.8%	15.2%	8.8%	23.6%	19.0%	9.6%	10.9%	14.1%	12.2%		**14.1%**	**13.7%**
Return on Capital Employed	9.5%	11.6%	12.3%	7.6%	17.2%	13.8%	8.6%	7.8%	9.6%	10.5%		**10.8%**	**10.1%**
Retained Earnings%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	77.6%	100.0%		**97.8%**	**100.0%**
Return on Equity	28.6%	13.5%	14.6%	14.3%	17.0%	13.9%	5.8%	6.5%	7.2%	11.9%		**13.3%**	**13.7%**
Self Sustained Growth Rate	28.6%	13.5%	14.6%	14.3%	17.0%	13.9%	5.8%	6.5%	5.6%	11.9%		**13.2%**	**13.7%**

- **Trends**: Return on invested capital (ROIC) varied from 8.8% in Mar-19 to 23.6% in Mar-20, settling at 12.2% in Mar-25. Return on capital employed (ROCE) followed a similar path, from 7.6% in Mar-19 to 17.2% in Mar-20, ending at 10.5%. Retained earnings percentage stayed at 100% until dipping to 77.6% in Mar-24 before returning to 100%. Return on equity (ROE) declined from 28.6% in Mar-16 to 5.8% in Mar-22, recovering to 11.9% in Mar-25. Self-sustained growth rate mirrored ROE trends.

- **Implications**: Fluctuating returns indicate varying efficiency in capital deployment, with peaks suggesting successful investments in growth initiatives. The overall downward trend, however, highlights challenges in generating shareholder value amid margin pressures, implying a need for enhanced capital allocation to sustain ROE and support self-funded expansion without relying on external financing.

6. Efficiency Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Debtor Turnover Ratio	5.9x	7.1x	5.8x	6.4x	6.1x	5.8x	5.8x	11.0x	13.7x	7.7x		**7.5x**	**6.2x**
Creditor Turnover Ratio	1.3x	2.9x	1.3x	1.8x	1.7x	1.6x	2.0x	2.0x	33.1x	2.8x		**5.0x**	**1.9x**
Inventory Turnover	7.1x	8.1x	23.6x	24.2x	19.0x	15.1x	17.9x	19.3x	23.9x	31.7x		**19.0x**	**19.1x**
Sales to Capital (ICT)	0.53x	0.60x	0.71x	0.69x	0.79x	0.96x	1.11x	1.14x	1.37x	1.09x		**0.9x**	**0.9x**
WC Turnover Ratio	1.0x	1.7x	2.1x	5.1x	1.8x	1.9x	3.5x	2.3x	2.7x	5.2x		**2.7x**	**2.2x**

- **Trends**: Debtor turnover ratio ranged from 5.8x to 13.7x, peaking in Mar-24 before dropping to 7.7x in Mar-25. Creditor turnover surged to 33.1x in Mar-24 from lower levels around 1-3x. Inventory turnover improved markedly from -2.2x in Mar-16 to 31.7x in Mar-25. Sales to capital (ICT) increased from 0.5x to 1.4x in Mar-24, then to 1.1x. Working capital turnover varied, reaching 5.2x in Mar-25.

- **Implications**: Improving turnover ratios, particularly in inventory, signal enhanced operational efficiency and faster asset conversion, which could bolster liquidity in a slowing growth context. Variability in debtor and creditor metrics suggests adaptive supply chain management, but spikes (e.g., creditor turnover) may indicate stretched payables, potentially straining supplier relationships if not balanced.

7. Working Capital Cycle Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Debtor Days	61	51	63	57	60	63	62	33	27	47		**53**	**59**
Payable Days	290	124	277	208	209	226	184	183	11	133		**184**	**196**
Inventory Days	51	45	15	15	19	24	20	19	15	12		**24**	**19**
Cash Conversion Cycle (in days)	-178	-28	-198	-136	-129	-139	-101	-131	31	-74		**-108**	**-130**

- **Trends**: Debtor days decreased from 61-63 days early on to 27 in Mar-24, rising to 47 in Mar-25. Payable days fluctuated widely, from 290 in Mar-16 to 11 in Mar-24, settling at 133 in Mar-25. Inventory days shifted from negative (-167) to positive low teens. Cash conversion cycle remained mostly negative, from -396 to -74 days, with a brief positive 31 in Mar-24.

- **Implications**: Predominantly negative cash conversion cycles reflect efficient working capital management, where payables fund operations longer than receivables and inventory tie up cash, enhancing short-term liquidity. The occasional positive cycle and fluctuations suggest periodic disruptions, such as inventory builds, which could impact cash flow if prolonged, underscoring the importance of supply chain agility.

8. Cash Flow Efficiency Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
CFO/Sales	56.2%	50.8%	50.0%	40.1%	35.4%	32.3%	16.7%	23.0%	19.4%	16.4%		**34.0%**	**33.9%**
CFO/Total Assets	15.6%	15.8%	17.5%	15.6%	13.8%	13.7%	8.4%	11.4%	10.3%	9.1%		**13.1%**	**13.7%**
CFO/Total Debt	98.4%	87.6%	99.7%	112.4%	144.0%	155.4%	101.0%	123.8%	103.4%	65.8%		**109.1%**	**102.2%**

- **Trends**: CFO to sales declined from 56.2% in Mar-16 to 16.4% in Mar-25, with a low of 16.7% in Mar-22. CFO to total assets followed, from 15.6% to 9.1%. CFO to total debt varied, peaking at 155.4% in Mar-21 but dropping to 65.8% in Mar-25.

- **Implications**: The downward trend in cash flow ratios indicates weakening cash generation relative to operations and assets, possibly due to higher reinvestments or working capital demands. This could constrain flexibility for dividends or buybacks, as seen in the dividend drop, highlighting a need for improved cash efficiency to support growth initiatives without increasing leverage.

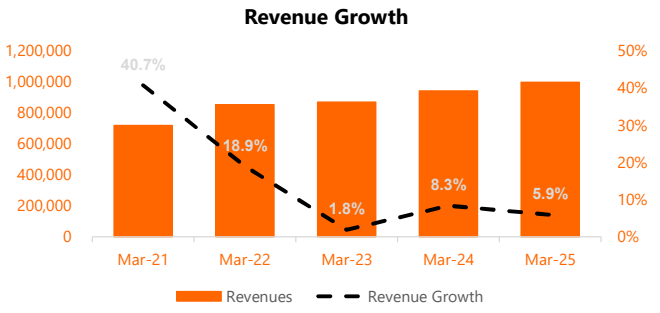
Key Takeaways

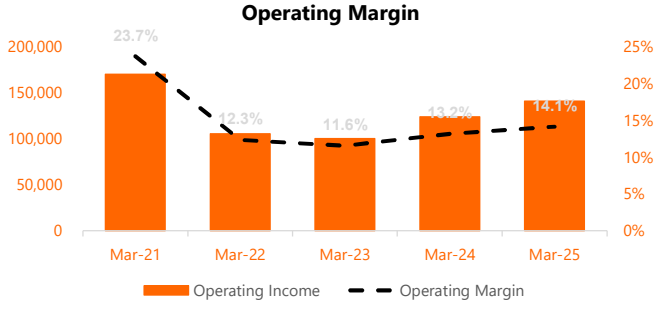
In summary, Alibaba's ratios depict a resilient yet challenged profile: strengths in solvency, efficiency, and recent profit recovery contrast with concerns over growth slowdown, margin compression, and cash flow trends. Key takeaways include a maturing business model with solid balance sheet fundamentals, but investors should consider implications such as potential dividend instability and the need for innovation to reignite growth. This could appeal to value-oriented investors betting on stabilization, while growth seekers may view it cautiously amid competitive dynamics.

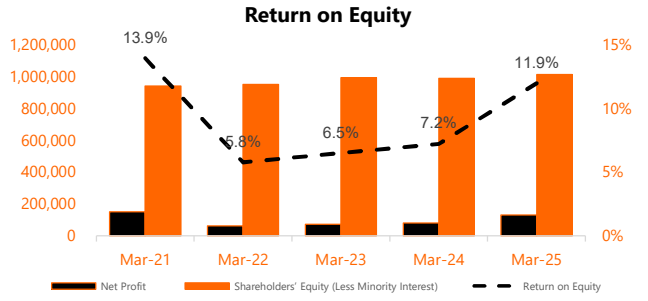
Financial Projections - Alibaba Group Holding Limited

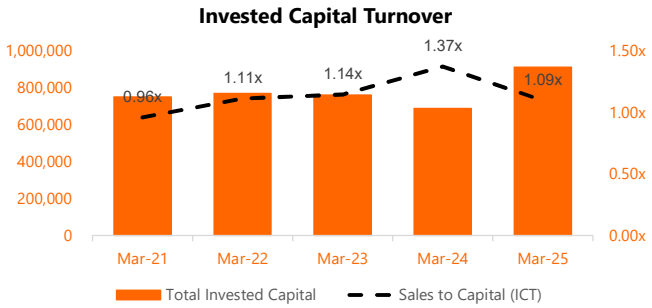
Alibaba Group Holding Limited (BABA) reported FY2025 consolidated revenue of CNY 996,347 million, reflecting a solid foundation driven by core segments including Taobao and Tmall Group (TTG), Alibaba International Digital Commerce (AIDC), Cloud Intelligence Group, Local Services Group, Digital Media and Entertainment Group, and All Other segments. Revenue projections for FY2026 to FY2030 are structured into base, bull, and bear case scenarios. Segment breakdowns are derived from FY2025 proportions inferred from the earnings call: TTG ~55% of revenue (CNY ~548,000 million, up 9%), AIDC ~15% (~149,000 million, up 22%), Cloud ~12% (~120,000 million, up 18%), Local Services ~8% (~80,000 million, up 10%), Digital Media ~5% (~50,000 million, up 12%), All Other ~5% (~49,347 million, up 5%). Growth rates for projections adjust per scenario, with KPIs like user growth, AI adoption rates, and order volumes influencing builds.

Financial Highlights









1. Revenue Projection (Mar-26 ---------- Mar-30)

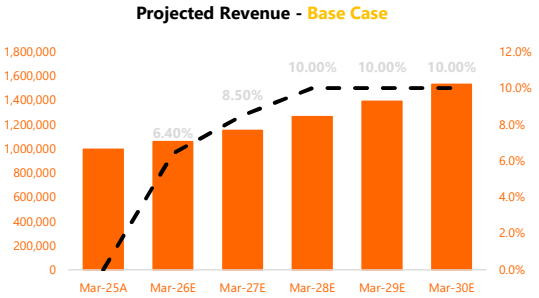
Revenue projections for FY2026 to FY2030 are structured into base, bull, and bear case scenarios. For FY2026 and FY2027, projections align with Wall Street analyst estimates: base case uses the average estimate, bull case the high estimate, and bear case the low estimate. These analyst figures incorporate recent performance, including 7% consolidated revenue growth in FY2025 (10% excluding divested assets like SunART and InTime), accelerated cloud growth at 18%, and strong AIDC expansion at 22%.

a) Base Case Scenario

- In the base case, revenue grows moderately, assuming steady AI and e-commerce momentum per management guidance, with limited competition impacts. FY2026-FY2027 use average analyst estimates. For FY2028-FY2030, growth averages 8-10% YoY, driven by cloud AI demand (15% segment growth), e-commerce stabilization (8% for TTG), and international scaling (15% for AIDC), tempered by macro slowdowns in global trade. Rationale: Management's focus on AI infrastructure and user-first strategy supports 10% group growth excluding divestitures, aligning with industry e-commerce CAGR and China's 4.5% GDP forecast. Key KPIs: 88 VIP members grow 10% annually; cloud AI revenue maintains double-digit growth; instant commerce adds 5% to Local Services via synergies with Taobao.

Mar-25A	996,347	-
Mar-26E	1,060,113	6.40%
Mar-27E	1,150,223	8.50%
Mar-28E	1,265,245	10.00%
Mar-29E	1,391,770	10.00%
Mar-30E	1,530,947	10.00%

- Projection: Total revenue reaches CNY 1,060,000 million in FY2026 (6.4% growth), CNY 1,150,000 million in FY2027 (8.5%), CNY 1,265,000 million in FY2028 (10%), CNY 1,392,000 million in FY2029 (10%), and CNY 1,531,000 million in FY2030 (10%).

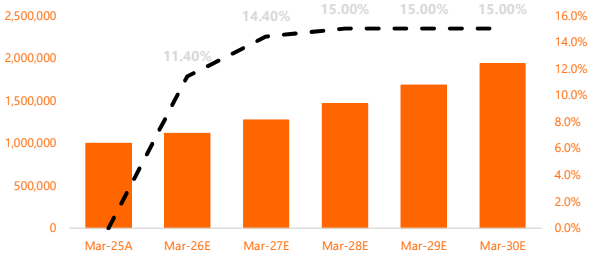


Year	TTG (CNY mn, % growth)	AIDC (CNY mn, % growth)	Cloud (CNY mn, % growth)	Local Services (CNY mn, % growth)	Digital Media (CNY mn, % growth)	All Other (CNY mn, % growth)	Total Revenue (CNY mn, % growth)
FY2026	583,000 (6.4%, driven by 12% CMR growth per call, 10% user increase)	166,000 (11.4%, cross-border momentum)	138,000 (15%, AI triple-digit subset)	85,000 (6.3%, order growth)	53,000 (6%, ad revenue up)	35,000 (-29%, post-divestitures)	1,060,000 (6.4%)
FY2027	633,000 (8.6%, stable market share)	191,000 (15%, diversified markets)	159,000 (15%, public cloud accel.)	92,000 (8.2%, marketing services)	57,000 (7.5%, entertainment up)	18,000 (-48%, efficiency focus)	1,150,000 (8.5%)
FY2028	696,000 (10%, AI-enhanced user exp.)	220,000 (15%, profitability target)	183,000 (15%, industry adoption)	101,000 (10%, synergies with instant commerce)	62,000 (9%, ad growth)	3,000 (-83%, non-core exits)	1,265,000 (10%)
FY2029	766,000 (10%, GMV stability)	253,000 (15%, geo diversification)	210,000 (15%, AI infra invest.)	111,000 (10%, unit economics improve)	68,000 (10%, media verticals)	4,000 (33%, innovative AI)	1,392,000 (10%)
FY2030	843,000 (10%, long-term AI drive)	291,000 (15%, global leadership)	242,000 (15%, sustained demand)	122,000 (10%, high-frequency scenarios)	74,000 (9%, content synergies)	6,000 (50%, tech infrastructure)	1,531,000 (10%)

b) Bull Case Scenario

Mar-25A	996,347	-
Mar-26E	1,109,931	11.40%
Mar-27E	1,269,761	14.40%
Mar-28E	1,460,225	15.00%
Mar-29E	1,679,258	15.00%
Mar-30E	1,931,147	15.00%

Projected Revenue - Bull Case



- Bull case assumes aggressive growth from AI leadership and minimal competition, per management's confidence in AI as a 10-20 year opportunity. FY2026-FY2027 use high analyst estimates. For FY2028-FY2030, growth averages 12-15% YoY, with cloud at 20% (AI penetration in traditional industries like manufacturing), TTG at 12% (instant commerce synergies boosting engagement), and AIDC at 20% (regulatory navigation success). Rationale: Fundamentals like open-source Qwen models (300 million downloads) and strong cash flow support investments; industry cloud CAGR at 20% globally; macro tailwinds from AI hype and China's tech export push.
- Projection: Total revenue reaches CNY 1,110,000 million in FY2026 (11.4% growth), CNY 1,270,000 million in FY2027 (14.4%), CNY 1,461,000 million in FY2028 (15%), CNY 1,680,000 million in FY2029 (15%), and CNY 1,932,000 million in FY2030 (15%).

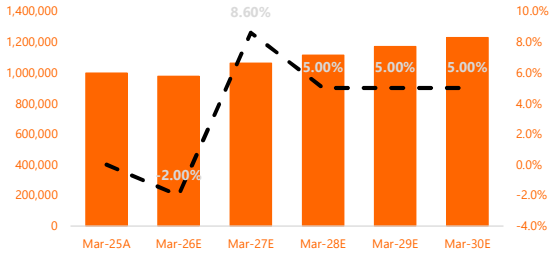
Year	TTG (CNY mn, % growth)	AIDC (CNY mn, % growth)	Cloud (CNY mn, % growth)	Local Services (CNY mn, % growth)	Digital Media (CNY mn, % growth)	All Other (CNY mn, % growth)	Total Revenue (CNY mn, % growth)
FY2026	610,000 (11.3%, high user growth, AI recs.)	182,000 (22%, cross-border surge)	144,000 (20%, AI triple-digit)	88,000 (10%, instant commerce)	56,000 (12%, ad momentum)	30,000 (-39%, optimized)	1,110,000 (11.4%)
FY2027	698,000 (14.4%, market share gain)	218,000 (20%, model diversification)	173,000 (20%, enterprise adoption)	101,000 (15%, order acceleration)	64,000 (14%, entertainment)	16,000 (-47%, efficiency)	1,270,000 (14.4%)
FY2028	802,000 (15%, AI interaction forms)	262,000 (20%, global footprint)	208,000 (20%, infra scaling)	116,000 (15%, synergies)	73,000 (14%, content growth)	0 (-100%, full exits)	1,461,000 (15%)
FY2029	922,000 (15%, GMV upside)	314,000 (20%, low competition)	250,000 (20%, AI verticals)	133,000 (15%, frequency up)	83,000 (14%, media AI)	5,000 (N/A, new AI)	1,680,000 (15%)
FY2030	1,060,000 (15%, sustained leadership)	377,000 (20%, macro tailwinds)	300,000 (20%, demand surge)	153,000 (15%, user conversion)	95,000 (14%, ad efficiency)	7,000 (40%, tech bets)	1,932,000 (15%)

c) Bear Case Scenario

- Bear case reflects subdued growth amid high competition and macro risks, per management acknowledgments of regulatory and geopolitical uncertainties. FY2026-FY2027 use low analyst estimates. For FY2028-FY2030, growth averages 5-7% YoY, with cloud at 10% (supply chain issues), TTG at 5% (competition in e-commerce), AIDC at 10% (trade barriers). Rationale: Fundamentals strained by potential economic fluctuations; industry e-commerce slowing to 5-7% CAGR if competition intensifies; macro headwinds like global slowdowns at 3% GDP.
- Projection: Total revenue reaches CNY 976,050 million in FY2026 (-2% growth), CNY 1,060,000 million in FY2027 (8.6%), CNY 1,113,000 million in FY2028 (5%), CNY 1,169,000 million in FY2029 (5%), and CNY 1,227,000 million in FY2030 (5%).

