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Alibaba Group Holding Limited
(BABA)

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1. Executive summary

Company: Alibaba Group Holding Limited

Ticker: BABA

Recommendation: Buy

Current price: Rmb991.71

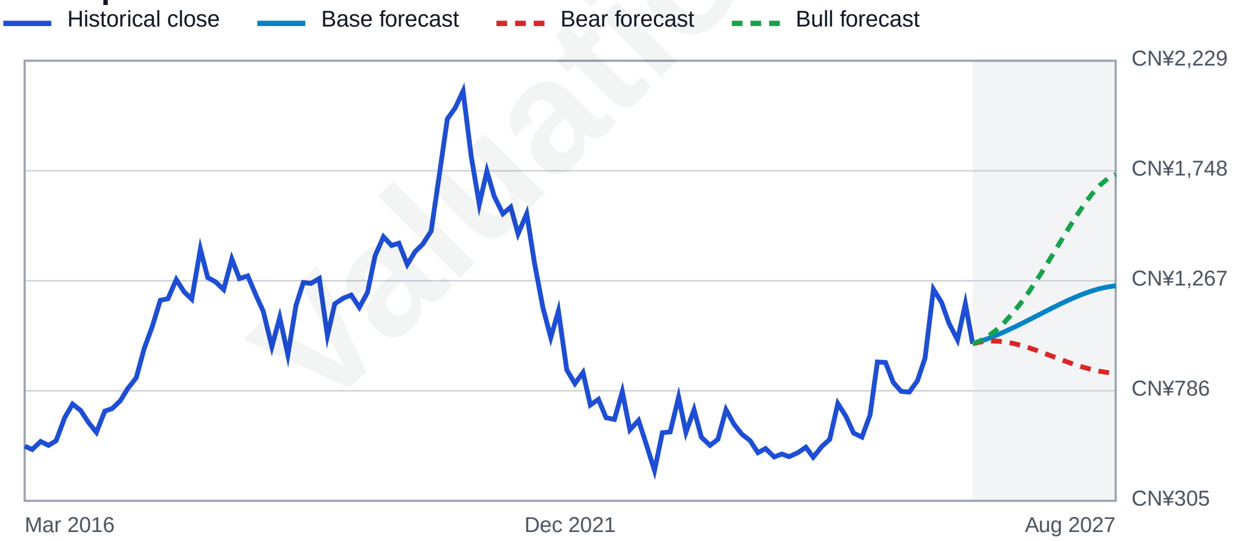
Estimated value: Rmb1,245.36

Upside: 25.6%

Expected IRR: 9.3%

I believe Alibaba is undervalued at Rmb992. The market is pricing in a slower and more capital-hungry business, with revenue growth of about 6.0%, a stable net income margin of 10.7%, and sales to equity of 1.1. I see a better outcome supported by mix and execution: AI-driven advertising tools lift monetisation in Taobao and Tmall, cloud and international commerce provide a second growth curve, and prior infrastructure spend starts to sweat harder, which supports my 7.3% growth forecast, 13.0% stable net income margin, and 1.4 sales to equity. Compared with peers and Alibaba's own valuation ranges where the shares sit in the low-to-mid 30s percentiles on price to sales and price to book and the mid-20s percentile on price to earnings, I estimate fair value at about Rmb1,245 per share. That implies 26% upside from today's price, with key tests coming from FY2026 results and 2026 updates on cloud profitability and AI monetisation progress. The main risks are a renewed China demand slowdown, tougher competition that forces higher subsidies, and policy actions that cap monetisation and cloud adoption. Taking all this together, I rate the shares a Buy over the next 12 months.

Share price and forecast



Historical close prices and forecast scenarios. Forecast horizon: 18 months. Generated Mar 2026.

2. Overview

Company	Alibaba Group Holding Limited
Ticker	BABA
Analysis date	Mar 02, 2026
Expected IRR	9.3%

Latest filing	10-Q, Dec 04, 2025
Industry	Specialty Retail
Sector	Consumer Cyclical
Recommendation	Buy
Upside potential	25.6%
Exchange	NYSE
Market cap	$2.30trn
Current price	Rmb991.71
Estimated value	Rmb1,245.36

3. Investment summary

Recommendation: Buy BABA (Alibaba Group Holding Limited) shares at Rmb992.

