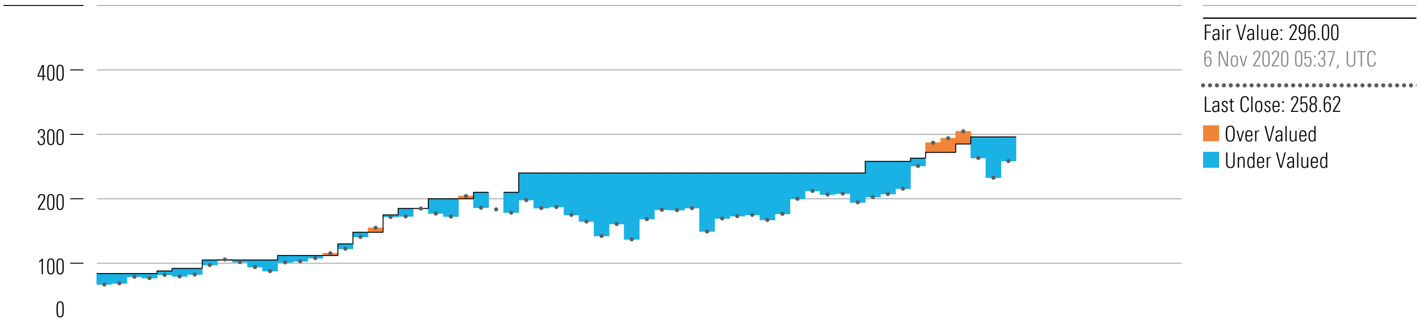
Morningstar Equity Analyst Report | Report as of 22 Jan 2021 23:09, UTC | Reporting Currency: CNY | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 1 of 19

Alibaba Group Holding Ltd ADR BABA ★★★ 21 Jan 2021 22:16, UTC

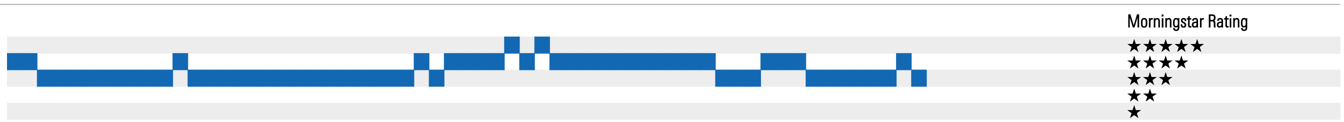
SCB Securities

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation
258.62 USD 22 Jan 2021	296.00 USD 6 Nov 2020 05:37, UTC	0.87	722.03 USD Bil 21 Jan 2021	Wide	Stable	High	Poor

Price vs. Fair Value



	2016	2017	2018	2019	2020	YTD	
	0.84	0.86	0.57	0.88	0.79	0.87	Price/Fair Value
	8.05	96.37	-20.51	54.74	9.73	11.12	Total Return %



Total Return % as of 22 Jan 2021. Last Close as of 22 Jan 2021. Fair Value as of 6 Nov 2020 05:37, UTC.

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The primary analyst covering this company does not own its stock.

Despite Regulatory Uncertainties, Alibaba Is Still Attractive

Analyst Note Dan Baker, Senior Equity Analyst, 22 Jan 2021

Since the release of new antitrust guidelines for Internet-based platform companies and online microlending businesses in November 2020, China's regulators have doubled down on a push to rein in the activities of Internet platforms and financial technology, or fintech, companies, of which Alibaba and its 33%-owned associate Ant Group are market leaders in, respectively. We expect more stringent rules to come in 2021, especially governing fintech activities. We think Alibaba's recent share price underperformance presents a buying opportunity. We think the downside risk to our fair value estimate of HKD 287 (USD 296 per ADR) in the event of a stiff regulatory impact is at 15% and this is already reflected in its current price level.

We think the more significant tangible regulatory risk for Alibaba pertains to policies relating to antitrust measures, in which the focus will be on preventing monopolistic practices. This adds regulatory risk to Alibaba's high-margin China retail marketplaces Taobao and Tmall, which make up 45% of group revenue but may not have a significant near-term financial impact. However, we believe banning the "forcing merchants to pick one from two platforms" key antitrust practice has limited financial impact on Alibaba. In reality, we believe that it has been difficult for Alibaba to enforce merchant exclusivity on its platforms.

The regulation on data usage could impair Alibaba's pricing capability but we see other big players

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Sector	Industry
Consumer Cyclical	Internet Retail

Business Description

Alibaba is the world's largest online and mobile commerce company, measured by GMV (CNY 5.7 trillion/$846 billion for the fiscal year ended March 2019). It operates China's most-visited online marketplaces, including Taobao (consumer-to-consumer) and Tmall (business-to-consumer). Alibaba's China marketplaces accounted for 68% of revenue in fiscal 2019, with Taobao generating revenue through advertising and other merchant data services and Tmall deriving revenue from commission fees. Additional revenue sources include international retail/wholesale marketplaces (7%), cloud computing (7%), digital media and entertainment platforms (6%), Cainiao logistics services (4%), and innovation initiatives/other (1%). Mobile GMV accounted for roughly 85% of consolidated GMV in fiscal 2019.

facing the same risk. Therefore, the competition landscape would be largely unchanged, in our view. We are positive on Alibaba's capability to mitigate a potential slip in revenue resulting from regulatory forces. Initiatives include fast-growing live streaming or even other non-marketplace segments, including cloud services, which could fuel growth.

Business Strategy & Outlook Dan Baker, Senior Equity Analyst, 23 Apr 2020

Alibaba is a big data-centric conglomerate, with transaction data from its marketplaces, financial services, and logistics businesses allowing it to move into cloud computing, media/entertainment, and online-to-offline services. We think a strong network effect allows leading e-commerce players to extend into other growth avenues, and nowhere is that more evident than Alibaba.

