02 Sep 2026 11:55:53 ET | 11 pages

Alibaba Group Holding (BABA.N)

What's New From Citi 2026 China TMT Day; Cloud Demand & Investment

CITI'S TAKE

We hosted Alibaba IR team at Citi China TMT Corporate Day in Hong Kong today. Management addressed recent investors concern related to equity raising rationale and ROIC for its AI cloud business. Mgmt explained that the equity raise decision mainly reflected demand-driven infrastructure buildout while factoring execution timing between debt and equity as well as capital market sentiment. Based on various ways of return/payback period calculations, management is confident that the faster buildout of capacity should support accelerating growth and improving margins of cloud business that justify the dilution impact. Mgmt is confident it can achieve US$100bn by FY2031 on external cloud revs, and targets long-term EBITA margin of 20%. Other discussion topics included MaaS revs, Qwen model, EBITA loss for AI Labs segment and ecommerce. We reiterate our Buy rating and TP of US$190 and continue to view BABA as a prominent AI play in China.

Buy	
Price (01 Sep 26 16:00)	US$112.85
Target price	US$190.00
Expected share price return	68.4%
Expected dividend yield	1.8%
Expected total return	70.1%
Market Cap	US$280,503M

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Rationale for equity raise - Management explained the recent HK$80 billion secondary offering (~3.6% dilution) was primarily to fund demand-driven infrastructure expansion. The decision to raise equity was influenced by factors such as execution speed, the cost of debt, and current market sentiment versus future uncertainty.

Cloud business outlook - To recall, capex in FY1Q27 increased 75% yoy to Rmb67.6bn, mainly driven by fluctuating timing of hardware deliveries, higher CPU procurement and higher component prices and will be non-linear and should not be annualized for future trend. Management elaborated that based on the stepped-up capex spend (though non-linear), it is confident that with the sufficient infrastructure buildout, it should be on track to achieve its 5-year target of US$100bn external cloud revs by FY2031 with long-term 20% EBITA margin trend. Mgmt added that the accelerated growth expectation was mainly driven by demand volume while price increase will flow through gradually along with contract renewals. Currently, most domestic contracts are one-year term, though interest in longer-duration contracts also emerging. We currently forecast FY2Q27 cloud revs to +50% yoy to Rmb59.7bn and forecast FY27/FY28/FY29 cloud revs growth of 51%/48%/42% with EBITA margin at 12.1%/12.7%/12.8%. We forecast FY27-29E capex of Rmb227.7bn/Rmb201bn/Rmb180bn.

AI Labs and AI Applications EBITA loss - Management elaborated the Rmb13.8bn EBITA loss incurred in AI Labs segment in FY1Q27 mainly related to model training

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

cost, Qwen app and agent application inference costs. Notably, BABA does not expect meaningful increase for Qwen consumer marketing spend and will start charging some subscription fees. Regarding Qwen Work, BABA starts to generate revenue, and it is a strategic priority to grow the agent business. Regarding Qwen model, as an open-source model, it has meaningfully contributed to AI cloud revenue growth and brand recognition. Alibaba's goal is to maintain the Qwen model's position in the top tier of the industry, as management believes successful models are a key growth driver for the business. We currently forecast AI Labs EBITA loss at Rmb12.5bn in FY2Q27.

MaaS and third-party model monetization - During earnings call, mgmt noted rapid growth in Bailian (Alibaba's MaaS platform) and highlighted that with Rmb16bn ARR achieved in August and a strong pipeline of new model launches in the coming months, it expressed confidence in achieving the year-end Rmb30bn ARR target. Mgmt noted that while proprietary Qwen models still account for the majority of its MaaS business currently, revs from third-party open-weight models are also substantial.

E-commerce - Mgmt commented that September quarter-to-date growth in both CMR and conventional ecommerce EBITA has outperformed that of the June quarter, which we view as a relief amid muted macro outlook.



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Valuation

Our target price for Alibaba N-shares of US$190 is based on 10x P/E on FY2027E Ecommerce group net profit, 7.0x P/S on FY2027E AI Cloud and Compute Services revenue, 5.0x P/S on AI Labs and Applications revenue, and 0.2x P/S on all other businesses. Our target multiples are benchmarked against comps. We also assign a 30% discount to net cash position, in-line with our SOTP for other internet peers. Our SOTP fair value comes to US$190 per share.

Risks

Key downside risks that could prevent the shares from reaching our target price include: (i) failure in executing its new retail strategy; ii) investment spend and margins pressure become worse than expected; iii) slowdown of user traffic and online GMV and losing appeal to brands & merchants; iv) integration risks for newly acquired entities; v) slowdown of the Chinese and global economies and overhang of US-China or other trade disputes; and vi) regulatory risks on poor product quality and integrity of merchants.