

Alibaba Group (BABA)

1QFY27 review: Cloud acceleration with high AI capex ROIC visibility; EPS inflection; Buy

BABA	12m Price Target: \$186.00	Price: \$128.90	Upside: 44.3%
9988.HK	12m Price Target: HK\$180.00	Price: HK\$126.20	Upside: 42.6%

We summarize Alibaba's 1QFY27 results (our first take, broadly in-line) around a few key themes: **1) AI capex ROIC visibility prompts elevated spending, despite near-term FCF outflow:** where management highlighted AI capex spend payback is currently within three years or shorter on ROIC metrics. While June quarter capex came in above-expectations (at Rmb68bn vs. Tencent at Rmb53bn) partly on quarterly fluctuations in payment/procurement cycles, we lift FY27E/28E capex estimates to Rmb210bn/240bn (prior: Rmb178bn/194bn) on strong AI demand/favorable ROIC that prompts elevated spending, **2) Alibaba Cloud growth to further accelerate** from 45% in the June quarter (that came in-line, with triple-digit growth of AI-related revenues for the twelfth quarter), where we estimate 50%/52% growth for Sep/Dec quarters (GSe prior: 46%/46%) with margin upside on expanding gross margins from AI revenues (MaaS reached US\$2.4bn ARR by Aug 2026), **3) Improving efficiencies at its AI Labs & Applications** (new segmental disclosure, with segment losses to peak in June quarter) on the back of narrower Qwen app losses; while Qwen models & QwenWork investments will continue; and **4) Steady profit outlook for its traditional eCommerce business** (sequential slightly better CMR growth for Sep quarter vs. June quarter) and improving unit economics of quick commerce to drive group profit inflection and provide stable cashflow in supporting the group's AI investments. We lift our FY27E-FY29E adj. EPS by 1-8% on higher cloud profits/increased investment discipline (Qwen app) and keep our SOTP-based 12-month target prices at US\$186/HK\$180 unchanged.

We believe Alibaba's results have delivered (vs. our what to expect report) upon positive developments around cloud growth being a bright spot, higher certainty on ROIC despite capex uplift, inflection in EPS growth (from Sep-quarter) with improving quick commerce UE (with halving of losses for FY27E/28E and profit turnaround by

BUY

Ronald Keung, CFA
+852-2978-0856 | ronald.keung@gs.com
Goldman Sachs (Asia) L.L.C.

Timothy Zhao
+852-2978-2673 | timothy.zhao@gs.com
Goldman Sachs (Asia) L.L.C.

Steve Qiu
+852-2978-2672 | steve.qiu@gs.com
Goldman Sachs (Asia) L.L.C.

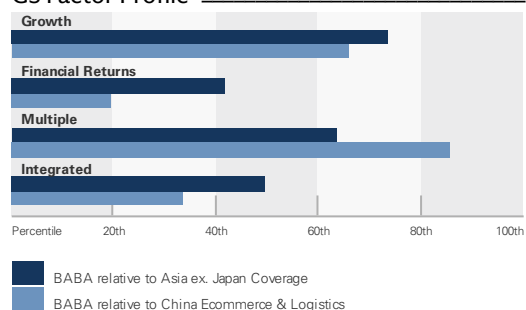
Key Data

Market cap: \$309.4bn
Enterprise value: \$316.2bn
3m ADTV: \$1.3bn
China
China Ecommerce & Logistics
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	3/26	3/27E	3/28E	3/29E
Revenue (Rmb mn) New	1,023,670.0	1,116,372.5	1,225,411.8	1,374,081.8
Revenue (Rmb mn) Old	1,023,670.0	1,123,967.8	1,225,114.5	1,365,724.2
EBITDA (Rmb mn)	113,483.0	166,137.7	248,260.9	321,796.7
EPS (Rmb) New	27.36	44.99	59.86	81.48
EPS (Rmb) Old	27.36	41.73	55.98	80.76
P/E (X)	36.5	19.3	14.5	10.7
P/B (X)	2.2	1.8	1.7	1.5
Dividend yield (%)	1.4	1.8	2.0	2.2
CROCI (%)	3.2	9.6	13.4	15.9
	6/26	9/26E	12/26E	3/27E
EPS (Rmb)	8.52	10.65	14.96	10.85

