

# Alibaba Group Holding Ltd (NYSE: BABA)

Fundamental Analysis and Investment Recommendation

**Team: Sharpe Edge**

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*Bull & Results*



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*Company Snapshot & Risks*







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*Base Case*



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*Bear Case*

# Recommendation: **Do Not Buy**

Alibaba Group Holding Ltd	
Current Stock Price NYSE	\$174.02
12-Month Target Price	\$ 178.83 / share
Upside Potential	~1%
Proposed Allocation	Do Not Buy
Valuation Method	DCF (Base Case)
Valuation Range	\$91.63-\$307.87 / share
Portfolio Impact	None

	High Growth in AI Infrastructure and Cloud Segment
	Regulatory Uncertainty around Business Model and ADR Trading
	Offloading of Low Margin Subsidiaries
	Sustained Margin Erosion from Domestic Competition

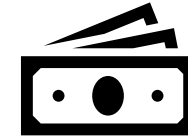
# Base Case Assumptions



-  Risk-Free Rate: **1.84%** China Bond Rate
-  Beta: 1.06 Closely tied to Hang Seng Index
-  WACC: 10.64%
-  China GDP Growth: 4%



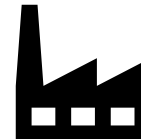
Guidance



Cost of Revenue



Q1 Trends



Industry



China GDP



Liquidity

# Base Case – DCF Valuation

## EBITDA Multiple Method - Base

Terminal EBITDA at Year 5	41,635
Weighted Average Cost of Capital	10.6%
Exit EV / EBITDA Multiple	14.7x
Perpetuity Value at Year 5 ~ Terminal Value	611,905
Discounted Terminal Value	369,048
Present Value of Free Cash Flows	40,986
Enterprise Value	410,034
Cash, Cash Equivalents & STI	58,988
ST Debt	3,781
LT Debt	30,407
Net Debt	(24,800)
Minority/Non Controlling Interest	9,444
Equity Value	425,391
Shares Outstanding	2,386
Value Per Share	\$ 178.30
Current Price	165.91
Estimated Upside	7%

## Free Cash Flow - Perpetuity Growth Method - Base

Free Cash Flow at Year 5	22,945
Weighted Average Cost of Capital	10.6%
Perpetuity Growth Rate	4.0%
Perpetuity Value at Year 5 ~ Terminal Value	359,265
Discounted Terminal Value	216,677
Present Value of Free Cash Flows	40,986
Enterprise Value	257,663
Cash, Cash Equivalents & STI	58,988
ST Debt	3,781
LT Debt	30,407
Net Debt	(24,800)
Minority/Non Controlling Interest	9,444
Equity Value	273,020
Shares Outstanding	2,386
Value Per Share	\$ 114.44
Current Price	165.91
Estimated Upside (Downside)	-31%



# Bear Case – Three Pillars

Risk	Catalyst	Impact on DCF Model
Margin Erosion in E-Commerce Segment	Intense domestic e-commerce competition is forcing the company into a margin-destroying price war	Decreased operating margin by 10%
Expected Cloud Growth Fails to Materialize	Slower enterprise adoption, pricing pressure, loss of market share, difficulty in monetization	Decreased cloud revenue growth rate to 75% of management's guidance
Geopolitical Risk	Trade and technology restrictions, ADR delisting, Taiwan conflict, Chinese domestic regulations	Decreased EV/EBITDA multiple to 10x Increased WACC to 12%

# Geopolitical Risks

Aspect	Detail
<b>Tech Export Controls</b>	<ul style="list-style-type: none"><li>- Restricted access to advanced chips and computing power</li><li>- Recent US bans on Chinese cloud and data-center services (ICTS Class Rule from Dept. of Commerce)</li></ul>
<b>Trade Wars and Tariffs</b>	<ul style="list-style-type: none"><li>- Higher tariffs and trade barriers increase costs and reduce demand</li><li>- Trade uncertainty disrupts global commerce and confidence</li></ul>
<b>Regulatory and Policy Environment in China</b>	<ul style="list-style-type: none"><li>- Unpredictable regulatory tightening creates strategic uncertainty</li><li>- State influence over corporate strategy</li></ul>
<b>Delisting Risk</b>	<ul style="list-style-type: none"><li>- Potential removal of Alibaba ADR from U.S. exchanges</li><li>- Potential restrictions on U.S. institutional ownership</li></ul>
<b>Geopolitical Shocks Affecting Demand / FX</b>	<ul style="list-style-type: none"><li>- Global conflicts, inflation, energy crises</li><li>- Exchange rate volatility impact reported earnings</li></ul>