Thesis: The market assumes Alibaba cannot lift growth, profitability, and asset productivity at the same time while it invests heavily in AI, cloud, and quick commerce. I expect the opposite as Alibaba monetises engagement through AI ad tools, scales cloud and international commerce, and improves revenue per unit of equity as earlier capex and portfolio reshaping translate into better utilisation.

Catalysts: FY2026 full-year results (likely May–June 2026 based on past cadence, unconfirmed) should test whether revenue growth is tracking closer to 7.3% than 6.0% and whether the margin path is moving towards 13.0% rather than 10.7%. Further 2026 earnings updates should also show whether asset productivity is improving, supporting sales to equity nearer 1.4 than 1.1 as cloud utilisation rises and non-core assets stay de-emphasised.

Valuation: I estimate intrinsic value at about Rmb1,245 per share versus the current price of Rmb992, which implies 26% upside; my bear and bull cases imply about Rmb863 (13% downside) and Rmb1,733 (75% upside).

Risks: If growth stays near 6.0%, margins stay near 10.7%, and sales to equity stays near 1.1 due to weak demand, subsidies, and prolonged AI and cloud spend, the shares could remain near the lower part of the value distribution and fall towards my bear value of about Rmb863 (13% downside). A sharp regulatory shift or export-control shock could also delay any re-rating by keeping risk premia high.

4. Company background

Industry
Specialty Retail

Description
Alibaba runs digital commerce marketplaces in China and abroad, plus logistics, local services, and a large cloud computing business. It earns most profit from platform services such as advertising and merchant tools in Taobao and Tmall, while it reinvests heavily in cloud and artificial intelligence to build a second engine of growth and monetisation.

Key products
Taobao and Tmall; Alimama; 1688.com and Alibaba.com; AliExpress; Lazada; Trendyol;

Daraz; Freshippo; Tmall Global; Cainiao; Ele.me; Koubei; Fliggy; Alibaba Cloud; Youku; Quark; Amap; DingTalk; Qwen AI models.

Business model

Value proposition: Scaled marketplaces and cloud infrastructure that help merchants acquire customers and fulfil orders, plus AI tools that raise conversion and ad yield.
Revenue engine: Customer management revenue (ads and merchant services) in China commerce, fees and take rates in international commerce, usage-based fees in cloud, and logistics and local service revenue.
Cost drivers and investment focus: Cloud and AI infrastructure capex, delivery and fulfilment costs in quick commerce, and product and marketing spend to defend share and improve engagement.

Unit economics

Key unit: Active consumer and merchant activity on Taobao and Tmall, plus enterprise workloads on Alibaba Cloud.
Revenue per unit: Higher advertising yield and take rate from AI targeting and merchant tools, plus cloud usage growth tied to AI workloads.
Cost per unit: Data centre depreciation, power and bandwidth, plus delivery subsidies and fulfilment cost as quick commerce scales.
Contribution margin: Improves with a higher mix of ads and cloud, but compresses when subsidies and AI build-out spending rises.

Competitive landscape

Direct competitors: Direct competitors: JD.com, PDD, Meituan in China; Amazon in global commerce and cloud.
Relative positioning: Relative positioning: Scale leader in China commerce with a meaningful China cloud position and an integrated AI investment plan.
Key threat/trend: Price-led competition and a fast AI investment cycle that can raise costs before monetisation catches up.

