

E Q U I T Y   R E S E A R C H

# ALIBABA GROUP HOLDING LIMITED

NYSE: BABA | HKEX: 9988

## AI-FIRST PIVOT: BUYING THE INVESTMENT CYCLE

RATING	PRICE TARGET	CURRENT PRICE	UPSIDE	MARKET CAP	SECTOR
<b>BUY</b>	<b>\$185</b>	~\$128	<b>+44.5%</b>	~\$302B	Tech / E-Comm

Report Date: March 19, 2026 | Fiscal Year End: March 31 | Analyst: Equity Research Desk  
This report incorporates Q3 FY2026 earnings released today (December quarter 2025)

### I N V E S T M E N T   T H E S I S   S U M M A R Y

#### The Bull Case

- ▶ Cloud revenue growing 36% YoY; AI acceleration is real
- ▶ Qwen app 300M+ MAU; AI monetization inflecting upward
- ▶ \$11.9B buybacks in FY2025; continued capital return commitment
- ▶ Stock trades at ~9x EV/EBITDA — steep discount to global peers
- ▶ Quick commerce investment cycle near peak; margin recovery ahead

#### Key Risks to Monitor

- ▶ Near-term margin compression from AI/quick commerce investment
- ▶ Intensifying domestic competition from PDD, JD, Douyin
- ▶ Macro headwinds; weak Chinese consumer spending environment
- ▶ US-China geopolitical tensions; ADR regulatory tail risk
- ▶ AI monetization could take longer to materialise than expected

# 1. COMPANY OVERVIEW

## 1.1 Business Description

Alibaba Group Holding Limited is China's largest e-commerce and technology conglomerate, founded in 1999 by Jack Ma in Hangzhou. Operating across four strategic pillars — domestic commerce, international commerce, cloud computing, and AI — Alibaba serves hundreds of millions of consumers, enterprises, and merchants globally. As of December 31, 2025, the company employed 128,197 people and reported a trailing twelve-month revenue base of approximately \$165B. The company is dual-listed on the NYSE (BABA) and Hong Kong Stock Exchange (9988).

By early 2026, management has repositioned the company around a core 'AI-first, user-first' strategy. The Qwen large language model family — now at version 3.5 — has surpassed 1 billion cumulative downloads on Hugging Face and powers an integrated Qwen app ecosystem serving 300M+ monthly active users across Alibaba's platforms.

## 1.2 Segment Structure

Alibaba now operates through four primary reporting segments following the divestiture of Sun Art and Intime retail assets:

Segment	Key Platforms	FY2025 Rev (RMB)	Growth YoY
<b>Taobao &amp; Tmall Group</b>	Taobao, Tmall, Taobao Instant Commerce, 1688.com	~RMB 429B	+7%
<b>Cloud Intelligence Group</b>	Alibaba Cloud (IaaS/PaaS), DingTalk, Qwen AI platform	~RMB 117B	+24%
<b>Intl. Digital Commerce (AIDC)</b>	AliExpress, Lazada, Trendyol, Alibaba.com	~RMB 141B	+29%
<b>Other (Cainiao, Local Svcs, DMEG)</b>	Cainiao Logistics, Ele.me, Amap, Youku	~RMB 309B	+5%

## 1.3 AI Strategy & The Qwen Ecosystem

Alibaba's AI initiative has reached an inflection point. The Qwen model family is now the world's most widely downloaded open-source LLM on Hugging Face, with AI-related product revenue within the Cloud Intelligence Group growing at triple-digit rates for seven consecutive quarters. The January 2026 launch of Qwen app's integrated ecosystem — connecting Taobao, Instant Commerce, Amap, Fliggy, and Alipay — marks a pivotal shift from standalone AI chatbot to an agentic commerce platform. By end of February 2026, ~140 million users had their first AI-driven shopping experience through Qwen's agentic features.

Proprietary chip development at T-Head Semiconductor further strengthens Alibaba's long-term supply chain independence, with T-Head's GPU now in production at scale and contributing meaningfully to cloud infrastructure capacity.

## 2. Q3 FY2026 EARNINGS REVIEW (December Quarter, Released Today)

### 2.1 Headline Results vs. Consensus

Alibaba reported Q3 FY2026 results this morning (March 19, 2026) that missed on both the top and bottom line, sending ADR shares down approximately 4-5% in pre-market and early trading. However, we view the misses as largely a function of accounting presentation (divestiture impacts) and deliberate investment cycle decisions rather than structural deterioration. On a like-for-like basis excluding Sun Art and Intime divestitures, revenue growth was a more robust 9%.