# Bear Case – DCF Valuation

EBITDA Multiple Method - Bear	
Terminal EBITDA at Year 5	37,074
Weighted Average Cost of Capital	12.0%
Exit EV / EBITDA Multiple	10.0x
Perpetuity Value at Year 5 ~ Terminal Value	370,735
Discounted Terminal Value	210,365
Present Value of Free Cash Flows	33,109
Enterprise Value	243,474
Cash, Cash Equivalents & STI	58,988
ST Debt	3,781
LT Debt	30,407
Net Debt	(24,800)
Minority/Non Controlling Interest	9,444
Equity Value	258,831
Shares Outstanding	2,386
Value Per Share	\$ 108.49
Current Price	165.91
Estimated Upside	-35%

Free Cash Flow - Perpetuity Growth Method - Bear	
Free Cash Flow at Year 5	19,957
Weighted Average Cost of Capital	12.0%
Perpetuity Growth Rate	4.0%
Perpetuity Value at Year 5 ~ Terminal Value	259,446
Discounted Terminal Value	147,216
Present Value of Free Cash Flows	33,109
Enterprise Value	180,326
Cash, Cash Equivalents & STI	58,988
ST Debt	3,781
LT Debt	30,407
Net Debt	(24,800)
Minority/Non Controlling Interest	9,444
Equity Value	195,683
Shares Outstanding	2,386
Value Per Share	\$ 82.02
Current Price	165.91
Estimated Upside (Downside)	-51%

# Bull Case – Three Pillars

Driver	Catalyst	Impact on DCF Model
Exponential Growth in Cloud and AI Services	Better than expected demand for AI, international data centers	Increased revenue growth rate by 25-30%
Profitability in Growth Segments	International Digital Commerce, the Digital Media and Entertainment groups achieved profitability	Increased operating margin by 25%
Aggressive Prioritization of Shareholder Value	Extension of share buybacks, dividends payout since 2024	Decreased WACC to 9% Decreased shares outstanding 12% Increased EV/EBITDA multiple to 18x



# Bull Case – DCF Valuation

EBITDA Multiple Method - Bear	
<b>Terminal EBITDA at Year 5</b>	<b>37,074</b>
Weighted Average Cost of Capital	12.0%
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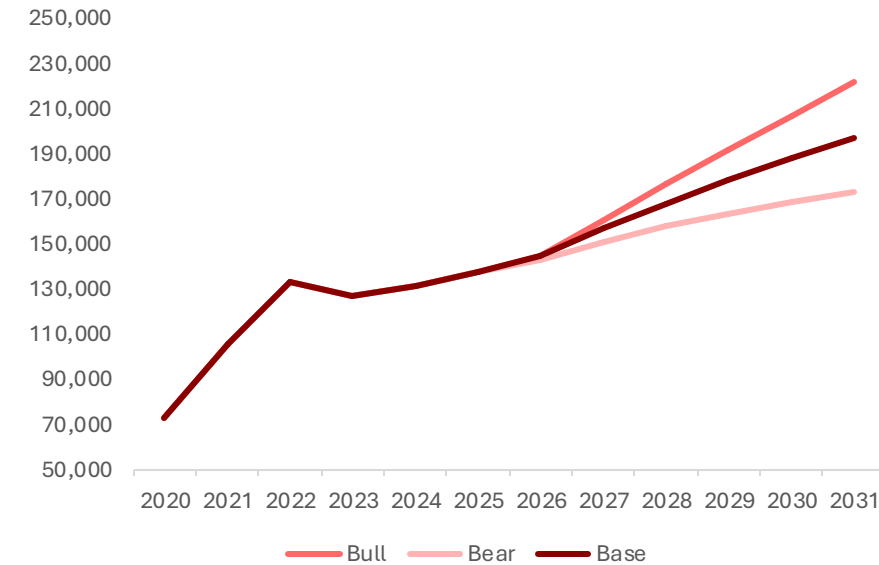
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# Results

Valuation Range and Implied Share Price



Revenue (in Millions)



	Current	Bear	Base	Bull
Stock Price	174.02	102.41	178.83	329.41
Upside (Downside)		(76.42)	12.86	150.58
Upside (Downside) %		-42.7%	1%	84.2%

