

# Alibaba (BABA US)

## A powerful ecommerce enabler

- Latest industry data suggest that Alibaba's near-term business momentum will remain intact
- Successful transformation from online distribution platform to online merchant enabler via effective use big data, A.I., and other technologies
- The Group pioneers various initiatives to tap on rising demand for consumer service ecommerce, especially for food ecommerce
- Recommend **BUY** on robust industry momentum and comprehensive ecosystem with strong monetization potential

**Near-term business momentum will remain intact.** Upbeat statistics suggest Alibaba's near-term prospect will stay positive. According to MIIT, ecommerce platform revenue growth was 38.9% YoY in 1H18; data from National Bureau of Statistics (NBS) indicate online sales of physical goods grew by 29.8% YoY in 1H18, accounting for 17.4% of total retail sales.

**A powerful enabler for online merchants.** Alibaba has been transforming its business from an online distribution platform to a technology enabler for online merchants via effective use of A.I. and big data technology. Thanks to improving business mix, Alibaba has experienced accelerating revenue growth in recent years.

**Pioneering initiatives to tap into uprising demand for consumer service ecommerce.** Alibaba has been a pioneer in new business initiatives. E.g. it ventures into the food consumption ecommerce through Hema, a premium fresh food supermarket and Ele.me, an online food delivery platform. These new businesses allow the Group to ride on the structural uptrend in service ecommerce market.

**Valuation.** The SOTP approach yields a TP of US\$ 218, implying 28.1x FY3/20E core P/E, which is largely in line with Alibaba's historical average P/E. Recommend BUY on intact business momentum and comprehensive ecosystem supportive to online merchants.

**Risk factors:** 1) Regulatory action on cloud computing in overseas market; 2) Tightening regulation on internet finance; 3) Intensified competition; 4) Slowdown in ecommerce; 5) No dividend record to ordinary shareholders.

### Financial summary

FY ended Mar 31	FY3/17A	FY3/18A	FY3/19E	FY3/20E
Revenue (RMB mn)	158,273	250,266	399,339	548,816
Chg (% YoY)	56.5	58.1	59.6	37.4
Net profit (RMB mn)	43,675	63,985	83,493	106,029
Chg (% YoY)	(38.9)	46.5	30.5	27.0
Core net profit (RMB mn)	60,309	85,766	110,975	138,869
Chg (% YoY)	40.4	42.2	29.4	25.1
EPS (RMB)	17.5	25.1	32.7	41.5
Chg (% YoY)	(39.7)	43.1	30.5	27.0
Core EPS (RMB)	23.4	32.9	42.5	53.2
Chg (% YoY)	34.1	40.2	29.4	25.1
Core P/E (x)	51.9	37.0	28.6	22.9
P/B (x)	10.9	8.5	6.9	5.6
ROAE (%)	15.3	16.9	17.5	18.7
ROAA (%)	10.0	10.5	10.7	11.5

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

### Aug 9, 2018

### Rating: BUY

### TP: US\$ 218

Analyst : Steve Chow  
Tel: (852) 2147 8809  
stevechow@abci.com.hk

Share price (US\$)	177.5
Est. share price return	22.8%
Est. dividend yield	0.0%
Est. total return	22.8%
Previous Rating & TP	BUY/US\$232
Previous Report Date	Feb 5, 2018

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(US\$)	211.7/147.5
Issued shares (mn)	2,561
Market cap (US\$ mn)	454,629
Avg daily turnover (US\$ mn)	3,180
Major shareholder(s)	
Softbank	29.2%
Yahoo	15.0%
Jack Ma	7.0%

Source(s): Company, ABCI Securities

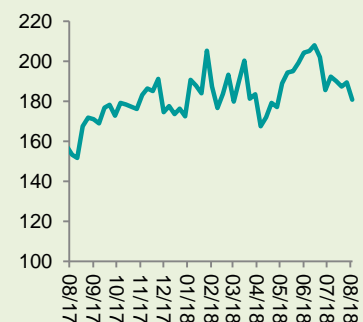
### Share Performance (%)

	Absolute	Relative*
1-mth	(7.1)	(2.6)
3-mth	(8.6)	1.8
6-mth	(0.9)	9.9

\*Relative to MXCN

Source(s): Bloomberg, ABCI Securities

### Share performance(US\$)



Source(s): Bloomberg, ABCI Securities



## Contents

Investment summary .....	3
Near-term business momentum will remain intact.....	3
A powerful enabler for online merchants .....	4
Initiatives to tap on rising demand for consumer service ecommerce .....	6
A comprehensive ecosystem.....	10
Financial outlook .....	11
Recommend BUY (TP: US\$ 218) on positive momentum and comprehensive ecosystem.....	14
Risk factors .....	16
Disclosures.....	19



### Investment summary

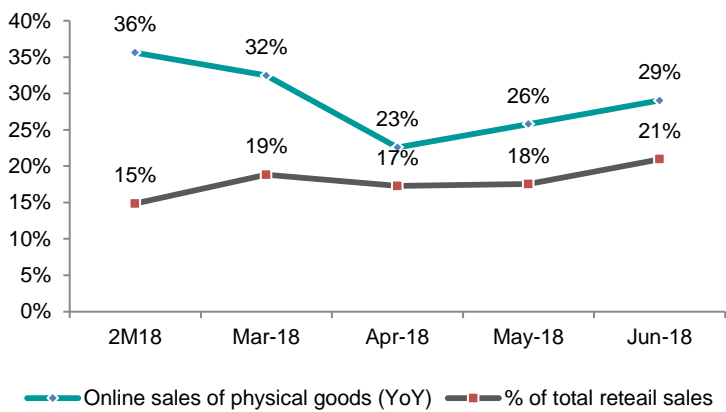
#### Near-term business momentum will remain intact

According to MIIT, revenue growth of internet enterprises in China was 22.9% YoY in 1H18 vs. 23.8% YoY revenue growth in 1Q18. By sub-segment, ecommerce platform revenue increased 38.9% YoY in 1H18 versus 37.4% in 1Q18, implying an intact growth momentum in 2Q18. Internet gaming, which is another major sub-segment for internet enterprises, saw revenue growth slowing to 23.3% YoY in 1H18 as compared to 33.2% YoY in 1Q18, which implies a significant slowdown in 2Q18.