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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BUY

Alibaba Group (BABA)

Rating since May 8, 2015

Ratios & Valuation

	3/26	3/27E	3/28E	3/29E
P/E (X)	36.5	19.3	14.5	10.7
P/B (X)	2.2	1.8	1.7	1.5
FCF yield (%)	(2.3)	(5.3)	(1.9)	2.4
EV/EBITDAR (X)	19.6	12.0	8.0	6.0
EV/EBITDA (excl. leases) (X)	19.6	12.0	8.0	6.0
CROCI (%)	3.2	9.6	13.4	15.9
ROE (%)	5.9	9.7	11.8	13.8
Net debt/equity (%)	(12.1)	(2.0)	1.5	(1.4)
Net debt/equity (excl. leases) (%)	(12.1)	(2.0)	1.5	(1.4)
Interest cover (X)	7.3	10.6	14.8	35.3
Days inventory outst, sales	0.0	0.0	0.0	0.0
Receivable days	—	—	—	—
Days payable outstanding	212.4	199.6	175.6	169.7
DuPont ROE (%)	5.4	8.9	10.8	12.6
Turnover (X)	0.5	0.6	0.6	0.6
Leverage (X)	1.7	1.6	1.6	1.6
Gross cash invested (ex cash) (Rmb)	1,413,256.0	1,629,615.6	1,843,061.5	2,049,718.3
Average capital employed (Rmb)	1,120,784.0	1,228,455.6	1,375,477.5	1,485,115.2
BVPS (Rmb)	451.04	473.14	520.21	587.63

Growth & Margins (%)

	3/26	3/27E	3/28E	3/29E
Total revenue growth	2.7	9.1	10.7	11.2
EBITDA growth	(43.9)	46.4	49.4	29.6
EPS growth	(58.4)	64.4	33.1	36.1
DPS growth	NM	NM	NM	NM
EBIT margin	7.0	10.0	12.6	14.2
EBITDA margin	11.1	14.9	20.1	23.4
Net income margin	5.9	9.4	11.1	12.7

Price Performance

Source: FactSet. Price as of 19 Aug 2026 close.

Income Statement (Rmb mn)

	3/26	3/27E	3/28E	3/29E
Total revenue	1,023,670.0	1,116,372.5	1,235,411.8	1,374,081.8
Cost of goods sold	(614,113.0)	(653,077.9)	(730,128.4)	(809,334.2)
SG&A	(271,323.0)	(263,276.8)	(283,267.6)	(304,699.3)
R&D	(60,517.0)	(77,620.3)	(59,219.4)	(63,676.1)
Other operating inc./(exp.)	35,766.0	43,740.2	85,464.4	125,424.5
EBITDA	113,483.0	166,137.7	248,260.9	321,796.7
Depreciation & amortization	(42,146.0)	(54,787.7)	(92,295.0)	(126,272.4)
EBIT	71,337.0	111,350.0	155,965.8	195,524.3
Net interest inc./(exp.)	77,719.0	5,891.8	(6,566.4)	938.7
Income/(loss) from associates	—	—	—	—
Pre-tax profit	89,238.0	136,161.1	163,218.4	207,725.6
Provision for taxes	(30,045.0)	(32,186.9)	(27,846.2)	(42,321.5)
Minority interest	1,465.0	1,214.8	1,576.5	9,618.5
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	60,658.0	105,189.0	136,948.7	175,022.6
Post-tax exceptionals	42,934.0	(23,915.3)	(17,254.7)	(7,001.5)
Net inc. (post-exceptionals)	103,592.0	81,273.7	119,694.0	168,021.1
EPS (basic, pre-exception) (Rmb)	26.44	47.02	62.46	81.05
EPS (diluted, pre-exception) (Rmb)	25.79	44.68	59.35	77.40
EPS (basic, post-exception) (Rmb)	45.15	36.33	54.59	77.80
EPS (diluted, post-exception) (Rmb)	44.04	34.52	51.88	74.31
DPS (Rmb)	—	—	—	—
Div. payout ratio (%)	0.0	0.0	0.0	0.0