# Company Snapshot

Founded	1999, Hangzhou, China	
Employees	~125,000	
Core Business	E-Commerce, Cloud Computing & Digital Infrastructure	
Business Segments		
China E-commerce	Taobao (C2C) and Tmall Group(B2C)	~57%
International Commerce	AliExpress (B2C), Trendyol, Lazada, Alibaba (B2B)	~14%
Cloud Intelligence	Cloud, IaaS, PaaS, SaaS	~13%
Other	Entertainment, Health, Gaming	16%



# Industry Landscape

## E-Commerce



### Market Size

\$5.8 trillion-dollar industry  
Expected to grow to reach  
\$9.7 trillion by 2030



### Industry Drivers

AI and Personalization  
Increased internet  
penetration



### Challenges

AI integration  
Cybersecurity  
Infrastructure

## Cloud



### Market Size

\$630 billion  
Expected to grow and  
reach \$1.6 trillion by 2030



### Industry Drivers

AI demands data centers  
Government Push



### Challenges

Competition  
Access to chips

# Peer Comparison

Market and Financial Data In USD Millions, except for ratios

	Ticker	Enterprise Value	LTM Revenue	LTM EBITDA	LTM EBIT	P / E	EV / Sales	EV / EBITDA	EV / EBIT
ALIBABA GROUP HOLDING-SP ADR	BABA US	332,083.9	138,661.6	22,595.5	19,389.1	25.0	2.4x	14.7x	17.1x
AMAZON.COM INC	AMZN US	2,426,784.8	670,038.0	147,629.0	76,190.0	33.8	3.6x	16.4x	31.9x
EBAY INC	EBAY US	46,817.9	10,470.0	2,699.0	2,238.0	21.1	4.5x	17.3x	20.9x
COUPANG INC	CPNG US	55,081.9	32,263.0	1,104.0	724.0	200.9	1.7x	49.9x	76.1x
JD.COM INC-ADR	JD US	33,150.4	175,289.2	6,225.5	4,188.0	8.6	0.2x	5.3x	7.9x
VIPSHOP HOLDINGS LTD - ADR	VIPS US	7,036.7	14,683.4	1,144.0	1,129.1	10.3	0.5x	6.2x	6.2x
SEA LTD-ADR	SE US	92,335.0	19,379.3	1,821.6	1,452.3	79.6	4.8x	50.7x	63.6x
PDD HOLDINGS INC	PDD US	133,052.5	56,755.5	14,390.0	12,720.3	14.0	2.3x	9.2x	10.5x
TENCENT HOLDINGS LTD	700 HK	759,368.9	97,566.2	40,074.1	30,812.8	25.4	7.8x	18.9x	24.6x
MERCADOLIBRE INC	MELI US	109,933.3	24,096.0	3,981.0	2,965.0	52.9	4.6x	27.6x	37.1x



# Risks

## Macro

- Weaker growth
- Weaker consumer spending
- Geopolitical tensions

## Governance

- Board Partnership Dynamic
- VIE – profit exposure without asset acquisition

## Regulatory

- CCP influence
- China's regulations

## ADR

- No Direct ownership
- Audits



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**Regulatory Uncertainty around Business Model and ADR Trading**

**SUN ART**

**Offloading of Low Margin Subsidiaries**



**Sustained Margin Erosion from Domestic Competition**





# Appendix

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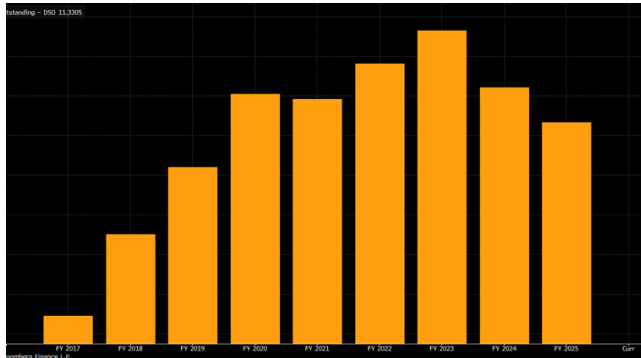
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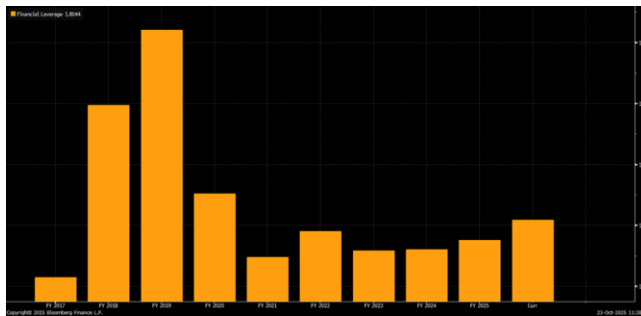