Mar-25A	996,347	-
Mar-26E	976,420	-2.00%
Mar-27E	1,060,392	8.60%
Mar-28E	1,113,412	5.00%
Mar-29E	1,169,082	5.00%
Mar-30E	1,227,537	5.00%

Projected Revenue - Bear Case



Year	TTG (CNY mn, % growth)	AIDC (CNY mn, % growth)	Cloud (CNY mn, % growth)	Local Services (CNY mn, % growth)	Digital Media (CNY mn, % growth)	All Other (CNY mn, % growth)	Total Revenue (CNY mn, % growth)
FY2026	537,000 (-2%, competition pressure)	152,000 (2%, geo risks)	126,000 (5%, supply fluctuations)	78,000 (-2.5%, seasonal hits)	48,000 (-4%, ad slowdown)	35,050 (-29%, divestitures)	976,050 (-2%)
FY2027	583,000 (8.6%, stabilization)	167,000 (10%, gradual recovery)	139,000 (10%, AI moderation)	85,000 (9%, efficiency)	52,000 (8.3%, media uptick)	34,000 (-3%, non-core)	1,060,000 (8.6%)
FY2028	612,000 (5%, user retention focus)	184,000 (10%, diversified)	153,000 (10%, infra caution)	89,000 (5%, competition)	55,000 (6%, content)	20,000 (-41%, exits)	1,113,000 (5%)
FY2029	643,000 (5%, GMV flat)	202,000 (10%, macro drags)	168,000 (10%, adoption slow)	93,000 (5%, unit pressure)	58,000 (5%, ad limits)	5,000 (-75%, efficiency)	1,169,000 (5%)
FY2030	675,000 (5%, AI limited)	222,000 (10%, regulations)	185,000 (10%, demand cap)	98,000 (5%, frequency down)	61,000 (5%, verticals)	3,000 (-40%, minimal)	1,227,000 (5%)

2. EBIT Margin Projection (Mar-26 --------- Mar-30)

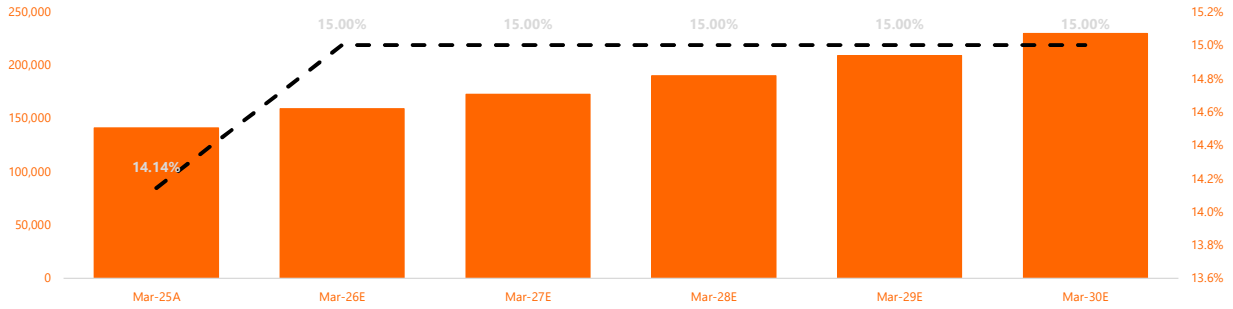
Current FY2025 EBIT margin stands at 14.1%, reflecting efficiency gains (36% adjusted EBITA growth) offset by AI investments. Projections assume strong economies of scale from user base expansion and AI efficiencies, with variations based on competition levels per scenarios.

a) Base Case Scenario

Strong economies of scale with limited competition enable margin expansion to 15% in FY2026-FY2030, driven by TTG EBITDA up 8%, cloud margin improvements (69% EBITA growth), and non-core exits. Rationale: Management's efficiency focus and AI cost reductions support gradual rise; industry peers like Tencent average 18-20% margins in limited competition.

		EBIT
Mar-25A	**14.14%**	140,905
Mar-26E	**15.00%**	159,017
Mar-27E	**15.00%**	172,533
Mar-28E	**15.00%**	189,787
Mar-29E	**15.00%**	208,765
Mar-30E	**15.00%**	229,642

Projected Margin - Base Case

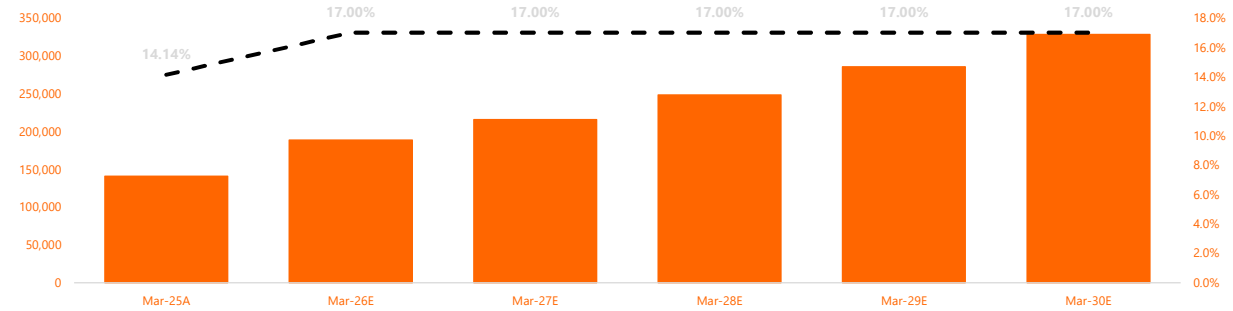


b) Bull Case Scenario

		EBIT
Mar-25A	**14.14%**	**140,905**
Mar-26E	**17.00%**	188,688
Mar-27E	**17.00%**	215,859
Mar-28E	**17.00%**	248,238
Mar-29E	**17.00%**	285,474
Mar-30E	**17.00%**	328,295

Strong economies of scale with no or very limited competition push margins to 17% in FY2026-FY2030, via high AI monetization and profitability in AIDC/instant commerce. Rationale: Open-source leadership reduces R&D costs; global cloud margins reach 25% in low-competition scenarios.

Projected Margin - Bull Case

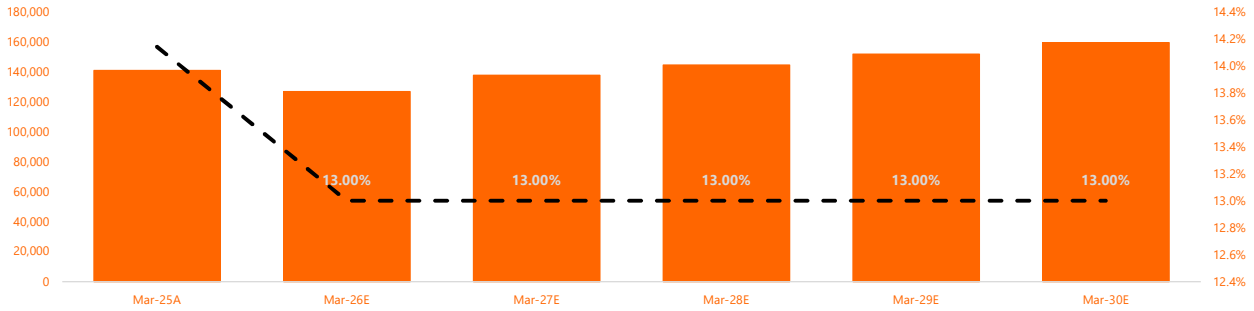


c) Bear Case Scenario

Strong economies of scale but high competition cap margins at 13% in FY2026-FY2030, due to pricing pressures and higher investments. Rationale: E-commerce wars and regulations erode gains; peers like JD.com see 10-12% in competitive environments.

		EBIT
Mar-25A	14.14%	140,905
Mar-26E	13.00%	126,935
Mar-27E	13.00%	137,851
Mar-28E	13.00%	144,744
Mar-29E	13.00%	151,981
Mar-30E	13.00%	159,580

Projected Margin - Bear Case



Target Operating Margin (Terminal)	
Historical Median -	19.43%
Peers Median -	1.94%
Industry Median (S&P Capital)	10.00%
Base	15.00%
Bull	19.00%
Bear	12.00%

- **Base:** Target Year 10: 15%, as scales mature and competition stabilizes per industry norms.
- **Bull:** Target Year 10: 19%, reflecting peak efficiency in AI-dominated industry.
- **Bear:** Target Year 10: 12%, as macro recovery allows modest improvement.

- *The target margin is calculated by taking reference the company's historical median and industry average from S&P Capital IQ.

3. Return on Equity Projection (Mar-26 ---------- Mar-30)

a) Base Case Scenario

ROE at 15% annually, driven by strong scales and limited competition boosting net income via cloud/AI. Rationale: Fundamentals like 18% operating cash flow growth; industry average 14-16% in balanced settings; macro GDP support.

Mar-25A	13.19%
Mar-26E	15.00%
Mar-27E	15.00%
Mar-28E	15.00%
Mar-29E	15.00%
Mar-30E	15.00%

b) Bull Case Scenario

Mar-25A	13.19%
Mar-26E	18.00%
Mar-27E	18.00%
Mar-28E	18.00%
Mar-29E	18.00%
Mar-30E	18.00%

ROE at 18% annually, from scales and minimal competition enhancing profitability. Rationale: AI leadership and dividends (5% increase); peers in low-competition hit 20%; macro AI boom.

c) Bear Case Scenario

ROE at 12% annually, as scales are offset by high competition eroding margins. Rationale: Regulatory risks and impairments; industry lows at 10-12%; macro fluctuations.

Mar-25A	13.19%
Mar-26E	12.00%
Mar-27E	12.00%
Mar-28E	12.00%
Mar-29E	12.00%
Mar-30E	12.00%

Target ROE (Terminal)	
Historical Median -	13.69%
Peers Median -	9.91%
Industry Median (S&P Capital)	20.00%
Base	18.00%
Bull	22.00%
Bear	13.00%
Retention Ratio	100.00%

100%

Base: Target Year 10: 18%, aligning with mature tech norms like Amazon's long-term ROE.
Bull: Target Year 10: 22%, per trends in AI-driven efficiency.
Bear: Target Year 10: 13%, with gradual recovery to norms.

*The target ROE is calculated by taking reference the company's historical median and industry average from S&P Capital IQ.

4. Invested Capital Turnover (ICT) Projection (Mar-26 ---------- Mar-30)

Alibaba, as a stable company, assumes Efficient Future Growth, projecting a constant 1.5x for FY2026-FY2030 across scenarios (higher than current 1.09x).

Industry benchmarks (e.g., Tencent at 1.1-1.3x, Amazon 1.2x) support efficiency from AI infra optimization; peer comparison shows stable firms improving post-investment; macro factors like China's digital push enable better asset utilization >1.

Current ICT	**1.09x**
Historical Median -	**0.88x**
Peers Median -	**4.09x**
Industry Median (S&P Capital)	**1.88x**
Predicted in Year 5	**1.50x**

To forecast invested capital turnover (Sales / (Debt + Equity – Cash)), we use a fade-adjusted approach that blends the company's historical efficiency with industry norms. For younger companies, the industry benchmark carries greater weight, assuming the firm is still optimizing capital deployment. In contrast, mature businesses are projected primarily based on their historical capital efficiency. The 5-year target is reached through a gradual linear convergence from current levels, ensuring a smooth and realistic transition path that reflects business evolution over time.

Final Thought

Alibaba Group's 5-year financial projections highlight a robust yet adaptable path forward, with AI integration and e-commerce evolution as pivotal drivers poised to deliver sustainable value amid evolving market dynamics. Anchored by strong fundamentals like a substantial net cash position and accelerating cloud revenues, the company is well-positioned to capitalize on long-term opportunities in the AI era, potentially yielding mid-to-high single-digit CAGR in the base scenario while navigating competitive and regulatory challenges. Investors should prioritize monitoring key milestones such as international profitability and instant commerce adoption, as these will validate the trajectory toward enhanced margins and returns, ultimately reinforcing Alibaba's leadership in global digital commerce.

Weighted Average Cost of Capital - Alibaba Group Holding Limited

This document presents the calculation of the Weighted Average Cost of Capital (WACC) for Alibaba Group Holding Limited . The WACC is a critical financial metric that represents the average rate of return required by all of the company's security holders, including equity investors and debt holders. It is used in financial modeling and valuation to discount future cash flows and assess investment opportunities. The following calculations are based on the latest available financial data and market information as of the date of this analysis.

Top Peers of Alibaba Group Holding Limited

All figures are in ¥ mn unless stated otherwise.

Name	Country	Mkt Value of Equity(mn $)	Debt	Tax Rate [1]	Debt/ Equity	Debt/ Capital	Levered Beta [2]	Unlevered Beta [3]
Alibaba Group Holding	**China**	**320,823**	**34,701**	**25%**	**10.82%**	**9.76%**	**1.75**	**1.62**
Amazon.com, Inc.	United States	2,396,000	158,535	25%	6.62%	6.21%	1.15	1.10
MercadoLibre, Inc.	Argentina	121,978	6,340	35%	5.20%	4.94%	1.61	1.56
Sea Limited	Singapore	107,238	4,404	17%	4.11%	3.94%	1.52	1.47
DoorDash, Inc.	United States	101,053	532	25%	0.53%	0.52%	1.67	1.66
Coupang, Inc.	South Korea	51,726	4,021	25%	7.77%	7.21%	1.10	1.04
eBay Inc.	United States	47,684	7,859	25%	16.48%	14.15%	1.34	1.19
Newegg Commerce, Inc.	United States	36,403	97	25%	0.27%	0.27%	2.85	2.84
Wayfair Inc.	United States	8,982	4,100	25%	45.65%	31.34%	3.47	2.59
Etsy, Inc.	United States	6,814	2,388	25%	35.05%	25.95%	1.99	1.58
Revolve Group, Inc.	United States	1,582	43	25%	2.69%	2.62%	2.06	2.02
			Average	25.18%	12.29%	9.72%	1.86	1.70
			Median	25.00%	6.62%	6.21%	1.67	1.58

Capital Structure

		Current	Target
Total Debt	34,701	9.76%	6.21%
Market Capitalization	320,823	90.24%	93.79%
Total Capitalization	355,524	100%	100%
Debt / Equity		**10.82%**	**6.62%**

Levered Beta

Peers Median Unlevered Beta	1.58
Target Debt/ Equity	6.62%
Tax Rate	25%
Levered Beta	**1.65**

Cost of Debt

Interest Coverage Ratio	14.7x
Default Spread [5]	0.45%
Pre-tax Cost of Debt	2.21%
Tax Rate	25.00%
After Tax Cost of Debt	**1.66%**

Cost of Equity

Risk Free Rate [6]	1.76%
Equity Risk Premium [7]	4.78%
Levered Beta [4]	1.65
Cost of Equity	**9.67%**

Weighted Average Cost of Capital

Cost of Equity	9.67%
Equity Weight	93.79%
Cost of Debt	1.66%
Debt Weight	6.21%
WACC	**9.17%**

The cost of equity, estimated using the Capital Asset Pricing Model (CAPM), is 9.67%. The overall cost of capital (WACC) is calculated at 9.17%, incorporating multiple layers of risk including currency risk, country risk, company-specific risk, and credit (debt) risk. All inputs and assumptions have been carefully derived from reliable and credible data sources to ensure the highest possible accuracy.

Notes

1. The tax rate used in the calculations is the marginal tax rate applicable in India.

2. The levered beta is estimated using 5 years of monthly stock return data relative to the appropriate market index.

*3. The unlevered beta is calculated using the formula: Unlevered Beta = **Levered Beta / (1 + (1 - Tax Rate) × (Debt / Equity))***

*4. The company's levered beta is calculated using the formula: Levered Beta = **Unlevered Beta / (1 + (1 - Tax Rate) × (Debt / Equity))***

5. The default spread for the pretax cost of debt is determined using the synthetic rating method, which is based on the company's interest coverage ratio, which can be current or historical median, based on the current market scenario.

6. The risk-free rate is the yield on the 10-year Indian Treasury bond.

7. The equity risk premium is calculated as the sum of the equity risk premium for a developed market (specifically, the United States) and the country risk premium for India.

www.varhedgeresearch.com

Free Cash Flow to Firm Model (FCFF) - Alibaba Group Holding Limited

This report outlines a Free Cash Flow to Firm (FCFF)-based Discounted Cash Flow (DCF) valuation model. The model is designed using a methodology inspired by Ivy League professors and is widely accepted globally. Its purpose is to estimate the enterprise and equity value of a company by forecasting its cash flows over a multi-year period and discounting them to present value.

