BERNSTEIN
SOCIETE GENERALE GROUP

7 September 2026

China Internet

Alibaba Group Holding Ltd

Rating

Outperform

Price Target

BABA	**165.00 USD** (180.00 *OLD*)
9988.HK	**161.00 HKD** (176.00 *OLD*)



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Alibaba: Bottom-up modelling of AI capex payback, funding needs

The optics… and the maths. Alibaba's shares fell sharply in response to the company's $10.2bn equity raise a couple weeks ago, and have traded indifferently since. It's not hard to sympathise with the resulting investor grumbling. Several investors we spoke with argued that the optics of management talking up ROI on capex, news of a deal driving a Friday ADR decline, followed by deal announcement on the weekend… *when Alibaba has $30.7bn of net cash*… diluted the credibility of management's ROI claims.

A bottom-up model of datacentre economics. Look beyond the sentiment cross-winds though, our bottom-up analysis mostly supports management's claims on payback on capex. Our bottom-up builds of Alibaba's datacentre-level economics triangulate feedback from Alibaba, the AI labs we cover, as well as industry contacts in both the AI and semis supply chains. The datacentre model we built around the existing Zhenwu 810E chip looks consistent with a three year payback on capex, while channel feedback on the new M890 chip (commercial deployment started in August) validates a 2.5 year payback period. Online quotes for server rental prices have continued to point higher in recent months, and our discussions with key customers point to expectations of continued market tightness.

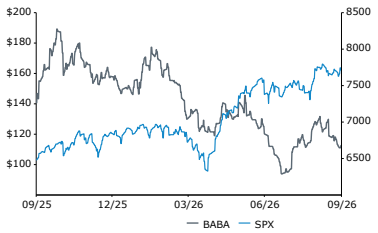
Continued acceleration vs. continued funding needs? The mechanics of datacentre economics means there should be line-of-sight between higher capex now, and faster Alicloud revenue growth in the coming quarters. Incremental cloud margins should continue to look solid too. The rub is that to getting to $100bn of external cloud revenue by FY3/31 requires close to RMB1tn of capex. We estimated a c. RMB170bn funding gap between the latter and profits from Alibaba's e-commerce and cloud businesses - half of which was addressed by last month's equity raise. In hindsight, we almost wonder if Alibaba should have done a *larger* equity raise to draw a line under its cloud funding needs. But we do think the pendulum of sentiment will swing back towards "cloud acceleration good" at some point.

Close Date	3 Sep 2026
BABA Close Price (USD)	111.81
Price Target (USD)	165.00
Upside/(Downside)	48%
52-Week Range	192.67/91.99
SPX	7,747.71
FYE	Mar
Div Yield	0.9%
Market Cap (USD) (M)	277,918
EV (CNY) (B)	1,458.56

Performance	YTD	1M	6M	12M
Absolute (%)	(23.7)	(13.3)	(16.1)	(14.6)
SPX (%)	13.2	1.9	13.7	20.2
Relative (%)	(36.9)	(15.3)	(29.8)	(34.7)

Source: Bloomberg, Bernstein estimates and analysis.

Price Performance, 1YR



Investment Implications

We rate Alibaba Outperform (PT US$165/HK$161).

Adjusted EPS	F26A	F27E	F28E
BABA (CNY)	26.82	**44.78**	**64.65**
OLD	--	45.51	62.54
9988.HK (HKD)	3.69	**6.46**	**9.35**
OLD	--	6.57	9.05

Financials	F26A	F27E	F28E	CAGR
Revenues (M)	1,024*	1,162*	1,320*	13.6%
Gross Profit (M)	407,534	378,209	453,261	5.5%
Operating Earnings (M)	50,150	98,824	159,019	78.1%
Net Earnings (M)	64,359	111,480	162,996	59.1%

Valuation Metrics	F26A	F27E	F28E
Adjusted P/E (x)	28.0	16.8	11.6
EV/Sales (x)	1.4	1.3	1.1
EV/GP (x)	3.6	3.9	3.2

*Values shown in billions;Source: Bloomberg, Bernstein estimates and analysis.

See the Disclosure Appendix of this report for required disclosures, analyst certifications and other important information. Alternatively, visit our Global Research Disclosure Website.
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on 07-Sep-2026

DETAILS

A BOTTOM-UP MODEL OF AI DATACENTRE ECONOMICS

Alibaba's share price drop following its $10.2bn equity raise has triggered significant investor grumbling. Beyond the generic investor dislike of earnings dilution, the most common observation we've heard in the past couple of weeks has centred around the fact Alibaba could easily have funded the amount raised from internal resources (e.g. $30.7bn net cash as of June 30). Rightly or wrongly, one investor we spoke with invoked the scorpion and frog parable - also referencing the company's May 2024 CB raise. Even believers in the company's AI growth strategy accepted that the recent sequence of events diluted the credibility of management's claims around payback on capex. Alibaba's shares aren't especially expensively valued, but on the margin, we'd guess the recent placement makes investors more likely to fade good news.

We show in this note bottom-up estimates for Alibaba's datacentre-level economics, assuming the current and upcoming generations of T-head silicon. At a high level, we think management's claims around 2.5-3 year breakeven periods on capex are credible. That said, on what we think are "reasonable" assumptions for hardware cost and compute price inflation, getting to over $100bn of external cloud revenues by FY3/31 likely requires close to RMB1tn of cumulative capex in the coming years. Compared with reasonable estimates for Alibaba's e-commerce and cloud profits, a c. RMB170bn funding gap exists which is about half spoken for after the equity raise last month. In some ways, we almost wonder if Alibaba's shares would have been better served by a much larger (e.g. $20-30bn) equity raise that draws a line under the Alicloud's funding needs.

The maths checks out on payback periods

To validate management's claims around breakeven periods for AI capex, we built a detailed, bottom-up model showing datacentre unit economics down to server purchase costs, power costs, bare mental rental revenues, and assumptions around MaaS revenue attach - referencing the company's disclosures around MaaS and broader AI revenue run rates (e.g. RMB16bn and RMB49.5bn ARR respectively as of Q1). In general, we've tried to make "sensible" assumptions referencing established conventions (e.g. server share of datacentre capex, depreciation periods, datacentre utilisation as clients move in), publicly available pricing benchmarks (e.g. datacentre PUE, power cost).

For the more specialised inputs into our model, we've referenced discussions with Alibaba, the AI labs we cover, AI industry contacts more broadly, and bottom-up BOM estimates for Alibaba's in-house silicon - with thanks to our China semis colleagues at Bernstein. While established benchmarks exist for monthly rental rates for the existing 810E chip, we've had to make estimates for M890 rental rates based on channel check feedback. For the sake of illustration, we've assumed RMB60bn of initial capex - roughly the level of quarterly capex we've assumed for Alibaba in the balance of FY3/27E. Our operating expense assumptions benchmark reported economics (e.g. 85% EBITDA margins) among listed neoclouds.

All in, we'd describe these estimates as a best efforts attempt to be reasonable, though both the existence of generous government subsidies and general GPU rental inflation point to better unit economics over time than our static estimates based on latest spot.