Balance Sheet (Rmb mn)

	3/26	3/27E	3/28E	3/29E
Cash & cash equivalents	173,568.0	68,781.2	34,761.0	74,628.9
Accounts receivable	—	—	—	—
Inventory	1.0	1.0	1.0	1.0
Other current assets	437,200.0	453,178.8	484,775.9	517,256.8
Total current assets	610,769.0	521,961.0	519,537.8	591,886.7
Net PP&E	282,699.0	399,861.2	506,435.4	589,530.7
Net intangibles	264,361.0	260,319.0	256,305.2	254,863.0
Total investments	656,745.0	660,468.0	664,191.0	667,914.0
Other long-term assets	94,996.0	98,613.2	106,317.0	116,353.4
Total assets	1,909,570.0	1,941,222.4	2,052,786.5	2,220,547.8
Accounts payable	370,523.0	343,841.9	358,668.5	394,018.6
Short-term debt	28,224.0	25,500.1	28,116.1	28,678.4
Short-term lease liabilities	—	—	—	—
Other current liabilities	77,651.0	75,582.3	77,485.2	79,607.7
Total current liabilities	476,398.0	444,924.2	464,269.8	502,304.6
Long-term debt	164,935.0	174,982.2	180,880.7	182,148.5
Long-term lease liabilities	—	—	—	—
Other long-term liabilities	141,967.0	141,967.0	141,967.0	141,967.0
Total long-term liabilities	306,902.0	316,949.2	322,847.7	324,115.5
Total liabilities	783,300.0	761,873.4	787,117.5	826,420.2
Preferred shares	—	—	—	—
Total common equity	1,060,886.0	1,113,965.0	1,200,285.0	1,328,743.6
Minority interest	65,384.0	65,384.0	65,384.0	65,384.0
Total liabilities & equity	1,909,570.0	1,941,222.4	2,052,786.5	2,220,547.8
Net debt, adjusted	(135,719.0)	(23,608.9)	18,925.8	(19,112.0)

Cash Flow (Rmb mn)

	3/26	3/27E	3/28E	3/29E
Net income	103,592.0	81,273.7	119,694.0	168,021.1
D&A add-back	47,118.0	54,787.7	92,295.0	126,272.4
Minority interest add-back	(1,465.0)	(1,214.8)	(1,576.5)	(9,618.5)
Net (inc)/dec working capital	(22,547.0)	(48,345.9)	(22,571.3)	(5,044.8)
Other operating cash flow	(54,489.0)	16,261.6	16,992.3	25,390.7
Cash flow from operations	72,209.0	102,762.4	204,833.6	305,020.8
Capital expenditures	(126,063.0)	(208,761.7)	(242,140.7)	(258,327.4)
Acquisitions	(3,723.0)	(3,723.0)	(3,723.0)	(3,723.0)
Divestitures	5,627.0	—	—	—
Others	57,697.0	—	—	—
Cash flow from investing	(67,336.0)	(171,631.0)	(198,578.4)	(211,648.4)
Repayment of lease liabilities	—	—	—	—
Dividends paid (common & pref)	349.0	—	—	—
Inc/(dec) in debt	5,770.0	7,323.3	8,514.5	1,830.1
Other financing cash flows	(26,692.0)	(43,241.5)	(48,789.8)	(55,334.6)
Cash flow from financing	(20,573.0)	(35,918.2)	(40,275.3)	(53,504.5)
Total cash flow	(15,700.0)	(104,786.8)	(34,020.2)	39,867.9
Free cash flow	(53,854.0)	(105,999.3)	(37,307.1)	46,693.4

Source: Company data, Goldman Sachs Research estimates.