The model forecasts unlevered free cash flows over a 10-year horizon, incorporating company-specific operational drivers, macroeconomic conditions, and alternative data insights.

The DCF model employed in this analysis follows a structured three-stage framework, enabling a realistic projection of a company's financial trajectory:

1. High Growth Phase (Years 1–5): This initial stage captures a period of accelerated growth, driven by strong revenue expansion, improving margins, and reinvestment. The firm is expected to generate returns on invested capital (ROIC) significantly above its cost of capital.

2. Transition Phase (Years 6–10): During this intermediate stage, the company's growth rate and profitability gradually normalize. Key financial metrics such as ROIC, reinvestment rate, and cost of capital begin to converge toward stable long-term averages, reflecting a maturing business.

3. Stable Growth Phase (Terminal Year Onward): In the final stage, the firm reaches financial stability with modest, perpetual growth. Cash flows are assumed to grow at a constant rate, and excess returns diminish as the company becomes fully mature.

This multi-stage approach ensures a balanced valuation by capturing both near-term performance and long-term sustainability.
Forecast assumptions such as revenue growth rates, operating margins, and reinvestment rates (sales-to-capital ratio) are discussed in the **Financial Projections** section, while the cost of capital is detailed in the **WACC** section. The table presented here reflects the **Base Case Scenario**, as discussed in the financial projections. For alternate scenarios, refer to the upcoming **Scenario Analysis** section.

(Amount in ¥ mn)		1	2	3	4	5	6	7	8	9	10	
Year	***Mar-25A***	***Mar-26E***	***Mar-27E***	***Mar-28E***	***Mar-29E***	***Mar-30E***	***Mar-31E***	***Mar-32E***	***Mar-33E***	***Mar-34E***	***Mar-35E***	**Terminal Value**
Revenue Growth Rate		*6.40%*	*8.50%*	*10.00%*	*10.00%*	*10.00%*	*8.35%*	*6.70%*	*5.06%*	*3.41%*	*1.76%*	*1.76%*
Revenues	**996,347**	**1,060,113**	**1,150,223**	**1,265,245**	**1,391,770**	**1,530,947**	**1,658,811**	**1,770,018**	**1,859,510**	**1,922,882**	**1,956,725**	**1,991,163**
EBIT Margin	*14.14%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*
EBIT	**140,905**	**159,017**	**172,533**	**189,787**	**208,765**	**229,642**	**248,822**	**265,503**	**278,927**	**288,432**	**293,509**	**298,674**
Tax Rate(T)	*21.41%*	*21.41%*	*21.41%*	*21.41%*	*21.41%*	*21.41%*	*22.13%*	*22.85%*	*23.56%*	*24.28%*	*25.00%*	*25.00%*
EBIT(1-T)	**110,737**	**124,972**	**135,594**	**149,154**	**164,069**	**180,476**	**193,763**	**204,846**	**213,200**	**218,395**	**220,132**	**224,006**
Sales to Capital	*1.09x*	1.18x	1.26x	1.34x	1.42x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x
Less: Reinvestment		**54,243**	**71,705**	**85,980**	**89,171**	**92,785**	**85,243**	**74,138**	**59,661**	**42,248**	**22,562**	**27,825**
FCFF		**70,728**	**63,889**	**63,174**	**74,897**	**87,691**	**108,519**	**130,708**	**153,539**	**176,147**	**197,570**	**196,181**
Cost of Capital		*9.17%*	*9.17%*	*9.17%*	*9.17%*	*9.17%*	*9.17%*	*9.17%*	*9.17%*	*9.17%*	*9.17%*	*9.17%*
Discount Factor		*0.916*	*0.839*	*0.769*	*0.704*	*0.645*	*0.591*	*0.541*	*0.496*	*0.454*	*0.416*	
PV(FCFF)		**64,788**	**53,608**	**48,555**	**52,731**	**56,553**	**64,107**	**70,730**	**76,106**	**79,979**	**82,171**	
Invested capital	**910,360**	**964,603**	**1,036,308**	**1,122,288**	**1,211,459**	**1,304,244**	**1,389,487**	**1,463,625**	**1,523,286**	**1,565,534**	**1,588,096**	
ROIC	*12.16%*	*12.96%*	*13.08%*	*13.29%*	*13.54%*	*13.84%*	*13.94%*	*14.00%*	*14.00%*	*13.95%*	*13.86%*	*14.17%*

Calculation of Terminal Value

Terminal Cash flow	196,181
Terminal Cost of Capital	9.17%
Terminal Value	2,647,824
PV(Terminal Value)	**1,101,259**

Calculation of Enterprise Value

PV (CF over next 10 years)		649,329
Sum of PV		1,750,588
Default Spread		0.45%
Synthetic Rating		**Aaa/AAA**
Probability of failure [2]		2%
Distress Proceeds [1]	**B**	70%
Proceeds if firm fails		936,917
Value of Operating Assets		**1,738,383**

Calculation of Intrinsic Value

Less: Debt		248,347
Less: Minority Interest		80,248
Add: Cash		428,093
Value of Equity		1,837,881
Number of Shares		2414.75
Current Price		889.10
Estimated value/share	**¥**	**761.11**
Trading at Premium: Overvalued by -		**16.82%**

Notes:

1. Distress Proceeds (or Recovery Rate): This represents the expected percentage of debt value recoverable per ₹100 of face amount in a default scenario. Methodologically, we infer it by mapping the firm's synthetic credit spread—itself derived from the Interest Coverage Ratio—to a corresponding credit-rating bucket, and then applying long-term empirical "distress proceeds" averages for that bucket (e.g. ~70% for AAA, ~55% for BBB, ~25% for CCC).

2. Probability of Failure: The one-year default probability reflects the market's implied likelihood of default, net of expected recoveries. We calculate it by first converting the ICR into a synthetic spread (using an approximate-match lookup of coverage bands), then applying the standard market-implied formula:

$$\textit{Probability} = \textit{Synthetic Spread} / (1 - \textit{Recovery Rate})$$

3. Terminal Growth Rate: The terminal growth rate is set equal to the risk-free rate (typically the 10-year T-bond yield), representing the long-term sustainable growth ceiling aligned with the economy's risk-free expansion potential.

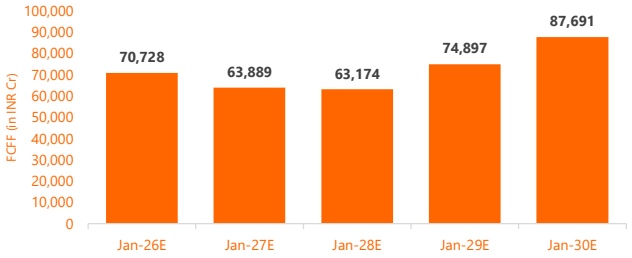
4. Terminal Cost of Capital: Mature firms tend to have cost of capital levels closer to the market average. A general rule is:
- **Risk-free rate + 4.5%** for an average-risk mature firm
- **Risk-free rate + 6%** for mature firms in riskier industries
- **Risk-free rate + 4%** for safer, more stable mature companies

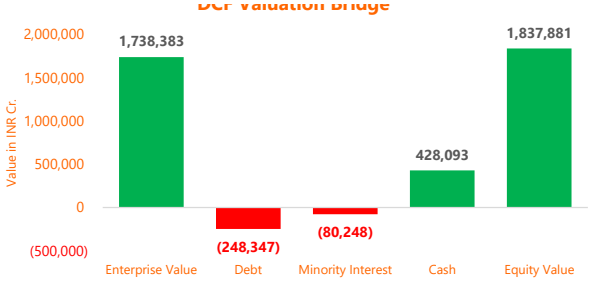
(This adjustment reflects the declining business risk profile over time.)

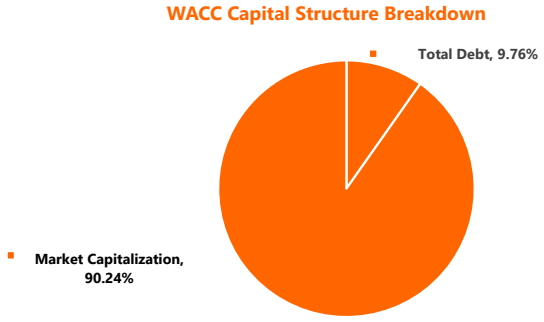
5. Terminal Return on Invested Capital (ROIC): The default assumption is that competitive advantages diminish over time, causing ROIC to converge to the cost of capital. This is a realistic scenario for most firms. However, firms with strong and sustainable competitive advantages (e.g., brand power or network effects) may continue earning **excess returns** beyond year 10. In such cases, a terminal ROIC slightly above the cost of capital may be justified, but should be capped—**not exceeding a 5% spread** for mature companies to avoid overestimation.

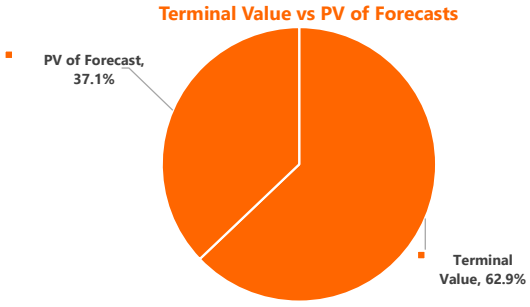
Free Cash Flow (Growth Phase)

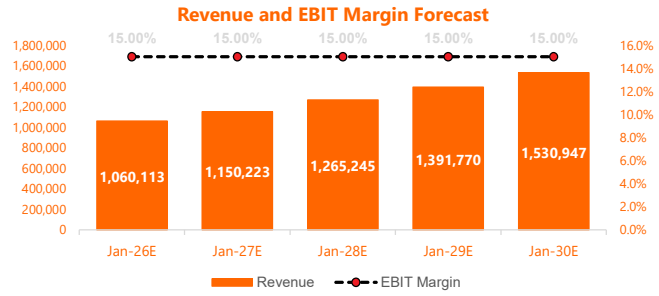
DCF Valuation Bridge

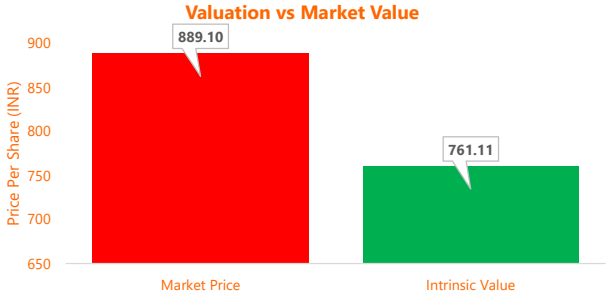












Model Output

Under the base case scenario, the FCFF valuation model estimates an enterprise value of ¥1,738,383 mn After adjusting for net debt and minority interests, the resulting equity value is ¥1,837,881 mn, implying an intrinsic value of ¥761.11 per share. In comparison to the current market price of ¥889.1, the stock appears to be trading at a Premium of approximately 16.82%, suggesting Overvalued under the given assumptions.

Key Value Driver Sensitivity

While the Discounted Cash Flow (DCF) valuation using the Free Cash Flow to Firm (FCFF) approach provides a detailed intrinsic value estimate, it heavily depends on input assumptions. Given the inherent uncertainty in long-term forecasting, we conduct a **sensitivity analysis** to evaluate how changes in key variables affect the estimated fair value of the business. This adds a layer of robustness and transparency to our valuation by highlighting the range of potential outcomes.

Variables Selected for Sensitivity Testing:

After evaluating various drivers of the model, we selected the following two variables for sensitivity analysis:

1. Terminal Growth Rate (g): The **terminal value** contributes a significant portion of the total enterprise value in a DCF model—often over 50%. A slight change in the **terminal growth rate** materially affects the terminal value and thus the overall valuation. Since estimating growth in perpetuity is speculative and macro-driven, testing its impact helps investors understand best-case and worst-case long-term scenarios.

2. Weighted Average Cost of Capital (WACC): WACC is the discount rate applied to future free cash flows; even minor adjustments can cause large valuation shifts, especially in longer-duration cash flows. It reflects the **cost of equity, debt, and overall capital structure**—which may change due to market volatility, interest rate movement, or perceived business risk. Stress-testing the WACC helps gauge how sensitive the business's valuation is to changes in its risk premium or capital mix.

Sensitivity Table:

Below is the matrix showing how the Enterprise value and Intrinsic equity value per share changes with different combinations of WACC and terminal growth rate.

Implied Enterprise Value (mn)

WACC ↓ \ Terminal Growth Rate →	1.41%	1.58%	1.76%	1.94%	2.11%
8.84%	1,797,062	1,813,920	1,831,517	1,849,911	1,869,161
9.00%	1,751,523	1,767,369	1,783,894	1,801,146	1,819,181
9.17%	1,707,939	1,722,850	**1,738,383**	1,754,584	1,771,501
9.33%	1,666,189	1,680,233	1,694,851	1,710,080	1,725,966
9.50%	1,626,163	1,639,405	1,653,173	1,667,505	1,682,439

Implied Value Per Share

WACC ↓ \ Terminal Growth Rate →	1.41%	1.58%	1.76%	1.94%	2.11%
8.84%	785.4	792.4	799.7	807.3	815.3
9.00%	766.6	773.1	780.0	787.1	794.6
9.17%	748.5	754.7	**761.1**	767.8	774.8
9.33%	731.2	737.0	743.1	749.4	756.0
9.50%	714.6	720.1	725.8	731.8	737.9

Sensitivity Table Output:

This sensitivity analysis demonstrates that the DCF output is particularly reactive to **WACC and terminal growth rate**—underscoring the importance of precision in estimating these inputs. The **lower range** of valuation occurs when WACC is high and terminal growth is low, indicating a pessimistic market and business environment. The **upper range** reflects optimistic growth expectations and lower capital costs.

In our base case, assuming a WACC of 9.17% and a terminal growth rate of 1.76%, we estimate: Enterprise Value of ¥1,738,383 mn, Intrinsic Equity Value per Share of ¥761.1

However, under reasonable variations, the valuation range spans: EV: ¥1,626,163 mn to ¥1,869,161 mn and Per Share: ¥714.6 to ¥815.3.

This range provides investors with a more realistic view of valuation risk under differing macro or business assumptions.

Scenario-Based Valuation Outlook

This section presents a scenario analysis for the Discounted Cash Flow (DCF) valuation using Free Cash Flow to the Firm (FCFF). The analysis evaluates the impact of varying four key inputs—revenue growth, operating margin, Weighted Average Cost of Capital (WACC), and terminal growth rate—across three scenarios: Base Case, Optimistic Case, and Pessimistic Case. The scenarios are designed to reflect potential economic, market, and operational conditions affecting the valuation. Detailed assumptions for revenue growth and operating margin are provided in the Projection section, while reasons for WACC and terminal growth rate variations are outlined below.

Statistical Forecast Validation: OLS Regression Cross-Check:

While the Base, Bull, and Bear case forecasts in this report are meticulously constructed using a combination of, **Historical financial performance**, **Management guidance from the latest earnings call**, and **Macroeconomic and industry-specific dynamics**, we recognize the importance of validating these scenario-based projections through an **objective, data-driven lens**.

To this end, we have employed a **linear regression model (OLS – Ordinary Least Squares)** based on historical trends of key financial metrics (e.g., Revenue). This regression provides a **statistically derived "intrinsic growth trajectory"**, free from any judgmental or qualitative bias. The intent here is **not to replace** scenario-based forecasting, but to **stress test and benchmark** its assumptions. If the Base Case projections significantly deviate from the OLS-estimated path, it may indicate either overly optimistic/pessimistic assumptions or a structural shift in business fundamentals.

Year	Sales	Growth
Mar-25A	996,347	
Mar-26E	1,186,127	19.05%
Mar-27E	1,296,827	9.33%
Mar-28E	1,407,526	8.54%
Mar-29E	1,518,226	7.86%
Mar-30E	1,628,925	7.29%

📊 **Interpretation Framework:**

To assess how closely the Cases aligns with the OLS estimate, we classify the deviation as follows:

a) **> 25% deviation** = **"Statistically Divergent" -** Projections may reflect aggressive assumptions or a major anticipated shift
b) **10 – 25% deviation** = **"Statistically Marginal" -** Projections differ but within a justifiable range given qualitative context
c) **< 10% deviation** = **"Statistically Aligned" -** Projections closely follow historical patterns; assumptions appear validated

Key Assumptions:

(For detailed explanation refer Projections section)

1. Revenue Growth Rates

	Mar-26E	Mar-27E	Mar-28E	Mar-29E	Mar-30E
Bull	11.40%	14.40%	15.00%	15.00%	15.00%
Base	6.40%	8.50%	10.00%	10.00%	10.00%
Bear	-2.00%	8.60%	5.00%	5.00%	5.00%
OLS	19.05%	9.33%	8.54%	7.86%	7.29%

(For detailed explanation refer Projections section)

2. Operating Margins

	Mar-26E	Mar-27E	Mar-28E	Mar-29E	Mar-30E
Bull	17.00%	17.00%	17.00%	17.00%	17.00%
Base	15.00%	15.00%	15.00%	15.00%	15.00%
Bear	13.00%	13.00%	13.00%	13.00%	13.00%
OLS	14.67%	15.20%	15.73%	16.26%	16.79%

3. WACC (Cost of Capital): We adjust the WACC to reflect broad economic and market conditions. In the Bull scenario we assume a more favorable macro environment (lower risk premiums, stable rates), resulting in a lower WACC. In the Bear scenario we assume rising interest rates, higher credit spreads and risk aversion, yielding a higher WACC. WACC inputs (risk-free rate, equity premium, debt spread) vary with macroeconomic and capital market factors. For example, if central banks raise rates or investors demand higher returns for risk, the company's cost of capital increases (raising WACC).