Making some assumptions about the new M890 chip

Exhibit 1 and Exhibit 2 show our datacentre model assuming RMB60bn of incremental capex is spent on the current generation of Zhenwu 810E chips. Feedback we've heard from the AI labs has put these chips in the podium positions among Chinese GPUs, alongside Huawei and Cambricon. Exhibit 3 and Exhibit 4 show the outputs assuming the capex is instead spent on the new M890 chipset. Exhibit 5 shows our bottom-up cost estimate for the M890 chip - the monthly rental revenue assumptions we've used comes from the AI labs we speak with, as prospective customers. Our cost per server estimate for M890 is double the 810E, adjusted for the number of GPUs. Feedback from the AI labs we cover pointed to either side of RMB80,000 a month as being a reasonable ball-park estimate for 8xM890 server rental prices (with a premium added on top for the 64xM890 supernode that we've left out in our modelling). For comparison purposes, 8xH200 server rental in China right now costs around RMB110-120k per month, according to a regular scrape we do of listings posted by various onshore inference providers, and retail server rental listings on Douyin - cross checked qualitatively with AI industry contacts (see Exhibit 6).

on 07-Sep-2026

EXHIBIT 1: **We've built a datacentre economics model to estimate the payback on Alicloud capex...**

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Capex assumptions								
Capex spent								
Total capex	RMB mn	60,000						
Server capex share		60.0%						
Server capex	RMB mn	36,000						
Non-server capex	RMB mn	24,000						
Server purchase price	RMB mn	0.90						
GPUs per server		16						
Total GPUs		642,857						
Total servers		40,179						
Server useful life	Years	6						
Facility/network useful life	Years	15						
Operating assumptions								
Compute capacity operational								
Paid capacity / DC occupancy	%		45.0%	75.0%	80.0%	85.0%	85.0%	85.0%
GPUs operational	**GPUs**		**289,286**	**482,143**	**514,286**	**546,429**	**546,429**	**546,429**
Servers operational	**Servers**		**18,080**	**30,134**	**32,143**	**34,152**	**34,152**	**34,152**
Server power at 100% utilisation	MW		145	241	257	273	273	273
Bare metal rental per server	RMB/mo		65,000	65,000	65,000	65,000	65,000	65,000
Bare metal rental per GPU	RMB/mo		4,063	4,063	4,063	4,063	4,063	4,063
VAT			6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
MaaS revenue uplift vs. bare metal			**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**
Power cost								
Client GPU utilisation			70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Server power	kW		8.00	8.00	8.00	8.00	8.00	8.00
PUE			1.25	1.25	1.25	1.25	1.25	1.25
Idle-power share	%		40%	40%	40%	40%	40%	40%
Power cost	RMB/kWh		0.50	0.50	0.50	0.50	0.50	0.50
IT power load factor	%		82.0%	82.0%	82.0%	82.0%	82.0%	82.0%
Average facility power load	MW		148	247	264	280	280	280
Annual power use	MWh		1,298,748	2,164,580	2,308,886	2,453,191	2,453,191	2,453,191
Annual power cost	**RMB mn**		**649**	**1,082**	**1,154**	**1,227**	**1,227**	**1,227**

Source: Corporate reports, Bernstein estimates and analysis.

on 07-Sep-2026

EXHIBIT 2: **...which mostly supports management's claims of a three year breakeven period on incremental capex, including the MaaS revenue that the compute capacity supports on top of bare metal rental**

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
P&L and cash flow projection								
Revenue	**RMB mn**		**19,885**	**33,141**	**35,351**	**37,560**	**37,560**	**37,560**
Electricity cost	RMB mn		-649	-1,082	-1,154	-1,227	-1,227	-1,227
Server D&A	RMB mn		-6,000	-6,000	-6,000	-6,000	-6,000	-6,000
Facility / network D&A	RMB mn		-1,600	-1,600	-1,600	-1,600	-1,600	-1,600
Sales and G&A cash Opex	RMB mn		-4,176	-4,474	-4,666	-4,695	-4,695	-4,695
% of revenue			-21.0%	-13.5%	-13.2%	-12.5%	-12.5%	-12.5%
EBITDA	**RMB mn**		**15,060**	**27,585**	**29,530**	**31,639**	**31,639**	**31,639**
% of revenue			75.7%	83.2%	83.5%	84.2%	84.2%	84.2%
EBIT	**RMB mn**		**7,460**	**19,985**	**21,930**	**24,039**	**24,039**	**24,039**
% of revenue			37.5%	60.3%	62.0%	64.0%	64.0%	64.0%
Income tax expense	RMB mn		-1,119	-2,998	-3,289	-3,606	-3,606	-3,606
Effective tax rate %			-15.0%	-15.0%	-15.0%	-15.0%	-15.0%	-15.0%
NOPAT	**RMB mn**		**6,341**	**16,987**	**18,640**	**20,433**	**20,433**	**20,433**
Maintenance capex	RMB mn		-1,800	-1,800	-1,800	-1,800	-1,800	-1,800
Maintenance capex			3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Unlevered free cash flow	**RMB mn**	**-60,000**	**12,141**	**22,787**	**24,440**	**26,233**	**26,233**	**26,233**
Cumulative unlevered FCF	**RMB mn**	**-60,000**	**-47,859**	**-25,072**	**-632**	**25,601**	**51,834**	**78,067**
Invested capital		60,000	60,000	60,000	60,000	60,000	60,000	60,000
ROIC			**10.6%**	**28.3%**	**31.1%**	**34.1%**	**34.1%**	**34.1%**
Implied cash payback	**Years**	**3.02**						
IT power load - MW			145	241	257	273	273	273
USD:CNY			6.80	6.80	6.80	6.80	6.80	6.80
Revenue/GW	**USD/GW**		**20.22**	**20.22**	**20.22**	**20.22**	**20.22**	**20.22**
Revenue/GW - bare metal	**USD/GW**		**13.48**	**13.48**	**13.48**	**13.48**	**13.48**	**13.48**

Source: Corporate reports, Bernstein estimates and analysis.

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EXHIBIT 3: **For the new M890 chipset we've made cost and rental revenue assumptions based on channel check feedback**

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Capex assumptions								
Capex spent								
Total capex	RMB mn	60,000						
Server capex share		50.0%						
Server capex	RMB mn	30,000						
Non-server capex	RMB mn	30,000						
Server purchase price	RMB mn	6.27						
GPUs per server		64						
Total GPUs		306,122						
Total servers		4,783						
Server useful life	Years	6						
Facility/network useful life	Years	15						
Operating assumptions								
Compute capacity operational								
Paid capacity / DC occupancy	%		45.0%	75.0%	80.0%	85.0%	85.0%	85.0%
GPUs operational	**GPUs**		**137,755**	**229,592**	**244,898**	**260,204**	**260,204**	**260,204**
Servers operational	**Servers**		**2,152**	**3,587**	**3,827**	**4,066**	**4,066**	**4,066**
Server power at 100% utilisation	MW		121	201	214	228	228	228
Monthly rental rate per server	**RMB**		**660,000**	**660,000**	**660,000**	**660,000**	**660,000**	**660,000**
Monthly rental rate per GPU	RMB		10,313	10,313	10,313	10,313	10,313	10,313
VAT			6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
MaaS revenue uplift vs. bare metal			**55.0%**	**55.0%**	**55.0%**	**55.0%**	**55.0%**	**55.0%**
Power cost								
Client GPU utilisation			70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Server power	kW		56.00	56.00	56.00	56.00	56.00	56.00
PUE			1.20	1.20	1.20	1.20	1.20	1.20
Idle-power share	%		40%	40%	40%	40%	40%	40%
Power cost	RMB/kWh		0.50	0.50	0.50	0.50	0.50	0.50
IT power load factor	%		82.0%	82.0%	82.0%	82.0%	82.0%	82.0%
Average facility power load	MW		119	198	211	224	224	224
Annual power use	MWh		1,038,999	1,731,664	1,847,109	1,962,553	1,962,553	1,962,553
Annual power cost	**RMB mn**		**519**	**866**	**924**	**981**	**981**	**981**

Source: Corporate reports, Bernstein estimates and analysis.