FY29E being on track) and with increased disclosures that we expect to drive higher appreciation of Alibaba's SOTP framework around Cloud + T-Head and AI models/applications. We continue to expect Alibaba to deliver a solid EPS recovery of +64%/+33% yoy for FY27E/FY28E (with strong inflection from Sep quarter), to be driven by continued leadership in its AI + Cloud business in China with further acceleration in cloud growth and a recovery in overall eCommerce profits with narrowing quick commerce losses. Maintain Buy.

We highlight key investor focuses and our thoughts around:

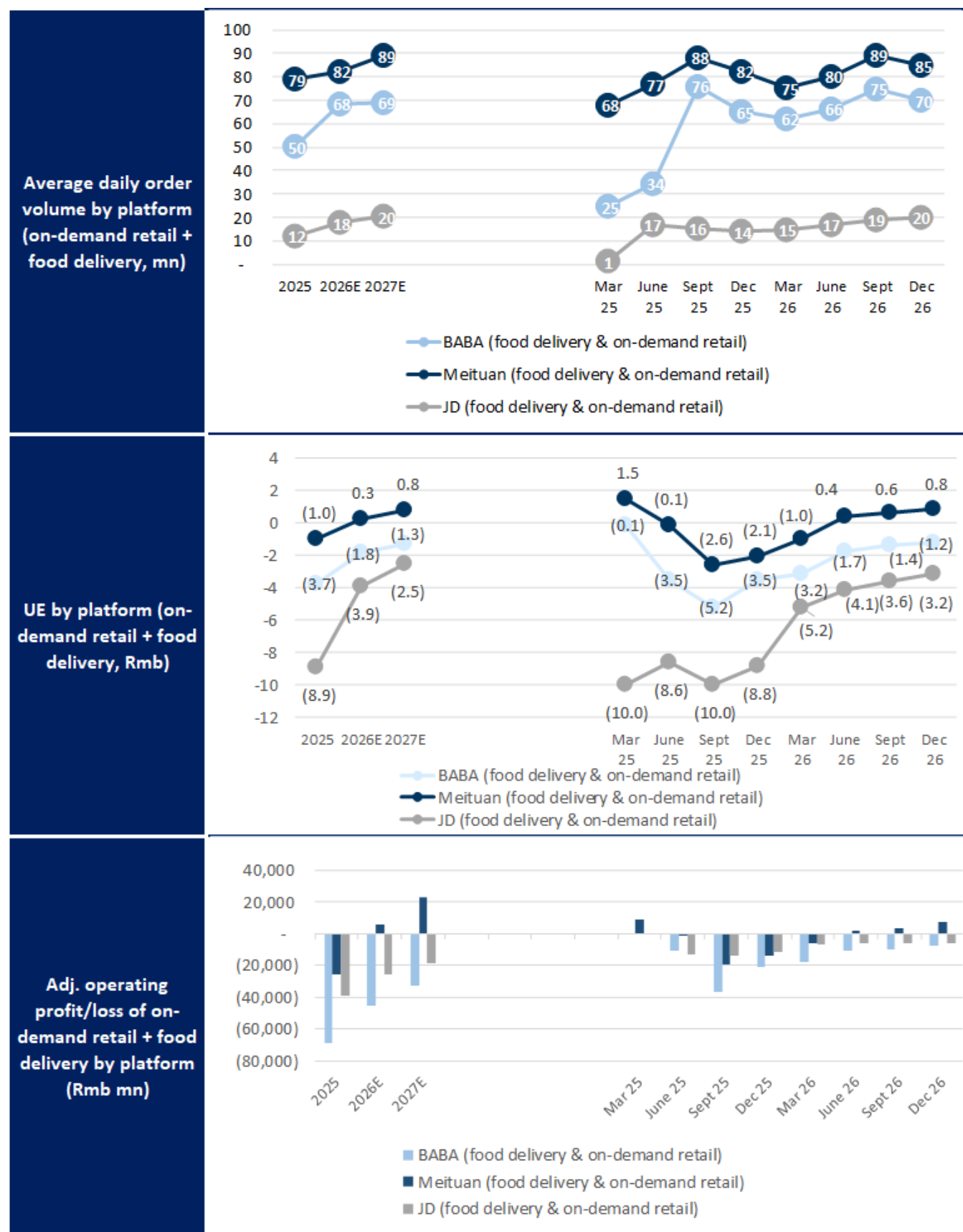
1) AI capex payback vs. elevated capex/funding: While quarterly capex increased to Rmb68bn (vs. Rmb26.9bn in Mar quarter), management attributed the higher capex to procurement timing, higher CPU investments amid rising agent demand and component cost inflation, while noted FY27 capex should not be linearly annualized given the front-loaded nature of AI infrastructure investments/procurement cycle/payment terms etc. Based on current AI product economics, the company sees a favorable 3 year payback period (with potential improvement toward 2-2.5 years through higher AI gross margins/utilization/self-developed T-Head chip adoption), and highlighted attractive long-term ROIC potential and that it could sustain 40%+ cloud revenue growth rates to reach its 5-year US\$100bn AI + Cloud revenue targets. We lift our capex estimates to Rmb210bn/240bn in FY27E/FY28E (prior: 178bn/194bn), with capex to be partly funded by improving core business cash flow generation, cloud profits and net cash on-hand.