Alibaba's Internet services affect the vast majority of Chinese Internet users, including an 83% penetration rate for the Taobao/Tmall e-commerce marketplaces as of December 2019, based on Chinese Internet users of over 855 million as of June 2019 as per CNNIC. This provides Alibaba with an unparalleled source of data that it can use to help merchants and consumer brands develop personalized mobile marketing and content strategies to expand their target audiences, increase click-through rates and physical store transactions, and bolster return on investment. Alibaba's marketplace monetization rates have generally been on an upward trend despite recent macro uncertainty, indicating that sellers are increasingly engaging with Alibaba's marketplaces and payment solutions, although COVID-19 and more competition will put pressure on monetization in the near to medium term. Gross merchandise volume per active user was CNY 730 for the year ended March 19 for Alibaba, higher than CNY 143 in 2019 for Pinduoduo and CNY 362 in 2019 for JD.

While we view Taobao/Tmall marketplaces as Alibaba's core cash flow drivers, we also believe AliCloud, digitalization for businesses and globalization offer long-term potential. While AliCloud will remain in investment mode near-term, we believe accelerating revenue per user suggest a migration to value-added content delivery and database services that can drive segment margins higher over time. On globalization, third-party merchants are successfully reaching Lazada's users across Southeast Asia, something that should continue as the company rolls out incremental personalized mobile marketing and content opportunities. While early, we share management's views about Ele.me and digital entertainment being incremental monetization opportunities of Alibaba's user base.

Bulls Say Dan Baker, Senior Equity Analyst, 5 Nov 2020

- Alibaba's China marketplaces boasted 711 million active buyers as of December 2019, about half of

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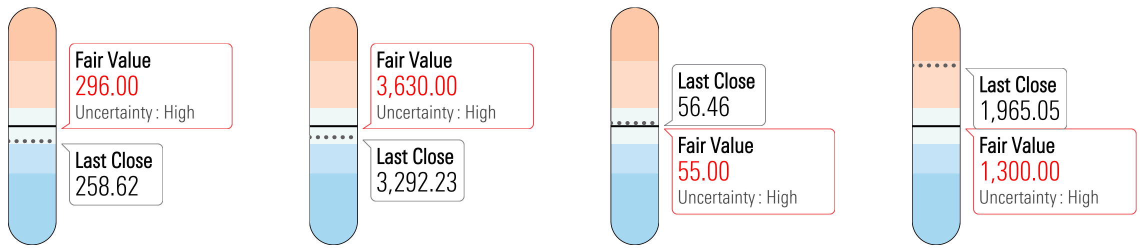
Competitors



	Alibaba Group Holding Ltd ADR BABA	Amazon.com Inc AMZN	eBay Inc EBAY	MercadoLibre Inc MELI
Economic Moat	Wide	Wide	Narrow	Wide
Moat Trend	Stable	Stable	Negative	Positive
Currency	USD	USD	USD	USD
Fair Value	296.00 6 Nov 2020 05:37, UTC	3630.00 6 Dec 2020 23:20, UTC	55.00 10 Nov 2020 06:20, UTC	1300.00 5 Nov 2020 19:34, UTC
1-Star Price	458.80	5,626.50	85.25	2,015.00
5-Star Price	177.60	2,178.00	33.00	780.00
Assessment	Fairly Valued 22 Jan 2021	Fairly Valued 21 Jan 2021	Fairly Valued 21 Jan 2021	Over Valued 21 Jan 2021
Morningstar Rating	★★★21 Jan 2021 22:16, UTC	★★★21 Jan 2021 22:16, UTC	★★★21 Jan 2021 22:16, UTC	★★21 Jan 2021 22:16, UTC
Analyst	Dan Baker, Senior Equity Analyst	Zain Akbari, Equity Analyst	David Swartz, Equity Analyst	David Swartz, Equity Analyst
Capital Allocation	Poor	Exemplary	Standard	Standard
Price/Fair Value	0.87	0.91	1.03	1.51
Price/Sales	7.86	4.83	3.57	29.05
Price/Book	5.32	20.05	13.31	55.41
Price/Earning	35.03	96.70	16.94	2,897.33
Dividend Yield	—	—	1.13%	0.04%
Market Cap	722.03 Bil	1,659.29 Bil	38.88 Bil	96.76 Bil
52-Week Range	169.95—319.32	1,626.03—3,552.25	26.02—61.06	422.22—2,020.00
Investment Style	Large Core	Large Growth	Large Core	Large Growth

China's total population. We expect a long runway of user growth in the coming years.

- We expect that Alibaba will benefit from the ongoing shift of China's digital commerce market from consumer-to-consumer to business-to-consumer, as Tmall can drive organic user traffic from Taobao mobile and help to better monetize transactions.
- We believe the bulk of Chinese Internet shoppers view Taobao as their first online shopping destination, implying exceptional lifetime customer value potential.

Bears Say Dan Baker, Senior Equity Analyst, 5 Nov 2020

- Expansion of other China digital commerce players like Pinduoduo and JD.com could slow Alibaba's growth aspirations in certain product categories.
- Alibaba has invested in businesses outside China that may not enhance its network effect. This could divert management's attention from its core marketplaces and other key business segments.
- Despite its e-commerce leadership in China, expansion into other regions beyond Southeast Asia could pose obstacles because of the entrenched position of competing local marketplaces.

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Economic Moat Dan Baker, Senior Equity Analyst, 23 Apr 2020

We've assigned Alibaba a wide economic moat rating based on its strong network effect, where the value of the platform to consumers increases with a greater number of sellers, and vice versa. Despite recent macroeconomic uncertainty, we expect China and Southeast Asia's digital commerce industry to have an extended runway of growth based on penetration into less developed areas, consumer disposable income and consumption trends, increasing Internet and mobile adoption rates, and a highly fragmented brick-and-mortar retail industry. This is in contrast with other network-based industries, which have often reached a more mature state by the time leading players fully establish a meaningful network effect.

Alibaba's "ecosystem" is made up of several leading Chinese online retailing platforms: Taobao Marketplace, China's largest online consumer-to-consumer shopping site; Tmall, China's largest third-party business-to-consumer platform for branded goods. Alibaba's core China retail marketplaces (Taobao and Tmall) generated gross merchandise volume of CNY 5.7 trillion ($807 billion) in the year ended March 2019, more than Amazon and eBay combined (where we estimate $311 billion and $95 billion, respectively) in the year of 2018 and representing a significant portion of China's CNY 8.0 trillion online shopping industry based on data from iResearch.