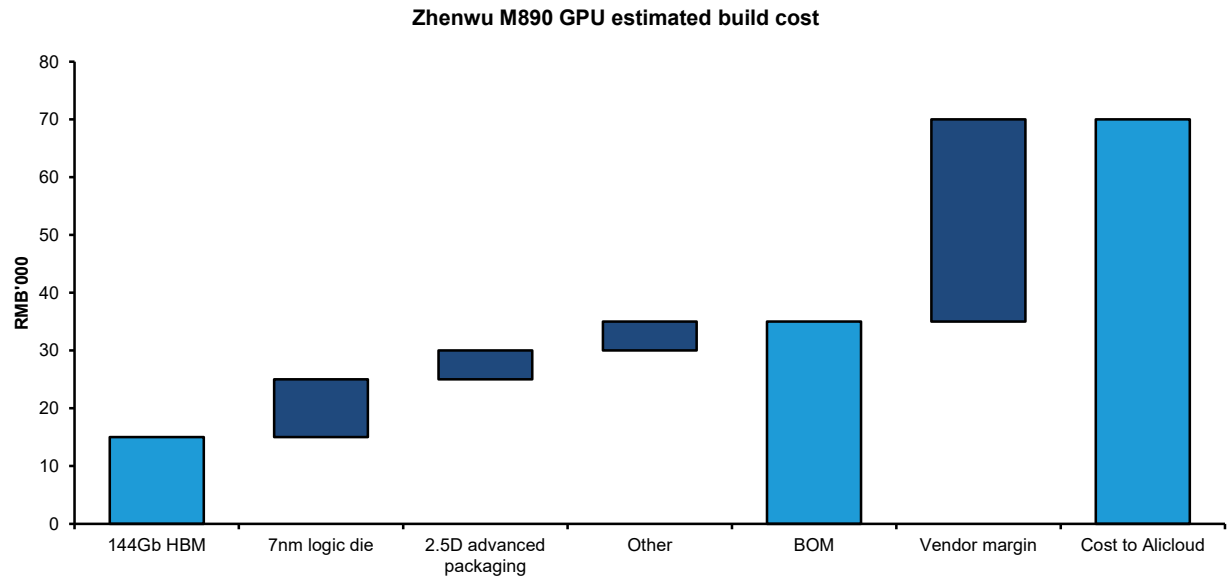
on 07-Sep-2026

EXHIBIT 4: **A 2.5 year payback is achievable based on our assumptions for the 64xM890 supernode, which offers better interconnectivity than 8xGPU server setups**

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
P&L and cash flow projection								
Revenue	**RMB mn**		**24,838**	**41,396**	**44,156**	**46,916**	**46,916**	**46,916**
Electricity cost	RMB mn		-519	-866	-924	-981	-981	-981
Server D&A	RMB mn		-5,000	-5,000	-5,000	-5,000	-5,000	-5,000
Facility / network D&A	RMB mn		-2,000	-2,000	-2,000	-2,000	-2,000	-2,000
Sales and G&A cash Opex	RMB mn		-5,464	-5,795	-5,961	-6,099	-6,099	-6,099
% of revenue			-22.0%	-14.0%	-13.5%	-13.0%	-13.0%	-13.0%
EBITDA	**RMB mn**		**18,854**	**34,735**	**37,271**	**39,835**	**39,835**	**39,835**
% of revenue			75.9%	83.9%	84.4%	84.9%	84.9%	84.9%
EBIT	**RMB mn**		**11,854**	**27,735**	**30,271**	**32,835**	**32,835**	**32,835**
% of revenue			47.7%	67.0%	68.6%	70.0%	70.0%	70.0%
Income tax expense	RMB mn		-1,778	-4,160	-4,541	-4,925	-4,925	-4,925
Effective tax rate %			-15.0%	-15.0%	-15.0%	-15.0%	-15.0%	-15.0%
NOPAT	**RMB mn**		**10,076**	**23,575**	**25,731**	**27,910**	**27,910**	**27,910**
Maintenance capex	RMB mn		-1,800	-1,800	-1,800	-1,800	-1,800	-1,800
Maintenance capex			3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Unlevered free cash flow	**RMB mn**	**-60,000**	**15,276**	**28,775**	**30,931**	**33,110**	**33,110**	**33,110**
Cumulative unlevered FCF	**RMB mn**	**-60,000**	**-44,724**	**-15,949**	**14,981**	**48,091**	**81,202**	**114,312**
Invested capital		60,000	60,000	60,000	60,000	60,000	60,000	60,000
ROIC			**16.8%**	**39.3%**	**42.9%**	**46.5%**	**46.5%**	**46.5%**
Implied cash payback	**Years**	**2.52**						
IT power load - MW			121	201	214	228	228	228
USD:CNY			6.80	6.80	6.80	6.80	6.80	6.80
Revenue/GW	**USD/GW**		**30.30**	**30.30**	**30.30**	**30.30**	**30.30**	**30.30**
Revenue/GW - bare metal	**USD/GW**		**19.55**	**19.55**	**19.55**	**19.55**	**19.55**	**19.55**

Source: Corporate reports, Bernstein estimates and analysis.