2) Drivers of further cloud growth acceleration/pace of margin ramp-up towards medium-term 20%: Management remained confident in further cloud growth acceleration (with Sep qtr growth expected to exceed 50%) and continued EBITA margin expansion over the coming quarters, driven by rising AI-related revenue contribution (35% of external cloud revenue in Jun qtr; targeting 50% by FY27E), rapid MaaS monetization (MaaS ARR exceeding Rmb16bn as of Aug and on track for >Rmb30bn by year-end) and improving pricing dynamics under a tight compute environment. The company also sees a thriving open-source/open weight model ecosystem as positive for Alibaba Cloud's Bailian MaaS platform, where gross margins are similar between housing open-source and Qwen models. Longer term, management remains confident in achieving cloud EBITA margins at/above 20% (potentially ahead of its original timeline), where it viewed T-Head as a key growth/margin driver (with 1st gen AI chips already commercialized via M890 super-node offerings and 2nd gen products expected to support large scale foundation model training). We continue to see Alibaba's full-stack AI cloud infrastructure platform as well positioned to capture value across compute/infra/model/application layers. We expect overall cloud revenue to accelerate to 50%/50% and cloud margin to improve to 12.2%/12.6% in Sep quarter/FY27E vs. the company's long-term target of 20% margin.

3) Improving efficiencies at its AI Labs & Applications (new segmental disclosure, with segment losses to peak in Jun quarter), where current revenue growth (at +16% yoy, slower than independent AI labs) remains primarily driven by traditional products such as Quark and DingTalk, while continued investments into Qwen models and QwenWork (which differentiates in leveraging cloud infra/DingTalk distribution channel & enterprise customer base) are expected to bring higher revenue contribution from AI-native products over time. On the profitability side, management expected quarterly loss to trend lower on improving training efficiency, more disciplined Qwen App

spending and growing monetization into personal/enterprise productivity applications. We expect further accelerating AI labs & applications revenue growth of +22%/+24% in Sep qrt/FY27E, and adj. EBITA loss of Rmb-12.3bn/-51bn.