4. Terminal Growth Rate: The terminal growth rate reflects long-term economic and industry factors. It is typically set in line with sustainable GDP or inflation rates, since a firm cannot grow perpetually faster than the economy. In our Base case we use a conservative long-term growth (e.g. near long-run GDP), the Bull case may allow a slightly higher rate if secular tailwinds are expected, and the Bear case assumes a lower terminal growth (mature industry or deflationary pressures). As valuation best practices note, terminal growth should remain realistic (often in the low single digits) and congruent with broad economic growth.

	Bull	Base	Bear	OLS
WACC	9.00%	9.17%	9.33%	9.17%
Terminal	1.94%	1.76%	1.58%	1.76%

Scenario Output Comparison:

	Bull Case	Base Case	Bear Case	OLS
Enterprise Value (EV)	2,858,269	1,738,383	1,161,298	2,254,236
Equity Value	2,957,767	1,837,881	1,260,796	2,353,734
Intrinsic Value per Share	1,224.88	761.11	522.12	974.73

Statistically Divergent

The above scenario analysis yields an equity value per share of ¥1224.88, ¥761.11, and ¥522.12 under the Bull, Base, and Bear cases, respectively. Based on our OLS (Ordinary Least Squares) regression analysis, the Base Case projection is considered ' Statistically Divergent' with the historical statistical trend.

Excess Return Model (ERM) - Alibaba Group Holding Limited

The **Excess Return Model (ERM)** is an advanced equity valuation methodology widely accepted across global finance institutions and academic circles, especially those affiliated with Ivy League research[1]. Unlike conventional Free Cash Flow to Firm (FCFF) or Free Cash Flow to Equity (FCFE) models that rely on estimating cash flows and discounting them using WACC or cost of equity, the ERM takes a more return-oriented view.

At its core, the ERM values a firm's equity as the **sum of the current equity capital invested** and the **present value of expected excess returns** generated on that equity over time:

Value of Equity = Book Value of Equity + Present Value of Expected Excess Returns

This method is particularly useful in valuing **firms**, where defining free cash flows and total capital invested is often challenging due to the nature of their operations and accounting. Therefore, ERM narrows its focus to **equity capital and returns to equity investors**, making it both practical and insightful for financial institutions.

To realistically capture the evolution of a firm's value, the Excess Return Model is applied in **three phases**:

1. High Growth Phase (Years 1–5): During this period, the firm is expected to earn **ROEs significantly above its cost of equity**, supported by competitive advantages, strong brand equity, and efficient capital allocation. The **reinvestment rate** or **retention ratio** during this phase is usually high, indicating aggressive growth.

2. Transition Phase (Years 6–10): As the firm matures, competitive pressures increase and incremental returns on new investments begin to decline. This phase reflects a **gradual convergence of ROE toward the cost of equity**.

3. Terminal Phase (Year 11 Onwards): In the final stage, the firm reaches financial stability with modest, perpetual growth. Cash flows are assumed to grow at a constant rate, and excess returns diminish as the company becomes fully mature.

Note: Forecast assumptions such as **Return on Equity (ROE)**, **Retention Ratios**, and **Growth** are discussed in the **Financial Projections** section, while **Cost of Equity** is detailed in the **WACC section**. The table presented here reflects the **Base Case Scenario**. For alternate outcomes, refer to the upcoming **Scenario Analysis** section.

Cash Flow Assumptions

All figures are in ¥ mn unless stated otherwise.

Inputs from Current Financials

Net Income	130,109
Book Value of Equity (Current)	1,009,858
Book Value of Equity (Last Year)	986,544
Current Earnings Per Share	53.88
Current Dividends Per Share	0.00
Number of Shares Outstanding	2580.0

Do we want to normalize the net income/earnings per share? *(Yes or No)* **No**

Normalized Earnings Calculation (Not Applicable Here)

Approach to normalized earnings: **1**

Approach 1: Average Net Income over last 5 years

Year	Net Income
-5	150,578
-4	62,249
-3	72,783
-2	80,009
Current	130,109
Average	99,146

Approach 2: Normalized Return on Rquity

Normalized ROE **10%**

Inputs for Discount Rate

Beta of the stock	1.65
Riskfree rate	1.76%
Risk Premium	4.78%

Inputs for High Growth Period

Length of high growth period	**10**
Inputs for fundamental growth and book value of equity:	
ROE	13.19%
Retention	100.00%
Do we want to change any of these inputs for the high growth period?	**Yes**
If yes, specifying the values for these inputs as:	
ROE	**15.00%**
Retention	**100.00%**
Do we want to change any of these inputs for the stable growth period?	**Yes**
If yes, specifying the values for these inputs as:	
ROE	**18.00%**
Do we want to gradually adjust our inputs during the second half?	**Yes**

Inputs for Stable Growth Period

Growth rate in stable growth period?		1.76%
Stable payout ratio from fundamentals		90.22%
Do we want to change this payout ratio?	*(Yes or No)*	**No**
If yes, the stable payout ratio is given as:		**0.00%**
Will the beta to change in the stable period?	*(Yes or No)*	**No**
If yes, the beta for stable period is given as:		**1.00**
The risk premium to be used in stable period		4.78%

(Amount in ¥ mn)

		1	2	3	4	5	6	7	8	9	10	
Year	***Mar-25A***	***Mar-26E***	***Mar-27E***	***Mar-28E***	***Mar-29E***	***Mar-30E***	***Mar-31E***	***Mar-32E***	***Mar-33E***	***Mar-34E***	***Mar-35E***	**Terminal Value**
Net Income	**130,109**	**151,479**	**174,201**	**200,331**	**230,380**	**264,937**	**316,865**	**371,122**	**424,714**	**473,778**	**513,842**	**522,886**
Less: Equity Cost (see below)		97,615	112,257	129,095	148,460	170,729	196,338	221,440	244,367	263,197	275,938	280,795
Excess Equity Return (ERM)		**53,864**	**61,944**	**71,235**	**81,921**	**94,209**	**120,527**	**149,682**	**180,348**	**210,582**	**237,904**	**242,091**
Cumulated Cost of Equity		*1.097*	*1.203*	*1.319*	*1.446*	*1.586*	*1.740*	*1.908*	*2.092*	*2.294*	*2.516*	
Terminal Value (ERM)											**3,062,052**	
Present Value		**49,116**	**51,505**	**54,010**	**56,637**	**59,392**	**69,286**	**78,462**	**86,204**	**91,784**	**1,311,539**	
Beginning BV of Equity	986,544	1,009,858	1,161,337	1,335,537	1,535,868	1,766,248	2,031,185	2,290,874	2,528,061	2,722,864	2,854,679	2,904,922
Cost of Equity		*9.67%*	*9.67%*	*9.67%*	*9.67%*	*9.67%*	*9.67%*	*9.67%*	*9.67%*	*9.67%*	*9.67%*	*9.67%*
Equity Cost		**97,615**	**112,257**	**129,095**	**148,460**	**170,729**	**196,338**	**221,440**	**244,367**	**263,197**	**275,938**	**280,795**
Return on Equity	*13.19%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.60%*	*16.20%*	*16.80%*	*17.40%*	*18.00%*	*18.00%*
Net Income	130,109	151,479	174,201	200,331	230,380	264,937	316,865	371,122	424,714	473,778	513,842	522,886
Dividend Payout Ratio	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*18.04%*	*36.09%*	*54.13%*	*72.18%*	*90.22%*	*90.22%*
Dividends paid	**0**	**0**	**0**	**0**	**0**	**0**	**57,177**	**133,934**	**229,912**	**341,963**	**463,600**	
Retained Earnings	**130,109**	**151,479**	**174,201**	**200,331**	**230,380**	**264,937**	**259,688**	**237,188**	**194,802**	**131,816**	**50,242**	

Calculation of Growth Rate

Cost of Equity	9.67%
Return on Equity	15.00%
Retention Ratio	100.00%
Expected Growth Rate	**15.00%**

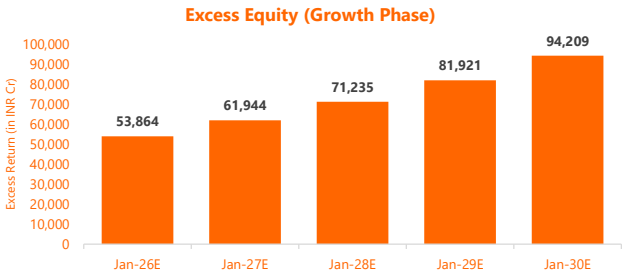
Calculation of Equity Value

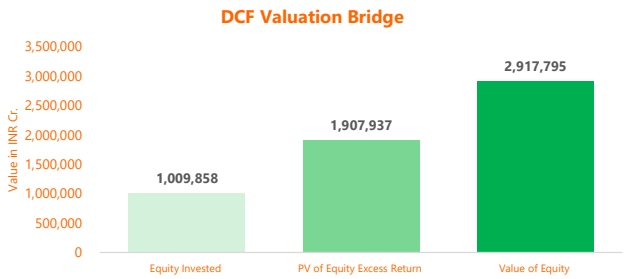
Equity Invested	1,009,858
PV of Equity Excess Return	1,907,937
Value of Equity	**2,917,795**

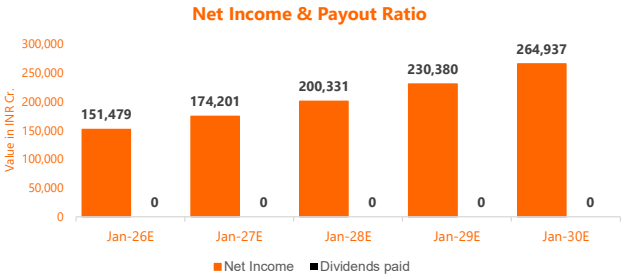
Calculation of Intrinsic Value

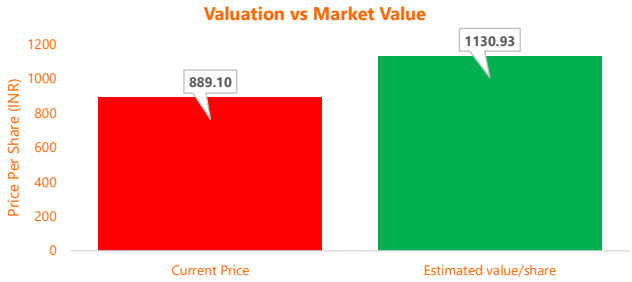
Number of shares		2580
Current Price		889.10
Estimated value/share	**¥**	**1130.93**
Trading at Discount: Undervalued by -		**21.38%**

www.varhedgeresearch.com









Model Output

Under the base case scenario, the Excess Return Model estimates an equity value of ¥2,917,795 mn, implying an intrinsic value of ¥1130.93 per share. In comparison to the current market price of ¥889.1, the stock appears to be trading at a Discount of approximately 21.38%, suggesting Undervalued under the given assumptions.

Notes:

1. Why Use ERM When FCFF Already Exists?

While FCFF is robust and widely used, the Excess Return Model offers several advantages in specific contexts:

-Focus on Economic Profitability: Unlike FCFF, which aggregates cash flow, ERM emphasizes the quality of returns by isolating how much value the company creates *above* the required rate of return (cost of equity).

-Better Fit for Financial Institutions: Since banks and NBFCs (Non-Banking Financial Companies) often have volatile or non-existent free cash flows, ERM's reliance on book value and ROE provides a more stable and interpretable framework.

-Direct Link to Value Creation: ERM offers a direct assessment of whether a firm is creating or destroying shareholder value by comparing ROE to the cost of equity.

-Avoids Terminal Value Sensitivity: ERM reduces dependence on distant terminal values, especially when value is driven by near-to-mid-term excess returns.

2. Key Inputs and Model Dynamics

The ERM relies on **two primary inputs**:

I. Equity Capital Invested: Measured as the **book value of equity**, this represents the shareholder capital currently employed in the business. For financial service firms, this is a relatively reliable metric due to:
-Assets often marked to market (e.g., loans, investments)
-Minimal depreciation or fixed asset distortions
-Less complex capital expenditure tracking than manufacturing

Adjustment Note: Stock buybacks and one-time losses may reduce book value, and adjustments might be required to reflect true economic capital.

II. Excess Returns on Equity: Excess Return = (ROE – Cost of Equity) × Book Value of Equity

This component captures the firm's ability to generate economic profits. It reflects future expectations based on:
-Competitive positioning
-Regulatory environment
-Macroeconomic and interest rate trends
-Historical consistency of ROE

Key Value Driver Sensitivity

The valuation based on the **Excess Return Model (ERM)** is highly sensitive to the firm's ability to generate **economic profits** — returns above its cost of equity — over time. To evaluate the reliability and robustness of our base case valuation, we conduct a **sensitivity analysis** using two key variables that directly influence the present value of future excess returns: **Return on Equity (ROE)** and **Cost of Equity (Ke)**.
These two inputs are central to the model's excess return component: **Excess Return = (ROE – Ke) × Book Value of Equity**

By testing a range of realistic ROE and Ke combinations, we present a valuation spectrum that reflects both optimistic and conservative scenarios, helping investors gauge the risk and opportunity embedded in the assumptions.

Key Variables Selected: We have chosen the following two variables for the ERM sensitivity analysis:

1. Return on Equity (ROE): ROE reflects the firm's profitability and ability to generate value from shareholder capital. It is the **primary driver** of excess returns and hence of equity value in the ERM. Small changes in ROE, especially when it hovers near the cost of equity, have a **non-linear impact** on valuation.

2. Cost of Equity (Ke): Cost of equity reflects the **required rate of return** by investors based on business risk, market volatility, and macroeconomic factors. It acts as the threshold over which value is created or destroyed. Even a ±0.5% change can materially affect the excess return stream, especially during the high-growth phase.

Sensitivity Table:

Below is the matrix showing how the Enterprise value and Intrinsic equity value per share changes with different combinations of WACC and terminal growth rate.

Implied Equity Value (mn)

Cost of ↓ \ Return on Equity (Growth Phase) →	12.00%	13.50%	15.00%	16.50%	18.00%
9.31%	2,624,572	2,865,334	3,124,888	3,404,453	3,705,314
9.49%	2,534,992	2,767,777	3,018,748	3,289,089	3,580,045
9.67%	2,449,798	2,674,990	**2,917,795**	3,179,357	3,460,884
9.84%	2,368,697	2,586,657	2,821,681	3,074,881	3,347,427
10.02%	2,291,420	2,502,485	2,730,092	2,975,318	3,239,299

Implied Value Per Share

Cost of ↓ \ Return on Equity (Growth Phase) →	12.00%	13.50%	15.00%	16.50%	18.00%
9.31%	1,017.3	1,110.6	1,211.2	1,319.6	1,436.2
9.49%	982.6	1,072.8	1,170.1	1,274.8	1,387.6
9.67%	949.5	1,036.8	**1,130.9**	1,232.3	1,341.4
9.84%	918.1	1,002.6	1,093.7	1,191.8	1,297.5
10.02%	888.2	970.0	1,058.2	1,153.2	1,255.5

Sensitivity Table Output:

The sensitivity analysis clearly demonstrates that the **intrinsic equity value** is highly responsive to variations in both **Return on Equity (ROE)** and **Cost of Equity (Ke)**:
Higher ROE and **lower Ke** significantly expand excess returns, thereby increasing equity value. Conversely, **lower ROE** or **higher Ke** compresses excess returns, resulting in more conservative valuations — and in some cases, value destruction.

In our base case, assuming a COE of 9.67% and a growth phase ROE of 15%, we estimate: Equity Value of ₹2,917,795 Cr, Intrinsic Equity Value per Share of ₹1130.9
However, under reasonable variations, the valuation range spans: Equity: ₹2,291,420 Cr to ₹3,705,314 Cr and Per Share: ₹888.2 to ₹1436.2

This analysis highlights the importance of sustaining superior ROE and managing risk (captured in Ke) to drive long-term shareholder value. It also equips investors with a clearer understanding of how changes in macro and business fundamentals might influence the fair value of equity..

Scenario-Based Valuation Outlook

Under the Excess Return Model, equity value is driven by "excess returns" – the amount ROE exceeds the cost of equity (CoE). By definition, value is created when ROE surpasses CoE and destroyed when ROE falls below CoE. In ERM, intrinsic value equals current book equity plus the present value of expected future excess earnings. This section sets up bull/base/bear cases with ROE and CoE assumptions around the central base case, using the 5-year historical ROE as a validation benchmark.

Statistical Forecast Validation:

We compare the base-case ROE forecasts against the company's 5-year median historical ROE. The 5-year median ROE serves as a robust historical benchmark (less sensitive to outliers than a mean). If the forecasted ROE deviates materially from the median, the analyst should justify the deviation (e.g. cyclical tailwinds or structural shifts). In practice, the median ROE anchors expectations and flags any overly aggressive or conservative assumptions in the model.