Operating segments

China Commerce (45%): Taobao Tmall and China retail and wholesale monetisation
Innovation Initiatives and Others (21%): Newer businesses and consolidated items, including portfolio changes
International Commerce (13%): AliExpress Lazada Trendyol and other cross-border and local platforms
Cloud (12%): Cloud infrastructure and platform services, including AI-related products
Cainiao (10%): Logistics network services and fulfilment technology
Local Consumer Services (7%): On-demand delivery and local services
Digital Media and Entertainment (2%): Online video and entertainment platforms

Geographic segments

China (85%): Core revenue and profits, sensitive to consumer cycles and policy
Rest of World (15%): Faster-growing international commerce and cloud, with higher execution risk

5. Financial summary

All financial figures in millions

Fiscal year	2025	2024	2023	2022	2021
Revenue	996,347	941,168	868,687	853,062	717,289

Financial summary (continued)

Fiscal year	2025	2024	2023	2022	2021
YoY growth	5.9%	8.3%	1.8%	18.9%	40.7%
Adjusted net profit	143,457	85,705	88,041	117,835	212,132
Margin	14.4%	9.1%	10.1%	13.8%	29.6%
Reinvestment	26,800	(20,963)	13,250	57,735	211,555
FCFE	116,657	106,668	74,790	60,101	577
Adjusted equity	867,434	676,605	718,600	729,760	636,548
Return on equity (ROE)	16.5%	12.7%	12.3%	16.1%	33.3%
Sales to equity ratio	1.15	1.39	1.21	1.17	1.13

6. Investment thesis

The market assumes Alibaba cannot lift growth, profitability, and asset productivity at the same time while it invests heavily in AI, cloud, and quick commerce. I expect the opposite as Alibaba monetises engagement through AI ad tools, scales cloud and international commerce, and improves revenue per unit of equity as earlier capex and portfolio reshaping translate into better utilisation.

AI monetisation and international expansion can keep growth above the market view: The market prices in 6.0% growth because it expects mature China commerce and aggressive competition to limit take-rate gains. I forecast 7.3% because Alibaba has identifiable growth levers beyond a macro rebound, especially cloud demand linked to AI workloads and steadier international commerce expansion. Recent results show underlying like-for-like momentum once portfolio exits distort reported growth, which supports a higher run-rate than the market implies. I also expect AI-driven advertising and merchant tools to lift customer management revenue faster than gross merchandise volume, which keeps overall revenue growth closer to high single digits.

Mix shift and operating leverage can support a higher steady margin: The market prices a 10.7% stable net income margin because it expects subsidies, AI build-out, and price pressure to keep profitability structurally lower. I model a 13.0% stable margin because advertising-like customer management revenue and cloud services should rise as a share of the mix, and these lines carry better incremental margins than direct fulfilment-heavy revenue. Cost of revenue has already shown scope to improve with scale and efficiency, which supports operating leverage once investment intensity normalises. I keep the margin below historical peaks because competition and regulation still impose a higher ongoing cost base.

Better utilisation can lift sales to equity above the market view: The market-implied sales to equity ratio of 1.1 assumes Alibaba must keep funding growth with heavy equity-backed reinvestment and weak asset productivity. I forecast 1.4 because prior cloud and logistics build-out should deliver higher utilisation as revenue scales, without a matching rise in the equity base. Large platforms typically improve asset turns when capacity moves from build-out to monetisation, and Alibaba's scale gives it that path even with ongoing investment. Portfolio discipline also helps because it limits capital tied up in lower-return activities and keeps incremental growth more asset-efficient than the market assumes.

7. Catalysts

FY2026 results can force a growth reset: Alibaba's FY2026 full-year results are likely to be released around May–June 2026 based on past cadence, but the exact date is unconfirmed. If reported growth and guidance point to a trajectory closer to 7.3% rather than the market's 6.0%, investors should revise long-run growth assumptions upward, especially if cloud and international contribute more of the incremental growth. That shift should narrow the gap to my base-case fair value of about Rmb1,245. It implies about 26% upside from Rmb992.

2026 margin disclosures can validate a 13.0% steady margin: A 2026 earnings cycle should show whether investment spend starts to translate into operating leverage, especially in cloud and customer management revenue, but the timing is unconfirmed. Evidence that the margin trajectory is moving towards 13.0% rather than staying near 10.7% should reduce the market's discount rate applied to Alibaba's earnings power. If investors accept a higher steady margin, the shares should move towards my base-case value of about Rmb1,245. That is about 26% above Rmb992.

