



## Alibaba (BABA) FY3Q17 Results: Another Solid Quarter Thanks to Robust Online Ad Growth

**Figure 1. Alibaba 3Q FY17 Key Metrics**

	FY3Q17	FY3Q16	YoY Change
Revenues (RMB Bil.)	¥53.25	¥34.54	54.1%
Gross Margin	64.1%	68.3%	(420) bps
SG&A/Sales	14.6%	17.8%	(320) bps
Operating Margin	38.8%	36.0%	280 bps
Adjusted EPS (RMB)	¥9.02	¥6.52	38.3%

Source: Company reports/Fung Global Retail & Technology

- Alibaba reported FY3Q17 revenue of ¥53.3 billion, up 54.1% year over year, and beat consensus by 6%. The company attributed the strong results to robust growth of online marketing service revenue, as well as growth in commission revenue and consumer usage.
- Core commerce revenue reached ¥46.6 billion, up 45% year over year. The growth was mainly driven by the 42% year-over-year increase in China retail revenue of ¥40.8 billion. International retail revenue growth also accelerated to 288% year over year, thanks to AliExpress and Lazada.
- Cloud computing sales reached ¥1.8 billion, up 115% year over year, driven by a 99.7% year-over-year increase in the number of paying customers to 765,000, as well as an increase in their usage of cloud computing.
- Alibaba raised its full-year FY17 revenue growth guidance to 53% from 48%.

### FY3Q17 Results

Alibaba reported a strong FY3Q17 result on January 24. Reported revenue was ¥53.3 billion, up 54.1% year over year, and beat consensus by 6%. The company attributed the strong results to robust growth of online marketing service revenue, as well as growth in commission revenue and consumer usage. It also raised its full-year FY17 revenue growth guidance to 53% from 48%.

### Performance by Segment

Revenue (RMB Bil.)	FY3Q17	FY3Q16	YoY Change
<b>Core Commerce</b>	<b>¥ 46.6</b>	<b>¥ 32.1</b>	<b>45%</b>
China Retail	¥ 40.8	¥ 28.7	42%
China Wholesale	¥ 1.5	¥ 1.2	30%
International Retail	¥ 2.5	¥ 0.6	288%
International Wholesale	¥ 1.6	¥ 1.4	9%
Others	¥ 0.3	¥ 0.2	47%
<b>Cloud Computing</b>	<b>¥ 1.8</b>	<b>¥ 0.8</b>	<b>115%</b>
<b>Digital Media and Entertainment</b>	<b>¥ 4.1</b>	<b>¥ 1.1</b>	<b>273%</b>
<b>Innovation Initiatives and Others</b>	<b>¥ 0.8</b>	<b>¥ 0.5</b>	<b>61%</b>

Source: Company reports/Fung Global Retail & Technology



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**Core Commerce:** Core commerce revenue reached ¥46.6 billion, up 45% year over year. The strength appears across all segments, but the growth was mainly driven by China and International retail revenue.

- **China retail revenue:** Alibaba reported China retail revenue of ¥40.8 billion, up 42% year over year. Annual active buyers saw modest growth to 443 million, up 0.9% from last quarter, with revenue per user increasing by 12% quarter over quarter to ¥241. Mobile monthly active users (MAU) continued its momentum and reached 493 million, up 9.6% quarter over quarter. Revenue per mobile MAU was ¥166, up 10% quarter over quarter.
- **International retail revenue:** International retail revenue also accelerated, up 288% year over year, primarily driven by improving revenue from AliExpress and Lazada.

**Cloud computing:** Cloud computing sales reached ¥1.8 billion, up 115% year over year, driven by a 99.7% year-over-year increase in the number of paying customers to 765,000, as well as an increase in their usage of cloud computing.

**Digital media and entertainment:** Mainly consisting of the advertising and subscription business including Youku Tudou and mobile, this segment reported revenue of ¥4.1 billion, up 273% year over year, mainly due to the consolidation of Youku and growth of mobile value-added services by UCWeb, including gaming, news and mobile search.

#### Outlook

Alibaba raised its full-year FY17 revenue growth guidance to 53% from 48%.

At the Q&A session, management stated that globalization, China's rural market and big data will be its focus this year. To elaborate more on its New Retail strategy, management targets to create value for the company through the integration of the online platform and traditional offline retail. The mission is twofold: 1) to empower the offline retail market to upgrade to make the total US\$4.8 trillion addressable market—in other words, the retail market—become digital; and 2) to create a brand new user experience under a highly integrated online-offline platform.



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