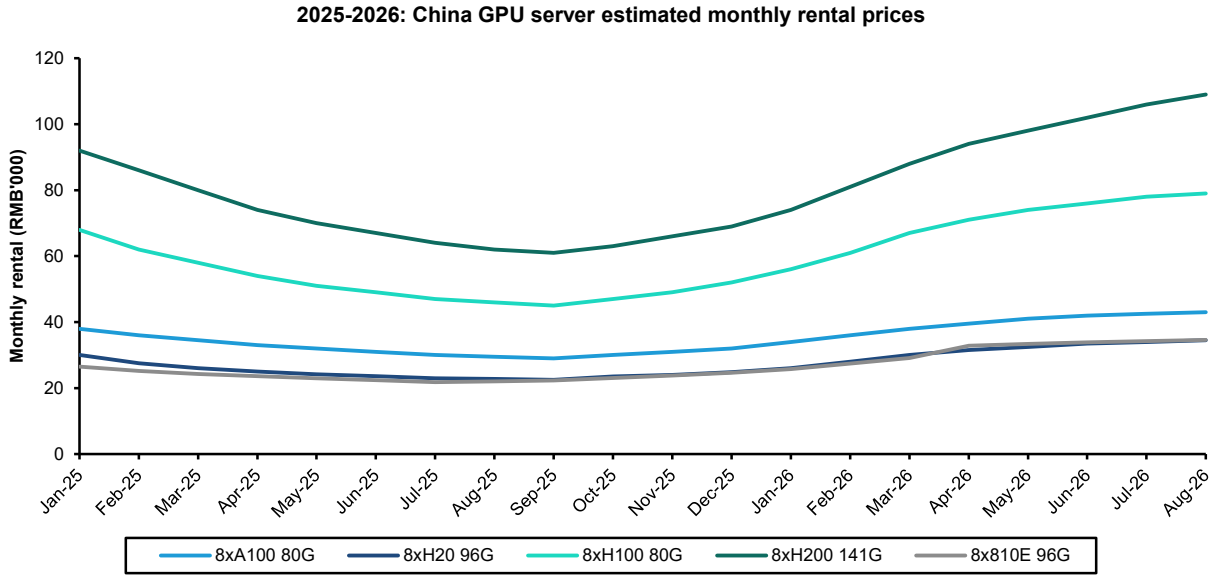
EXHIBIT 5: **We've estimated c. RMB70k per GPU for the M890, and assumed 40% overhead costs to get to server-level costs**



Source: Bernstein estimates and analysis.

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EXHIBIT 6: **Our scraping of online compute rental quotes continue to point towards an upward trend**



Estimated from monthly rental listings on Douyin, aggregated using Doubao.
Source: Douyin and Bernstein analysis.

THE STRATEGIC IMPLICATIONS ARE INTERESTING

We'd expect our directional conclusions to remain correct, even if commercial details like server costs and power usage are hard to get exactly right - with GPU rental rates fluctuating from month to month. Compared with the numbers in isolation, we'd expect the strategic implications of our modelling to be more consequential for investors following the Alibaba investment case. The most obvious first-order conclusion (aside from confirming management's payback period claims) is that… a fairly direct relationship exists between capex spent and incremental cloud revenues. In practice we assume a two-quarter delay between when capex is spent and when servers are turned on and begin to generate revenue. But Alicloud can essentially continue to beat revenue estimates ad infinitum… as long as Alibaba management is happy to pay (and the company's balance sheet can support) the rising capex bill required to get there.

The rub is that as Alicloud's base of revenues gets bigger over time, ever larger capex levels will be required for the business to sustain a constant rate of growth (e.g. 40% CAGR) over many years. An important determinant of how fast Alibaba's capex need rise over time will be the ratio between GPU cost inflation and rental revenue Alibaba is able to extract from its customers. If the former requires us to moonlight to some degree as semis analysts, the latter essentially represents a call on compute tightness. Exhibit 7 and Exhibit 8 show an updated version of our bottom-up revenue and profit build for Alicould. We've assumed annual growth in capex and rental revenue per server to reflect hardware efficiency improvements.

In the near-term hardware compute rental pricing growth likely exceeds hardware cost inflation. Over time as supply in the China semis industry improves we'd expect the relationship to move more in sync - or potentially towards slower compute rental pricing growth over time if compute capacity becomes temporarily overbuilt.

Estimating Alicloud's funding needs

We're generally bullish on the ability of AI progress to unlock new use cases, and expand its revenue TAM… and require more compute. On the funding side, we've assumed Alibaba continues to generate RMB180-200bn of EBITA in its core e-commerce business. Meanwhile, Cloud EBITA should expand meaningfully - we've modelled this rising from approximately RMB32bn today to nearly RMB180bn by FY3/31. We've assumed Quick Commerce losses normalise to zero relatively quickly, but assumed continued losses in AI Labs and the new, smaller All Other segments (c. RMB240bn of cumulative EBITA loss in the intervening period) - see Exhibit 9.

Compared against close to RMB1tn of cumulative AI capex, we think Alibaba faces a RMB170bn funding gap - close to half of which was potentially addressed by last month's equity raise. Alibaba has c. RMB280bn/$41bn of net cash after said deal, but

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we think something like RMB100-120bn is explained by e-commerce merchant cash held in escrow. Investors could probably be forgiven for worrying that Alibaba might tap the market again at some point. Assuming the funding gap is plugged though, the company's target of FCF breakeven in FY3/29 ultimately feels in the realm of possibility to us (see Exhibit 10).

Over long periods, Tencent's Q2 slides illustrated the kind of "tragedy of the commons" risk we worry about for the hyperscaler layer in China. A significant overbuild of compute capacity feels like the logical terminal outcome in a world where all of the large hyperscalers in China built new compute capacity with external rental as the fallback plan.

EXHIBIT 7: **We've built an indicative model for Alicloud over the coming years, to estimate the capex needs required for external cloud revenues to exceed $100bn by FY3/31**

RMB mn	Q1 FY3/27	Est. Q2 FY3/27	Est. Q3 FY3/27	Est. Q4 FY3/27	Est. Q1 FY3/28	Est. Q2 FY3/28	Est. Q3 FY3/28	Est. Q4 FY3/28	Est. Q1 FY3/29	Est. Q2 FY3/29	Est. Q3 FY3/29	Est. Q4 FY3/29	Est. Q1 FY3/30	Est. Q2 FY3/30	Est. Q3 FY3/30	Est. Q4 FY3/30	Est. Q1 FY3/31	Est. Q2 FY3/31	Est. Q3 FY3/31	Est. Q4 FY3/31
Cloud-only revenue	48,437	60,540	67,559	64,074	76,269	95,871	102,194	94,742	112,512	137,460	142,951	130,336	153,350	186,237	191,311	172,399	199,957	239,838	242,203	214,525
Growth YoY	44.9%	52.0%	56.1%	53.9%	57.5%	58.4%	51.3%	47.9%	47.5%	43.4%	39.9%	37.6%	36.3%	35.5%	33.8%	32.3%	30.4%	28.8%	26.6%	24.4%
Revenue breakdowns																				
Alicloud internal revenue	12,109	16,185	16,556	16,900	17,558	22,659	22,351	22,815	23,704	30,590	29,056	29,660	30,815	39,766	37,773	38,558	40,060	51,696	49,105	50,125
Growth YoY	45.2%	45.0%	50.0%	45.0%	45.0%	40.0%	35.0%	35.0%	35.0%	35.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Alicloud external revenue	36,328	44,355	51,002	47,174	58,710	73,212	79,843	71,927	88,808	106,871	113,895	100,676	122,535	146,470	153,539	133,842	159,897	188,142	193,098	164,400
Assumed AI revenue share (%)	34.1%	39.1%	43.6%	44.9%	49.5%	55.0%	56.0%	55.9%	59.2%	63.0%	63.0%	62.2%	65.1%	68.1%	67.6%	66.4%	69.0%	71.2%	70.1%	68.3%
Implied AI revenue	12,400	17,344	22,213	21,159	29,040	40,258	44,719	40,189	52,610	67,326	71,747	62,591	79,822	99,808	103,804	88,901	110,350	134,014	135,405	112,269
Implied non-AI revenue	23,928	27,011	28,790	26,015	29,670	32,953	35,123	31,738	36,198	39,544	42,148	38,085	42,714	46,662	49,735	44,941	49,548	54,128	57,692	52,131
Implied AI revenue growth	124.8%	152.1%	146.0%	135.3%	134.2%	132.1%	101.3%	89.9%	81.2%	67.2%	60.4%	55.7%	51.7%	48.2%	44.7%	42.0%	38.2%	34.3%	30.4%	26.3%
Implied non-AI revenue growth	22.3%	24.0%	24.0%	24.0%	24.0%	22.0%	22.0%	22.0%	22.0%	20.0%	20.0%	20.0%	18.0%	18.0%	18.0%	18.0%	16.0%	16.0%	16.0%	16.0%
GPU vs. revenue build																				
Assumed AI capex	-67,660	-55,000	-55,000	-55,000	-60,000	-60,000	-60,000	-60,000	-60,000	-60,000	-60,000	-60,000	-55,000	-55,000	-55,000	-55,000	-50,000	-50,000	-50,000	-50,000
Assumed 8xGPU server cost (RMB mn)	1.40	1.40	1.40	1.68	1.68	1.68	1.68	2.02	2.02	2.02	2.02	2.42	2.42	2.42	2.42	2.90	2.90	2.90	2.90	3.48
Servers installed - assume 2 quarter delay	18,126	18,991	48,329	32,738	32,738	32,738	35,714	29,762	29,762	29,762	29,762	24,802	24,802	24,802	22,735	18,946	18,946	18,946	17,223	14,353
Cumulative servers installed	152,023	171,014	219,343	252,081	284,819	317,557	353,271	383,033	412,795	442,557	472,319	497,120	521,922	546,724	569,458	588,404	601,278	611,745	619,019	619,225
Implied AI revenue per server	27	34	34	28	34	42	42	35	42	51	51	42	51	61	61	50	61	73	73	60