Metric	Q3 FY2026A	Q3 FY2025A	YoY Change	vs. Consensus
Revenue (RMB B)	284.8	280.2	+2%	Miss (-2.0%)
Revenue ex-divestitures (RMB B)	~258B est.	~237B	+9%	In-line
Adjusted EBITA (RMB B)	23.4	54.4	-57%	Miss
Income from Operations (RMB B)	10.6	40.9	-74%	Miss
Net Income (RMB B)	15.6	46.4	-66%	Miss
Cloud Intelligence Group Revenue	~RMB 32B est.	~RMB 23.5B	+36%	+1% Beat
88VIP Members	>59M	~45M	+DD%	Beat
Taobao App Monthly Active Consumers	+DD% YoY	Moderate growth	Accel.	Positive

### 2.2 Key Quarter Takeaways

**CLOUD IS THE STAR:** The 36% YoY growth in Cloud Intelligence Group revenue is the most important metric in this release. It represents an acceleration from 18% in Q4 FY2025, driven by surging enterprise demand for Alibaba's Qwen AI models, inference infrastructure, and DingTalk collaboration tools. This is the fourth consecutive quarter of re-acceleration in cloud growth and validates the thesis that Alibaba's AI investment cycle is generating real revenue.

**PROFITABILITY: THE INVESTMENT CYCLE EXPLANATION:** The 57-74% declines in EBITA and operating income are concerning on the surface but require context. Management explicitly attributes the compression to three areas: (1) investment in quick commerce capabilities, where Alibaba is competing aggressively with Meituan and Douyin in the high-frequency, last-mile delivery market; (2) enhanced user experience investment in Taobao/Tmall; and (3) AI technology infrastructure. The company reported a quarterly loss in the China Ecommerce segment exceeding RMB 36 billion and negative free cash flow of RMB 21.8 billion. This is a deliberate choice to defend and grow market share at the cost of near-term profitability.

**USER METRICS: ENCOURAGING UNDERLYING DEMAND:** Taobao app achieved double-digit YoY monthly active consumer growth — an acceleration from recent trends — and 88VIP membership surpassed 59 million, demonstrating robust premium consumer engagement. These lagging indicators confirm that Alibaba's user-first strategy is gaining traction even as headline revenues disappoint due to divested entities.

### 3. DETAILED FINANCIAL MODEL

#### 3.1 Income Statement Model (USD \$B, FY end March 31)

All historical figures sourced from Alibaba official earnings releases. FY2026E includes our estimates for Q4 FY2026 (ending March 31, 2026) based on reported Q1-Q3 data and management guidance. Projections are in USD at approximately RMB 7.1/\$1 for FY2026-28E.

Income Statement (\$B USD)	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E
<b>Revenue</b>						
Taobao & Tmall Group	50.8	56.8	60.4	62.1	67.5	74.2
Cloud Intelligence Group	12.4	14.2	16.5	21.0	27.6	35.9
Intl. Digital Commerce (AIDC)	9.1	11.0	19.9	25.1	31.0	38.0
Local Services Group	7.2	8.7	10.1	11.0	12.3	13.8
Cainiao Smart Logistics	8.0	9.8	11.9	12.5	13.5	14.6
Digital Media & Other	3.1	3.2	2.5	3.1	3.4	3.7
Eliminations & Corporate	-4.2	-4.3	-6.0	-6.5	-7.1	-7.9
<b>TOTAL REVENUE</b>	<b>86.3</b>	<b>130.4</b>	<b>137.3</b>	<b>148.3</b>	<b>168.2</b>	<b>192.3</b>
YoY Growth (%)	-	51%	5.3%	8.0%	13.4%	14.3%
<b>Profitability</b>						
Gross Profit	46.0	68.7	75.3	79.3	96.7	116.2
Gross Margin (%)	53.3%	52.7%	54.8%	53.5%	57.5%	60.4%
Adjusted EBITA	20.2	23.8	23.8	24.5	38.1	52.3
Adjusted EBITA Margin (%)	23.4%	18.3%	17.4%	16.5%	22.7%	27.2%
Non-GAAP Operating Income	20.5	23.9	23.8	23.9	37.8	51.8
Non-GAAP Net Income	21.5	21.8	21.8	21.1	33.0	46.5
Non-GAAP Net Margin (%)	24.9%	16.7%	15.9%	14.2%	19.6%	24.2%
GAAP Net Income	11.7	8.0	17.4	14.5	25.0	38.0
GAAP Net Margin (%)	13.6%	6.1%	12.7%	9.8%	14.9%	19.8%
<b>Per Share (ADS, Non-GAAP, USD)</b>						
Non-GAAP EPS (ADS)	8.32	8.81	9.01	9.40	15.30	22.50
YoY EPS Growth (%)	-	5.9%	2.3%	4.3%	62.8%	47.1%
Diluted Shares Outstanding (B)	20.9	20.0	19.0	18.2	17.5	16.8
<b>EBITDA &amp; Cash Flow</b>						
Adjusted EBITDA	24.8	29.4	29.7	31.0	46.0	61.5
Adj. EBITDA Margin (%)	28.7%	22.5%	21.6%	20.9%	27.4%	32.0%
Free Cash Flow	19.2	21.8	10.2	9.5	22.0	36.0
FCF Margin (%)	22.2%	16.7%	7.4%	6.4%	13.1%	18.7%
Capex (incl. cloud infra)	4.7	5.8	12.3	14.0	13.5	12.5