# Appendix – WCM and Financial Information

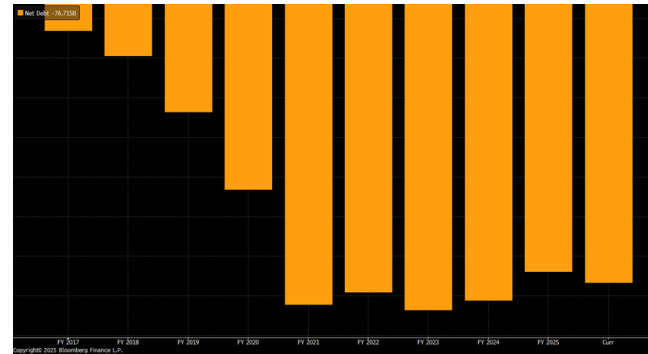
Days Sales Outstanding



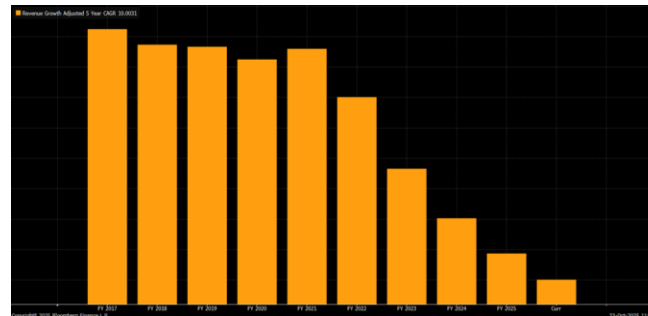
Financial Leverage



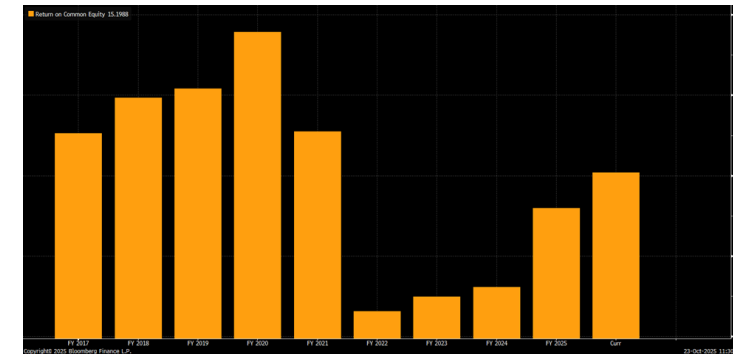
Net Debt



Growth

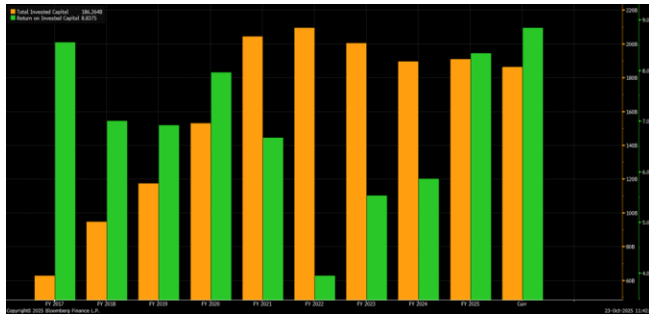


Return on Common Equity

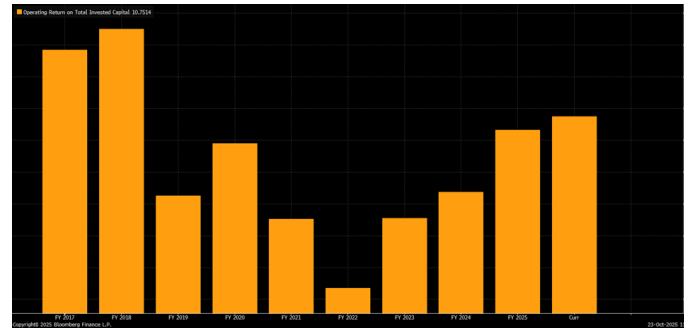


# Appendix – Returns, Margins and Cash

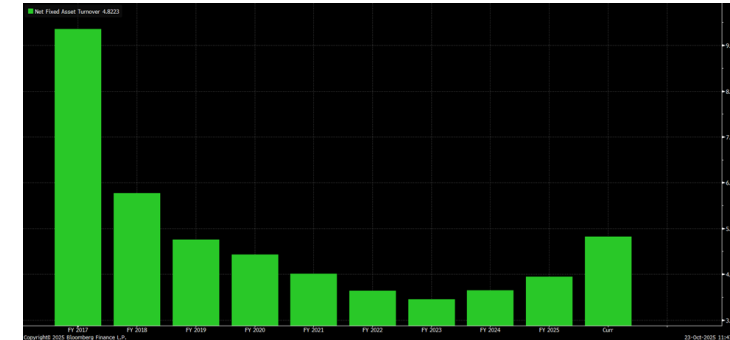
Total Invested Capital and ROIC