Because Alibaba's various online marketplaces are interconnected, it compounds its network effect, which then breeds other competitive advantages and growth opportunities. By operating China's two most popular online shopping marketplaces, Alibaba has also developed a powerful brand intangible asset moat source, in our opinion. Millions of Chinese consumers consider Taobao and Tmall as their default go-to options when seeking products and services online. Based on several online shopping surveys, we believe more than two thirds of China consumers consider either Taobao or Tmall as their most frequently used online marketplace. Additionally, Taobao users with a strong appetite for branded products can shop Tmall for a better shopping experience and assurance of higher quality, whereas Tmall's shoppers looking for a wider product selection can search Taobao. In fact, we believe Taobao diverts user traffic to Tmall, thereby lowering Tmall's customer acquisition costs. We're also starting to see a number of new growth opportunities for Alibaba's China retail platform, including 88VIP Loyalty Membership program engagement, short video brand content, and retail formats like Freshippo/Hema, digitalization of traditional offline retailers such as Sun Art Retail and Intime, and Tmall-branded convenience stores. Taken together, we now expect Alibaba's China retail segment to deliver low 20s average annual revenue growth the next five years.

Moreover, through its cooperative logistics affiliate Cainiao (in which Alibaba increased its ownership stake to 51%, up from 47% previously, and began consolidating in its financial statements in October 2017), the company operates as a third-party platform without taking control of inventories--something

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that is unlikely to change, in our opinion--adding another layer of cost advantages and driving margins above those of JD.com, Vipshop, and other competitors in the region. While the decision to consolidate Cainiao and invest more heavily in new smart warehousing and other logistics technologies will shift Alibaba away from a delivery data model (where merchants assume responsibility for order fulfillment from their warehouses via couriers backed by Cainiao data) to a more traditional fulfillment model (where Cainiao assumes responsibility for fulfillment through owned or partner warehouses) and weigh on near-term margins, it will create fulfillment and inventory storage bundling opportunities (similar to Fulfillment by Amazon), which should drive improved monetization rates. We also believe the enhanced logistics capabilities stemming from its partnership with Suning and other retailers (which allows for greater next- and same-day delivery opportunities for consumer staples products across a greater number of cities) and other omnichannel investments (including mobile ordering and payment capabilities almost 200,000 offline stores) strengthen this platform's network effect and make it a more compelling platform for buyers and sellers alike.

We expect globalization will be a key growth driver for Alibaba in the years to come. In particular, we view Alibaba's controlling stake in Southeast Asia e-commerce platform Lazada as a positive for its international expansion aspirations. First, we believe Lazada is additive to Alibaba's network effect--the primary source behind our wide moat rating--and will give Alibaba's third-party merchants access to potentially 200 million active Internet users across Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam (based on Internet Live Stats). Second, while Alibaba has had limited success with its previous e-commerce endeavors outside China, Lazada has a higher probability of success given the lack of existing players in Southeast Asia with established network effects and an underpenetrated e-commerce market (collectively representing an estimated 3% to 5% of total retail goods sales versus an estimated 21% in China in 2019 as per National Bureau of Statistics of China). Lastly, we believe the similarities between e-commerce in China and Lazada's key operating markets--including high mobile commerce adoption rates and a fragmented traditional retail marketplace--offer revenue growth and cost synergies by combining Alibaba's mobile commerce, payments, and logistics technologies with Lazada's existing helloPay payment and Lazadaexpress logistics solutions. We also see the acquisition of NetEase's cross-border online commerce platform Kaola as complementary to Tmall Global. Given the dual-brand strategy--Tmall Global will continue to use a third-party model, while Kaola will deploy a first-party model--global merchants will have greater flexibility in their go-to-market strategies, which should help Alibaba accelerate its import services.

Alibaba's desktop and mobile monetization rates (revenue as a percentage of GMV) have generally been on upward trends the past few quarters, which indicates that sellers are becoming increasingly dependent on Alibaba's marketplaces to reach Chinese consumers. We see the company's recent user experience investments as prudent to maintain the network effect, particularly as other local and global

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players look to expand their presence in China. We believe that Alibaba can increase its monetization rates over time via improved seller conversion rates from personalized search efforts, the embracing of data-enriched marketing tools by mobile sellers, and increased contribution from Tmall.

We believe AliCloud is likely to develop into a more significant cash flow contributor over time, given its early mover advantages in Big Data and cloud computing in China--giving it distinct advantages over AWS and Azure in China--and increased demand from corporations and other government groups looking to reduce information technology expenditures. Management has stated that it believes AliCloud can eventually be as profitable as Amazon Web Services, which posted operating margins of 26.3% in 2019. We share management's views about AliCloud's longer-term margin potential, but we caution investors from automatically assuming AliCloud will deliver the same growth and profitability trajectory as Amazon Web Services. We expect AWS-like margins will probably take at least five years due to ongoing customer acquisition efforts and technology investments, as well as potential competition from Tencent's cloud service offerings.

Fair Value and Profit Drivers Dan Baker, Senior Equity Analyst, 5 Nov 2020

Our fair value estimate is USD 296 per ADS or HKD 287 per share. Our model incorporates management's full-year fiscal 2021 outlook calling for over CNY 710 billion in revenue as well as uneven near-term consumer spending patterns amid COVID-19. Our model also considers some adjusted EBITDA margin compression expectations due to COVID-19 as well as increased technology, logistics, product development, local services, and marketing investments the next several years.