4) Improving profit outlook for its combined E-commerce Group, where management expected sequential improvement in both CMR growth and eCommerce EBITA into the Sep qrt (vs. +1% comparable CMR growth and stable traditional eCommerce EBITA in Jun qtr), amid still challenging macro backdrop. Quick commerce continued to deliver improving UE through higher AOV and fulfillment efficiency while maintaining solid order growth, with Sep qtr losses expected to remain stable or narrow sequentially despite weather-related fulfillment pressure and FY29 profitability target unchanged. We also note deeper integration of Freshippo and Taobao Instant Commerce, with non-food categories and front-warehouse expansion emerging as incremental growth drivers. We expect CMR growth of -5%/-5% in 2QFY27E/FY27E, on the back of the macro consumption backdrop and merchant rebate policy. We estimate quick commerce loss to narrow further to Rmb-9.7bn in the Sep quarter, driven by both operating efficiency improvement and AOV increase.

Exhibit 1: Food delivery + instant shopping comparisons between Meituan, Alibaba and JD (GS estimates)

Source: Goldman Sachs Global Investment Research

Exhibit 2: Alibaba by segment performance and our estimates

By segment (Rmb mn)	FY27E	FY28E	FY29E	1QFY26	1QFY27	2QFY27E	3QFY27E	4QFY27E
Group revenue	1,116,372	1,235,412	1,374,082	247,652	268,953	269,679	309,629	268,112
yoy %	9%	11%	11%	2%	9%	9%	9%	10%
Group EBITA	123,995	159,381	196,372	38,844	27,329	27,356	40,081	29,230
EBITA margin %	11%	13%	14%	16%	10%	10%	13%	11%
yoy %	62%	29%	23%	-14%	-30%	202%	71%	473%
Adj. net profit attributable to shareholders	105,917	138,115	184,231	35,291	20,583	24,887	35,282	25,048
Adj. net margin %	9%	11%	13%	14%	8%	9%	11%	9%
yoy %	65%	30%	33%	-12%	-42%	138%	106%	1563%
Non-gaap EPS (Rmb)	44.99	59.86	81.48	14.75	8.52	10.65	14.96	10.85
yoy %	64%	33%	36%	-10%	-42%	144%	111%	1640%
By Business group								
E-commerce group								
Domestic GMV (GSe)	8,434	8,586	8,672	2,208	2,217	1,981	2,433	1,802
yoy %	1%	2%	1%	5%	0%	2%	2%	2%
E-commerce business group revenue	845,279	877,468	909,940	198,812	205,862	203,935	238,428	197,053
yoy %*	1%	4%	4%		4%	0%	1%	1%
Customer management revenue (CMR)	325,284	332,067	340,105	89,199	82,547	75,203	97,100	70,434
yoy %	-5%	2%	2%	10%	-7%	-5%	-5%	-4%
E-commerce business group EBITA	162,748	177,248	194,727	39,988	39,749	37,116	48,639	37,243
EBITA margin %	19.3%	20.2%	21.4%	20.1%	19.3%	18.2%	20.4%	18.9%
yoy %	45%	9%	10%		-1%	239%	35%	49%
E-commerce EBITA excl. Quick Commerce	195,734	194,021	193,604	50,923	50,131	46,776	56,359	42,468
yoy %	-1%	-1%	0%		-2%	-1%	-1%	-1%
Quick Commerce EBITA (losses)	(32,987)	(16,772)	1,123	(10,935)	(10,382)	(9,660)	(7,720)	(5,225)
AI Cloud and compute services								
Revenue	237,460	327,064	434,858	33,418	48,437	59,669	65,872	63,481
yoy %	50%	38%	33%		45%	50%	52%	52%
External revenue yoy%	51%	42%	39%	26%	45%	50%	53%	53%
EBITA	30,039	45,789	65,229	2,419	5,628	7,280	8,497	8,633
EBITA margin %	12.6%	14.0%	15.0%	7.2%	11.6%	12.2%	12.9%	13.6%
AI labs and applications								
Revenue	14,801	19,241	26,168	2,882	3,338	3,579	3,815	4,069
yoy %	24%	30%	36%		16%	22%	26%	30%
EBITA	(50,959)	(49,065)	(49,720)	(3,224)	(13,861)	(12,276)	(12,207)	(12,614)
EBITA margin %	-344%	-255%	-190%	-112%	-415%	-343%	-320%	-310%
All others								
Revenue	91,544	92,460	93,384	28,629	28,803	20,031	21,772	20,938
yoy %	1%	1%	1%		1%	1%	1%	1%
EBITA	(12,869)	(10,171)	(9,338)	687	(3,343)	(3,205)	(3,222)	(3,099)
EBITA margin %	-14.1%	-11.0%	-10.0%	2.4%	-11.6%	-16.0%	-14.8%	-14.8%
Share of profit (loss) in investees	4,956	6,733	8,354	1,013	934	1,409	1,461	1,152
Ant Financial (33%. 1qr lag pick up)	6,971	7,778	8,740	1,547	1,563	1,913	1,965	1,530
Others	1,000	1,000	1,000	455	605	250	250	(105)