In addition, China's online sales of physical goods grew 29.8% YoY in 1H18, accounting for 17.4% of total retail sales in 1H18, according to NBS. On a monthly basis, online sales of physical goods have experienced accelerating growth since Apr 2018, gaining 29% YoY in June 2018 vs. 23% YoY in Apr 2018.

Overall, these figures indicate Alibaba's near-term business momentum will remain intact.

Exhibit 1: Online sales of physical goods



Source(s): NBS

## A powerful enabler for online merchants

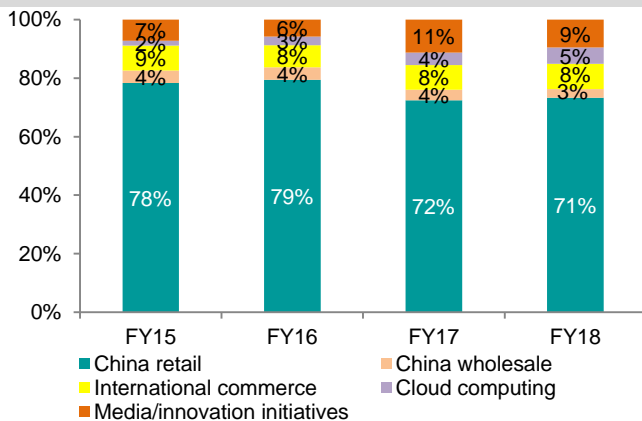
Alibaba has been transforming its business from an online distribution platform to a technology enabler for online merchants via effective use of A.I., big data, and other technologies. The Group has been utilizing various technologies to provide customized marketing solutions such as personalized storefront, storefront chat group, live video streaming, and personalized product recommendations to merchants to boost sales in Taobao and Tmall platforms.

In addition, its recent new retail initiatives aim to integrate offline and online retail to create new shopping experiences for consumers. Big data and mobile internet play a major role in multiple aspects including inventory and customer services to elevate the overall consumer experience and efficiency.

As a result of ongoing business transformation, Alibaba's business mix has been changing. Its share of commission revenue, as a percentage of Alibaba's China retail revenue, has declined in recent years; conversely, customer management revenue, which mainly composes of valued-added marketing service to merchants, has been increasing.

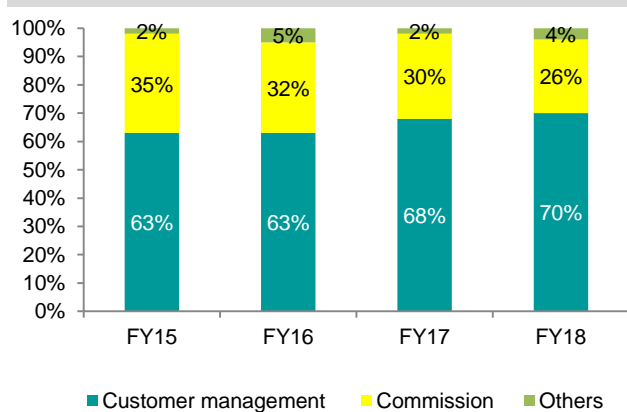
Alibaba has been utilizing various technologies to provide customized marketing solutions such as personalized storefront, storefront chat group, live video streaming, and personalized product recommendations to merchants to boost sales in Taobao and Tmall platforms.

**Exhibit 2: Alibaba's overall revenue mix**



Source(s): Company

**Exhibit 3: Alibaba's China retail revenue mix**



Source(s): Company

Thanks to the transformation of business mix and innovation initiatives such as rural ecommerce and online-to-offline (O2O) retail, Alibaba has experienced accelerating revenue growth in recent years. Overall, Alibaba's higher revenue growth has been mainly driven by increase in customer management income.

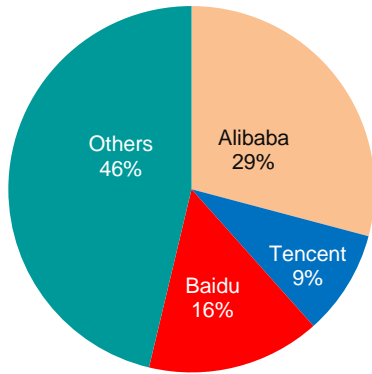
By providing various customized marketing solutions to its merchants, Alibaba managed to generate sizable customer management revenue. Based on our estimate, the Group had the highest market share (~29%) in China's online advertising market in 4Q17.

Collectively, we believe Tencent and Alibaba have been stealing online advertising market shares from Baidu. The former have shown higher growth in online advertising revenue than Baidu over the past quarters (See Exhibit 5). According to iResearch, China's internet advertising market is expected to grow from RMB 383bn in 2017 to RMB 765bn in 2020E, representing a CAGR of 26% over the period. With further room for growth, the online advertising industry will remain as a lucrative



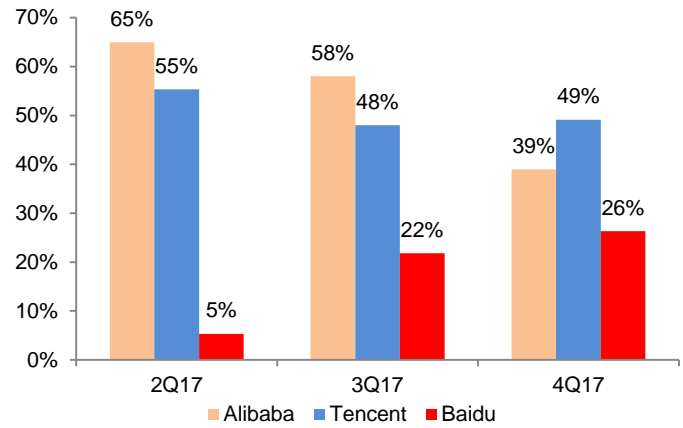
battlefield. We believe Alibaba, with its existing dominant position, would continue to benefit from the strong growth.