We assume a revenue CAGR of 22% for fiscal 2021-25, including 36% growth in fiscal 2021. We anticipate that higher spending among online shoppers, a growing user and seller base, and adoption of personalized mobile marketing services will all contribute to Alibaba's online retail revenue growth. Our five-year revenue forecast is largely a function of average annual China retail GMV growth around 16% from fiscal 2021-25, China retail marketplace monetization rates moving from 3.7% in fiscal 2020 to 4.4% in the next five years (aided by a steady increase in mobile monetization rates through opportunities like feeds, Taobao Live, Idle Fish), and greater contribution from cloud computing (32% CAGR the next five years), and digital media and entertainment (8%). Our GMV outlook assumes mid-single-digit average annual growth from Alibaba's China retail active buyer base the next five years, implying almost 1 billion active buyers by the end of fiscal 2025.

We believe Alibaba will continue investing in technology infrastructure, logistics innovations, user acquisition, personnel and strategic businesses. As a result, we expect some margin contraction over the medium term, with consolidated non-GAAP adjusted EBITDA margins remaining in high-20s the next few years (versus 30.9% in fiscal 2020, 32.4% in fiscal 2019, and 42.3% in fiscal 2018), due to technology, logistics, product development, online/offline and local services, and marketing investments, as well as the impact of recently acquired businesses. However, we expect margin trends to inflect over the medium term as investments wind down and Alibaba's more nascent businesses scale, bringing our fiscal 2030 adjusted EBITDA estimates back to the mid-30s.

Risk and Uncertainty Dan Baker, Senior Equity Analyst, 23 Apr 2020

In our view, the most pressing risks to the Alibaba investment thesis are a sustained slowdown in Chinese consumption patterns, e-commerce competition, increased regulatory scrutiny, and the possibility that ancillary businesses divert management's attention and reduce profitability.

China's e-commerce landscape has become increasingly competitive, with Pinduoduo registering faster GMV and user growth than Alibaba with the support of Tencent’s traffic and its group-buying traffic generation method, and JD.com positioning itself as a credible rival through its fulfillment capability, quality assurance, and its partnerships with Tencent. These platforms do not yet have Alibaba's scale in China, but they specialize in specific products or services or markets, which might impede Alibaba's growth.

Alibaba is also subject to increased online and mobile payment regulation. Financial regulators in China have continuously scrutinized online and mobile payment services. Alibaba has persistently faced the issue of counterfeit and infringing goods on its marketplaces. Hangzhou government’s assigning of representatives to work inside Alibaba also raise concerns of some investors, although there is no any evidence of consequence of value destruction for Alibaba.

Expansion into peripheral businesses might distract management, reduce profitability without materially improve Alibaba's ecosystem. While we're optimistic about Alibaba's ability to become a preferred partner for international retailers and consumer brands looking to sell in China, the firm does not enjoy the same network effect and brand recognition in other countries, and it may face challenges directly expanding in these markets.

Capital Allocation Dan Baker, Senior Equity Analyst, 25 May 2020

Despite management's proven execution capabilities, we have concerns regarding Alibaba's corporate governance, which is reflected in our Poor equity stewardship rating.

In our view, Alibaba is led by a capable and ambitious management team. Founder and former executive chairman Jack Ma has been the keeper of the flame since the company's founding in 1999. Under his leadership, Alibaba has become China's leading e-commerce player, accounting for the majority of transaction volume for China's online shopping industry. Over the past decade, Taobao has transformed the shopping behaviors of millions of Chinese consumers. We believe management has also done a commendable job developing and preserving Alibaba's wide economic moat by building several other leading online marketplaces and platforms such a Tmall, Juhuasuan, Alibaba.com, AliExpress, Alipay, AliCloud, and Ele.me. Although the company faces a potentially uneven long-term economic backdrop and new sources of competition in China, we remain confident that Alibaba can sustain its wide economic moat over the long term under its existing leadership.

Ma's decision to step away from Alibaba's executive chairman role in 2019 and the company's board of directors will not affect our positive long-term bias for two reasons. First, we believe recent results demonstrate that Alibaba has a deep management bench, including current CEO Daniel Zhang (who was appointed CEO of Alibaba Group in May 2015, will assume the chairman role in 2019, and played a central role in the development of the Singles Day shopping event, building the Tmall platform from a regional to global business-to-consumer platform, and deploying several of Alibaba's "New Retail" strategies) and executive vice chairman Joe Tsai. Second, we believe Ma's involvement with the Alibaba Partnership--a group of core company managers--will allow him to stay involved with key strategic decisions.

We harbor concerns about Alibaba’s partnership structure, which might jeopardize the board's independence. The partnership is led by a committee of five, including Ma, executive vice chairman Joe Tsai, and CEO Daniel Zhang. The Alibaba Partnership has the exclusive right to nominate or appoint up to a simple majority of the members of its board of directors. Any board candidate it nominates is presented to shareholders for voting. If the candidate is not elected by shareholders, the partnership can appoint another candidate without a vote. That candidate will serve as an interim director until the next annual general meeting, where either the same candidate or yet another nominee proposed by Alibaba partners will stand for election. The current board of directors is composed of 11 directors, five of which are Alibaba Partnership nominees. Alibaba Partnership can also nominate or appoint two additional directors to the board, which would increase the number of directors to 13, and the Partnership will get majority control of the board. The Partnership essentially controls the board and limits the influence of outside shareholders.

In 2011, the company transferred the ownership of Alipay to a new company (now called Ant Financial, which is 33% owned by Alibaba) that is controlled by Ma, without the approval of Yahoo and SoftBank (who were key shareholders at the time). Although a settlement has been reached among Yahoo, SoftBank, and Alibaba, we believe this is reflective of questionable corporate stewardship practices.

Like many other Chinese Internet companies listed in overseas markets, Alibaba operates under a variable interest entity, or VIE, structure designed to let companies bypass Chinese legal restrictions on foreign ownership in certain sectors. Alibaba's foreign investors will essentially hold shares of Alibaba's

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VIE domiciled in the Cayman Islands. We don't expect any legal challenges to VIE structures by the Chinese government in the future. However, if the legitimacy of Alibaba's related VIE is found to violate applicable law or regulation, Chinese regulatory authorities might take action against the VIE, including revoking the business and operating licenses of Alibaba's subsidiaries or the VIE, or discontinuing, restricting, or restructuring Alibaba's operations. Since the Chinese Ministry of Commerce has the jurisdiction to regulate VIEs, we believe overseas investors would have limited legal rights.