Utilisation and capital discipline can re-rate sales to equity: Through 2026, management updates on cloud capacity utilisation, capex pacing, and any further simplification of the portfolio could clarify whether sales to equity can sit nearer 1.4 than 1.1, but the timing is unconfirmed. Clear signs that revenue growth does not require proportional equity growth will directly challenge the market's capital efficiency assumption. If that happens alongside steady growth, I expect the shares to gravitate towards my base-case value of about Rmb1,245 rather than remain anchored near today's price. That implies about 26% upside from Rmb992.

8. Valuation

Current price: Rmb991.71

Base case value: Rmb1,245.36

Upside potential: 25.6%

Expected IRR: 9.3%

Currency: CNY

Report date: Mar 02, 2026

Latest annual financials: Mar 31, 2025

Base case assumptions DCF model Bull/Bear scenarios

Story:

Alibaba sits in late growth moving into maturity. I expect the core China commerce platform to grow at a steady but slower pace because competition stays intense and the market looks more penetrated, while take-rate and membership tools support modest monetisation gains. I expect cloud and AI products to drive the next growth curve, but heavy infrastructure and product investment will limit near-term margin expansion. I expect international commerce and logistics to move closer to sustainable profitability, but regulation and geopolitics keep outcomes bounded in a base case.

Multiples snapshot

Comparable consumer and internet retail platforms trade at valuations that still reflect cautious sentiment, and Alibaba sits toward the cheaper end of its referenced ranges at 16.0x price to earnings, 2.3x price to sales, and 2.7x price to book, which place it around the 26th percentile, 34th percentile, and 32nd percentile of the observed distributions. This discount matches investor concern about China macro risk, regulation, and near-term profit drag from AI, cloud, and quick commerce investment, even though my reverse discounted cash flow implies stronger fundamentals than the market prices in. If Alibaba delivers growth closer to 7.3% with a steady net income margin nearer 13.0% and sales to equity nearer 1.4, I see scope for multiples to mean-revert towards the middle of the ranges, where implied prices cluster around Rmb1,423 to Rmb1,455 using price to sales and price to earnings, and around Rmb1,439 using price to book. That supports my Buy rating because these implied prices sit above both the current price and my discounted cash flow base-case value, while still leaving room for risk premia to remain elevated.

Price-to-sales: 2.3x (34th percentile vs. peers) with implied share prices from Rmb409 to Rmb5,710 across the revenue-weighted peer set.

Price-to-earnings: 16.0x (26th percentile vs. peers) with implied share prices from Rmb646 to Rmb7,691 across the revenue-weighted peer set.

Price-to-book: 2.7x (32th percentile vs. peers) with implied share prices from Rmb514 to Rmb6,742 across the revenue-weighted peer set.

9. Risks

China demand and competition can keep growth at 6.0%: My 7.3% growth forecast depends on continued take-rate gains and steady cloud and international expansion. If China consumer demand weakens again or competitors intensify price promotions, Alibaba may protect volume by cutting fees and raising subsidies, which would slow customer management revenue growth. That would keep growth nearer the market-implied 6.0% and reduce the chance of a re-rating. If growth stays at 6.0%, the shares are more likely to track towards my bear value of about Rmb863, which implies 13% downside from Rmb992.

AI and quick commerce spend can hold margin near 10.7%: My 13.0% stable net income margin assumes AI and cloud investment starts to produce operating leverage rather than only higher costs. If the Rmb380B three-year capex plan stays high while monetisation lags, or if quick commerce remains subsidy-heavy, margins may stay closer to 10.7%. That would validate the market's cautious steady-state profitability assumption. If margins remain at 10.7%, I would expect the shares to trade closer to my bear value of about Rmb863 rather than my base-case value of about Rmb1,245.