Note: FY2026E profitability reflects continued heavy investment in quick commerce infrastructure and AI cloud build-out. FCF trough expected in FY2026 as capex peaks. Margin recovery modeled from FY2027 as quick commerce scales toward profitability and cloud mix shift to higher-margin AI workloads accelerates. EPS

estimates are non-GAAP; GAAP figures subject to mark-to-market equity investment volatility.

### 3.2 Balance Sheet & Capital Structure

Balance Sheet (\$B)	FY2024A	FY2025A	FY2026E	FY2027E
Cash & Short-Term Investments	62.4	64.2	58.0	61.5
Total Assets	223.0	225.0	220.0	225.0
Long-Term Debt	13.5	14.0	13.5	12.0
Equity Method Investments	35.0	30.0	28.0	25.0
<b>Net Cash Position</b>	<b>48.9</b>	<b>50.2</b>	<b>44.5</b>	<b>49.5</b>
Net Debt/Adj. EBITDA	Net Cash	Net Cash	Net Cash	Net Cash
Shares Repurchased (Full Year, \$B)	9.5	11.9	8.0E	8.0E
Dividends Declared (\$B)	1.0	4.6	3.5E	4.0E

Alibaba maintains a formidable net cash position (\$50B+ as of FY2025) that provides a meaningful floor to equity value (\$21/ADS implied net cash per share at ~2.4B diluted ADS). The company's FY2025 capital return program of \$16.5B combined (\$11.9B buybacks + \$4.6B dividends) represents ~5.5% of the current market cap, providing a tangible yield backstop to the equity. We model capex peaking at ~\$14B in FY2026 before declining as cloud infrastructure investments mature.

## 4. VALUATION ANALYSIS

### 4.1 Trading Multiples vs. Global Peers

Company	Mkt Cap	EV/Rev FY1	EV/EBITDA FY1	EV/EBITDA FY2	P/E NTM	Rev Growth FY1	FCF Yield
<b>Alibaba (BABA)</b>	\$302B	1.8x	9.2x	6.2x	13.7x	+8%	3.1%
Amazon (AMZN)	\$2,200B	3.2x	18.5x	15.0x	36.0x	+11%	3.5%
JD.com (JD)	\$54B	0.3x	7.5x	6.5x	9.5x	+5%	5.8%
PDD Holdings (PDD)	\$160B	3.5x	11.0x	9.0x	14.5x	+17%	6.2%
Tencent (700.HK)	\$470B	4.8x	14.5x	12.5x	17.0x	+8%	2.8%
Microsoft (MSFT)	\$3,000B	12.0x	25.0x	21.5x	30.5x	+12%	2.1%
<b>China Tech Peer Average</b>	-	<b>2.9x</b>	<b>10.8x</b>	<b>9.0x</b>	<b>13.7x</b>	<b>+10%</b>	<b>4.3%</b>

Alibaba trades at a meaningful discount to both global and Chinese technology peers on EV/EBITDA and P/E multiples, despite possessing (i) the largest cloud platform in China with the fastest-growing AI revenue stream, (ii) the dominant domestic e-commerce platform, and (iii) a \$50B+ net cash balance. At 9.2x FY1 EBITDA vs. 10.8x for China tech peers, BABA trades at a 15% discount — a gap that we believe should close as the investment cycle peaks and margins recover. On a FY2027 basis, the stock trades at just 6.2x EBITDA, which is extraordinarily inexpensive for a business growing revenue 13%+ and cloud 30%+.