(For detailed explanation refer Projections section)

	1. Return on Equity (Growth Phase)				
Bull	18.00%	18.00%	18.00%	18.00%	18.00%
Base	15.00%	15.00%	15.00%	15.00%	15.00%
Bear	12.00%	12.00%	12.00%	12.00%	12.00%
Stats-Based	13.69%	13.69%	13.69%	13.69%	13.69%

Interpretation Framework:

To assess how closely the Cases aligns with the stats-based estimate, we classify the deviation as follows:
a) > 25% deviation = **"Statistically Divergent" -** Projections may reflect aggressive assumptions or a major anticipated shift
b) 10 – 25% deviation = **"Statistically Marginal" -** Projections differ but within a justifiable range given qualitative context
c) < 10% deviation = **"Statistically Aligned" -** Projections closely follow historical

	Bull	Base	Bear	Stats-based
CoE	9.49%	9.67%	9.84%	9.67%
Terminal	1.58%	1.76%	1.94%	1.76%

2. Cost of Equity (CoE): We input scenario-specific CoE to reflect macro conditions. In a Bull case, lower interest rates or a thinner equity risk premium would yield a lower CoE (raising valuations), whereas in a Bear case higher rates or risk aversion increase CoE. Thus CoE in each scenario encapsulates broad equity-risk expectations – it is not driven by firm operations but by market/interest-rate outlook. In practice, analysts often tie CoE to long-term bond yields plus a risk spread.

3. Terminal Growth Rate: The terminal growth rate reflects long-term economic and industry factors. It is typically set in line with sustainable GDP or inflation rates, since a firm cannot grow perpetually faster than the economy. In our Base case we use a conservative long-term growth (e.g. near long-run GDP), the Bull case may allow a slightly higher rate if secular tailwinds are expected, and the Bear case assumes a lower terminal growth (mature industry or deflationary pressures). As valuation best practices note, terminal growth should remain realistic (often in the low single digits) and congruent with broad economic growth

Scenario Output Comparison:

	Bull Case	Base Case	Bear Case	Stats-based
Equity Value	4,470,595	2,917,795	1,621,113	2,704,005
Intrinsic Value per Share	1,732.79	1,130.93	628.34	1,048.06

Statistically Aligned

The above scenario analysis yields an equity value per share of ¥1732.79, ¥1130.93, and ¥628.34 under the Bull, Base, and Bear cases, respectively. Based on our stats-based analysis, the Base Case projection is considered 'Statistically Marginal' with the historical statistical trend.

Relative Valuation - Alibaba Group Holding Limited

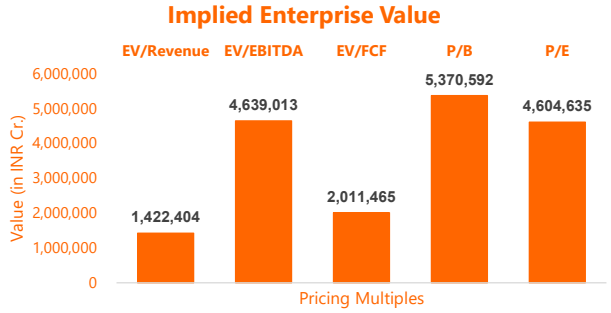
This report applies a **comparables (peer) valuation** framework using key pricing multiples. In a comparables analysis, we identify similar companies and compute standardized multiples (e.g. EV/Revenue, EV/EBITDA, EV/FCF, P/B, P/E). We then take a central tendency (commonly the median) of these peer multiples and apply it to the company's own financial metrics to estimate its value. This approach is straightforward and widely used, though it relies on the assumption that the company's growth, margins and risk profile are broadly in line with the peer group.

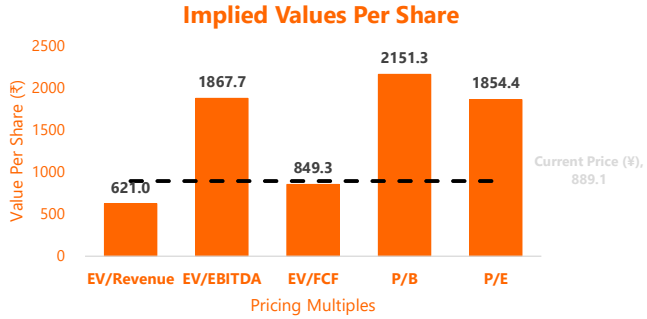
Peer Selection: Our peer set includes the largest publicly traded firms that operate in similar markets and business segments. We gather the latest market and financial data for each: share price and count, market capitalization, net debt (total debt less cash), revenue, EBITDA, free cash flow (FCF), book value and net income. These figures are taken from recent financial statements, stock exchange filings or financial databases as of the valuation date. Enterprise Value (EV) is computed as Equity Value + Debt – Cash. Net debt is defined as total interest-bearing debt minus cash/cash equivalents. All values are in ₹ (crore) for consistency.

Multiples and Percentiles: For each company we compute the following multiples: **EV/Revenue**, **EV/EBITDA**, **EV/FCF**, **P/B (Price/Book)**, and **P/E (Price/Earnings)**. (EV-based multiples are capital-structure-neutral, using EV in numerator and sales/EBITDA/FCF in denominator; equity multiples use share price and per-share metrics.) We then aggregate the peer multiples. To summarize these, we calculate the **25th percentile**, **median (50th percentile)**, and **75th percentile** of each multiple across the peer set. In practice, analysts often use the

(Amount in million $, unless specified)

Company	Market Data			Financials				Pricing Multiples				
	Share Price $	Shares Outstanding	Enterprise Value	Revenue	EBITDA	Free Cash Flow	Net Income	EV/Revenue	EV/EBITDA	EV/FCF	P/B	P/E
Alibaba Group Holding Limited	**124**	**2580.00**	**295,651**	**139,349**	**29,022**	**10,844**	**18,108**	**2.1x**	**10.2x**	**27.3x**	**2.1x**	**17.7x**
Amazon.com, Inc.	228	10515.00	2,064,286	620,128	111,583	54,328	49,868	3.3x	18.5x	38.0x	8.7x	48.1x
MercadoLibre, Inc.	2,403	50.70	90,099	18,493	2,713	1,636	1,437	4.9x	33.2x	55.1x	24.5x	84.8x
Sea Limited	188	574.34	39,365	15,486	750	1,487	97	2.5x	52.5x	26.5x	7.8x	1111.0x
DoorDash, Inc.	244	415.40	25,394	10,152	84	1,859	-172	2.5x	302.3x	13.7x	9.6x	-589.8x
Coupang, Inc.	29	1799.00	25,886	28,864	730	963	1,031	0.9x	35.5x	26.9x	11.1x	50.0x
eBay Inc.	99	479.00	31,140	10,266	2,619	1,522	2,020	3.0x	11.9x	20.5x	5.5x	23.5x
Newegg Commerce, Inc.	92	387.93	481	1,392	-54	18	-55	0.3x	-9.0x	26.2x	2.2x	-653.7x
Wayfair Inc.	72	125.32	21,776	11,844	-314	328	-538	1.8x	-69.4x	66.5x	-1.7x	-16.7x
Etsy, Inc.	60	112.49	7,217	2,798	439	658	257	2.6x	16.5x	11.0x	-9.7x	26.2x
Revolve Group, Inc.	22	70.76	1,649	1,094	41	2	41	1.5x	40.3x	764.8x	5.6x	38.6x
Harmonic Mean (HM)								**1.4x**	**22.4x**	**25.9x**	**5.1x**	**37.0x**
75th Percentile								2.9x	39.1x	50.8x	9.4x	49.5x
Median								2.5x	25.9x	26.7x	6.7x	32.4x
25th Percentile								1.6x	13.0x	21.9x	3.0x	-6.6x
Low								0.3x	-69.4x	11.0x	-9.7x	-653.7x
Implied Enterprise Value - ¥ mn								1,422,404	4,639,013	2,011,465	5,370,592	4,604,635
Net Debt - ¥ mn								-179,746	-179,746	-179,746	-179,746	-179,746
Implied Market Value - ¥ mn								1,602,150	4,818,759	2,191,211	5,550,338	4,784,381
Shares Outstanding (mn)								2580.00	2580.00	2580.00	2580.00	2580.00
								620.99	1867.74	849.31	2151.29	1854.41
Implied Value per Share (¥)	*(Based on HM)*							**621.0**	**1867.7**	**849.3**	**2151.3**	**1854.4**
Current Price (¥)	**889.1**							**Overpriced**	**Underpriced**	**Overpriced**	**Underpriced**	**Underpriced**





Model Output

Based on the Harmonic Mean peer multiples, Alibaba Group Holding Limited 's implied equity value per share ranges roughly from ¥621 to ¥2151.3 depending on the chosen metric. We stress that this is a simplified illustrative exercise: true valuation would require adjustments for growth differences, one-time items, accounting variations, and forward ("next-twelve-months") estimates. Moreover, the use of historical or forward multiples, currency effects, and market timing can all sway the result. Analysts often present a valuation range (e.g. using the 25th–75th percentile of each multiple) to capture this uncertainty.

Monte Carlo Simulation & VaR Model

1-Year Value at Risk (VaR) Report

This report estimates the 1-year Value at Risk (VaR) for Alibaba Group Holding Limited using a Monte Carlo Simulation approach. By simulating 10,000 potential future price paths based on historical volatility and mean return, we quantify the risk of extreme loss under normal market conditions.

(Analysis done in $)

Date	Price($)	Returns	Replication	Simulated Returns	Simulated Price	VaR
16-Mar-2022	100	36.8%	123	6.19%	132	8
26-May-2022	90	14.8%	630	-40.78%	83	-42
8-Jun-2022	114	14.7%	952	20.17%	152	28
28-Mar-2023	93	14.3%	1059	16.16%	146	22
4-Jan-2023	99	13.0%	625	59.44%	225	101
15-Nov-2022	75	11.2%	1150	50.24%	206	81
22-Mar-2022	109	11.0%	776	-18.56%	103	-21
6-Dec-2021	117	10.4%	380	20.03%	152	28
26-Sep-2024	103	10.1%	852	57.33%	221	96
30-Dec-2021	117	9.7%	722	-12.46%	110	-15
30-Nov-2022	83	9.7%	365	44.35%	194	69
12-Apr-2021	232	9.3%	664	49.48%	204	80
31-Jan-2022	119	9.2%	796	-32.78%	90	-35
5-Mar-2025	139	8.6%	440	17.46%	148	24
13-May-2022	84	8.5%	1235	9.73%	137	13
26-Oct-2022	65	8.4%	99	-37.34%	86	-39
7-Oct-2021	148	8.3%	40	14.40%	144	19
20-Feb-2025	134	8.1%	1085	-51.73%	74	-50
15-Jul-2025	117	8.1%	69	17.36%	148	24
7-Jul-2023	86	8.0%	638	6.92%	133	9
25-Aug-2022	95	8.0%	1021	-30.52%	92	-33
18-Mar-2022	103	7.9%	159	-35.46%	87	-37
24-Sep-2024	96	7.9%	1217	-113.97%	40	-85
23-Jan-2024	71	7.9%	82	27.12%	163	39
17-Nov-2022	80	7.8%	363	-39.23%	84	-40
10-Nov-2022	66	7.6%	502	-6.41%	117	-8
10-Feb-2025	109	7.5%	181	38.45%	183	58
9-Dec-2024	91	7.4%	267	24.37%	159	34
4-Nov-2022	66	7.1%	489	3.92%	129	5
16-May-2024	83	7.1%	1016	32.25%	172	47
21-Dec-2021	117	6.9%	742	60.29%	227	103
14-Jun-2022	100	6.8%	200	-7.52%	115	-9
29-Apr-2022	92	6.8%	720	74.02%	261	136
28-Jan-2025	94	6.7%	1029	30.62%	169	45
4-Apr-2022	112	6.6%	758	36.23%	179	54
23-Jun-2022	106	6.6%	423	-163.60%	24	-100
8-Dec-2022	89	6.6%	797	-28.96%	93	-31
24-Aug-2021	163	6.6%	27	49.74%	204	80
2-May-2024	77	6.4%	388	-55.16%	72	-53
17-May-2022	87	6.4%	508	77.58%	270	146
29-Dec-2020	224	6.3%	993	35.27%	177	53
1-Oct-2024	111	6.2%	397	46.87%	199	74
6-Jun-2022	94	6.2%	1086	-162.36%	25	-100
30-Jan-2025	101	6.2%	1127	5.22%	131	7
8-Feb-2022	116	6.2%	364	-68.79%	63	-62
30-Sep-2020	279	6.2%	354	63.89%	236	111
19-Oct-2021	168	6.1%	571	19.44%	151	27
11-May-2023	83	6.0%	989	73.31%	259	134
14-Apr-2025	112	5.8%	165	-34.00%	89	-36
12-May-2025	130	5.8%	676	-32.86%	90	-35
21-Feb-2025	141	5.7%	1196	7.43%	134	10
13-May-2024	81	5.7%	421	112.23%	382	258
5-Jan-2021	228	5.5%	599	-1.11%	123	-1
20-Jan-2021	252	5.5%	75	7.30%	134	9

..... *Upto 10,000 rows*

Descriptive Statistics (5Y - Daily)

Mean	**-0.01%**
Standard Error	0.09%
Median	-0.21%
Standard Deviation	**3.20%**
Sample Variance	0.00
Kurtosis	15.98
Skewness	1.50
Range	0.50
Minimum	**-13.34%**
Maximum	**36.76%**
Sum	-0.16
Count	1239

Monte Carlo Simulation 1-Year

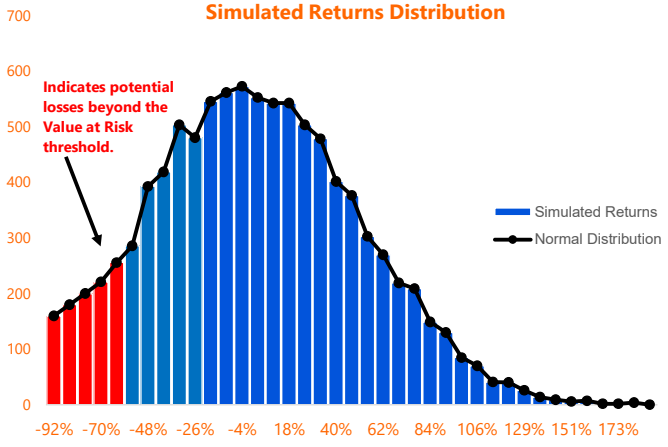
Current Price	$124.35
Time Horizon (Days)	252
Mean	**-4.09%**
Std Deviation	**51.16%**
Min	-220.76%
Max	199.22%

Output Summary

Average Simulated Price	$136.16
Minimum Simulated Price	$13.67
Maximum Simulated Price	$911.71
5th Percentile Simulated Price	52.2
1-Year 95% VaR	72.1
1-Year 95% VaR (%)	**57.99%**

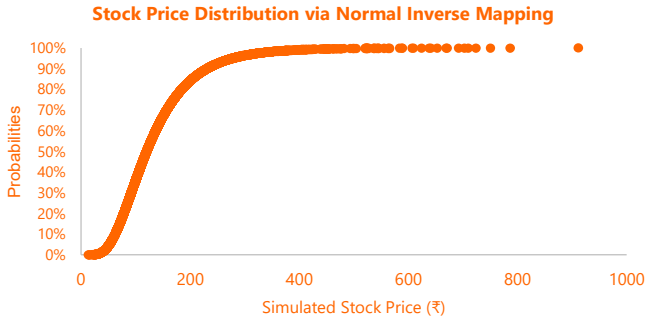
Percentile	Confidence Level	1 Year VAR	VaR %
10th	90.0%	62.34	**50.13%**
5th	95.0%	72.11	**57.99%**
1st	99.0%	86.65	**69.68%**
0.1th	99.9%	100.13	**80.53%**

Simulated Returns Distribution



The results of the Monte Carlo simulation provide a probabilistic framework for assessing the downside risk in Alibaba Group Holding Limited 's equity over a 1-year horizon. By generating 10,000 potential future price paths based on historically observed mean returns and volatility, we arrive at a 95% confidence Value at Risk (VaR) of $72.11, or 57.99% of the current stock price.

This implies that, under normal market conditions, we can be 95% confident that Alibaba Group Holding Limited 's share price will not fall below ¥52.24 within one year. Conversely, there exists a 5% probability that the losses could exceed this threshold.

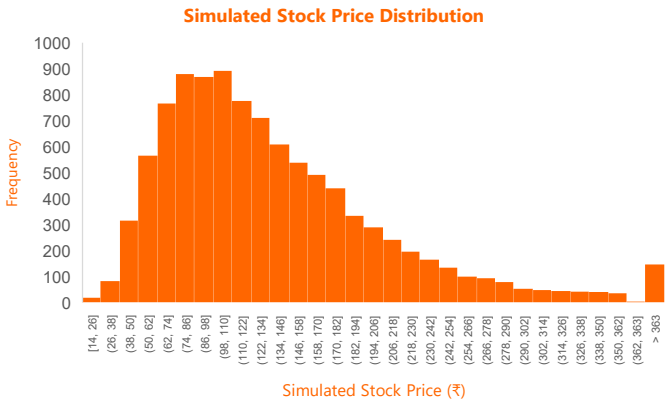


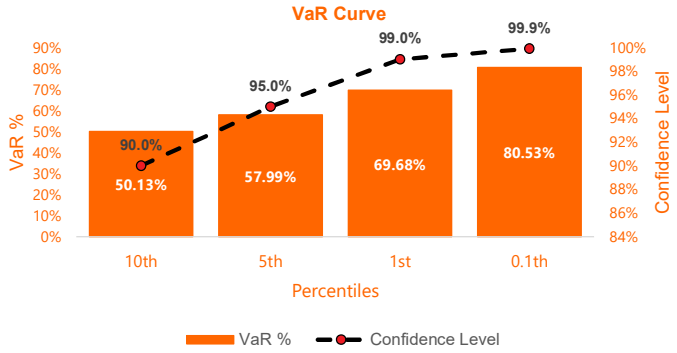
Interpretation in Context:

1) Volatility-Driven Exposure:
With a daily volatility of 3.2%, the risk profile of Alibaba Group Holding Limited over a 252-day trading horizon scales materially. The wide distribution of final simulated prices — from a low of $13.67 to a high of $911.71 — reflects both upside and downside tail exposures.