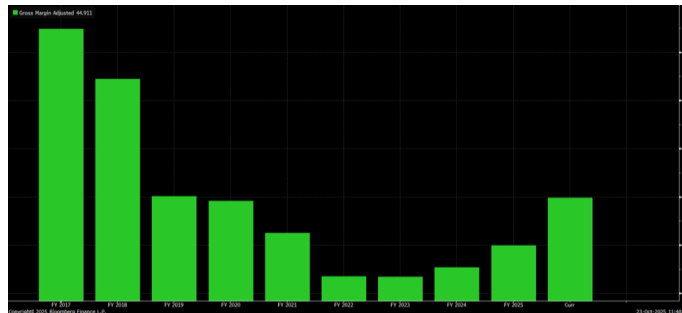
Operating Return on IC



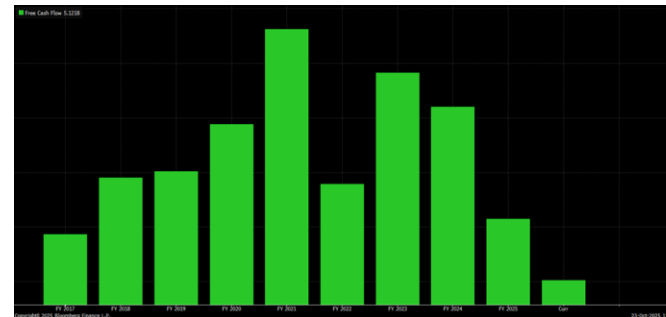
Net Fixed Asset Turnover



Gross Profit Margin



Free Cash Flow



# Appendix – Liquidity

## **Liquidity is tightening.**

Current ratio slid to 1.45

Quick is now at 0.88

## **Liabilities rising faster than current assets.**

The working-capital structure has become more liability-heavy (e.g., payables, customer advances, accruals).