### 4.2 Sum-of-the-Parts (SOTP) Valuation

Segment / Asset	Metric	Value (\$B)	Multiple	Segment Value (\$B)	Bear / Bull
<b>Taobao &amp; Tmall Group</b>	FY27E EBITDA \$18B	18.0	13x	\$234B	\$180B / \$285B
<b>Cloud Intelligence Group</b>	FY27E Revenue \$27.6B	27.6	7x Rev	\$193B	\$130B / \$280B
<b>Intl. Digital Commerce (AIDC)</b>	FY27E Revenue \$31B	31.0	2.5x Rev	\$77B	\$50B / \$110B
<b>Local Services + Other</b>	FY27E EBITDA \$4B	4.0	8x	\$32B	\$20B / \$45B
<b>Net Cash &amp; Investments</b>	As of FY2026E	-	1.0x	\$94B	\$90B / \$100B
<b>Total Enterprise Value</b>				<b>\$630B</b>	<b>\$470B / \$820B</b>
Conglomerate Discount (20%)				(\$126B)	
Less: Debt & Minority Interest				(\$18B)	
<b>Equity Value</b>		<b>~2.4B ADS</b>		<b>\$486B</b>	<b>\$362B / \$640B</b>

Implied Price Per ADS					<b>\$203</b>	<b>\$151 / \$268</b>
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### 4.3 DCF Valuation

Our DCF model uses a 10-year explicit forecast period with a WACC of 11.5% (reflecting China country risk premium, ADR structure risk, and equity risk premium) and a terminal FCF growth rate of 3.5%, consistent with China's long-run nominal GDP trajectory.

DCF Assumptions	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	Terminal
Revenue (\$B)	148.3	168.2	192.3	216.0	238.0	-
EBITDA Margin (%)	20.9%	27.4%	32.0%	33.5%	34.5%	35.0%
Unlevered Free Cash Flow (\$B)	6.5	19.0	33.5	43.0	51.0	-
Discount Factor (WACC 11.5%)	0.90	0.81	0.72	0.65	0.58	-
PV of FCF (\$B)	5.8	15.5	24.1	28.0	29.6	-

DCF Summary	Value (\$B)	% of Total	Per ADS
PV of FCFs (Yr 1-10)	\$155B	29%	\$65
Terminal Value (TGR: 3.5%)	\$330B	62%	\$138
Net Cash / Investments	\$47B	9%	\$20
Less: Debt & Minorities	(\$18B)	-3%	(\$8)
<b>DCF EQUITY VALUE</b>	<b>\$514B</b>	<b>100%</b>	<b>\$215</b>

### 4.4 Price Target & Scenario Analysis

Our 12-month price target of \$185/ADS is derived from a 50/50 blend of our SOTP (\$203) and DCF (\$215) valuations, discounted by 10% to reflect execution risk during the ongoing investment cycle and China-specific regulatory/geopolitical risk premium. This implies 44.5% upside from the current price of ~\$128.

Scenario	Probability	Revenue CAGR	FY27E EBITDA Margin	EV/EBITDA	Price Target
Bull: AI monetization accelerates, cloud re-rates	25%	+16% (FY25-28)	32%	14x	<b>\$268</b>
Base: Investment cycle normalizes, cloud 25%+ growth	55%	+13% (FY25-28)	27%	11x	<b>\$185</b>
Bear: Competition intensifies; margins stay depressed	20%	+7% (FY25-28)	20%	8x	<b>\$100</b>
<b>Probability-Weighted Price Target</b>	100%				<b>\$185</b>

## 5. INVESTMENT THESIS & CATALYSTS

### 5.1 The Differentiated Thesis: What the Market Is Getting Wrong

The market is treating Alibaba's Q3 FY2026 profitability miss as evidence of structural deterioration. We disagree. The distinction between a structural problem and a deliberate investment decision matters enormously here. Alibaba is making an aggressive, management-choice decision to compress near-term margins in order to (a) defend domestic e-commerce market share against Douyin and Meituan in quick commerce, and (b) build out the AI + Cloud infrastructure necessary to capture the generational shift to AI-native enterprise software in China. The market, anchored to the prior high-margin e-commerce model, is discounting this transition overly harshly.

The cloud segment is the key pivot. At 36% revenue growth in the December quarter — accelerating from 18% just two quarters ago — Alibaba Cloud is entering a period of rapid scaling driven by Qwen model adoption. Enterprise AI workloads carry structurally higher margins than traditional IaaS. As cloud mix grows from ~14% of revenue today to 20%+ by FY2028, group-level EBITDA margins should re-expand meaningfully. The consensus has not yet fully modeled this mix shift dynamic.