Exhibit 4: Online advertising market share –4Q17



Source(s): iResearch, companies, ABCI Securities

Exhibit 5: Online advertising revenue growth among the three ecommerce giants



Source(s): Companies



## Initiatives to tap on rising demand for consumer service ecommerce

Alibaba has been a pioneer in implementing new business initiatives, with earlier endeavors including Suning, Intime, and Sanjiang Shopping Club. Recently, it has expanded its exposure in food consumption ecommerce by incubating its premium fresh food supermarket, Hema (盒马鲜生), that offers one-stop shopping experience for fresh food purchase and catering. Hema's main features include:

- **A mobile app** allowing in-store researching product information and related recommendation via scanning product QR code. Big data is used to personalize recommendations. All payments are handled through Alipay.
- **Dining area** that allows shoppers to hand-pick fresh food and is equipped with in-store kitchens that cook for customers.
- **Hema stores also serve as warehouses for online orders** capable of delivering to customers within 3km distance in 30min.

Alibaba has also acquired a 36.16% stake in SunArt, a major hypermarket chain in China, in Nov 2017 with an acquisition price of HK\$6.50 per share. SunArt has launched two He Xiao Ma (盒小馬) stores, which focus on multi-format and omni-channel, and expects to open 25 He Xiao Ma stores by end-2018.

In addition, it acquired Ele.me, an online food delivery platform, in Apr 2018. In Aug 2018, it has partnered with Starbucks to conduct online food delivery business in China via Ele.me, starting with 150 stores in Sep 2018 and is expected to expand to more than 2,000 stores by end-2018.

Restaurant chain operators are eyeing on the delivery market, considering it as one of the revenue growth drivers. E.g. takeaway sales of KFC China in 2Q18 was up 33% YoY, accounting for 13% of sales. To keep up with competitors, we believe restaurant-chain operators would need to cooperate with major online food delivery platforms such as Ele.me to extend into the online food delivery domain. In our view, strategic alliance between restaurant chains and online food delivery platforms would only increase in the future.

In our view, consumer service ecommerce market is on a structural uptrend. In 1H18, China's catering retail sales (both online and offline) increased by 9.9% YoY, according to NBS. iResearch expects the consumer service market (both online and offline, based on gross transaction volume) to grow from RMB 18.4tr in 2017 to RMB 33.1tr in 2023. This implies a CAGR of 10.2% for the consumer service market during the period, similar to the 1H18 catering market growth rate (9.9%), which is largely reasonable in our view.

In addition, consumer service ecommerce market (online only, based on gross transaction volume) is expected to grow from RMB 2.7tr in 2017 to RMB 8.0tr in 2023E, representing a CAGR of 19.8% during the period. This translates into an online penetration rate (consumer service ecommerce market/consumer service market) of 24.2% in 2023 vs. 14.7% in 2017.

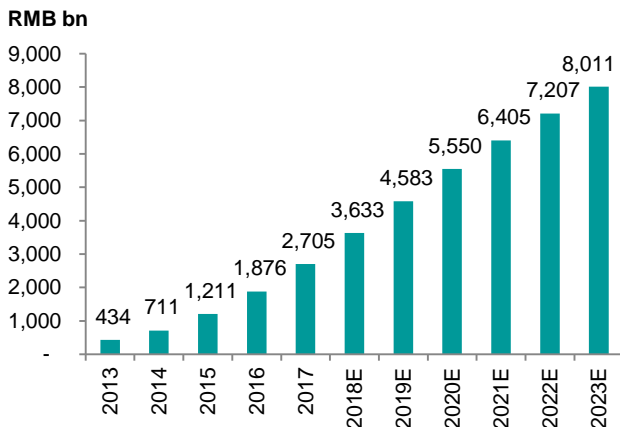
While these forecasts suggest a promising outlook for China's consumer service ecommerce market, the industry is also perpetuated by the following societal trends that are unlikely to reverse.

Restaurant chain operators are eyeing on the delivery market, considering it as one of the revenue growth drivers. We believe restaurant-chain operators would need to cooperate with major online food delivery platforms such as Ele.me to extend into online food delivery.