2) Positive Drift, But Non-negligible Tail Risk:
The simulation incorporates a small positive drift (daily mean return of -0.01%), consistent with historical equity returns. Despite this, the left tail remains significant due to the compounding impact of volatility over time.

3) Skewness Not Captured:
Since the simulation assumes normally distributed returns, it may understate extreme downside moves (negative skew, here skewness is equal to 1.498) that are often observed during market crises. This suggests that actual downside risk could be higher in a stressed environment.





Limitations & Enhancements:

While Monte Carlo simulation offers flexibility and a robust stochastic approach, certain limitations must be acknowledged:

1) The model assumes constant volatility and normally distributed returns, which may not hold in real-world equity markets.

2) Macroeconomic shocks, regime shifts, or company-specific events are not explicitly modeled but could materially alter risk estimates.

Notes and Disclosures:

1) Model Assumptions: The Monte Carlo simulation assumes returns follow a normal distribution and that stock prices evolve according to a Geometric Brownian Motion (GBM) process. Inputs for drift (mean return) and volatility are based on historical estimates and assumed constant throughout the simulation period.

2) Time Horizon: The simulation covers a one-year (252 trading days) investment horizon. Shorter- or longer-term results may differ materially and should be interpreted with caution.

3) Confidence Levels: Value at Risk (VaR) estimates are provided at 90%, 95%, and 99% confidence levels. For instance, a 95% confidence level indicates there is a 5% chance that losses will exceed the stated VaR amount over the simulated period.

4) Simulated Returns: For each simulated path, we draw a random probability via RAND() and convert it into a normally distributed annual log-return using Excel's NORM.INV function:

$$\textbf{Simulated Return} = \textbf{NORM.INV}(\ \textbf{RAND()},\ \mu_1,\ \sigma_1\ )$$

Here, μ_1 (= daily_mean × 252) is the annualized expected return and σ_1 (= daily_volatility × √252) is the annualized volatility. By mapping a uniform [0,1] random draw through the inverse normal distribution, we generate realistic, normally distributed log-returns for each Monte Carlo trial.

5) Price Calculation Method: Simulated prices are computed using the formula:

$$\text{Price}_t = \text{Price}_0 \times e^{\text{Simulated Return}_t}$$

This approach assumes continuously compounded returns and ensures that prices remain positive, reflecting the log-normal nature of equity returns.

6) Historical Volatility and Drift: Volatility and mean return are calculated using historical daily return data. These are backward-looking and may not reflect future conditions or incorporate real-time market dynamics.

Business Resilience & Opportunity Analysis

Alibaba Group Holding Limited (Alibaba) concluded its fiscal year 2025 with robust performance across core segments, as highlighted in its March quarter 2025 earnings call. The company reported consolidated revenue of approximately US$32.7 billion (RMB236.5 billion) for the quarter, marking a 7% year-over-year increase, or 10% excluding certain retail operations. Adjusted EBITA surged 36% to about US$4.5 billion (RMB32.6 billion), underscoring operational efficiency and strategic focus on "User-First, AI-Driven" initiatives. Key performance indicators (KPIs) such as cloud revenue growth at 18% and triple-digit AI-related product expansion for seven consecutive quarters reflect Alibaba's pivot toward AI + Cloud and e-commerce as growth engines. This analysis employs a SWOT framework to evaluate Alibaba's business resilience—its ability to withstand challenges—and opportunities for sustained value creation, drawing on segmental KPIs, strategic investments, and market positioning.

Strengths

Alibaba's strengths lie in its technological leadership, diversified ecosystem, and financial robustness, enabling it to navigate competitive landscapes while driving innovation.

❑ Technological Leadership in AI and Cloud Computing

Alibaba's Cloud Intelligence Group stands out as a cornerstone strength, with revenue accelerating to 18% year-over-year growth in the March quarter, reaching levels that position it as a global leader. Excluding Alibaba-consolidated subsidiaries, cloud revenue grew 17%, driven by public cloud expansion. A pivotal KPI is the sustained triple-digit growth in AI-related products for seven quarters, fueled by demand from diverse sectors including internet services, fintech, education, autopilot, livestock farming, and traditional manufacturing. For instance, the Industrial and Commercial Bank of China (ICBC) selected Alibaba Cloud's PolarDB as its enterprise-wide database, validating its technological prowess in high-stakes financial applications. The release of the open-source Qwen3 model series in April 2025, encompassing over 200 models with more than 300 million downloads worldwide, reinforces Alibaba's commitment to foundational AI research. This open-source strategy has fostered an ecosystem of over 100,000 derivative models, enhancing adoption among enterprises and developers.

❑ Dominant E-Commerce Ecosystem and User Engagement

In e-commerce, Taobao and Tmall Group (TTG) achieved 9% revenue growth to about US$14.0 billion (RMB101.4 billion), with customer management revenue (CMR) rising 12% due to improved take rates from initiatives like Quanzhantui and a 0.6% software service fee. Key KPIs include double-digit growth in new users and 88VIP members surpassing 50 million, with increasing average revenue per user (ARPU) on a cohort basis. These metrics highlight Alibaba's user-first approach, which has accelerated order volumes and retention. Merchants benefit from enhanced marketing efficiency via Quanzhantui, which targets underserved segments like white-label sellers, contributing to incremental advertising revenue. Internationally, Alibaba International Digital Commerce (AIDC) reported 22% revenue growth to US$4.6 billion (RMB33.6 billion), narrowing adjusted EBITA losses to US$0.5 billion (RMB3.6 billion) from US$0.6 billion prior, through diversified models and cross-border momentum. This ecosystem strength is further evidenced by integrations like quick commerce on Taobao, leveraging Ele.me's logistics for high-frequency user interactions, potentially expanding the addressable market from 500-600 million to 1 billion consumers in China.

❑ Financial Health and Shareholder Returns

Alibaba maintains a strong net cash position of US$50.5 billion (RMB366.4 billion) as of March 31, 2025, supported by 18% operating cash flow growth to US$3.8 billion (RMB27.5 billion). Despite a 76% decline in free cash flow to US$0.5 billion (RMB3.7 billion) due to cloud infrastructure investments, the company's ability to monetize non-core assets—generating up to US$2.6 billion from divesting Sun Art and Intime—demonstrates prudent capital allocation. Shareholder returns totaled US$16.5 billion in FY2025, including US$11.9 billion in repurchases (reducing shares by 5.1% net) and US$4.6 billion in dividends (US$2 per ADS, comprising a 5% increased annual dividend of US$1.05 and a special US$0.95). These actions, alongside profitability in Digital Media and Entertainment (DME) Group—turning adjusted EBITA positive with 12% revenue growth to US$0.8 billion (RMB5.6 billion)—underscore financial resilience, enabling reinvestments in AI and e-commerce without compromising liquidity.

Weaknesses

Despite its strengths, Alibaba faces internal challenges that could impede agility, including investment pressures and operational dependencies.

❑ Margin Pressures from Strategic Investments

Heavy investments in AI infrastructure and user experience initiatives have strained margins. For Cloud Intelligence, adjusted EBITA margin declined 1.9 percentage points quarter-over-quarter due to elevated depreciation, amortization, and R&D spending to meet AI demand. Group-wide, while adjusted EBITA rose 36%, investments in TTG offset gains, with EBITA up only 8% amid spending on price-competitive products, customer service, and AI applications. In Local Services, adjusted EBITA losses widened sequentially due to seasonal investments during Chinese New Year, despite 10% revenue growth. AIDC's ongoing losses, albeit narrowing, reflect inefficiencies in scaling cross-border operations amid geopolitical uncertainties. These investments, while strategic, could delay profitability targets, such as AIDC's quarterly breakeven in FY2026, if demand fluctuations persist.

❑ **Dependency on Key Markets and Supply Chains**

Alibaba's growth is heavily tied to China, where e-commerce and cloud segments derive the majority of revenue, exposing it to domestic economic slowdowns or regulatory shifts. Global AI supply chain uncertainties, as noted, pose risks despite strong customer demand. For instance, inference demand surged around Chinese New Year but faced deployment delays due to supply issues, potentially capping cloud growth below potential. Additionally, reliance on open-source models like Qwen for edge deployments may limit direct cloud monetization for smaller models, requiring complementary IaaS services to capture value. Operational integration, such as embedding quick commerce into Taobao, demands significant RMB10 billion investment, which could strain resources if user conversion underperforms expectations.

❑ **Competitive Monetization Lags**

TTG's monetization rate has remained stable or slightly declined over recent years, lagging peers despite initiatives like Quanzhantui and software fees. While CMR grew 12%, this relies on one-time boosts and incremental advertiser acquisition, with potential phasing out of merchant concessions in 2025. This weakness is compounded by fluctuating EBITA, as investments in market share stabilization may lead to quarter-to-quarter volatility, hindering predictable profitability.

Opportunities

Alibaba is well-positioned to capitalize on emerging trends in AI adoption, e-commerce evolution, and global expansion.

❑ **Expansion in AI-Driven Industries and SMB Adoption**

Surging AI demand presents a multi-decade opportunity, with cloud revenue poised for double-digit FY2025 growth. Broader industry penetration—beyond early adopters like fintech to traditional sectors like manufacturing—offers untapped potential. For example, enterprises migrating from offline IDCs to cloud for AI fine-tuning via Bailian and GPU rentals could accelerate public cloud growth. Qwen3's hybrid reasoning capabilities, fully open-sourced, may spur developer innovations, increasing API calls and IaaS usage. Inference demand, growing steadily post-Spring Festival, supports monthly revenue upticks, with 90% of tokens expected via cloud. SMBs adopting AI for value-added applications could expand Alibaba's customer base, driving triple-digit AI revenue into FY2026.

❑ **E-Commerce Innovations and Market Share Stabilization**

AI applications in e-commerce, such as rebuilding search, recommendations, and advertising, promise enhanced user experiences and monetization. Early results show improvements in precision and efficiency, potentially boosting GMV and take rates long-term. Quick commerce integration on Taobao, with RMB10 billion investment, targets converting existing users, enhancing frequency and stickiness. Pilots outperformed expectations, suggesting synergies with events like 618 Shopping Festival for cross-category growth. Internationally, AIDC's diversified footprint mitigates trade risks, with enriched local supply models positioning it for profitability. 88VIP's double-digit growth and high ARPU cohorts indicate opportunities in premium memberships, while AI tools could narrow monetization gaps with peers.

❑ **Portfolio Optimization and Emerging Businesses**

Divestitures of non-core assets free capital for AI + Cloud and e-commerce, with US$2.6 billion proceeds enabling shareholder returns and R&D. Emerging segments like Cainiao (EBITA up 55% despite 12% revenue dip due to integrations) and Freshippo show efficiency gains. DME's profitability turnaround, driven by Youku's advertising, opens avenues for content-AI synergies. Overall, a "second growth curve" in technology could leverage Alibaba's infrastructure for new revenue streams.

Threats

External factors pose risks to Alibaba's trajectory, including competition, geopolitics, and macroeconomic variables.

❑ **Intensified Competition in Core Segments**

Domestic e-commerce faces aggressive rivals in quick commerce and monetization, potentially pressuring market share. Peers' higher take rates highlight competitive lags, while food delivery intensification could erode Local Services' 10% growth if investments fail to yield user gains. In cloud, global players and domestic alternatives like DeepSeek may challenge AI leadership, especially if open-source trends commoditize models.

❑ **Geopolitical and Regulatory Uncertainties**

AIDC's cross-border reliance exposes it to trade regulations, with dynamic macro environments threatening 22% growth. Global AI supply chain disruptions, including chip shortages, could delay infrastructure ramps, impacting cloud's 18% trajectory. Regulatory scrutiny in China on data privacy or antitrust might constrain AI and e-commerce expansions.

❑ **Macroeconomic and Demand Fluctuations**

Economic slowdowns could curb consumer spending, affecting TTG's user growth KPIs. Seasonal effects, like Spring Festival, already distorted monthly cadences, while broader uncertainties in AI demand—despite unwavering trends—pose risks if inference scaling lags.

Commentary

Alibaba's FY2025 performance reveals a resilient business model, fortified by AI + Cloud leadership and e-commerce dominance, yet tempered by investment pressures and external threats. Strengths in technological innovation and financial health provide a solid foundation for capitalizing on AI adoption and e-commerce synergies, potentially stabilizing market share and accelerating growth in FY2026. However, weaknesses in margins and dependencies necessitate vigilant management to mitigate competitive and geopolitical threats. Overall, Alibaba's strategic focus on user-first initiatives positions it favorably for long-term value creation, with KPIs like cloud acceleration and user metrics signaling upward momentum amid evolving opportunities. Investors should monitor AI monetization and international diversification as key resilience indicators.

Industry Competitive Forces Framework

Alibaba Group Holding Limited (Alibaba) operates at the forefront of the global digital economy, with core businesses spanning e-commerce, cloud computing, and AI-driven technologies. As highlighted in the company's March Quarter 2025 and Full Fiscal Year 2025 Earnings Call, Alibaba achieved consolidated revenue of approximately USD 32.6 billion (up 7% year-over-year), with adjusted EBITA rising 36% to USD 4.5 billion, driven by accelerated growth in cloud (18% revenue increase) and e-commerce segments. This analysis applies Porter's Five Forces framework to evaluate the competitive dynamics in the industries where Alibaba primarily competes—namely, domestic and international e-commerce, cloud computing, and AI infrastructure. The framework assesses structural factors influencing profitability and strategic positioning, incorporating key performance indicators (KPIs) such as revenue growth rates, market share stabilization efforts, and user metrics like the 88VIP membership surpassing 50 million. Ratings of High, Moderate, or Low are assigned to each force based on industry barriers, power imbalances, and competitive intensity.

Threat of New Entrants: Moderate

The threat of new entrants in Alibaba's core industries—e-commerce and cloud computing—remains moderate, primarily due to high capital requirements, technological barriers, and network effects, though eased by digital innovation and regulatory shifts.

In e-commerce, entry barriers are substantial, requiring massive investments in logistics, user acquisition, and platform ecosystems. Alibaba's Taobao and Tmall Group (TTG) reported revenue of USD 14.0 billion (9% growth), bolstered by customer management revenue up 12%, reflecting strong network effects from over 50 million 88VIP members and double-digit user growth. New entrants face challenges scaling against established platforms, as evidenced by Alibaba's focus on AI-driven user experiences and price-competitive products to stabilize market share. However, the rise of quick commerce (e.g., Alibaba's RMB 10 billion investment in Ele.me for instant delivery) lowers barriers for niche players, allowing startups to leverage existing logistics networks. In China, regulatory scrutiny on data privacy and antitrust (e.g., past fines on Alibaba) can deter entrants, but global cross-border opportunities, like Alibaba International Digital Commerce (AIDC)'s 22% revenue growth to USD 4.6 billion, attract new players via low-cost models.

For cloud and AI, barriers are even higher due to infrastructure demands. Alibaba Cloud's 18% revenue growth (17% excluding subsidiaries) and triple-digit AI product growth for seven quarters underscore the need for advanced data centers and R&D. Investments in AI infrastructure, including the open-sourcing of over 200 Qwen models (300 million downloads), create proprietary advantages. Yet, the "AI + Cloud" trend enables moderate entry for specialized firms, as seen in broader adoption across industries like manufacturing and livestock farming. KPIs such as public cloud acceleration and AI penetration in traditional sectors highlight how incumbents like Alibaba dominate, but open-source ecosystems could empower new AI startups.

Overall, while capital intensity (e.g., Alibaba's increased cloud capex reducing free cash flow 76% to USD 0.5 billion) deters many, digital scalability moderates the threat, allowing agile entrants in sub-segments like quick commerce.

Bargaining Power of Suppliers: Low

Suppliers' bargaining power in Alibaba's industries is low, driven by fragmented supplier bases, Alibaba's scale, and diversification strategies that reduce dependency.

In e-commerce, suppliers include merchants, logistics providers, and content creators. With millions of merchants on Taobao/Tmall, Alibaba benefits from a diverse ecosystem, as noted in the earnings call's emphasis on supporting high-quality merchants via marketing tools and new product launches. The introduction of a 0.6% software service fee and Quanzhantui's increasing penetration (boosting take rates) demonstrate Alibaba's leverage to impose terms, improving merchant ROI while enhancing platform efficiency. AIDC's diversified global footprint mitigates risks from trade regulations, with cross-border revenue driving 22% growth. Logistics integration, such as Cainiao's adjusted EBITA up 55% despite 12% revenue decline due to e-commerce synergies, further weakens supplier power by internalizing supply chains.

In cloud computing, suppliers encompass hardware vendors (e.g., GPUs for AI) and energy providers. Alibaba's proactive exploration of diversified AI supply chains amid global uncertainties (e.g., chip shortages) underscores low dependency, with confidence in meeting demand despite fluctuations. The earnings call highlighted unwavering AI investments, with public cloud growth accelerating and AI products adopted in sectors like financial services (e.g., ICBC selecting PolarDB). KPIs such as triple-digit AI revenue growth for seven quarters and open-sourcing Qwen3 models (top global benchmarks) enable Alibaba to negotiate favorable terms, as scale allows bulk procurement and in-house innovation reduces reliance on external tech.

Low power is evident in Alibaba's ability to optimize costs, contributing to group-wide EBITA improvements across segments, though geopolitical risks could mildly elevate it in AI hardware.

Bargaining Power of Buyers: High

Buyer bargaining power is high in Alibaba's industries, fueled by low switching costs, price sensitivity, and abundant alternatives, compelling continuous investment in user retention.