Analyst Notes Archive

China Releases Draft Guidelines for Internet Names; Further Sell-Off May Create Buying Opportunities Dan Baker, Senior Equity Analyst, 11 Nov 2020

The Chinese government announced a set of draft antitrust regulatory guidelines for Internet-based platform companies on Nov. 10. Alibaba, Tencent and JD in our coverage sold off 12%-17% in the following two days. This represents another wave of regulatory forces on the Chinese Internet giants in the past two years. Given its detailed framework with an extensive list of well-defined monopolistic practices, we believe this could be a strong signal of a regulatory tightening, especially coming right after the suspension of the Ant Group IPO. These guidelines come only 10 months after regulators proposed a revision to the master Antitrust Law to include Internet companies.

The financial effects will depend on subsequent enforcement but we believe among the three firms, Alibaba inherits more negative operational exposures to the antitrust rules, compared with JD and Tencent. In our view, a further sell-off could create a margin of safety to this upcoming regulatory headwind and a buying opportunity could emerge. We keep our fair value estimates as we observe the last wave of regulatory forces did not evolve to alter the operation of the platforms. Our fair value estimates for Alibaba and Tencent are HKD 287 and HKD 600 per share, respectively, which are 16% and 9% above the last price after trading on Nov. 11 in Hong Kong. Meanwhile, JD is the least attractive as the same last price is 6% above our fair value estimate of HKD 283 per share.

The Chinese government announced a set of draft antitrust guidelines for Internet-based platform companies with the stated aim to prevent and stop monopolistic practices of Internet platforms. A wide range of antimonopolistic practices are defined and could become outlawed, which includes demanding that merchants choose only one online platform, selling below cost and price discrimination for consumers based on data analytics. The draft is seeking comments until Nov. 30.

Alibaba's Soft September Quarter Result as Outlook Remains Solid; FVE Raised by 4% on Stronger CNY Dan Baker, Senior Equity Analyst, 6 Nov 2020

Wide-moat Alibaba reported a mixed result for its September quarter while we believe its long-term

thesis and outlook remain intact. There was some softness in new retail and direct sales revenue as well as new mobile monthly active users, or MAU. However, we believe structural trends are still in good shape. Revenue was in line at CNY 155 billion and it grew at a rate of 30% year over year.
Unsurprisingly, adjusted EBITA margin slipped from 27.0% in the same quarter of 2019 to 26.6% of this quarter, mainly due to increased discretionary investments in marketplace-based commerce segment.
Reported operating income declined 33% to CNY 13.6 billion mainly due to an increase in share-based compensation to CNY 24.7 billion this quarter from CNY 8.1 billion in the September 2019 quarter resulting from Ant share issuance to Alibaba employees.
After refining the model to consolidate Sun Art and adjusting for exchange rate, we lifted the fair value estimate slightly to USD 296 per ADS and HKD 287 per share. Alibaba's shares look fairly valued now.

Ant Group's IPO Suspension Has Limited Valuation Impact to Alibaba; Eyes on September Quarter Result Chelsey Tam, Senior Equity Analyst, 5 Nov 2020

Wide-moat Alibaba experienced 8% sell-off after the suspension of both A-shares and H-shares of the proposed Ant Group IPO. According to the exchange, there had been material changes in the regulatory stance on financial services, which could lead to Ant's failure to meet conditions for listing and providing information disclosures. Therefore, the listings have been put on hold. We believe the origin of regulatory force was the new draft rules for online microlending released on Nov. 2, and we expect it will require more registered capital for Ant's credit business. We believe Alibaba's shares are fairly valued after the Nov. 3 sell-off.
Previously, we valued Ant at USD 316 billion. Adjusted for Alibaba's 33% ownership and 20% conglomerate discounts, we valued its stake at USD 83 billion. This accounts for 11% of Alibaba's fair value, representing USD 31 per Alibaba ADS (based on a fair value of USD 285 per ADS) or HKD 30 per share (based on a fair value of HKD 276 per share).
Ant's expected listing date has been pushed back six months, per an Asia Times Financial report. We think the goal of the IPO suspension is to leave more time for Ant to further disclose related impacts of the new regulations on its credit business and valuation. And the regulator needs time to clarify how those detailed rules will be implemented. It is uncertain how Ant is going to restructure its credit business at this stage, though we would expect a depressed valuation for Ant as additional registered capital is added. Given the composition of Ant's stake is 11%, Alibaba's fair value would be negatively affected by an estimated low- to mid-single-digit percentage.
According to Alibaba, it will proactively support Ant in adapting to and embracing the evolving regulatory framework. Alibaba is set to report its second fiscal quarter result on Nov. 5, after Hong Kong market close. We expect investors will look for details on Ant's listings and early run rate of the Double Eleven Festival.

Alibaba Takes Controlling Stake in Sun Art Putting Its Self-Run Supermarket Segment on Par With JD's Chelsey Tam, Senior Equity Analyst, 20 Oct 2020

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We think Alibaba's offer to double its stake in China's largest hypermarket Sun Art to 72.4% from 36.2% is strategically positive to Alibaba, although the financial impact is small. Alibaba's net profit for the 2019 calendar year was CNY 172 billion versus CNY 2.8 billion for Sun Art. The move also eats into JD.com's attraction to some investors as the largest supermarket business in China by sales. If Sun Art were consolidated into Alibaba's revenue, Alibaba would be larger than JD based on 2019 figures. We think this has weakened the uniqueness of JD's investment thesis in the supermarket business. This is because both Alibaba and JD can claim they are able to reduce sourcing costs, probably at a similar pace given their almost equally large scale. We keep our forecasts and fair value estimate for Alibaba as we await concrete plans on how Alibaba will accelerate Sun Art's transformation post-acquisition, and more importantly how Alibaba's new retail and first-party supermarket business strategy will evolve in the long run. The shares of Alibaba and JD are fairly valued in our view. Sun Art itself saw a nice 19% bounce in its share price, bringing it closer to our HKD 10.30 fair value estimate.