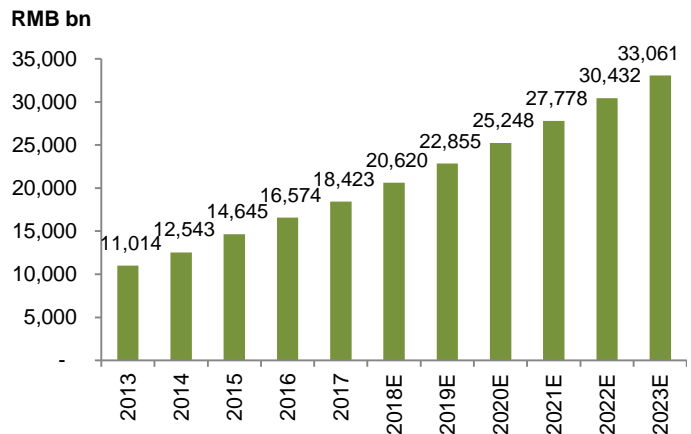
- **Urbanization.** China’s ongoing urbanization has led to the emergence of a large number of cities, accelerating the growth of consumer service industry. As of end-2016, China had 156 cities with a population of over 1mn, as compared to 10 cities with over 1mn of population in the US. In addition, population density in urban cities in China was 2,426 people per sqkm in 2017, which is seven times that of the US, according to iResearch.
- **Consumer upgrade.** The improvement in Chinese consumers’ standard of living has led to ongoing consumer upgrade from basic needs to discretionary spending, and from physical goods to services and experiences.
- **Labor supply for the consumer service industry.** There is a shift in the labor supply from the traditional agricultural and manufacturing sectors to the service sector. In our view, this accelerates the emergence of new business models such as on-demand delivery.
- **Growing mobile internet population and high penetration of online payment infrastructure in China.** In China, the massive mobile internet user base enables Chinese consumers to discover and enjoy more services. China’s mobile internet population reached 753mn by 2017, and is expected to grow to 1,012mn by 2023, representing a CAGR of 5% over the period. In China, mobile internet user base makes up the majority of the active online population, with a penetration rate of 97.5% as of 2017, according to iResearch. In addition, mobile payment penetration of mobile internet users in China was 70% in 2017.

**Exhibit 6: Consumer service ecommerce market size (based on gross transaction volume)**

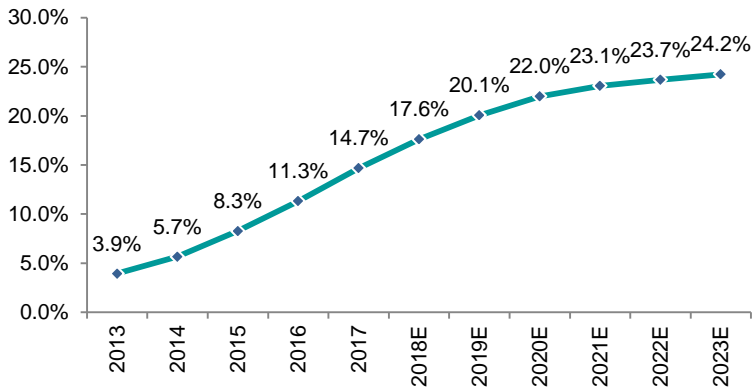


Source(s): iResearch, ABCI Securities

**Exhibit 7: Consumer service market size (based on gross transaction volume)**



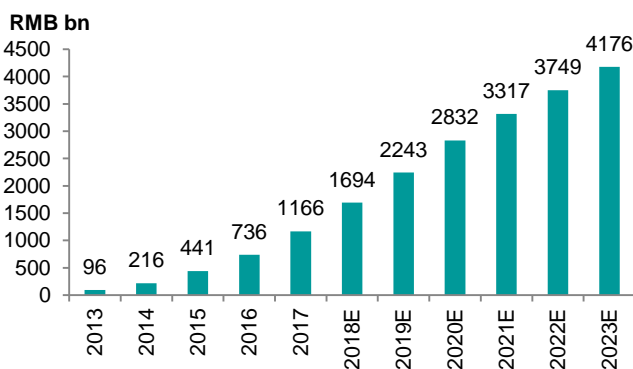
Source(s): iResearch, ABCI Securities

**Exhibit 8: Online penetration of consumer service (consumer service ecommerce market/total consumer service market)**


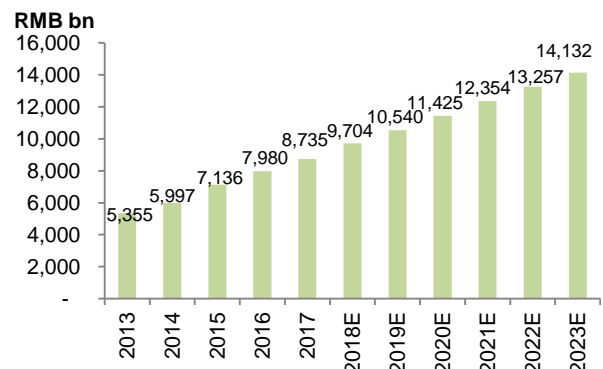
Source(s): iResearch, ABCI Securities

Within the ecommerce consumer service market, food consumption through service ecommerce has grown sharply. In our view, consumers are spending more on food delivery, in-store dining, and food retail as living standard improves. Meanwhile, ongoing improvement in delivery service is driving more consumers to order food online and while receiving delivery offline.

According to iResearch, food consumption in China (both online and offline, based on gross transaction volume) is expected to grow from RMB 8.7tr in 2017 to RMB14.1tr in 2023, representing a CAGR of 8.3% during the period. In addition, food consumption through service ecommerce platforms in China (based on gross transaction volume) is expected to grow from RMB 1.2tr in 2017 to RMB 4.2tr in 2023E, representing a CAGR of 23.7% during the period. This translates to an online penetration rate of 29.5% in 2023E vs. 13.3% in 2017.