In e-commerce, buyers (consumers and enterprises) wield significant power due to easy platform switching. Alibaba's "User-First" strategy, with TTG's focus on user growth and experience enhancements (e.g., AI for search/recommendations), addresses this, achieving stronger new user momentum and orders. The 88VIP program's double-digit growth to over 50 million members, with rising ARPU, illustrates retention efforts, but competition from peers like Pinduoduo and JD.com intensifies pressure. Quick commerce investments (RMB 10 billion in Ele.me) target high-frequency needs, potentially serving 500-600 million users expanding to 1 billion, yet buyers demand seamless experiences, as seen in pilot outperformance for Taobao Instant Commerce. KPIs like 12% customer management revenue growth reflect monetization challenges amid buyer demands for competitive pricing and service.

In cloud and AI, enterprise buyers hold high power, negotiating based on performance and cost. Alibaba Cloud's 18% growth stems from AI adoption in diverse sectors (e.g., autopilot, education, manufacturing), but customers can switch to competitors like Tencent Cloud or AWS if supply chains falter. The earnings call noted strong demand despite uncertainties, with AI applications shifting to customer-facing use cases among SMEs. However, buyers' leverage is apparent in the need for value-added services, as evidenced by broader industry penetration and fine-tuning of open-source models.

High buyer power drives Alibaba's investments (e.g., in membership benefits and AI), potentially pressuring margins, as TTG EBITA grew only 8% despite 9% revenue increase.

Threat of Substitute Products or Services: Moderate

The threat of substitutes is moderate, arising from evolving technologies and business models, but tempered by Alibaba's integrated ecosystem and AI differentiation.

In e-commerce, substitutes include offline retail, social commerce, and emerging formats like live-streaming on non-Alibaba platforms. Alibaba counters with AI innovations rebuilding search and recommendations, improving precision and efficiency. The earnings call emphasized quick commerce as a convergence with traditional e-commerce, with Taobao integrating instant delivery to boost engagement. AIDC's 22% growth via diversified models (e.g., local supply) mitigates substitutes in cross-border, though global trade uncertainties pose risks. KPIs like narrowed AIDC losses (USD 0.5 billion) and unit economics improvements in AliExpress Choice highlight resilience, but substitutes like direct-to-consumer brands moderate the threat.

In cloud, substitutes encompass on-premise solutions or rival clouds, but AI's "historic opportunity" (defining 10-20 years) reduces this, with Alibaba's triple-digit AI growth and Qwen3 open-sourcing fostering ecosystem lock-in. Edge deployment of smaller models (e.g., 3B parameters) could substitute cloud inference, yet complementary needs (e.g., elasticity for large models) maintain moderate threat. Adoption in traditional industries (e.g., livestock) expands use cases, lowering substitution risk.
Overall, AI-driven innovations position Alibaba to mitigate substitutes, though rapid tech evolution keeps it moderate.

Rivalry Among Existing Competitors: High

Rivalry is high, characterized by intense competition for market share, pricing wars, and innovation races in e-commerce and cloud.
In e-commerce, rivals like JD.com, Pinduoduo, and ByteDance escalate pressure, as Alibaba invests to stabilize share amid monetization gaps (take rate improvements via Quanzhantui and fees). TTG's 9% revenue growth lags peers' aggressive expansions, with quick commerce competition intensifying (e.g., investments in Ele.me amid food delivery battles). The 618 Shopping Festival adjustments reflect adaptive strategies, but seasonal investments (e.g., Chinese New Year) impact profitability, with Local Services EBITA losses narrowing but fluctuating.

In cloud, competition from Tencent, Huawei, and global players like AWS is fierce, particularly in AI. Alibaba's 18% growth and leadership in open-source (300 million Qwen downloads) provide edges, but inference demand surges (post-Spring Festival) require capacity ramps. KPIs like 69% cloud EBITA increase (to positive margins) show efficiency gains, yet investments in AI weigh on sequential margins (down 1.9 points).

High rivalry drives Alibaba's focus on core growth (e-commerce and AI+Cloud), with divestitures (e.g., USD 2.6 billion from Sun Art/Intime) funding USD 16.5 billion shareholder returns, underscoring strategic agility.

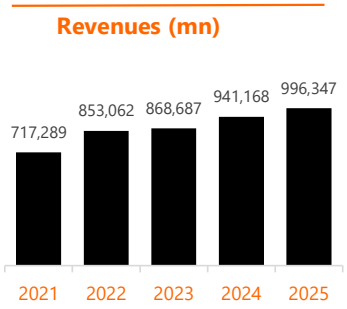
Commentary

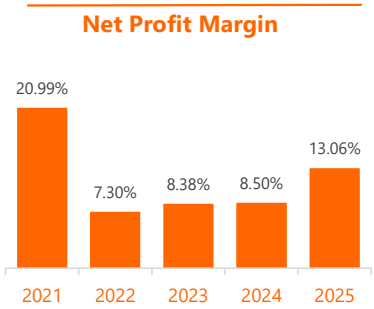
Porter's Five Forces reveal a dynamic competitive landscape for Alibaba, with high rivalry and buyer power posing ongoing challenges, while low supplier power and moderate threats from entrants and substitutes offer strategic advantages. The framework underscores Alibaba's resilience through AI integration and user-centric investments, as evidenced by accelerated cloud growth and e-commerce monetization gains. However, sustaining leadership requires navigating geopolitical risks and competitive intensities, potentially enhancing long-term profitability in a USD multi-trillion digital economy. Investors should monitor KPIs like AI revenue trajectories and user retention for signs of enduring competitive moats.

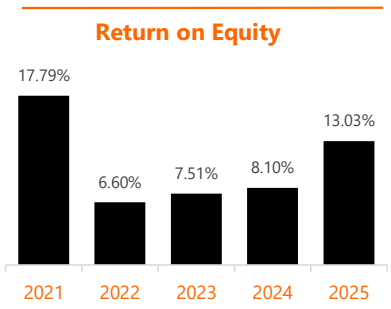
Dupont Analysis - Alibaba Group Holding Limited

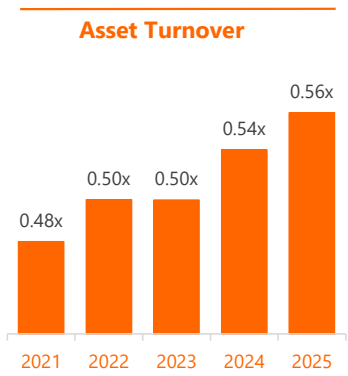
This DuPont Analysis report provides a comprehensive evaluation of Alibaba Group Holding Limited 's financial performance by dissecting its Return on Equity (ROE) and Return on Assets (ROA) through the DuPont framework. By breaking down these key metrics into their underlying components, this report aims to uncover the operational, financial, and strategic factors influencing profitability.

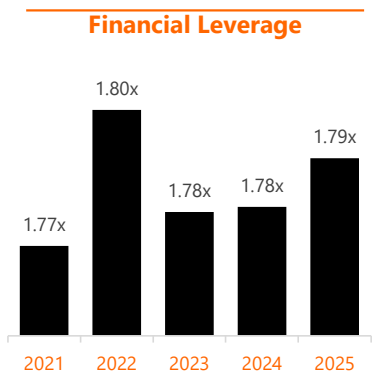
Financial Summary

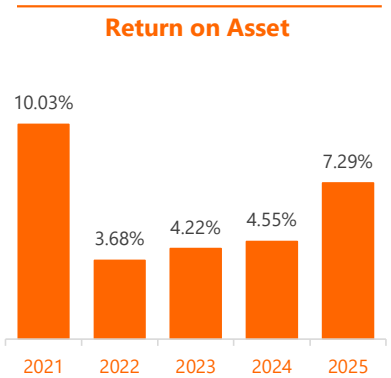












All currency are in ¥ mn

Return on Equity (ROE) Analysis

Return on Equity (ROE)	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Net Profit	87,886	149,433	150,578	62,249	72,783	80,009	130,109
Average Shareholder Equity	429,040	623,829	846,436	942,975	969,068	988,100	998,201
Return on Equity	**20.48%**	**23.95%**	**17.79%**	**6.60%**	**7.51%**	**8.10%**	**13.03%**

ROE - Dupont Equation	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Net Profit	87,886	149,433	150,578	62,249	72,783	80,009	130,109
Revenue	376,844	509,711	717,289	853,062	868,687	941,168	996,347
Net Profit Margin (A)	**23.32%**	**29.32%**	**20.99%**	**7.30%**	**8.38%**	**8.50%**	**13.06%**
Revenue	376,844	509,711	717,289	853,062	868,687	941,168	996,347
Average Total Asset	841,100	1,139,031	1,501,602	1,692,886	1,724,299	1,758,936	1,784,528
Asset Turnover Ratio (B)	**0.45x**	**0.45x**	**0.48x**	**0.50x**	**0.50x**	**0.54x**	**0.56x**
Average Total Asset	841,100	1,139,031	1,501,602	1,692,886	1,724,299	1,758,936	1,784,528
Average Shareholder Equity	429,040	623,829	846,436	942,975	969,068	988,100	998,201
Equity Multiplier (C)	**1.96x**	**1.83x**	**1.77x**	**1.80x**	**1.78x**	**1.78x**	**1.79x**
Return on Equity (A*B*C)	**20.48%**	**23.95%**	**17.79%**	**6.60%**	**7.51%**	**8.10%**	**13.03%**

1. Key Observation

- ROE exhibited pronounced volatility over the seven-year period, ranging from a high of 23.95% in FY2020 to a low of 6.60% in FY2022, before recovering to 13.03% in FY2025, indicating a cyclical pattern in shareholder return generation.
- The primary driver of ROE fluctuations was Net Profit Margin (NPM), which accounted for the bulk of year-over-year changes, while Asset Turnover showed gradual improvement and Equity Multiplier remained relatively stable around 1.78x–1.96x, suggesting consistent but moderate leverage without aggressive debt reliance.
- Overall, ROE averaged approximately 13.78% across the period, with post-FY2022 recovery signaling enhanced equity efficiency, though it remains below the pre-FY2022 average of 20.74%, highlighting a shift toward more modest returns.
- The Equity Multiplier's slight decline from 1.96x in FY2019 to an average of 1.78x in later years implies a conservative capital structure, potentially reducing risk but also capping ROE amplification.
- In absolute terms, the ROE rebound in FY2025 (13.03%) represents a near-doubling from the FY2022 trough, driven by a 53.76% increase in NPM from FY2024, underscoring margin recovery as a pivotal factor.

2. Trend Analysis

- **FY2019 to FY2020**: ROE increased by 17.0% (from 20.48% to 23.95%), primarily due to a 25.73% rise in NPM (from 23.32% to 29.32%), reflecting stronger profitability; Asset Turnover remained flat at 0.45x, while Equity Multiplier decreased by 6.63% (from 1.96x to 1.83x), partially offsetting the gain but indicating reduced leverage.
- **FY2020 to FY2021**: A 25.72% decline in ROE (to 17.79%) was driven by a 28.41% drop in NPM (to 20.99%), despite a modest 6.67% improvement in Asset Turnover (to 0.48x); Equity Multiplier further decreased by 3.28% (to 1.77x), contributing to the downward pressure and suggesting a period of margin compression amid asset growth.
- **FY2021 to FY2022**: ROE plummeted by 62.90% (to 6.60%), attributable to a 65.22% collapse in NPM (to 7.30%), which overwhelmed a 4.17% gain in Asset Turnover (to 0.50x) and a slight 1.69% increase in Equity Multiplier (to 1.80x); this sharp deterioration points to significant profitability challenges during this interval.
- **FY2022 to FY2023**: A modest 13.79% recovery in ROE (to 7.51%) stemmed from a 14.79% NPM rebound (to 8.38%), with Asset Turnover stable at 0.50x and Equity Multiplier dipping marginally by 1.11% (to 1.78x), indicating early signs of stabilization without major shifts in efficiency or leverage.
- **FY2023 to FY2024**: ROE rose by 7.86% (to 8.10%), supported by a 1.43% NPM increase (to 8.50%) and an 8.00% improvement in Asset Turnover (to 0.54x), while Equity Multiplier held steady at 1.78x, highlighting growing asset utilization as a complementary driver.

Return on Assets (ROA) Analysis

Return on Asset							
	Mar-19	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Net Profit	87,886	149,433	150,578	62,249	72,783	80,009	130,109
Average Total Asset	841,100	1,139,031	1,501,602	1,692,886	1,724,299	1,758,936	1,784,528
Return on Asset	**10.45%**	**13.12%**	**10.03%**	**3.68%**	**4.22%**	**4.55%**	**7.29%**

ROA - Dupont Equation							
	Mar-19	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Net Profit	87,886	149,433	150,578	62,249	72,783	80,009	130,109
Revenue	376,844	509,711	717,289	853,062	868,687	941,168	996,347
Net Profit Margin (A)	**23.32%**	**29.32%**	**20.99%**	**7.30%**	**8.38%**	**8.50%**	**13.06%**
Revenue	376,844	509,711	717,289	853,062	868,687	941,168	996,347
Average Total Asset	841,100	1,139,031	1,501,602	1,692,886	1,724,299	1,758,936	1,784,528
Asset Turnover Ratio (B)	**0.45x**	**0.45x**	**0.48x**	**0.50x**	**0.50x**	**0.54x**	**0.56x**
Return on Asset (A*B)	**10.45%**	**13.12%**	**10.03%**	**3.68%**	**4.22%**	**4.55%**	**7.29%**

1. Key Observation

- ROA mirrored ROE's volatility but at subdued levels, peaking at 13.12% in FY2020, bottoming at 3.68% in FY2022, and recovering to 7.29% in FY2025, with an average of 7.48% over the period, underscoring asset-based profitability below equity-amplified returns.
- Net Profit Margin dominated ROA movements, similar to ROE, while Asset Turnover's steady upward trend (from 0.45x to 0.56x) provided consistent support, indicating progressive efficiency in revenue generation from assets.
- The gap between ROE and ROA (attributable to Equity Multiplier) averaged about 6.30 percentage points, reflecting moderate leverage benefits; notably, this gap narrowed slightly in later years, from 10.03 points in FY2019 to 5.74 points in FY2025.
- Post-FY2022, ROA's recovery trajectory (from 3.68% to 7.29%) represents a 98.10% cumulative increase, driven equally by margin expansion and turnover gains, suggesting improved asset productivity.
- In context, ROA's FY2025 level remains 44.44% below the FY2020 peak, indicating that while progress is evident, full restoration of asset efficiency has not yet been achieved.

2. Trend Analysis

- **FY2019 to FY2020**: ROA grew by 25.55% (from 10.45% to 13.12%), entirely due to the 25.73% NPM increase, as Asset Turnover stayed constant at 0.45x, highlighting a profitability-driven upswing.
- **FY2020 to FY2021**: A 23.55% decrease in ROA (to 10.03%) resulted from the 28.41% NPM drop, partially mitigated by a 6.67% Asset Turnover rise (to 0.48x), pointing to efficiency gains offsetting some margin erosion.
- **FY2021 to FY2022**: ROA fell dramatically by 63.31% (to 3.68%), propelled by the 65.22% NPM plunge, despite a 4.17% Asset Turnover improvement (to 0.50x), illustrating the overriding impact of profitability declines.
- **FY2022 to FY2023**: ROA edged up by 14.67% (to 4.22%), supported by the 14.79% NPM recovery, with Asset Turnover unchanged at 0.50x, signaling initial stabilization through margins.
- **FY2023 to FY2024**: A 7.82% ROA increase (to 4.55%) was enabled by the 1.43% NPM gain and 8.00% Asset Turnover advance (to 0.54x), demonstrating balanced contributions from profitability and efficiency.
- **FY2024 to FY2025**: ROA surged by 60.22% (to 7.29%), fueled by the 53.65% NPM jump and 3.70% Asset Turnover growth (to 0.56x), indicating

Commentary

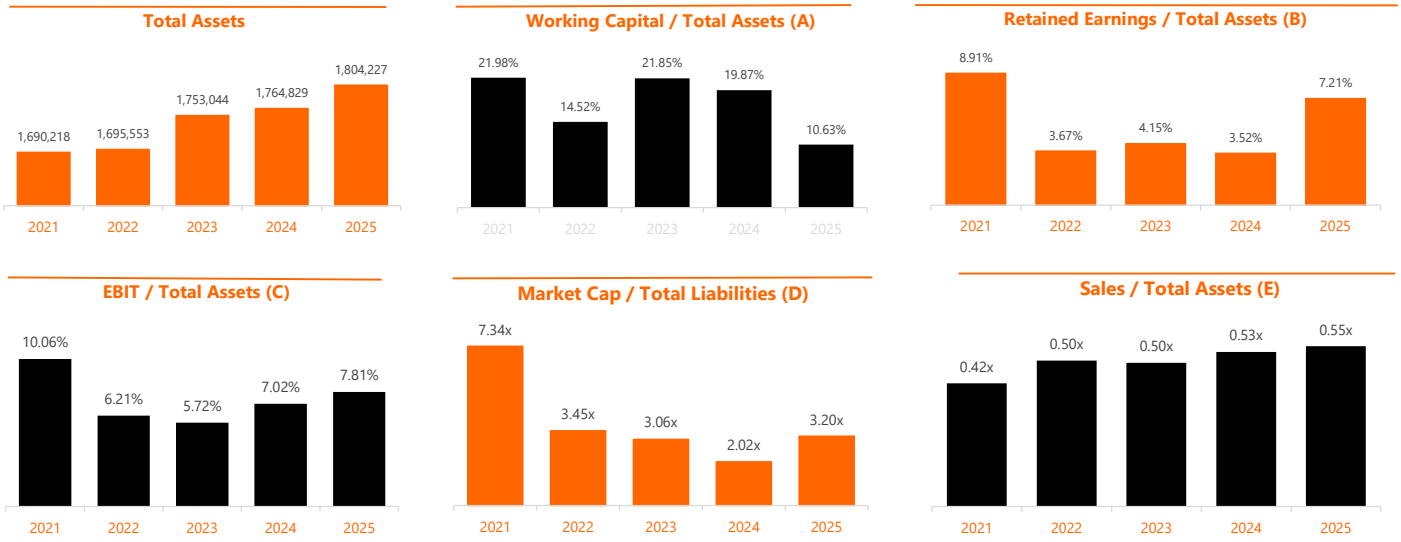
In summary, Alibaba's ROE and ROA profiles over FY2019–2025 reveal a narrative of initial strength, mid-period adversity, and emerging recovery, predominantly shaped by Net Profit Margin fluctuations amid steadily improving Asset Turnover and stable Equity Multiplier. The metrics averaged 13.78% for ROE and 7.48% for ROA, with recent uptrends (particularly in FY2025) indicating enhanced profitability and efficiency. However, sustained performance will depend on maintaining margin gains and further optimizing asset utilization, as the current levels, while improved, lag behind early-period peaks. This DuPont analysis underscores the importance of core operational drivers in driving shareholder and asset-based returns, offering investors a framework for monitoring future resilience.