Source: Corporate reports, Bernstein estimates and analysis.

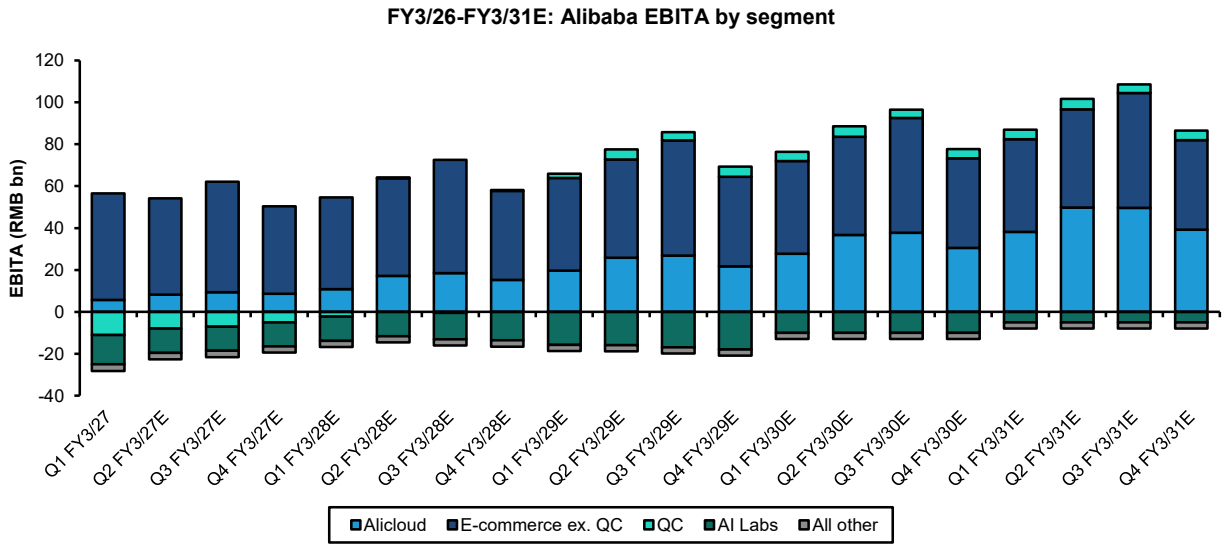
EXHIBIT 8: **...modelling server depreciation bottom-up, assuming annual increases in both server hardware cost and compute rental revenue run-rates**

RMB mn	Q1 FY3/27	Est. Q2 FY3/27	Est. Q3 FY3/27	Est. Q4 FY3/27	Est. Q1 FY3/28	Est. Q2 FY3/28	Est. Q3 FY3/28	Est. Q4 FY3/28	Est. Q1 FY3/29	Est. Q2 FY3/29	Est. Q3 FY3/29	Est. Q4 FY3/29	Est. Q1 FY3/30	Est. Q2 FY3/30	Est. Q3 FY3/30	Est. Q4 FY3/30	Est. Q1 FY3/31	Est. Q2 FY3/31	Est. Q3 FY3/31	Est. Q4 FY3/31
Cloud-only revenue	48,437	60,540	67,559	64,074	76,269	95,871	102,194	94,742	112,512	137,460	142,951	130,336	153,350	186,237	191,311	172,399	199,957	239,838	242,203	214,525
Growth YoY	44.9%	52.0%	56.1%	53.9%	57.5%	58.4%	51.3%	47.9%	47.5%	43.4%	39.9%	37.6%	36.3%	35.5%	33.8%	32.3%	30.4%	28.8%	26.6%	24.4%
Cloud-only EBITA	5,728	8,143	9,393	8,530	10,565	16,911	18,109	14,810	18,918	25,167	26,074	20,968	26,912	35,939	36,856	29,702	37,393	49,012	48,837	38,471
% of revenue	11.8%	13.5%	13.9%	13.3%	13.9%	17.6%	17.7%	15.6%	16.8%	18.3%	18.2%	16.1%	17.5%	19.3%	19.3%	17.2%	18.7%	20.4%	20.2%	17.9%
Incremental margin %	18.5%	21.9%	22.6%	21.1%	17.4%	24.8%	25.2%	20.5%	23.0%	19.9%	19.5%	17.3%	19.6%	22.1%	22.3%	20.8%	22.5%	24.4%	23.5%	20.8%
Alicloud D&A cost	10,814	11,345	13,159	14,578	15,997	17,416	18,991	20,566	22,141	23,716	25,291	26,866	28,441	30,016	31,434	32,853	34,272	35,703	37,266	38,828
Cloud-only EBITDA	16,542	19,488	22,553	23,108	26,561	34,327	37,099	35,375	41,059	48,883	51,365	47,833	55,352	65,955	68,291	62,555	71,664	84,715	86,102	77,300
Incremental margin %	51.2%	42.0%	37.0%	40.0%	36.0%	42.0%	42.0%	40.0%	40.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Capex & depreciation																				
Alibaba group D&A cost	-11,814	-12,345	-14,159	-15,578	-16,497	-17,916	-19,491	-21,066	-22,641	-24,216	-25,791	-27,366	-28,941	-30,516	-31,934	-33,353	-34,772	-36,203	-37,766	-39,328
Assumed non-Alicloud D&A cost	-1,000	-1,000	-1,000	-1,000	-500	-500	-500	-500	-500	-500	-500	-500	-500	-500	-500	-500	-500	-500	-500	-500
Implied legacy Alicloud D&A cost	-5,087	-4,787	-4,487	-4,187	-3,887	-3,587	-3,287	-2,987	-2,687	-2,387	-2,087	-1,787	-1,487	-1,187	-887	-587	-287	0	0	0
Alibaba capex	-67,660	-55,000	-55,000	-55,000	-60,000	-60,000	-60,000	-60,000	-60,000	-60,000	-60,000	-60,000	-55,000	-55,000	-55,000	-55,000	-50,000	-50,000	-50,000	-50,000
Depreciation cost waterfall																				
Assumed depreciation years	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Q2 FY3/25	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318	-318
Q3 FY3/25	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373	-373
Q4 FY3/25	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531	-531
Q1 FY3/26	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980	-980
Q2 FY3/26	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750	-750
Q3 FY3/26	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000
Q4 FY3/26	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982	-982
Q1 FY3/27	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793	-793
Q2 FY3/27		-831	-831	-831	-831	-831	-831	-831	-831	-831	-831	-831	-831	-831	-831	-831	-831	-831	-831	-831
Q3 FY3/27			-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114	-2,114
Q4 FY3/27				-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719
Q1 FY3/28					-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719
Q2 FY3/28						-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719	-1,719
Q3 FY3/28							-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875
Q4 FY3/28								-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875
Q1 FY3/29									-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875
Q2 FY3/29										-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875
Q3 FY3/29											-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875
Q4 FY3/29												-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875
Q1 FY3/30													-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875
Q2 FY3/30														-1,875	-1,875	-1,875	-1,875	-1,875	-1,875	-1,875
Q3 FY3/30															-1,719	-1,719	-1,719	-1,719	-1,719	-1,719
Q4 FY3/30																-1,719	-1,719	-1,719	-1,719	-1,719
Q1 FY3/31																	-1,719	-1,719	-1,719	-1,719
Q2 FY3/31																		-1,719	-1,719	-1,719
Q3 FY3/31																			-1,563	-1,563
Q4 FY3/31																				-1,563