**Exhibit 9: Food consumption through service ecommerce platforms in China (based on gross transaction volume)**


Source(s): iResearch, ABCI Securities

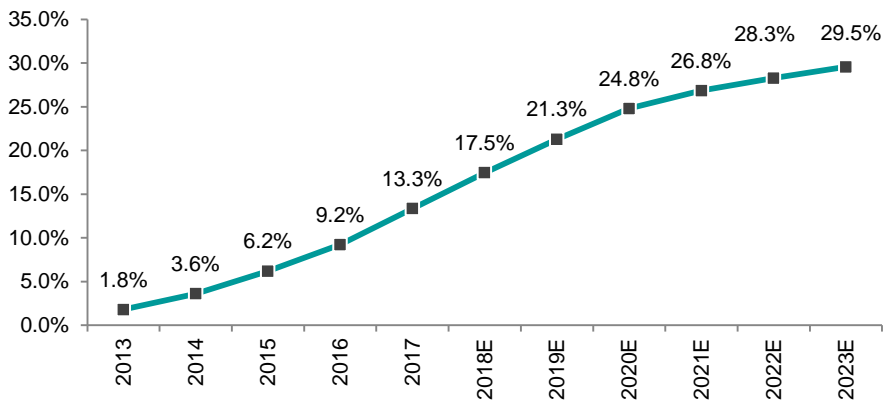
**Exhibit 10: Food consumption in China (based on gross transaction volume)**


Source(s): iResearch, ABCI Securities





Exhibit 11: Online penetration of food consumption in China



Source(s): iResearch, ABCI Securities



### A comprehensive ecosystem

In recent years, major online platforms including Baidu (BIDU US), Alibaba (BABA US), Tencent (700 HK), and JD (JD US) have been expanding their ecosystems actively by investing in various emerging “new economy” industries such as online-to-offline (O2O) retail, internet finance, and more.

In our view, through these investments, major online platforms can leverage on their existing sizable customer bases from core businesses to enter the emerging segments while extending their products and services across different apps and segments, which in turn would lead to higher user stickiness and monetization in the long run. Tencent and Alibaba are currently dominating the market of online payment. Meanwhile, they are expanding in online food delivery market via investing in online food delivery platforms such as Ele.me (饿了么).

These “new economy” industries, at their nascent stage, are enjoying rapid growth. The below table compares the current ecosystems of major internet platforms.

Exhibit 12: Ecosystems of major online platforms in China

	Alibaba	Tencent	Baidu	JD
Core business	Ecommerce	Online social network and entertainment	Online search and portal	Ecommerce
Online-to-offline (O2O) retail	Intime Sanjiang Suning SunArt EasyHome	YongHui Wanda Commercial Heilan Home Better Life		YoungHui Better Life Walmart China
Local services	Koubei	A major online food delivery platform	Baidu Nuomi	
Ecommerce	Ele.me			
Mobile ride-hailing	Didi +Uber China Uber	Didi +Uber China		
Bike sharing	Ofo	Mobike		
Next generation vehicle	Telstra WM Motor NextEV GAC	SAIC Motor XPeng	BYD Chery	
Finance	Ant Financial Huatai	WeBank CICC	Baidu Finance	JD Finance

Source(s): Companies, ABCI Securities

Notes: Only major strategic partners are included

Major online platforms can leverage on their existing sizable customer bases from core businesses to enter the emerging segments while extending their products and services across different apps and segments, which in turn would lead to higher user stickiness and monetization in the long run.

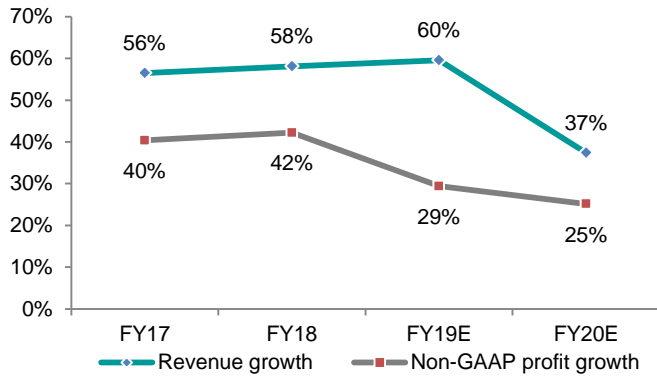
We believe Tencent and Alibaba are currently ahead of Baidu and JD.com in the ecosystem race, as evidenced by the fact that 1) their ecosystems are much more comprehensive, covering various emerging sub-segments such as O2O retail, local services ecommerce, and internet finance; 2) they mainly invest in sub-segment leaders, such as Didi. In some sub-segments, such as local service ecommerce, Tencent and Alibaba have already formed a duopolistic structure, taking up substantial market shares through investee companies.



### Financial outlook

Overall, we expect Alibaba's non-GAAP profit to grow by 27% CAGR in FY3/18-20E, driven by intact revenue growth momentum which mitigates ongoing margin dilution resulted from ongoing investments in innovative initiatives such as O2O retails and consumer service ecommerce.

Exhibit 13: Revenue and profit growth outlook



Alibaba's overall Gross Merchandize Value (GMV, Taobao and Tmall) to expand at 22% CAGR in FY3/18-20E, largely in line with expected overall online shopping revenue growth in China.

Alibaba's online advertising market share would advance to ~35% in FY3/20E from ~30% in FY3/18.

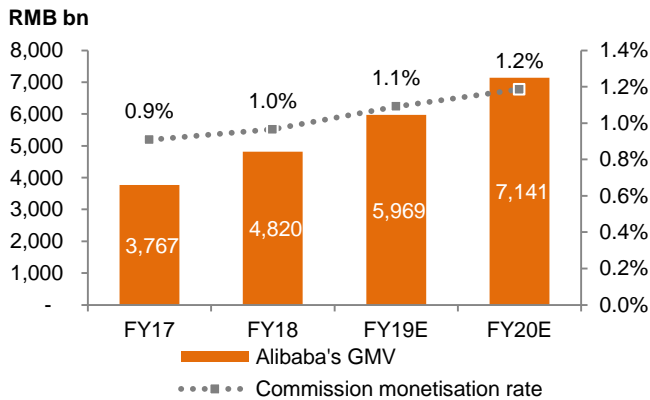
Source(s): Company, ABCI Securities estimates

We expect revenue to grow by 48% CAGR in FY3/18-20E. In particular, Alibaba has guided for a revenue growth exceeding 60% in FY3/19E, to be driven both by organic growth and M&A (e.g. Cainiao Network and Ele.me). Alibaba increased its stake in Cainiao Network from 47% to 51% in Sep 2017 and increased its stakes in Ele.me from 43% to 100% in Apr 2018. For FY3/20E, we expect its revenue growth to normalize to 37%.