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: Our estimate changes at a glance

By segment (Rmb mn)	Old		
	FY27E	FY28E	FY29E
Group revenue	1,116,372	1,235,412	1,374,082
yoy %	9%	11%	11%
Group EBITA	123,995	159,381	196,372
EBITA margin %	11%	13%	14%
yoy %	62%	29%	23%
Adj. net profit attributable to shareholders	105,917	138,115	184,231
Adj. net margin %	9%	11%	13%
yoy %	65%	30%	33%
Non-gaap EPS (Rmb)	44.99	59.86	81.48
yoy %	64%	33%	36%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: Our 12-month SOTP-based target prices for BABA/9988.HK are US\$186/HK\$180 per ADS/share

SOTP, FY27	EV/Rev	PE (X)	Value (US\$ mn)	To BABA	to BABA (US\$ mn)	US\$/sh	% of NAV	Comment
A. CORE								
1 E-commerce Group	1.6	11	193,087	100.0%	193,087	82.0	44.1%	11x P/E
1a Traditional eCommerce	2.0	8	174,314	100.0%	174,314	74.0	39.8%	8x P/E, on slower Taobao-Tmall/CMR growth
1b Quick commerce	0.5	15	18,773	100.0%	18,773	8.0	4.3%	Assuming 81mn daily orders in CY28E and Rmb0.4 per order non-GAAP EBIT (long-term), 15% tax rate, 15x P/E referencing Meituan on-demand delivery valuation, discounted back at 12% WACC.
2 AI cloud and compute services	5.1	63	175,024	100.0%	175,024	74.3	40.0%	At 5X sales on FY27E revenue
Domestic	4.0		147,574	100.0%	147,574	62.7	33.7%	4X sales on FY28E domestic AI/cloud revenue, discounted back at 12% WACC
International	8.5	20	27,450	100.0%	27,450	11.7	6.3%	20X EV/EBIT implied on FY28E AI/cloud international revenue (external only) on normalized 25% EBIT margin, discounted back at 12% WACC.
3 All others (incl. AI labs & applications)	1.5		19,532	100.0%	19,532	8.3	1.5x	sales
Total Core					387,643	164.6	88.5%	
B. Associate/investments								
Total associate/investments			685,454		85,138	36.2	19.4%	
C. Net cash								
Total					39,502	16.6	9%	Latest as of 1QFY27
D. Less holdco discount								
NAV: BABA US, in US\$		28.6		15%	(75,306)	(32.0)	-17%	
NAV: 9988.HK, in HK\$		28.6			436,978	186.0	100%	
					3,399,686	180.0	100%	

Valuation methodology unchanged.

Source: Company data, Goldman Sachs Global Investment Research

Price Target Risks and Methodology - Alibaba Group

Valuation methodology: We are Buy rated on BABA/9988.HK, with SOTP-based 12-month target prices of US\$186/HK\$180 per ADS/sh (FY27E-based).

Key risks: (1) Lower-than-expected GMV growth due to macro/competition; (2) Slower-than-expected monetization in China retail; (3) Weaker-than-expected execution in key strategic investments; and (4) Cloud revenue growth deceleration.