Source: Corporate reports, Bernstein estimates and analysis.

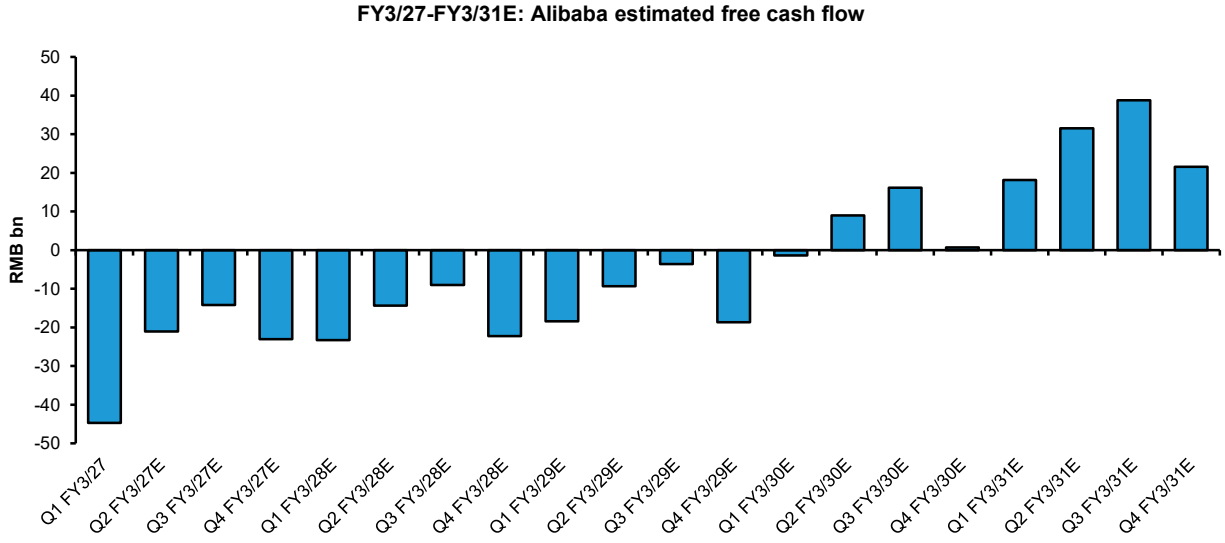
on 07-Sep-2026

EXHIBIT 9: **On the incomings front we've assumed Alibaba's e-commerce profits remain roughly flat around RMB180-190bn a year, while cloud EBITA grows while margins expand**



Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 10: **Our estimates point to cumulative capex needs totalling RMB1tn... the company indicates expectations for FCF to breakeven in FY3/29E**



Source: Corporate reports, Bernstein estimates and analysis.

UPDATING OUR ESTIMATES FOR ALIBABA

We have updated our estimates for Alibaba, primarily reflecting a rebuild of our Alicloud forecasts (see Exhibit 11). The most impactful changes have included (1) annual steps up for server hardware cost and server rental prices; and (2) higher estimates for non-AI cloud revenue, as accelerating AI adoption should also drive demand for adjacent infrastructure services.

Our latest TP for Alibaba is based on our SOTP valuation for FY+1 revenues and profits in its core e-commerce and Cloud businesses, triangulated against 15x FY+1 group PE (see Exhibit 12).

on 07-Sep-2026

EXHIBIT 11: **Alibaba: Summary of estimate changes**

Alibaba: summary of estimate changes	FY3/27E	FY3/28E	FY3/29E
Revenue (RMB mn)			
Bernstein - old	**1,158,170**	**1,298,169**	**1,420,398**
Growth YoY	13.1%	12.1%	9.4%
Bernstein - new	**1,162,286**	**1,320,029**	**1,485,482**
Growth YoY	13.5%	13.6%	12.5%
Consensus	**1,130,643**	**1,269,733**	**1,457,559**
Growth YoY	10.4%	12.3%	14.8%
New vs. old	**0.4%**	**1.7%**	**4.6%**
New vs. consensus	**2.8%**	**4.0%**	**1.9%**
Non-GAAP EBITA (RMB mn)			
Bernstein - old	**125,259**	**168,187**	**190,693**
Growth YoY	63.9%	34.3%	13.4%
Margin	10.8%	13.0%	13.4%
Bernstein - new	**126,716**	**180,212**	**214,484**
Growth YoY	65.8%	42.2%	19.0%
Margin	10.9%	13.7%	14.4%
Consensus	**117,108**	**165,554**	**213,046**
Growth YoY	53.3%	41.4%	28.7%
Margin	10.4%	13.0%	14.6%
New vs. old	**1.2%**	**7.1%**	**12.5%**
New vs. consensus	**8.2%**	**8.9%**	**0.7%**
Non-GAAP diluted EPS (RMB)			
Bernstein - old	**45.51**	**62.54**	**69.38**
Growth YoY	69.7%	37.4%	10.9%
Bernstein - new	**44.78**	**64.65**	**75.34**
Growth YoY	66.9%	44.4%	16.5%
Consensus	**43.37**	**60.03**	**79.19**
Growth YoY	61.7%	38.4%	31.9%
New vs. old	**-1.6%**	**3.4%**	**8.6%**
New vs. consensus	**3.3%**	**7.7%**	**-4.9%**

Source: Corporate reports, Bloomberg, Bernstein estimates and analysis.