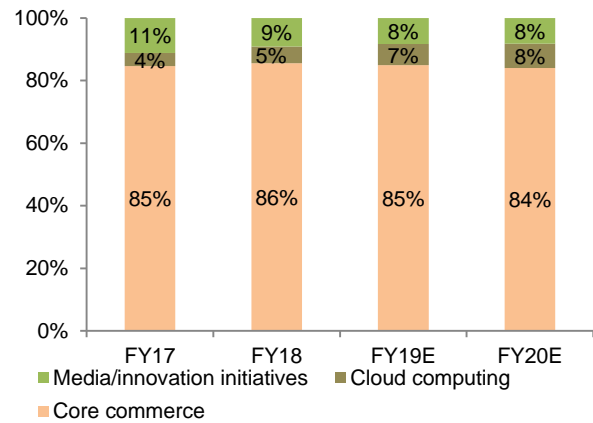
Among Alibaba's major business segments, we expect core commerce to achieve a 47% CAGR in FY3/18-20E, while revenue from cloud computing and media/innovative initiatives are likely to grow at 79% and 40% CAGRs.

For the core commerce business (China retail + China wholesale + international commerce), we expect Alibaba's overall Gross Merchandize Value (GMV, Taobao and Tmall) to expand at 22% CAGR in FY3/18-20E, largely in line with expected overall online shopping revenue growth in China, according to iResearch, which implies a market share of ~79%. In addition, we project commission monetization rate (China retail commission income/GMV) to go up to ~1.2% in FY3/20E from ~1.0% in FY3/18. As a result, we expect commission income to increase at 35% CAGR in FY3/18-20E

We project the Group's China retail customer management revenue to attain a 38% CAGR in FY3/18-20E, driven by ongoing technological improvement in marketing solutions offered to merchants. Overall, this implies Alibaba's online advertising market share would advance to ~35% in FY3/20E from ~30% in FY3/18. Alibaba's blended monetization rate (customer management and commission income/GMV) would reach 4.2% in FY3/20E vs. 3.3% in FY3/18.

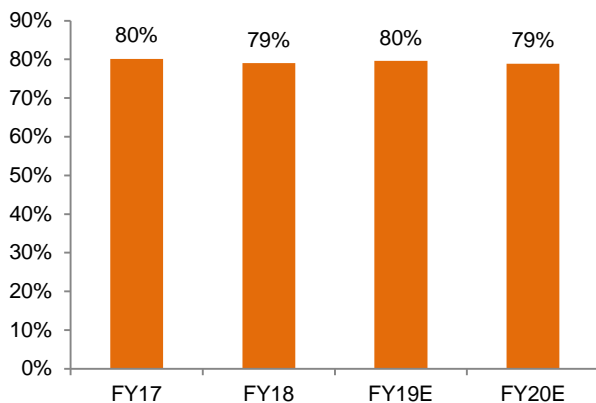
**Exhibit 14: GMV and commission rate trend**


Source(s): Company, ABCI Securities estimates

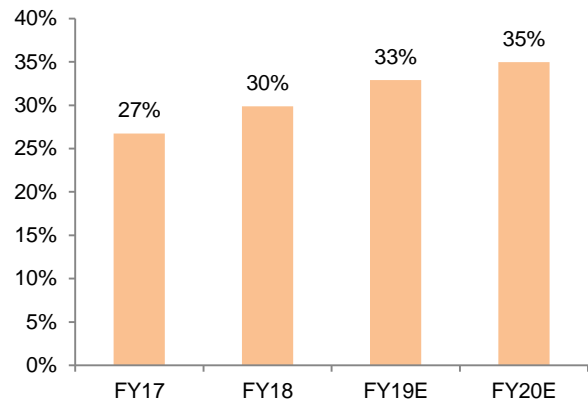
**Exhibit 15: Revenue mix trend**


Source(s): iResearch, company, ABCI Securities estimates

In terms of business mix, we expect core commerce business to account for 84% of revenue by FY3/20E, while cloud computing and media/innovation initiatives would account for 8% and 8% of total revenue.

**Exhibit 16: Alibaba's online shopping market share trend by GMV**


Source(s): iResearch, company, ABCI Securities estimates

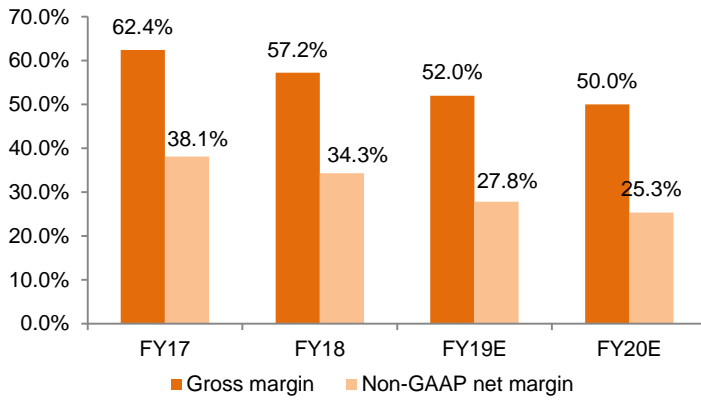
**Exhibit 17: Alibaba's online advertising market share trend**


Source(s): iResearch, company, ABCI Securities estimates

We expect gross margin to fall from 57.2% in FY3/18 to 50.0% in FY3/20E, reflecting Alibaba's ongoing investments in various emerging areas such as rural ecommerce and new retails in addition to changes in business mix. Operating cost ratios would maintain stable over the next few years, thanks to better economies of scale that help mitigate impacts of gross margin erosion. Overall, core net margin is likely to drop to 25.3% in FY3/20E from 34.3% in FY3/18.