## **2022 Insights**

### **Chinese Regulatory Breakdown**

Antitrust Fines

Forced Restructuring of Ant Group

"Common Prosperity" Campaign

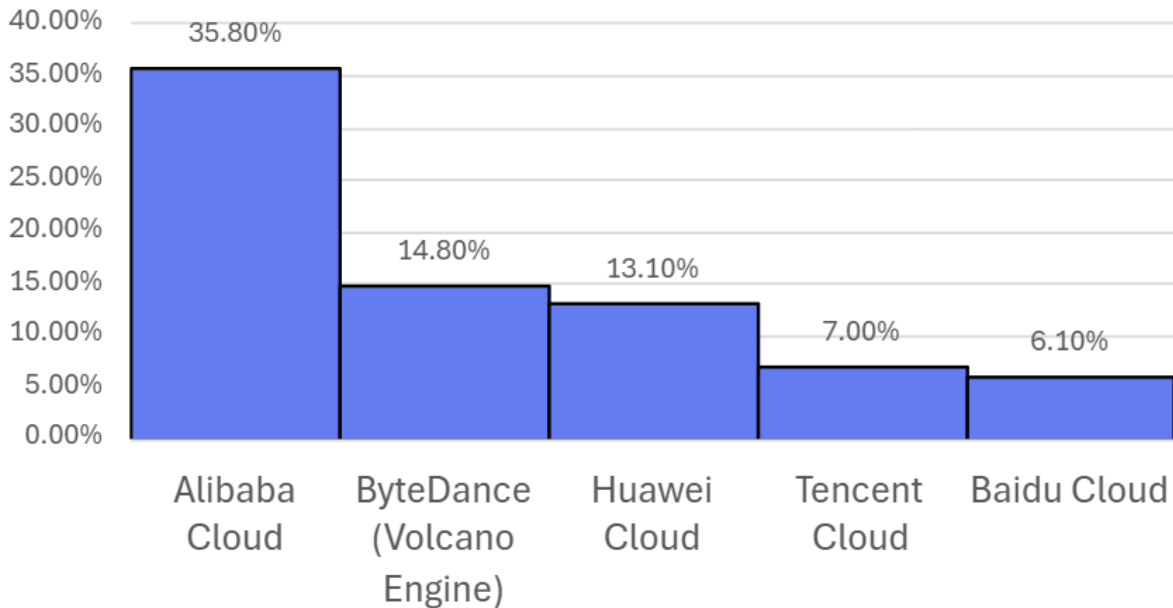
### **Geopolitical Tensions**

SEC Delisting Risk

General Sentiment

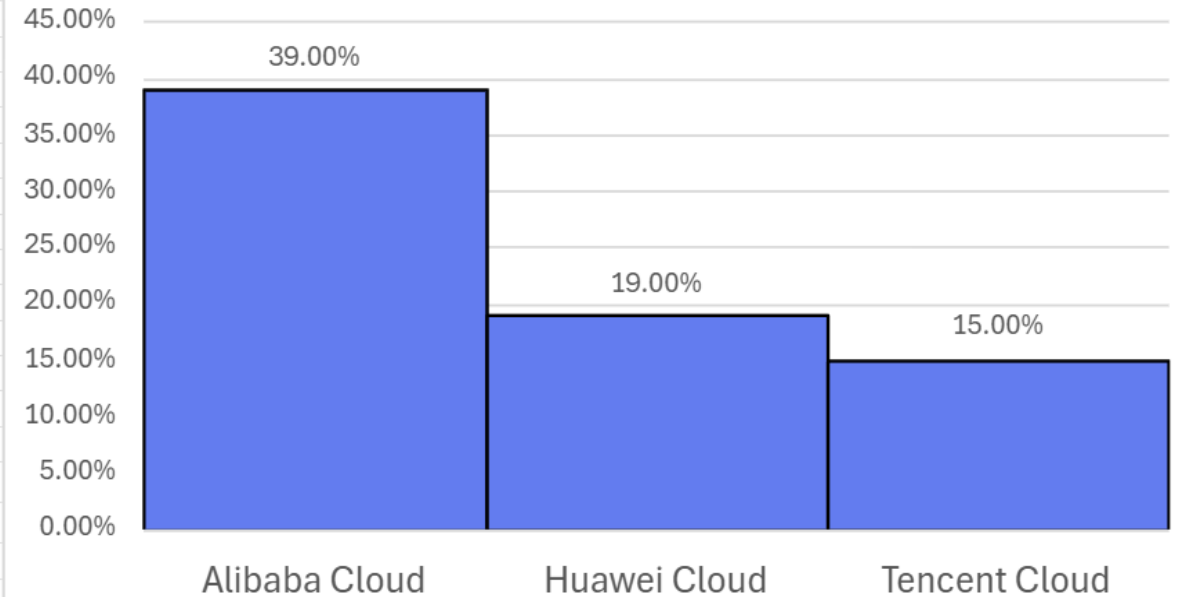
# Appendix – Cloud Market Share

AI Cloud Market (H1 2025)