Raising Alibaba's Fair Value Estimate by 5% As We Increased Wide-Moat Ant Group's Valuation by 58% R.J. Hottovy, CFA, Sector Strategist, 5 Oct 2020

Wide-moat Alibaba's fair value estimate has been lifted by 5% to USD 285 per ADS or HKD 276 per share as we update the valuation of Ant Group and foreign exchange rate between USD and CNY. We now value its 33% stake in Ant at USD 316 billion or HKD 2.45 trillion versus our previous valuation assumption of Ant at USD 200 billion, which was the target valuation Reuters reported on July 8. Alibaba is fairly valued.

We expect future earnings to be increasingly driven by the steps taken to monetize its network through its digital financial platform services. Ant's access to the vast amount of merchant and customer data allows Ant to expand its credit services, while managing risks, to small businesses and individuals that have not been well-serviced by the traditional financial system. Its investment portal provides asset management partners with a way to reach China's youth, presenting an untapped investor market. Similarly, its insurance platform allows China's masses, including those in a largely untapped user base in the less developed areas in China, to access a variety of insurers. These three pillars of Ant's digital finance technology platform services business segment, which already made up 56% of Ant's revenue in 2019, are expected to help drive 10-year revenue CAGR of 21% and operating profit CAGR of 26%, in our forecast.

This leads to our discounted cash flow-derived fair value estimate of HKD 2.45 trillion or USD 316 billion, versus the IPO target of USD 250 billion valuation or HKD 1.95 trillion reported by Bloomberg on Sept. 21. Our valuation translates to a P/E of 53 and 45 times for 2021 and 2022, respectively. The multiple appears to be high, but it is due to Ant being at the early stage of monetization.

We believe Ant possesses a wide moat and anticipate its ROIC to exceed its WACC by a wide spread for the next 20 years. The network effect, in which Ant's selling proposition to its customers benefits from the growing size of its network.

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation
258.62 USD 22 Jan 2021	296.00 USD 6 Nov 2020 05:37, UTC	0.87	722.03 USD Bil 21 Jan 2021	Wide	Stable	High	Poor

Alibaba Gives Positive Guidance on Cloud and Cainiao Segments in Fiscal 2021 Chelsey Tam, Senior Equity Analyst, 30 Sep 2020

We think the largest takeaways from the third day of Alibaba's investor day are that the cloud business is expected to be profitable in "certain quarters" in fiscal 2021 and Cainiao is expected to generate positive operating cash flow in fiscal 2021. The share price also reacted positively to the third day of the investor days. We maintain wide-moat Alibaba's fair value estimate at USD 272 per ADS and HKD 264 per share and forecasts are unchanged. The shares are fairly valued in our view.

Investors were also reminded that the upside of gross merchandise volume, or GMV, is not how one should think about the upside of Alibaba. Instead, the products and services Alibaba can provide to merchants in each of the merchants' cost items could be the earnings stream of Alibaba. Simply put, the revenue from cross-selling (for example logistics, cloud services for merchants and so on) can grow faster than GMV.

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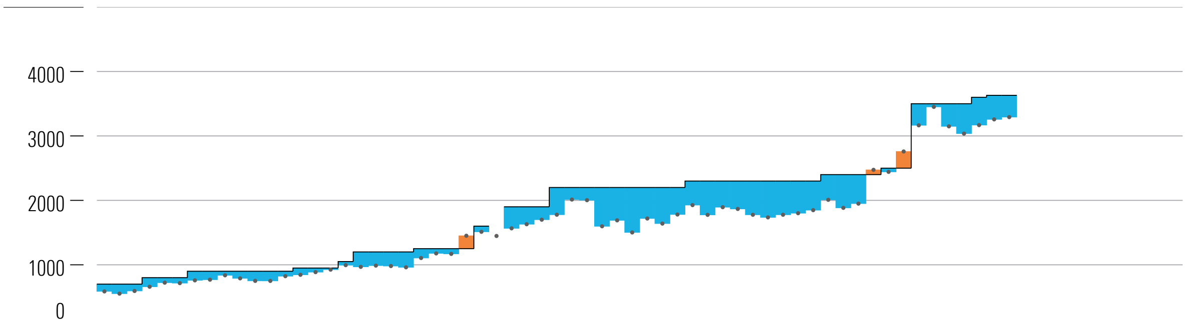
Alibaba Group Holding Ltd ADR BABA ★★★ 21 Jan 2021 22:16, UTC

SCB Securities

Competitors Price vs. Fair Value

Amazon.com Inc AMZN

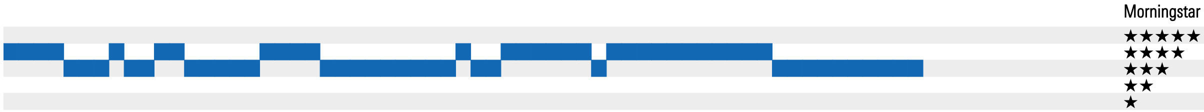


Fair Value: 3,630.00
6 Dec 2020 23:20, UTC

Last Close: 3,292.23
Over Valued
Under Valued

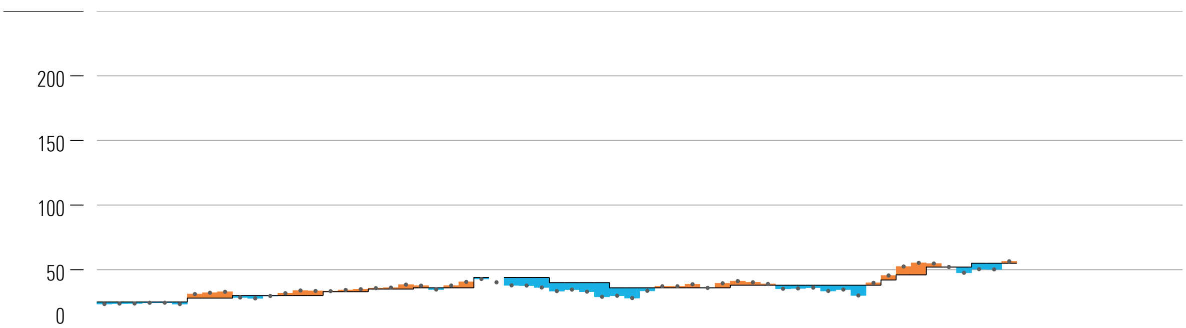
	2016	2017	2018	2019	2020	YTD	
	0.83	0.94	0.68	0.80	0.90	0.91	Price/Fair Value
	10.95	55.96	28.43	23.03	76.26	1.08	Total Return %