Exhibit 18: Margin trend



Source(s): Company, ABCI Securities estimates



## Recommend BUY (TP: US\$ 218) on positive momentum and comprehensive ecosystem

We derive Alibaba's fair valuation range based on SOTP approach.

In valuing Alibaba's core business, we roll over to FY3/20E and apply 24-28x (vs. 30x previously) on its FY3/20E core profit to reflect the weakening market sentiment amid Sino-US trade dispute and that Alibaba's revenue and profit growth are likely to normalize to a lower rate of 25% YoY in FY3/20E (compared with FY3/19E). Overall, our target PE implies a PEG of 0.95-1.11x for FY3/20E.

We value Ant Financials by applying a 40-45x P/E on its 2017E net profit, and assess Alibaba's investment based on their latest book value as of Mar 2018 with a 0-40% holding discount.

The SOTP approach results in a fair valuation range of US\$200.2-US\$236.6. We set our TP to US\$218, which falls around the mid-point of our fair valuation range. Overall, we assume market participants would remain largely rational to drive Alibaba's share price towards the mid-point of its fair valuation range.

Our TP implies 28.1x FY3/20E core P/E, which is largely in line with Alibaba's historical average P/E.

### Exhibit 19: SOTP valuation range

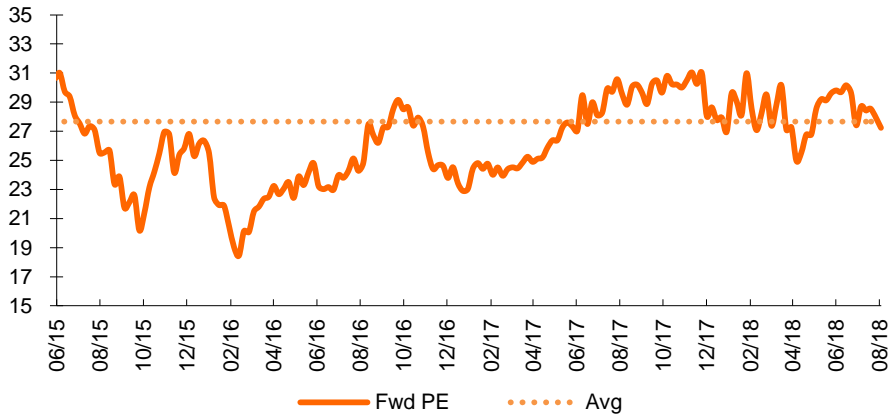
	Valuation –Mid point (USD per share)	Valuation – High end	Valuation – Low end	Remarks
<b>Core business</b>	202.0	217.5	186.4	24-28x FY20E core profit
<b>Ant Financial</b>	7.8	8.2	7.3	40-45x 2017E profit*
<b>Investments</b>	8.7	10.9	6.5	Book value as of March 2018 with a 0-40% holding discount
<b>Total</b>	<b>218.4</b>	<b>236.6</b>	<b>200.2</b>	

Source(s): Companies, Bloomberg, ABCI Securities estimates

\*Assuming a 25% tax rate on RMB13.2bn estimated pretax profit in 2017 based on Alibaba's disclosed profit sharing amount (in the form of royalty and software technology service fees) from Ant Financial. We view PayPal, a major online payment platform, as Ant Financials' listed peer and PayPal is currently trading at 42x 2017 PE. As Ant Financial's historical financials are not public, we are unable to derive forecast financials. As a result, we use historical PE, based on estimated historical profit, to value it.



Exhibit 20: Alibaba's valuation trend



Source(s): Bloomberg, ABCI Securities

**Risk factors****Regulatory action on cloud computing in overseas market**

As the Group operates cloud computing data centers in various overseas market, including Indonesia, Malaysia, India, Australia, Singapore, Germany, Japan, the US and others, any tightened local regulations in cloud computing in these countries would impact its cloud computing operation. In FY3/18, cloud computing accounted for 5% of total revenue.

**Tightening regulation on internet finance**

As the Group is exposed to the internet finance market via Ant Financials, any tightened regulatory measures in the internet finance market would impact financial performance

**Market competition**

The Group has to compete with other online ecommerce platform, in particular JD.com. The competition will be in terms of commission rate, promotion discount, brand advertising, technological investment, etc.

In particular, we expect competition to intensify if major overseas online platforms, such as Google and Facebook, are allowed to enter the China market. In our view, competition would be particularly fierce in the online advertising realm which could potentially impact Alibaba's customer management revenue, which accounted for 46% of total revenue in FY3/18.

**Slowing of ecommerce consumption**

As the Group is exposed to consumer spending on services, any significant slowdown of consumption in China would impact financial performance. In the long term, we believe domestic market growth would converge with income growth, which is usually in line with GDP growth. Currently, our economist expects China's GDP to expand by 6.6% YoY in 2018E and 6.4% YoY in 2019E.

**No dividend record to ordinary shareholders**

The Group has omitted dividend to ordinary shareholders since listing.

**Ecosystem may need to improve further in face of competition**

The listing of new e-commerce platform Pinduoduo (PDD US) is a good evidence to show the ecosystem in Alibaba has room to further improve given its high growth. Revenue of Pinduoduo surged 245% YoY in FY17 and market consensus indicate its revenue would surge 383% YoY in FY18.