** ***Concept Behind DuPont Analysis*** *: The DuPont Analysis, developed by the DuPont Corporation in the early 20th century, is a financial performance framework that decomposes ROE and ROA into their constituent parts to reveal the drivers of profitability. This methodology enables a granular understanding of how operational efficiency, asset utilization, and financial leverage contribute to shareholder returns.*

Corporate Default Probability Screening

This Corporate Default Probability Screening Analysis report provides a comprehensive evaluation of Alibaba Group Holding Limited 's financial health. By applying the Altman Z-Score model, a robust framework for predicting bankruptcy risk, this report dissects key financial ratios to uncover the underlying factors influencing Alibaba Group Holding Limited 's creditworthiness and operational resilience. By analyzing key financial ratios related to profitability, leverage, liquidity, and activity, the score provides insight into a company's financial stability and its chances of defaulting on obligations.

Financial Summary



All currency are in ¥ mn

1. Working Capital / Total Assets (A)

Working Capital / Total Assets							
	Mar-19	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Working Capital	73,809	289,624	371,523	246,128	383,104	350,679	191,774
Total Assets	965,076	1,312,985	1,690,218	1,695,553	1,753,044	1,764,829	1,804,227
Working Capital / Total Assets (A)	**7.65%**	**22.06%**	**21.98%**	**14.52%**	**21.85%**	**19.87%**	**10.63%**

- The ratio exhibited volatility over the period, peaking at around 22% in March 2020 and 2021, which suggests robust liquidity during those years, potentially reflecting efficient cash management and a buffer against operational disruptions.
- By March 2025, the ratio declined to 10.63%, indicating a possible shift toward more aggressive asset utilization or increased current liabilities, though it remains positive, signaling that the company still maintains adequate short-term financial health to support ongoing operations.

2. Retained Earnings / Total Assets (B)

Retained Earnings / Total Assets							
	Mar-19	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Retained Earnings	87,886	149,433	150,578	62,249	72,783	62,063	130,109
Total Assets	965,076	1,312,985	1,690,218	1,695,553	1,753,044	1,764,829	1,804,227
Retained Earnings / Total Assets (B)	**9.11%**	**11.38%**	**8.91%**	**3.67%**	**4.15%**	**3.52%**	**7.21%**

- The ratio reached a high of 11.38% in March 2020, highlighting strong profit retention and a solid foundation for future growth, which underscores effective earnings management and financial maturity during that phase.
- A subsequent decline to as low as 3.52% in March 2024 before a partial recovery to 7.21% in March 2025 may point to higher dividend payouts, share repurchases, or impairment charges, potentially signaling reduced capacity for organic expansion but not immediate distress given the positive trend reversal.

3. EBIT / Total Assets (C)

EBIT / Total Assets							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
EBIT	57,084	172,401	170,054	105,302	100,351	123,871	140,905
Total Assets	965,076	1,312,985	1,690,218	1,695,553	1,753,044	1,764,829	1,804,227
EBIT / Total Assets (C)	**5.91%**	**13.13%**	**10.06%**	**6.21%**	**5.72%**	**7.02%**	**7.81%**

- The ratio surged to 13.13% in March 2020, indicating exceptional asset productivity and strong operational performance, likely driven by high-margin activities that enhanced overall financial health.
- It moderated to around 5-8% in later years, with a gradual uptick to 7.81% by March 2025, suggesting sustained but less aggressive profitability; this could imply maturing operations or increased competition, yet it remains indicative of reasonable asset utilization for generating earnings.

4. Market Cap / Total Liabilities (D)

Market Cap / Total Liabilities							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Market Cap	3,422,402	3,710,287	4,454,431	2,118,568	1,928,202	1,316,652	2,283,012
Total Liabilities	349,674	433,334	606,584	613,360	630,123	652,230	714,121
Market Cap / Total Liabilities (D)	**9.79x**	**8.56x**	**7.34x**	**3.45x**	**3.06x**	**2.02x**	**3.20x**

- Early in the period, the ratio was robust at 9.79x in March 2019, reflecting high market valuation relative to debt and strong financial leverage, which indicates solid investor trust and a low risk of default from a market standpoint.
- A significant downward trend to 2.02x in March 2024 before rebounding slightly to 3.20x in March 2025 suggests eroding market confidence or external pressures on equity valuation, potentially increasing perceived vulnerability to liabilities despite the company's scale.

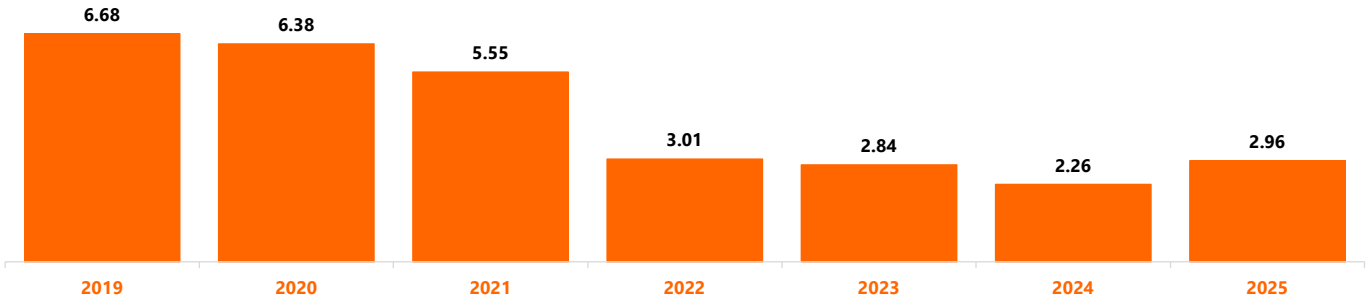
5. Sales / Total Assets (E)

Sales / Total Assets							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Total Sales	376,844	509,711	717,289	853,062	868,687	941,168	996,347
Total Assets	965,076	1,312,985	1,690,218	1,695,553	1,753,044	1,764,829	1,804,227
Sales / Total Assets (E)	**0.39x**	**0.39x**	**0.42x**	**0.50x**	**0.50x**	**0.53x**	**0.55x**

- The ratio steadily improved from 0.39x in March 2019-2020 to 0.55x in March 2025, demonstrating enhanced asset efficiency and accelerating revenue generation, which points to improving operational performance and scalability.
- This consistent upward trajectory signals strong sales momentum relative to asset base, suggesting effective capital deployment in driving top-line growth and contributing positively to overall financial stability.

Altman Z-Score and Financial Stability

Altman's Z Score							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Final Score	**6.7**	**6.4**	**5.6**	**3.0**	**2.8**	**2.3**	**3.0**
Financial Stability	***Strong***	***Strong***	***Strong***	***Strong***	***Grey Zone***	***Grey Zone***	***Grey Zone***



Altman Z-Score

Model Interpretation & Disclaimer

The Altman Z-score model, while a valuable tool for assessing default risk, may yield lower scores for large, stable firms like Alibaba due to factors such as significant intangible assets (e.g., intellectual property or digital platforms) that are not fully reflected in traditional balance sheet metrics, leading to understated ratios like retained earnings or asset turnover. Additionally, as a growth-oriented company in a dynamic sector, Alibaba may prioritize heavy investments in expansion and innovation, which can temporarily depress certain components like working capital or market value ratios amid market volatility, without necessarily indicating fundamental weakness.

Final Conclusion

Overall, Alibaba's Altman Z-score has trended downward from a strong position above 5.6 in the early years (March 2019-2021) to the grey zone around 2.3-3.0 in recent periods (March 2023-2025), signaling a shift toward moderate financial risk and warranting caution for potential distress signals. However, the score's stabilization at 3.0 in March 2025 and consistent improvements in sales efficiency and EBIT generation suggest underlying operational resilience, implying a nuanced view where the grey zone may reflect transitory market and growth-related pressures rather than outright financial weakness, particularly given the company's scale and positive liquidity trends. Investors should consider supplementary analyses, such as cash flow metrics or sector benchmarks, for a comprehensive assessment.

*** **Concept Behind Altman Z-Score** : The Altman Z-Score, developed by Edward I. Altman in 1968, is a predictive model that assesses the likelihood of a company facing bankruptcy within two years. The Z-Score combines five financial ratios, each weighted to produce a single score that categorizes a company into one of three zones: Safe, Grey, or Distress. The formula for publicly traded companies is:* $Z = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E$, *Where:*

A: Working Capital / Total Assets (liquidity), B: Retained Earnings / Total Assets (cumulative profitability), C: Earnings Before Interest and Taxes (EBIT) / Total Assets (operating efficiency), D: Market Value of Equity / Total Liabilities (financial leverage), E: Sales (Revenue) / Total Assets (asset turnover)

Investment Thesis - Alibaba Group Holding Limited

Alibaba Group Holding Limited (BABA) represents a compelling case study in the intersection of established market dominance and forward-looking technological ambition within the global digital economy. As a mature entity with roots in e-commerce, Alibaba generates substantial cash flows from its core platforms like Taobao and Tmall, while channeling resources into emerging areas such as cloud services, artificial intelligence (AI), and international commerce. This investment thesis synthesizes fundamental analysis—drawing from financial metrics, strategic outlooks, and resilience assessments—with market perceptions that often embed premiums for intangible growth potential. The narrative acknowledges Alibaba's position as a capital-light innovator in some segments, yet one burdened by investment demands in others, priced by the market with an eye toward long-term upside amid China's evolving economic landscape.

Summary of Investment Thesis

At its core, the investment case for Alibaba hinges on its ability to leverage a robust ecosystem for sustained value creation, balancing mature cash-generating businesses with high-growth initiatives. Fundamentally, Alibaba's strengths lie in its e-commerce dominance, fortified by technological innovations like AI-driven recommendations and logistics optimizations, which enhance user engagement and operational efficiency. The company's financial health, evidenced by improving profitability metrics and asset utilization, supports this foundation, allowing it to weather mid-period adversities such as margin compressions from heavy investments in segments like Freshippo and Cainiao.

Strategically, Alibaba is positioning itself as a global technology leader, with emphases on AI and cloud computing as pivotal growth engines. Management's commitment to open-sourcing models like Qwen and enhancing platform-as-a-service (PaaS) offerings aims to capture developer ecosystems and compete with giants like AWS and Azure, particularly in Asia.

International expansion through platforms such as Lazada, AliExpress, and Trendyol targets emerging markets in South Asia, Africa, and Europe, bolstered by logistics enhancements and partnerships like the Maersk alliance. Domestically, innovations in digital commerce— including livestream shopping, integrated online-offline experiences, and local services like food delivery via Ele.me—seek to deepen consumer penetration in niches like groceries and fast-moving consumer goods.

From a market perception standpoint, Alibaba is viewed as a resilient player in a multi-trillion-dollar digital economy, with investor sentiment buoyed by its AI integration and user-centric strategies. Despite near-term headwinds like regulatory scrutiny and economic slowdowns, the company's diversification into cloud, overseas markets, and retail finance (via Ant-affiliated services) mitigates dependencies on core China retail. This narrative reflects a firm that, while no longer in hyper-growth mode, commands a premium for its potential to capitalize on China's digitalization push, 5G-enabled experiences, and partnerships with entities like Kuaishou and TikTok. Overall, the thesis posits Alibaba as a stable yet adaptive entity, where fundamental resilience meets market optimism for technology-led expansion, potentially yielding long-term rewards for patient stakeholders.

Valuation Rationale

Valuation analyses for Alibaba reveal a nuanced picture, where traditional models capture aspects of its financial profile but may fall short in quantifying future optionality. The Free Cash Flow to Firm (FCFF) model, under base case assumptions, derives an enterprise value leading to an equity value implying an intrinsic per-share value below the current market price, indicating a premium of about 16.82% and suggesting overvaluation on this metric. This approach emphasizes cash flows adjusted for investments, highlighting pressures from segments like international commerce and new retail, where ongoing capital outlays temper near-term free cash generation.

In contrast, the Excess Return Model (ERM) estimates a higher equity value, implying an intrinsic per-share value above the market price, at a discount of approximately 21.38%, pointing to undervaluation. The ERM's focus on returns exceeding the cost of capital better aligns with Alibaba's growth-oriented investments, such as in AI and cloud, which promise excess returns over time. This divergence underscores how assumption-sensitive these models are—particularly in forecasting growth normalization in consumer retail to single digits, while anticipating acceleration in cloud/AI and international segments.
Relative valuation, using harmonic mean peer multiples, provides an illustrative range for implied equity value per share, varying widely based on metrics chosen. This method accounts for market comparables but requires caveats for growth differentials, accounting variations, and forward estimates, which can introduce volatility due to currency effects and market timing.
Collectively, these approaches conflict in signaling over- or undervaluation, reflecting limitations in traditional frameworks for companies like Alibaba, whose unconventional model blends mature e-commerce with speculative tech bets. Market pricing may incorporate intangibles such as AI leadership potential, ecosystem synergies, and geopolitical optionality that models overlook, suggesting that even apparent premiums could represent fair value for long-term horizons. Investors should thus interpret these results as directional, emphasizing the need for scenario-based adjustments to capture Alibaba's evolving business dynamics.

Key Catalysts

Several internal and external factors could propel Alibaba's value creation. Foremost, AI and cloud leadership stand out as transformative drivers: accelerating productization of large language models (LLMs), chips, and supercomputing could boost cloud PaaS adoption, driving revenue from AI-integrated services in commerce (e.g., enhanced search and recommendations) and logistics (smart sorting).

Management's open-sourcing strategy, like with Qwen, fosters developer ecosystems, potentially amplifying market share in Asia's burgeoning AI landscape.

International expansion represents another catalyst, with momentum in Lazada and AliExpress fueled by logistics investments (Cainiao hubs) and merchant support. Partnerships such as with Maersk for shipping, and growth in emerging markets like South Asia and Africa, alongside affluent segments via Trendyol, could unlock cross-border e-commerce volumes. Domestically, digital commerce innovations—real-time recommendations, livestream shopping, and new retail expansions like Freshippo stores with auto-delivery—may deepen user engagement and capture more consumer spend in local services.

Operational efficiency improvements, as seen in Q3 FY2025 reductions in international losses through better monetization, signal faster paths to breakeven in loss-making units. Broader trends like China's digitalization initiatives (smart cities collaborations) and emerging opportunities in B2B e-commerce (Alibaba.com, AliHealth), retail finance, and 5G-enabled experiences could further accelerate growth. Monitoring KPIs such as AI revenue trajectories, cloud acceleration, user retention, and international diversification will be crucial, as successful execution here could validate market expectations for upside.

Risks to the Thesis

Despite strengths, several risks could derail Alibaba's outlook. Operationally, margin pressures from prior investments in Freshippo, Cainiao, and Lazada persist, with headwinds like regulatory scrutiny necessitating compliance costs that could delay efficiency gains. Financially, the DuPont analysis highlights fluctuating net profit margins, with recent uptrends in ROE (averaging 13.78%) and ROA (7.48%) vulnerable to reversals if asset turnover or equity multiplier weakens amid growth pursuits.

Industry-specific challenges include high competitive rivalry and buyer power, as per Porter's Five Forces, intensified by players like AWS in cloud and TikTok in commerce. Geopolitical threats, such as U.S.-China tensions, could impact international efforts and supply chains. Macroeconomic slowdowns in China may temper consumer retail growth, while dependencies on small merchants and core e-commerce expose the firm to demand volatility.

The Altman Z-score's shift to the grey zone (around 2.3-3.0 recently, stabilizing at 3.0 in March 2025) signals moderate financial risk, potentially from transitory pressures rather than weakness, but warrants vigilance on liquidity and distress indicators. Overall, these risks underscore the need for agile management to navigate external threats while sustaining internal momentum.

Final Commentary

In synthesizing this analysis, Alibaba emerges as a resilient technology powerhouse, with fundamental metrics like improving ROE/ROA and strategic pivots toward AI/cloud/international signaling potential for enduring growth in a competitive digital arena. Market sentiment, often embedding premiums for innovation optionality, complements this view, suggesting opportunities for those attuned to long-term narratives over short-term volatility. While challenges like regulatory and geopolitical factors loom, the company's focus on efficiency and diversification offers a pathway to value realization, inviting careful consideration of its evolving role in global tech ecosystems.