EXHIBIT 12: **Alibaba: SOTP valuation**

FY+1	Base	Bull	Bear
China E-commerce Group			
FY+1 GMV (RMB bn)	**8,926**	**9,372**	**8,479**
EBITA / GMV	2.1%	2.4%	1.2%
EBITA	**189,057**	**224,924**	**101,752**
Less: income tax @ 20%	-37,811	-44,985	-20,350
NOPAT	**151,246**	**179,940**	**81,401**
FY+1 PE multiple	8.0x	9.0x	5.0x
Core e-commerce equity value	**1,209,966**	**1,619,456**	**407,006**
Cloud			
External Cloud revenue in FY+1	**322,289**	**354,518**	**290,060**
Implied FY+1 PE multiple	26.9x	30.8x	16.9x
FY+1 P/S multiple	5.0x	6.0x	3.0x
Cloud equity value	**1,611,446**	**2,127,109**	**870,181**
Group equity value (US$ mn) - FY+1	**420,047**	**557,782**	**190,145**
Group equity value per share (US$) - FY+1	**168**	**223**	**76**

Source: Corporate reports, Bloomberg, Bernstein estimates and analysis.

on 07-Sep-2026

APPENDIX - FINANCIAL FORECASTS

EXHIBIT 13: **Alibaba: Income Statement**

RMB million	FY3/22	FY3/23	FY3/24	FY3/25	FY3/26	FY3/27E	FY3/28E	FY3/29E
Revenue	853,062	868,687	941,168	996,347	1,023,670	1,162,286	1,320,029	1,485,482
Gross profit	**313,612**	**318,992**	**354,845**	**398,062**	**407,534**	**378,209**	**453,261**	**514,696**
Product development expenses	-55,465	-56,744	-52,256	-57,151	-66,533	-81,792	-92,715	-104,045
Sales & marketing expenses	-119,799	-103,496	-115,141	-144,021	-245,023	-147,095	-149,242	-160,302
General and administrative expenses	-31,922	-42,183	-41,985	-44,239	-33,082	-42,189	-47,687	-53,348
Other income/expenses, net	-36,788	-16,218	-32,113	-11,746	-12,746	-8,309	-4,598	-4,701
Operating profit	**69,638**	**100,351**	**113,350**	**140,905**	**50,150**	**98,824**	**159,019**	**192,301**
Non-GAAP EBITA	**130,397**	**147,400**	**165,028**	**173,065**	**76,416**	**126,716**	**180,212**	**214,484**
Adjusted EBITDA	158,205	175,199	191,668	202,325	113,483	180,612	255,180	314,496
Profit before tax	59,550	89,185	101,596	155,455	129,387	101,510	151,698	183,533
Income tax expense	-26,815	-15,549	-22,529	-35,445	-30,045	-27,986	-27,663	-32,915
Share of results of equity investees	14,344	-8,063	-7,735	5,966	2,785	1,855	2,142	2,879
Net income	47,079	65,573	71,332	125,976	102,127	75,379	126,178	153,498
Net profit attributable to SHs	**61,959**	**72,509**	**79,741**	**129,470**	**105,904**	**75,982**	**126,858**	**154,178**
Non-GAAP net profit to SHs	**143,968**	**143,991**	**158,359**	**157,940**	**64,359**	**111,480**	**162,996**	**191,115**
Diluted EPS (RMB)	22.74	27.46	31.24	53.59	43.02	29.82	50.32	60.78
Non-GAAP diluted EPS (RMB)	**52.86**	**54.56**	**62.23**	**65.41**	**26.82**	**44.78**	**64.65**	**75.34**

Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 14: **Alibaba: Cash Flow Statement**

RMB million	FY3/22	FY3/23	FY3/24	FY3/25	FY3/26	FY3/27E	FY3/28E	FY3/29E
Profit before tax	**59,550**	**89,185**	**101,596**	**155,455**	**129,387**	**101,510**	**151,698**	**183,533**
Stock-based compensation	23,971	30,831	18,546	13,970	11,180	15,211	16,595	17,482
Depreciation & amortization	48,065	41,303	48,232	35,596	42,146	58,036	79,566	104,713
Changes in working capital	-31,477	7,065	12,957	-38,361	-14,272	54,645	74,929	94,662
Taxes, other adjustments	42,650	31,368	1,262	-3,151	-92,228	-38,726	-27,663	-32,915
Cash flow from operations	**142,759**	**199,752**	**182,593**	**163,509**	**76,213**	**190,676**	**295,126**	**367,476**
Capex	-53,309	-35,352	-24,085	-84,278	-122,021	-232,660	-240,000	-240,000
Additions of intangibles	-15	-22	-842	0	0	-3,179	-4,773	-5,372
Other	-145,268	-100,132	3,103	-101,137	54,685	-19,953	-95,683	-97,243
Cash flow from investments	**-198,592**	**-135,506**	**-21,824**	**-185,415**	**-67,336**	**-255,792**	**-340,456**	**-342,615**
Cash flow from financing	**-64,449**	**-65,619**	**-108,244**	**-76,215**	**-20,573**	**176,566**	**28,224**	**10,410**
Net effect of exchange rate changes	-8,834	3,530	4,389	965	-4,004	-1,519	0	0
Net change in cash	**-129,116**	**2,157**	**56,914**	**-97,156**	**-15,700**	**109,932**	**-17,106**	**35,271**
Beginning cash	356,469	227,353	229,510	286,424	189,268	173,568	283,500	266,394
Ending cash	**227,353**	**229,510**	**286,424**	**189,268**	**173,568**	**283,500**	**266,394**	**301,665**

Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 15: **Alibaba: Balance Sheet**

RMB million	FY3/22	FY3/23	FY3/24	FY3/25	FY3/26	FY3/27E	FY3/28E	FY3/29E
Cash and cash equivalents	189,898	193,086	248,125	145,487	131,530	236,084	214,166	242,585
Short term investments	256,514	326,492	262,955	228,826	155,310	154,653	154,653	154,653
Prepayments, receivables and other assets	192,123	178,388	241,784	299,736	323,929	453,604	497,377	547,065
Total current assets	**638,535**	**697,966**	**752,864**	**674,049**	**610,769**	**844,341**	**866,196**	**944,303**
Prepayments, receivables and other assets	113,147	110,926	116,102	83,431	94,996	128,026	143,708	160,951
Property and equipment, net	171,806	176,031	185,161	203,348	282,699	435,415	600,447	740,435
Intangible assets, net	59,231	46,913	26,950	20,911	16,983	16,404	16,579	17,251
Other non-current assets	712,834	721,208	683,752	822,488	904,123	849,602	931,744	1,014,624
Total assets	**1,695,553**	**1,753,044**	**1,764,829**	**1,804,227**	**1,909,570**	**2,273,787**	**2,558,674**	**2,877,562**
Short-term debt	8,841	12,266	29,001	22,562	28,224	128,026	143,708	160,951
Accounts payable	293,213	288,493	306,951	344,175	370,523	482,889	587,512	713,820
Merchant deposits	14,747	13,297	12,737	274	236	248	259	271
Other current liabilities	66,983	71,295	72,818	68,335	77,415	85,903	95,159	106,337
Total current liabilities	**383,784**	**385,351**	**421,507**	**435,346**	**476,398**	**697,066**	**826,638**	**981,379**
Long-term debt	132,503	149,088	141,775	172,307	164,935	194,573	226,206	251,186
Other long-term liabilities	97,073	95,684	88,948	106,468	141,967	144,819	145,372	146,055
Total liabilities	**613,360**	**630,123**	**652,230**	**714,121**	**783,300**	**1,036,458**	**1,198,216**	**1,378,620**
Shareholders' equity	**1,082,193**	**1,122,921**	**1,112,599**	**1,090,106**	**1,126,270**	**1,237,330**	**1,360,459**	**1,498,942**
Total liabilities & shareholders' equity	**1,695,553**	**1,753,044**	**1,764,829**	**1,804,227**	**1,909,570**	**2,273,787**	**2,558,674**	**2,877,562**