Source: <https://www.scmp.com>

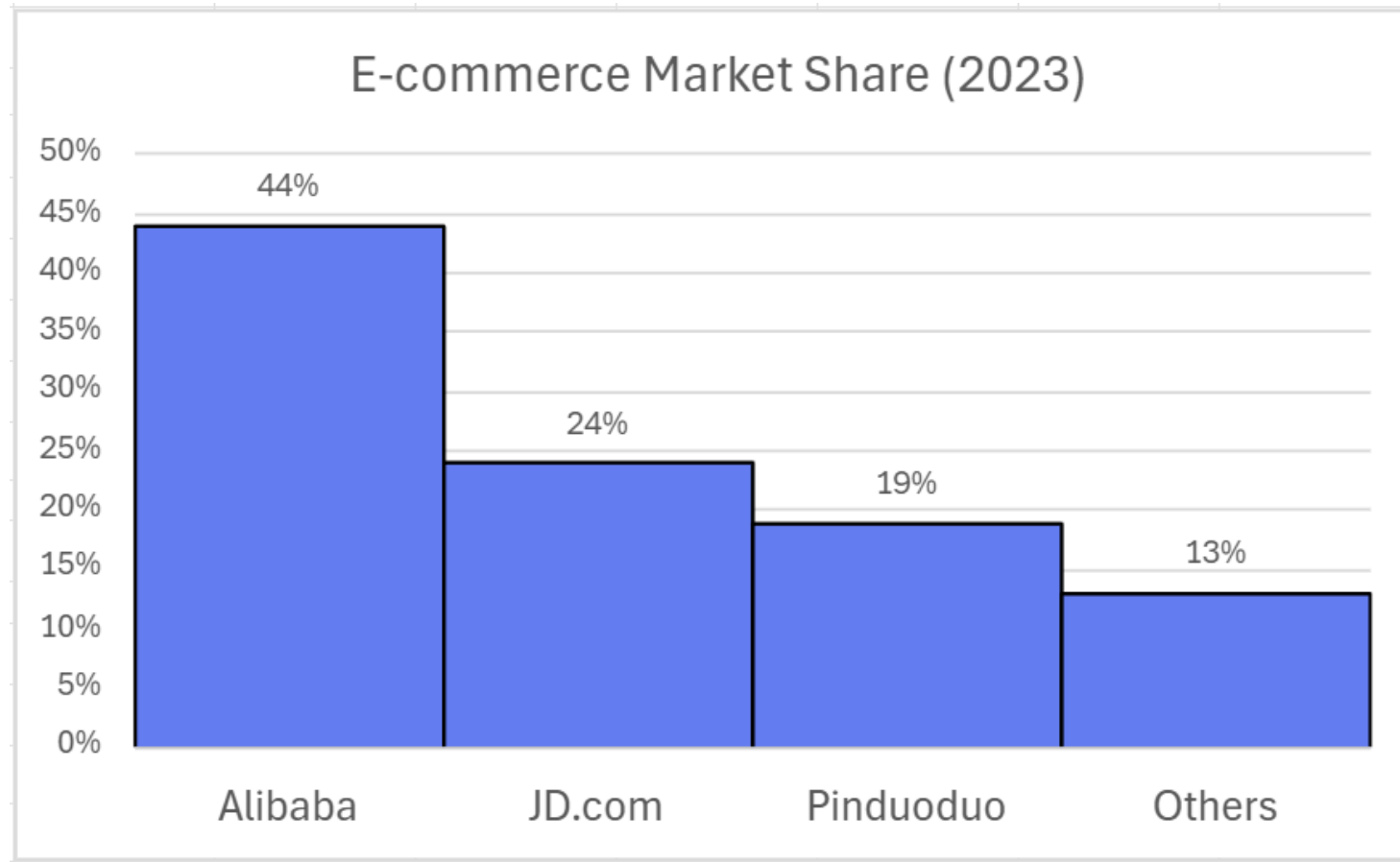
Cloud Infrastructure (2024)



Source: <https://www.scmp.com>



# Appendix – E-commerce Market Share



Source: <https://gmteight.com/>

# Appendix - VIE and ADR

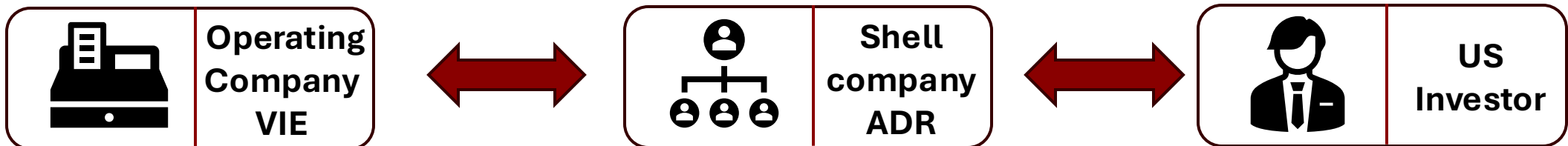
**VIE and ADR complex structure is used by many Chinese companies to bypass Chinese laws that restrict direct foreign ownership in certain sensitive industries.**

**VIE** – Variable Interest Entity, operating company in China. 100% owned by Chinese citizens.

**ADR** – American Depositary Receipts (Citibank), a Cayman Based shell company who controls VIE equity, profits and voting rights through legal agreements.