Morningstar Rating



Total Return % as of 22 Jan 2021. Last Close as of 22 Jan 2021. Fair Value as of 6 Dec 2020 23:20, UTC.

eBay Inc EBAY



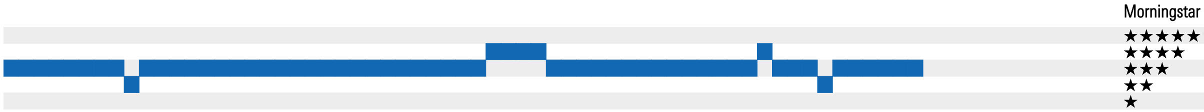
Last Close: 56.46

Fair Value: 55.00
10 Nov 2020 06:20, UTC

Over Valued
Under Valued

	2016	2017	2018	2019	2020	YTD	
	0.99	1.05	0.78	0.95	0.91	1.03	Price/Fair Value
	8.04	27.11	-25.62	30.64	40.93	12.36	Total Return %

Morningstar Rating



Total Return % as of 22 Jan 2021. Last Close as of 22 Jan 2021. Fair Value as of 10 Nov 2020 06:20, UTC.

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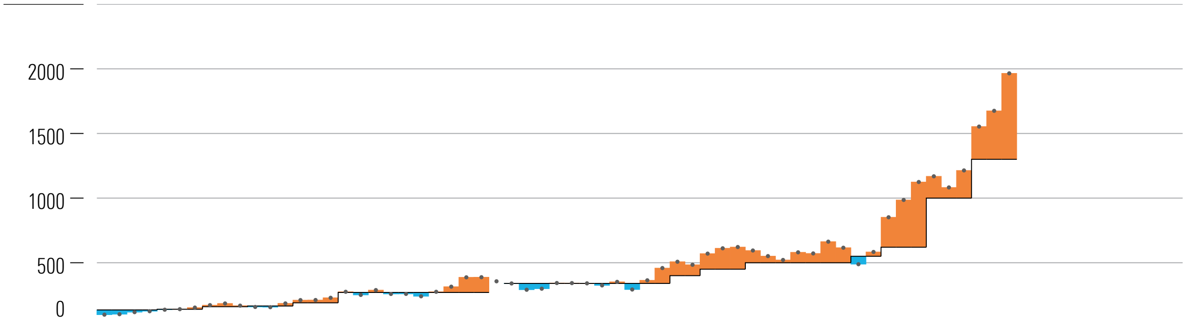
Alibaba Group Holding Ltd ADR BABA ★★★ 21 Jan 2021 22:16, UTC

SCB Securities

MercadoLibre Inc MELI



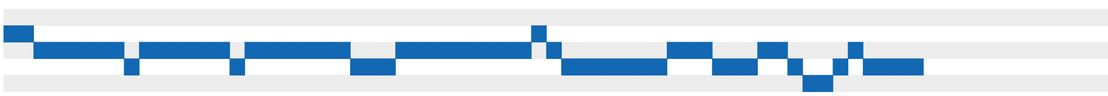
Last Close: 1,965.05

Fair Value: 1,300.00
5 Nov 2020 19:34, UTC

Over Valued
Under Valued

2016	2017	2018	2019	2020	YTD	
0.95	1.17	0.86	1.14	1.29	1.51	Price/Fair Value
37.08	101.91	-6.93	95.30	192.90	17.30	Total Return %

Morningstar Rating



★★★★★
★★★★
★★★
★★
★

Total Return % as of 22 Jan 2021. Last Close as of 22 Jan 2021. Fair Value as of 5 Nov 2020 19:34, UTC.

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Alibaba Group Holding Ltd ADR BABA ★★★ 21 Jan 2021 22:16, UTC

SCB Securities

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation
258.62 USD 22 Jan 2021	296.00 USD 6 Nov 2020 05:37, UTC	0.87	722.03 USD Bil 21 Jan 2021	Wide	Stable	High	Poor

Morningstar Historical Summary

Financials as of 30 Sep 2020

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
Revenue (CNY Bil)	6	20	35	53	76	101	158	250	377	510	309	585
Revenue Growth %	15.5	9503	72.4	52.1	45.1	32.7	56.5	58.1	50.6	35.3	32.0	31.5
EBITDA (CNY Bil)	2	6	13	31	40	90	77	126	138	214	89	155
EBITDA Margin %	30.3	32.3	36.6	58.4	51.9	89.4	48.7	50.3	36.8	42.0	29.0	26.5
Operating Income (CNY Bil)	2	5	11	25	23	30	49	70	58	93	48	96
Operating Margin %	26.3	26.7	32.8	48.0	30.6	29.6	30.7	28.1	15.3	18.3	15.7	16.4
Net Income (CNY Bil)	2	4	9	23	24	71	44	64	88	149	76	132
Net Margin %	26.7	21.1	24.3	44.0	31.7	70.7	27.6	25.6	23.3	29.3	24.7	22.6
Diluted Shares Outstanding (Bil)	5	2	2	2	3	3	3	3	3	3	3	3
Diluted Earnings Per Share (CNY)	0.34	1.81	3.57	10.00	9.70	27.89	16.97	24.48	33.36	55.92	27.84	48.16
Dividends Per Share (CNY)	—	—	—	—	—	—	—	—	—	—	—	—