Source: Corporate reports, Bernstein estimates and analysis.

on 07-Sep-2026

BERNSTEIN TICKER TABLE

			3 Sep 2026		TTM	Adjusted EPS			Adjusted P/E (x)		
			Closing	Price	Rel.						
Ticker	Rating	Cur	Price	Target	Perf.	Cur	2026A	2027E	2028E	2026A	2027E	2028E
BABA (Alibaba)	O	USD	111.81	**165.00**	(34.7)%	CNY	26.82	**44.78**	**64.65**	28.0	16.8	11.6
OLD				180.00				45.51	62.54			
9988.HK (Alibaba)	O	HKD	110.10	**161.00**	(45.8)%	HKD	8.82	3.69	**6.46**	10.7	25.5	14.6
OLD				176.00					6.57			
SPX			7,747.71									
ASIAX			1,948.83									

PRICE TARGET CHANGE / ESTIMATE CHANGE IN BOLD

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

9988.HK base year is 2025;

Source: Bloomberg, Bernstein estimates and analysis.

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VALUATION METHODOLOGY

Alibaba Group Holding Ltd

We value Alibaba at US$165/HK$161 per share, based on our SOTP valuation for FY+1 revenues and profits in its core e-commerce and Cloud businesses.

RISKS

Alibaba Group Holding Ltd

The main downside risks associated with our price target for Alibaba include macroeconomic risks (e.g. credit, retail consumption), fluctuations in user engagement with Taobao, Tmall, and other platforms, competition with rival internet platforms, regulatory risks – for example related to China's anti-monopoly regulations, and losses in the company's innovation initiatives & others segment.

RATINGS DEFINITIONS, BENCHMARKS AND DISTRIBUTION

EQUITY RATINGS DEFINITIONS

Bernstein brand

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Those denoted as 'Feature' (e.g., Feature Outperform FOP, Feature Under Outperform FUP) are our core ideas.

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- Neutral (N): The total return of the preferred instrument is expected to perform in line with preferred securities of other issuers operating in similar sectors or rating categories over the next six months.
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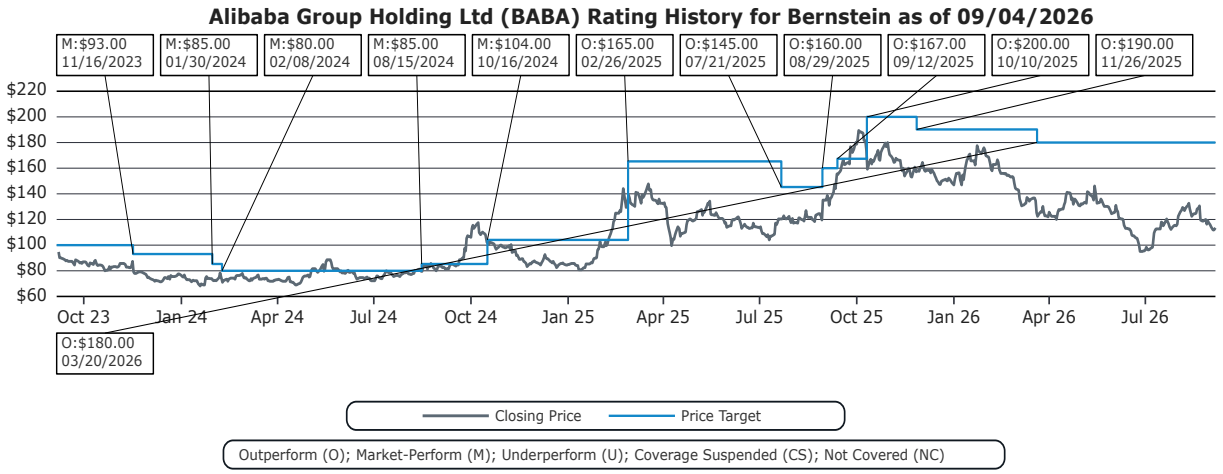
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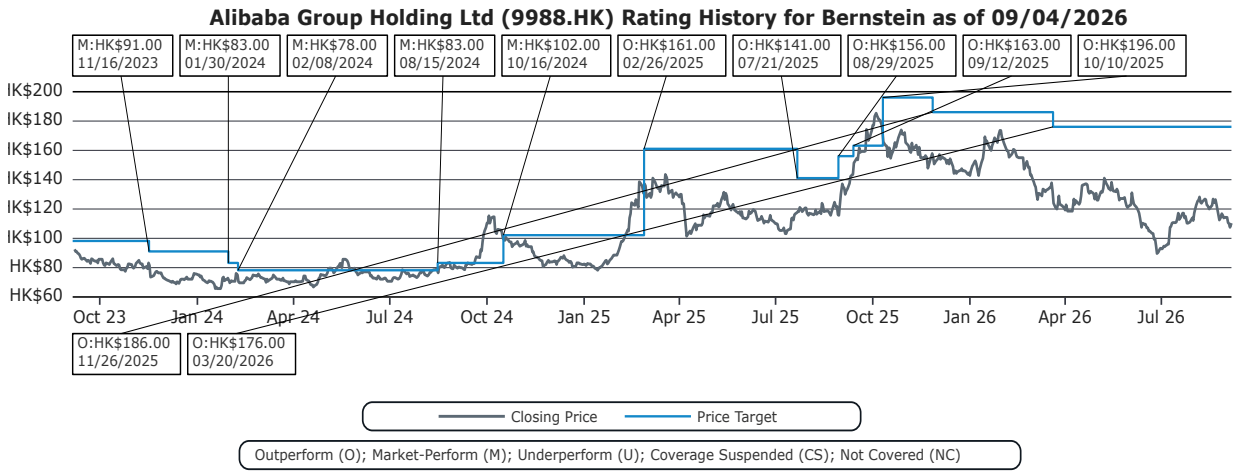
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Outperform	BUY	51.2%	15.3%
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Underperform	SELL	13.1%	13.6%

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PRICE CHARTS / RATINGS AND PRICE TARGET HISTORY



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