Reinvestment needs can keep sales to equity near 1.1: My 1.4 sales to equity forecast assumes Alibaba can raise utilisation and revenue without a similar increase in the equity base. If cloud and logistics require repeated step-ups in capital, or if working capital absorbs cash as fulfilment expands, sales to equity may stay near 1.1. That would lower returns and keep the market focused on capital intensity risk. If sales to equity stays at 1.1, I would expect valuation to compress towards my bear value of about Rmb863, or 13% below Rmb992.

10. Appendix

10.1 Base case assumptions

Valuation story

Alibaba sits in late growth moving into maturity. I expect the core China commerce platform to grow at a steady but slower pace because competition stays intense and the market looks more penetrated, while take-rate and membership tools support modest monetisation gains. I expect cloud and AI products to drive the next growth curve, but heavy infrastructure and product investment will limit near-term margin expansion. I expect international commerce and logistics to move closer to sustainable profitability, but regulation and geopolitics keep outcomes bounded in a base case.

Revenue growth rate

Value: 7.3%
Explanation: I treat Alibaba as a mature platform with a second growth curve in cloud and AI, so I anchor growth to the medium-term analyst revenue path rather than the higher historic five-year CAGR. Analysts imply roughly high single-digit annual growth across the next few years, so I use a mid-to-high single-digit rate that fits a five-year (Y/2) growth phase before it fades as China commerce saturates and mix effects normalise.

Stable growth rate

Value: 1.1%
Explanation: I set terminal growth just below the CNY risk-free rate to respect the hard constraint and to reflect long-run nominal growth for a large, mature consumer and enterprise platform. Regulation, competition, and the scale of the China market make a risk-free-plus terminal rate hard to defend in a base case.

Years to stability

Value: 10.0
Explanation: I use a 10-year path because Alibaba sits in late growth to mature stage: the core marketplace grows modestly, while cloud and international can still compound for several years. With Y=10, the initial growth rate must be credible as a five-year CAGR, which matches the analyst trajectory that steps up from mid-single-digit to high single-digit growth before easing.

Sales-to-equity ratio

Value: 1.4
Explanation: Alibaba needs heavy reinvestment in cloud infrastructure and logistics, so it will not look like a capital-light software firm. A ratio around 1.35 sits close to its recent adjusted history and stays below the industry median, which fits a base case where growth continues but requires meaningful equity-backed reinvestment.

Stable net profit margin

Value: 13.0%
Explanation: I assume a stable margin modestly above the industry median because Alibaba keeps scale advantages in China commerce and gains mix from higher-value cloud and advertising tools. I do not push it back to the unusually high past peak, because competition, regulatory friction, and ongoing AI investment should cap long-run profitability.

FY+1 net profit margin

Value: 10.8%
Explanation: I set next-year margin below the latest adjusted level because management signals ongoing step-up investment in cloud infrastructure and user experience, which

tends to depress near-term profit conversion. This also aligns with the analyst net income trajectory that grows more slowly than revenue in the near term, before operating leverage improves later in the horizon.

Margin convergence

Value: 6.0
Explanation: I let margins converge over several years because the mix shift to cloud and international takes time, and the near-term cost base includes elevated capex-related and go-to-market spending. A six-year glide path fits a mature firm that can improve efficiency, but cannot remove regulatory and competitive costs quickly.

Stable ROE

Value: 11.0%
Explanation: I set stable ROE above the stable cost of equity to reflect a continuing moat from platform scale, data, and logistics integration, but I assume some erosion from competition and regulation. The level sits around the industry middle-to-upper range and below Alibaba's stronger historical years, which fits a base case with value creation but lower peak returns.

Credit rating

Value: A3/A-
Explanation: I assign an upper-medium grade rating because Alibaba has very large scale, strong operating cash generation, and a large liquidity buffer, which offsets regulatory and geopolitical risk. Ongoing capex and some convertible and bond funding add leverage, but the overall profile still fits an A-range issuer in a base case.

Recovery ratio

Value: 55.0%
Explanation: I assume a mid recovery because the business holds substantial tangible and financial assets, plus a resilient core marketplace cash engine, which supports creditor outcomes. Structural and regulatory risks in China reduce recoverability versus a purely domestic developed-market peer, so I do not assume a very high recovery.