## **The Risk of Delisting Chinese Stocks 2020-2022**

- 2020, Holding Foreign Companies Accountable Act (HFCAA) - the right to audit foreign companies traded on a US Exchange. Otherwise, SEC required to delist the company shares.
- 2022, U.S. and Chinese regulators reached a preliminary agreement, allowing PCAOB inspectors to travel to Hong Kong and conduct inspections.



# Appendix – VIE & ADR Structure

## American Depositary Receipts



## ADR Structure

## VIE Structure

Variable Interest Entity



# Appendix – Guidance on VIE Risk

## **Risks Related to the VIE Structure**

Alibaba Group Holding Limited is a Cayman Islands holding company. It does not directly engage in business operations itself. Due to PRC legal restrictions on foreign ownership and investment in certain industries, we, similar to all other entities with foreign-incorporated holding company structures operating in our industry in China, operate our Internet businesses and other businesses in which foreign investment is restricted or prohibited in the PRC through variable interest entities, or VIEs. The VIEs are incorporated and owned by PRC citizens or by PRC entities owned and/or controlled by PRC citizens, and not by our company. We and, through us, our shareholders do not own any equity interests in the VIEs.

Investors in our ADSs and Shares are purchasing equity securities of a Cayman Islands holding company rather than equity securities issued by our consolidated subsidiaries and the VIEs, and investors may never hold equity interests in the VIEs under current PRC laws and regulations.

Investing in our company involves unique risks related to the VIE structure adopted by our company. In particular, if the PRC government deems that the contractual arrangements in relation to the VIEs do not comply with PRC regulations on foreign investment, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to penalties, or be forced to relinquish our interests in the operation of the VIEs, and we would no longer be able to consolidate the financial results of the VIEs in our consolidated financial statements. This would likely materially and adversely affect our business, financial results and the trading prices of our ADSs, Shares and/or other securities, including causing the trading prices of such securities to significantly decline or become worthless. Contractual arrangements in relation to VIEs have not been tested in a court of law. See “— D. Risk Factors — Risks Related to Our Corporate Structure” for more details on the risks relating to the VIE structure.

# Appendix - WACC Calculation

US Real Gross Domestic Product	3.3%
Perpetuity Growth Rate	4.0%

Weighted Average Cost of Capital Calculation					
Source: Bloomberg >>> WACC					
Weighted Average Cost of Capital				10.64%	
Equity		+ Debt		+ Preferred Equity	
Cost of Equity		Cost of Debt		Cost of Preferred Equity	
Risk Free Rate	1.84%	1 - Effective Tax Rate	80.22%	Preferred Dividend	
+ Equity Risk Premium	9.61%	Effective Tax Rate	19.78%	/ Preferred Equity	11,713.00
Beta	1.06	x Total Pre-Tax Cost of Debt	3.99%		
x Country / Region Premium	9.04%	Note Rate x ST Debt as % of Total Debt	0.42%		
Expected Market Return	10.88%	Short Term Debt as % of Total Debt	11.06%		
- Risk Free Rate	1.84%	x Note Rate	3.76%		
		+ Bond Rate x LT Debt as % of Total Debt	3.58%		
		Long Term Debt as % of Total Debt	88.94%		
		Bond Rate	4.02%		
Total Cost of Common Equity	11.45%	Total Cost of Debt	1.79%	Total Cost of Preferred Equity	0.0%
Market Cap	395,824	Total Debt	34,187.65	Total Preferred Equity	1,614
% of Total Capital	91.7%	% of Total Capital	7.9%	% of Total Capital	0.4%
Share Price	165.91	ST Debt	3,780.74	Preferred Equity and Hybrid Capital	1,614
Shares Outstanding	2,385.78	LT Debt	30,406.90	Total Capital	431,626

Exit EV / EBITDA Multiple Calculation	
Exit EV / EBITDA Multiple	14.7x
Ticker	EV/EBITDA
ALIBABA GROUP HOLDING-SP ADR	14.70x
AMAZON.COM INC	16.44x
EBAY INC	17.35x
COUPANG INC	49.89x
JD.COM INC-ADR	5.32x
VIPSHOP HOLDINGS LTD - ADR	6.15x
SEA LTD-ADR	50.69x
PDD HOLDINGS INC	9.25x
TENCENT HOLDINGS LTD	18.95x
MERCADOLIBRE INC	27.61x
Median	17.35x
IQR	31.06x
Up Limit	85.34x