### 5.2 Catalyst Timeline

Timeframe	Catalyst	Description	Magnitude
0-3 mo	Q3 Conf. Call	Management guidance on cloud trajectory and quick commerce loss trajectory; analyst upgrades on any positive surprise	Medium
0-3 mo	Qwen App KPIs	Disclosure of monetization metrics from 300M+ MAU Qwen ecosystem; any paid tier or token revenue guidance	High
3-6 mo	Q4 FY2026 Results (June '26)	Guidance for FY2027 margins; expected to show initial signs of quick commerce investment plateau	<b>Very High</b>
3-6 mo	Cloud AI Revenue Breakout	Separate disclosure of AI-related cloud revenue as it approaches material threshold (~10% of Cloud)	High
6-12 mo	AIDC Path to Profitability	International digital commerce narrowing losses materially; Trendyol profitability already achieved; Lazada turning corner	Medium-High
6-12 mo	China Macro Recovery	Any evidence of consumer confidence recovery in China would disproportionately benefit BABA as the dominant commerce platform	High
Ongoing	Share Buybacks	\$8B+ annual buyback program structurally reduces share count; providing continuous EPS accretion	Low-Medium

### 5.3 Risk Analysis

Risk Factor	Probability	Impact	Mitigant
Investment cycle longer than modeled	Medium	High	Still value at 8x trough EBITDA bear case; net cash provides floor
PDD/Douyin market share gains	Medium	Medium	Quick commerce investment directly targeting this; 88VIP stickiness provides premium consumer moat

AI monetization delay	Medium	High	Cloud IaaS growth already demonstrable even without AI premium; open-source Qwen driving enterprise trial adoption
Chinese macro deterioration	Low-Med	High	Alibaba is a must-have infrastructure platform; enterprise cloud spending more resilient than consumer
ADR delisting / geopolitical	Low	Very High	Dual HK listing mitigates; HK shares fully liquid; precedent from other Chinese ADRs shows manageable pathway
Regulatory intervention (new)	Low	High	Post-2021 cycle likely complete; government has signaled desire for tech sector stability and growth

## 6. INVESTMENT RECOMMENDATION

**Rating: BUY | Price Target: \$185 | 12-Month Upside: +44.5%**

# BUY

**Price Target: \$185 per ADS**

Current Price: ~\$128 | Upside: +44.5%

52-Week Range: \$95.73 - \$192.67

### Key Metrics (FY2026E / FY2027E)

P/E (Non-GAAP, FY2026E): 13.7x

EV/EBITDA (FY2026E): 9.2x

EV/EBITDA (FY2027E): 6.2x

FCF Yield (FY2027E): ~7.3%

Net Cash Per ADS: ~\$21

Buyback Yield (FY2025A): ~3.9%

Dividend + Buyback Yield: ~5.5%

### The Investment Case in Three Points

1. **BUYING A WORLD-CLASS AI + CLOUD ASSET AT A HARDWARE-COMPANY MULTIPLE.** Alibaba Cloud, growing at 36% and accelerating, is on track to become China's dominant enterprise AI platform. The Qwen ecosystem represents a durable moat that took billions in R&D to build. Yet the entire Alibaba enterprise trades at 9x EBITDA — a multiple that would be appropriate for a no-growth commodity business. The market is anchoring on near-term earnings troughs without adequately pricing the FY2027-28 earnings recovery.

2. **THE INVESTMENT CYCLE IS A FEATURE, NOT A BUG.** Today's margin compression reflects management taking deliberate, strategic action to (a) prevent market share erosion in quick commerce — a high-frequency, habit-forming consumer behavior — and (b) build the AI infrastructure that will drive the next decade of cloud monetization. Both investments are rational and defensible. The bears are confusing investment with impairment. When capex peaks (likely FY2026) and quick commerce losses plateau, margin recovery could be dramatic — our model shows EBITDA margin going from 21% to 32% between FY2026 and FY2028.

3. **SUBSTANTIAL DOWNSIDE PROTECTION FROM NET CASH AND CAPITAL RETURNS.** At ~\$128/ADS, investors get \$21/ADS in net cash, \$8+/ADS in annual buybacks, and a 59M-member premium consumer franchise essentially for free. Even in the bear case, the stock is worth \$100 — implying a limited 22% downside from here. The asymmetric risk-reward (44% upside in base, -22% in bear) makes this a compelling conviction position.

**DISCLAIMER:** This report is for informational purposes only and does not constitute investment advice. Past performance is not indicative of future results. All financial projections are estimates. Investors should conduct their own due diligence and consult a licensed financial advisor before making investment decisions. The author may hold positions in securities mentioned.