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Alibaba Group Holding (BABA.N)

Apple Intelligence Partnership Reinforces Qwen's AI Capabilities

CITI'S TAKE

We view Apple's selection of Alibaba's Qwen models to power Apple Intelligence in China as a meaningful endorsement of Alibaba's proprietary AI technology stack. With iOS capturing a 32.09% of China's mobile operating system market as of September 2026, the seamless native integration of Qwen across key Apple Intelligence features including Siri, Writing Tools, and Visual Intelligence, provides Alibaba with strategic access to premium smartphone users. In addition to driving higher user penetration and brand awareness for Qwen, we believe the partnership could help Ali to generate incremental cloud inference demand and might also accelerate adoption of Ali's MaaS offerings. Importantly, Apple's selection of Qwen underscores Alibaba's ability to meet high standards for performance, privacy, and reliability, providing further evidence of Qwen's leadership within China's foundation-model landscape. We reiterate our Buy rating and TP of US$193.

Buy	
Price (30 Oct 26 16:00)	US$98.04
Target price	US$193.00
Expected share price return	96.9%
Expected dividend yield	2.0%
Expected total return	98.9%
Market Cap	US$243,899M

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What's new? On Oct 31, local news media including China Daily and Xinhua reported that Alibaba and Apple jointly announced the integration of Alibaba's Qwen large language models into Apple Intelligence for the Chinese market, with iOS developer testing scheduled to begin on November 4 ahead of a public rollout in December. The first batch of features will be available on supported iPhones, including the iPhone 15 Pro and Pro Max, iPhone 16 and later models, iPhone Air and iPhone Duo, with device and Siri languages set to English or Simplified Chinese, according to Apple. While support for iPadOS, macOS, visionOS, and additional platforms is expected to follow once relevant domestic regulatory approvals are completed, the December release will focus on foundational AI tools and will exclude the advanced Siri capabilities and next-generation features showcased at Apple's Worldwide Developers Conference earlier this year.

More details on available features - For China-market devices, Apple Intelligence employs a hybrid architecture that pairs Apple's on-device processing with Alibaba's cloud-based Qwen large language model, delivering seamless native integration across iOS without requiring third-party app downloads. Users can authenticate using Sign in with Apple or a dedicated Qwen account to enhance native tools such as Siri, Writing Tools, and Visual Intelligence. Through this partnership, Siri can tap into Qwen's extensive knowledge base to answer complex queries and analyze user-selected photos, PDFs, and presentations; system Writing Tools incorporate a "Compose with Qwen" function to generate original text and images from natural language prompts; and Visual Intelligence enables users to select "Ask Qwen" to identify and explore real-world objects and locations via the camera. To ensure strict data privacy and user agency, Apple enforces an explicit consent framework

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

requiring user approval before any query, document, or image is routed to Qwen's cloud infrastructure.

Comment from Alibaba - China Daily article quoted Alibaba Group CEO Eddie Wu: "*We are delighted to partner with Apple," "Drawing on Alibaba's deep AI capabilities, Qwen will be deeply integrated into experiences across the Apple ecosystem, and together we will bring new intelligent services to Apple users in China."* Alibaba said requests and responses generated through the integration will not be used to train its models.

Positive for Qwen adoption and market-share expansion - According to Statecounter Global Stats, iOS accounted for 32.09% mobile operating system market share as of Sept 2026 in China. The integration of **Qwen** into **Apple Intelligence** effectively gives Alibaba access to one of the largest premium smartphone user bases in China, in our view. Beyond the near-term increase in user reach and engagement, we view the partnership as a high-profile endorsement of Qwen's model capabilities and the collaboration should help accelerate Qwen's user penetration, strengthen its brand recognition, and support broader adoption of Alibaba's AI ecosystem across both consumer and enterprise use cases.

Alibaba Group Holding

Valuation

Our target price for Alibaba N-shares of US$193 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$193 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.