Disclosure Appendix

Reg AC

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Contributing Authors: Ronald Keung, CFA Goldman Sachs (Asia) L.L.C., Timothy Zhao Goldman Sachs (Asia) L.L.C., Steve Qiu Goldman Sachs (Asia) L.L.C., Damian Xie Goldman Sachs (Asia) L.L.C., Iris Xiao Goldman Sachs (Asia) L.L.C..

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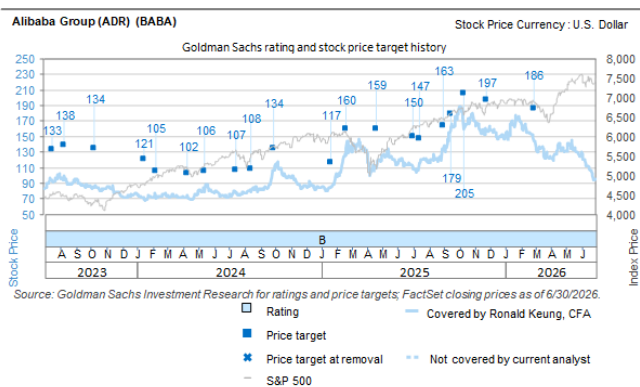
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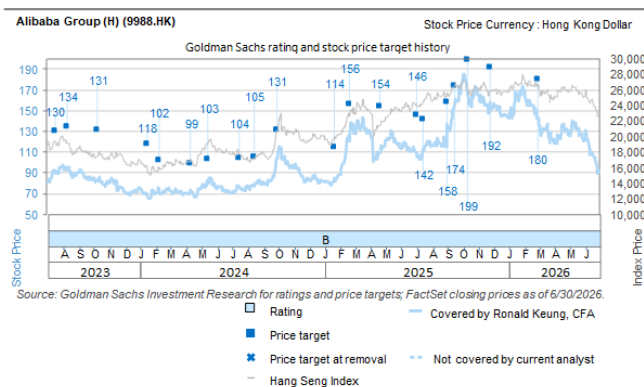
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	Buy	Hold	Sell		Buy	Hold	Sell
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Target price history table(s)

Alibaba Group (ADR) (BABA)

Date of report	Target price (\$)	Closing price (\$)
27-Feb-26	186.00	144.11
25-Nov-25	197.00	157.01
12-Oct-25	205.00	159.01
16-Sep-25	179.00	162.21
31-Aug-25	163.00	135.00
15-Jul-25	147.00	116.97
02-Jul-25	150.00	110.71
21-Apr-25	159.00	110.15
20-Feb-25	160.00	135.97
20-Jan-25	117.00	85.12
29-Sep-24	134.00	107.33
15-Aug-24	108.00	79.54
16-Jul-24	107.00	78.38
15-May-24	106.00	80.99
11-Apr-24	102.00	74.85
07-Feb-24	105.00	73.64
15-Jan-24	121.00	71.84
09-Oct-23	134.00	84.85

Alibaba Group (H) (9988.HK)

Date of report	Target price (HK\$)	Closing price (HK\$)
27-Feb-26	180.00	142.90
25-Nov-25	192.00	157.80
12-Oct-25	199.00	165.40
16-Sep-25	174.00	153.50
31-Aug-25	158.00	115.70
15-Jul-25	142.00	113.50
02-Jul-25	146.00	109.40
21-Apr-25	154.00	108.70
20-Feb-25	156.00	120.90
20-Jan-25	114.00	84.55
29-Sep-24	131.00	102.50
15-Aug-24	105.00	76.40
16-Jul-24	104.00	75.50
15-May-24	103.00	82.65
11-Apr-24	99.00	74.20
07-Feb-24	102.00	74.90
15-Jan-24	118.00	70.00
09-Oct-23	131.00	82.10

Price targets shown in table(s) are unadjusted for corporate actions.

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