Valuation as of 31 Dec 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Price/Sales	—	—	—	24.2	15.8	12.5	14.8	7.9	8.8	7.1	7.1	7.1
Price/Earnings	—	—	—	52.4	21.9	46.9	47.8	41.0	25.6	31.5	31.5	31.5
Price/Cash Flow	—	—	—	46.9	26.9	24.6	28.1	18.1	23.6	20.4	20.4	20.4
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	—	—
Price/Book	—	—	—	12.9	6.9	6.2	9.0	5.8	6.6	4.8	4.8	4.8
EV/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Operating Performance / Profitability as of 30 Sep 2020

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
ROA %	12.2	9.0	15.1	26.3	13.2	23.1	10.0	10.5	10.4	13.1	5.6	10.2
ROE %	26.0	13.4	53.4	157	27.6	39.4	17.6	19.9	20.4	23.9	9.5	18.1
ROIC %	23.5	12.4	23.4	47.9	14.0	11.1	12.1	9.7	9.9	11.7	5.4	11.7
Asset Turnover	0.5	0.4	0.6	0.6	0.4	0.3	0.4	0.4	0.4	0.4	0.2	0.5

Financial Leverage

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Debt/Capital %	—	—	—	43.7	25.8	19.7	21.6	24.6	18.5	15.6	12.0	—
Equity/Assets %	48.5	66.7	—	26.3	56.9	59.6	55.0	51.0	51.0	57.5	59.8	—
Total Debt/EBITDA	0.7	0.2	—	1.8	1.3	0.6	1.2	1.0	1.0	0.7	1.4	—
EBITDA/Interest Expense	—	95.1	8.0	14.0	14.4	46.5	28.8	35.3	26.7	41.4	40.2	33.0

Morningstar Analyst Historical/Forecast Summary as of 12 Oct 2020

Financials

Fiscal Year, ends 31 Mar	2019	2020	2021 (Estimates)	2022 (Estimates)	2023 (Estimates)
Revenue (USD Bil)	377	510	710	924	1,085
Revenue Growth %	50.6	35.3	39.4	30.1	17.4
EBITDA (USD Bil)	122	158	200	240	279
EBITDA Margin %	32.4	30.9	28.1	26.0	25.7
Operating Income (USD Bil)	57	92	124	153	178
Operating Margin %	15.2	18.1	17.5	16.5	16.4
Net Income (USD Bil)	101	141	134	220	250
Net Margin %	26.7	27.7	18.9	23.8	23.0
Diluted Shares Outstanding (Bil)	21	21	22	22	22
Diluted Earnings Per Share(USD)	4.80	6.62	6.17	9.96	11.13
Dividends Per Share(USD)	0.00	0.00	0.00	0.00	0.00

Forward Valuation

	2019	2020	2021 (Estimates)	2022 (Estimates)	2023 (Estimates)
Price/Sales	8.4	7.1	6.4	4.9	4.2
Price/Earnings	31.9	26.0	33.9	21.0	18.8
Price/Cash Flow	31.3	27.5	24.9	22.9	20.9
Dividend Yield %	—	—	—	—	—
Price/Book	—	—	—	—	—
EV/EBITDA	26.0	22.9	22.7	18.8	16.2

Research Methodology for Valuing Companies

SCB Securities

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

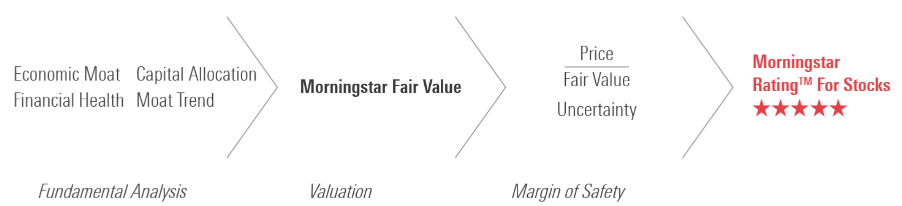
To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Morningstar Equity Research Star Rating Methodology



Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it

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Research Methodology for Valuing Companies

to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

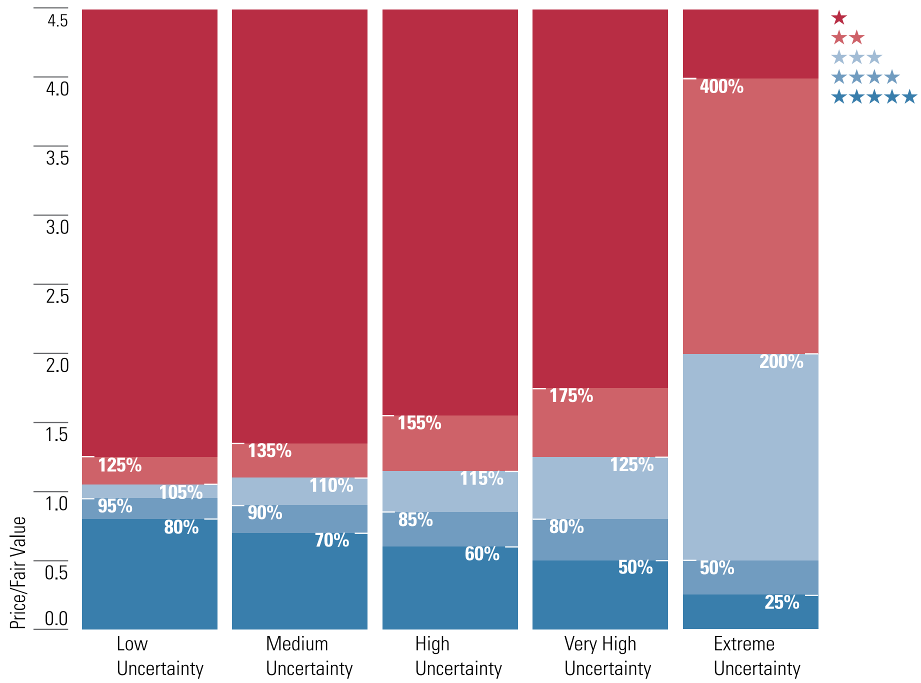
★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Morningstar Equity Research Star Rating Methodology



Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider compan-

Research Methodology for Valuing Companies

ies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

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