**Consolidated income statement (FY17A-FY20E)**

<b>FY Ended Mar 31 (RMB mn)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>
Core commerce	133,880	214,020	339,244	460,881
Cloud computing & Internet infrastructure	6,663	13,390	26,780	42,848
Others	17,730	22,856	33,315	45,087
<b>Total revenue</b>	<b>158,273</b>	<b>250,266</b>	<b>399,339</b>	<b>548,816</b>
Cost of sales	(59,483)	(107,044)	(191,683)	(274,408)
<b>Gross profit</b>	<b>98,790</b>	<b>143,222</b>	<b>207,656</b>	<b>274,408</b>
Product development expenses	(17,060)	(22,754)	(33,944)	(43,905)
Selling & marketing expenses	(16,314)	(27,299)	(41,931)	(57,626)
General & admin expenses	(12,239)	(16,241)	(23,960)	(32,929)
Amortization/Impairment	(5,122)	(7,614)	(9,983)	(13,720)
<b>Operating Profits</b>	<b>48,055</b>	<b>69,314</b>	<b>97,838</b>	<b>126,228</b>
Interest and investment income	8,559	30,495	8,600	8,500
Interest expenses	(2,671)	(3,566)	(4,500)	(4,700)
Other income	6,086	4,160	2,000	2,000
Share of results of equity investees	(5,027)	(20,792)	500	600
<b>Profit before tax</b>	<b>55,002</b>	<b>79,611</b>	<b>104,438</b>	<b>132,628</b>
Tax	(13,776)	(18,199)	(24,021)	(30,504)
<b>Profit after tax</b>	<b>41,226</b>	<b>61,412</b>	<b>80,417</b>	<b>102,123</b>
Minority interests	2,449	2,681	3,217	4,085
Accretion of mezzanine equity		(108)	(141)	(179)
<b>Profits attributable to ordinary shareholders</b>	<b>43,675</b>	<b>63,985</b>	<b>83,493</b>	<b>106,029</b>
Share-based compensation	15,995	20,075	25,957	27,441
Amortization and impairment	7,664	27,583	9,983	13,720
Gains on disposals/revaluation of investments	(7,346)	(25,945)	(8,600)	(8,500)
Other non-core items	321	68	141	179
<b>Non-GAAP profits attributable to ordinary shareholders (Core net profit)</b>	<b>60,309</b>	<b>85,766</b>	<b>110,975</b>	<b>138,869</b>
<b>Growth</b>				
Total revenue (%)	56.5	58.1	59.6	37.4
Gross Profits (%)	47.9	45.0	45.0	32.1
Operating Profits (%)	65.1	44.2	41.2	29.0
Net profit (%)	(38.9)	46.5	30.5	27.0
Core net profit (%)	40.4	42.2	29.4	25.1
<b>Operating performance</b>				
Operating margin (%)	30.4	27.7	24.5	23.0
Net margin (%)	27.6	25.6	20.9	19.3
Core net margin (%)	38.1	34.3	27.8	25.3
ROAE (%)	15.3	16.9	17.5	18.7
ROAA (%)	10.0	10.5	10.7	11.5

Source(s): Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

Individual items may vary from reported figures due to rounding differences/ definition differences



Consolidated balance sheet (FY17A-FY20E)

As of Mar 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E
Fixed assets	24,897	75,866	75,866	75,866
Intangible assets	14,108	27,465	27,482	23,761
Investment in equity investees	120,368	139,700	190,200	240,800
Investment securities	31,452	38,192	38,192	38,192
Goodwill	125,420	162,149	182,149	202,149
Prepayments, deposits & other assets	8,051	16,897	16,897	16,897
<b>Total non-current assets</b>	<b>324,296</b>	<b>460,269</b>	<b>530,786</b>	<b>597,665</b>
Cash & equivalents	143,736	199,309	255,090	346,234
Restricted cash and escrow receivables	2,655	3,417	3,417	3,417
Short-term investments and investment securities	7,065	10,901	10,901	10,901
Prepayments, deposits & other assets	29,060	43,228	43,228	43,228
<b>Total current assets</b>	<b>182,516</b>	<b>256,855</b>	<b>312,636</b>	<b>403,780</b>
<b>Total assets</b>	<b>506,812</b>	<b>717,124</b>	<b>843,421</b>	<b>1,001,445</b>
Accrued expenses, accounts payable and other liabilities	47,186	81,165	109,408	150,361
Other payables & accruals	8,447	16,742	16,742	16,742
Borrowings and notes	14,897	6,028	6,028	6,028
Deferred revenue	15,052	22,297	39,934	54,882
Merchants deposits	8,189	9,578	9,578	9,578
<b>Total current liabilities</b>	<b>93,771</b>	<b>135,810</b>	<b>181,690</b>	<b>237,590</b>
Borrowings and notes	76,835	119,525	119,525	119,525
Deferred revenue	641	993	993	993
Other non-current liabilities	11,444	21,357	21,357	21,357
<b>Total non-current liabilities</b>	<b>88,920</b>	<b>141,875</b>	<b>141,875</b>	<b>141,875</b>
<b>Total liabilities</b>	<b>182,691</b>	<b>277,685</b>	<b>323,565</b>	<b>379,465</b>
<b>Net current assets</b>	<b>88,745</b>	<b>121,045</b>	<b>130,946</b>	<b>166,190</b>
<b>Mezzanine equity</b>	<b>2,992</b>	<b>3,001</b>	<b>3,142</b>	<b>3,321</b>
Equity attributable to shareholders	278,799	365,822	449,315	555,344
Non-controlling interests	42,330	70,616	67,399	63,314
<b>Total equity</b>	<b>321,129</b>	<b>436,438</b>	<b>516,714</b>	<b>618,659</b>

Source(s): Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/definition differences

## Disclosures

### Analyst Certification

I, Chow Sau Shing, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report. I and/or my associates have no financial interests (except "Disclosures of Interests" below) in relation to the listed Group (ies) covered in this report.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2018 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**