10.2 DCF model

All financial data in Rmb millions unless stated otherwise

	Base year	FY+1	FY+2	FY+3	FY+4	FY+5	FY+6
Revenue	996,347	1,069,080	1,147,123	1,230,863	1,320,716	1,417,128	1,503,006
YoY growth, %	5.9%	7.3%	7.3%	7.3%	7.3%	7.3%	6.1%
All expenses	852,890	953,620	1,019,028	1,088,904	1,163,551	1,243,294	1,313,127
Net profit	143,457	115,461	128,095	141,960	157,165	173,834	189,880
Net margin, %	14.4%	10.8%	11.2%	11.5%	11.9%	12.3%	12.6%
Reinvestment	26,800	53,877	57,810	62,030	66,558	71,417	63,613
Invested equity	867,434	921,311	979,120	1,041,150	1,107,708	1,179,124	1,242,738
ROE, %	16.5%	12.5%	13.1%	13.6%	14.2%	14.7%	15.3%
S/E ratio, x	1.1	1.4	1.4	1.4	1.4	1.4	1.4
FCFE	116,657	61,584	70,286	79,930	90,607	102,418	126,266
Stable value							
FCFs to discount		61,584	70,286	79,930	90,607	102,418	126,266
Discount factor		1.0	0.9	0.8	0.8	0.7	0.7
Cost of equity, %	8.9%	8.9%	8.7%	8.5%	8.3%	8.1%	8.0%
PV of FCFE		61,181	64,213	67,276	70,388	73,568	84,018

	...		FY+7	FY+8	FY+9	FY+10	Stability
Revenue			1,575,451	1,631,853	1,670,038	1,688,408	1,706,981
YoY growth, %			4.8%	3.6%	2.3%	1.1%	1.1%
All expenses			1,370,643	1,419,712	1,452,933	1,468,915	1,485,073
Net profit			204,809	212,141	217,105	219,493	221,908
Net margin, %			13.0%	13.0%	13.0%	13.0%	13.0%
Reinvestment			53,663	41,779	28,285	13,608	22,191
Invested equity			1,296,400	1,338,179	1,366,464	1,380,072	
ROE, %			15.8%	15.9%	15.9%	15.9%	11.0%
S/E ratio, x			1.4	1.4	1.4	1.4	1.4
FCFE			151,146	170,362	188,819	205,885	199,717
Stable value							3,294,569
FCFs to discount			151,146	170,362	188,819	205,885	3,294,569
Discount factor			0.6	0.6	0.5	0.5	0.5
Cost of equity, %			7.8%	7.6%	7.4%	7.2%	7.2%
PV of FCFE			93,336	97,811	100,977	102,745	1,644,118

Sum of PV of FCFE	2,459,631.4
Less: Distress adjustments	27,755.6
Distress likelihood, %	1.4%
Recovery ratio, %	55.0%
Value of common equity	2,431,875.8
Excess cash	464,765.3
Less: Employee options	8,733.0
Less: Unfunded liabilities	0.0
Value of common shareholders' equity	2,887,908.1
Divide: Share count	2,318.9
Equity value per share	Rmb1,245.36

10.3 Scenarios

Bear case

Value: Rmb862.89
Upside: -13.0%

Story: Assume Alibaba moves from late growth into a more mature and risk-constrained phase. Competition in China e-commerce stays intense and forces higher user subsidies and marketing, which limits take-rate gains and slows core growth. Cloud and AI still grow, but monetisation lags because export controls, price pressure, and heavy infrastructure build-out cap operating leverage. International commerce grows but faces higher compliance costs and weaker unit economics, so it adds revenue without delivering the expected margin relief.
Revenue growth rate: 3.5%
Stable growth rate: 0.9%
FY+1 net margin: 8.5%
Stable net margin: 10.5%
Sales-to-equity ratio: 1.2
Years to stability: 10.0
Stable ROE: 8.5%

Bull case
Value: Rmb1,732.60
Upside: 74.7%
Story: Alibaba sits in late growth moving towards maturity, but it finds a new upcycle from AI and cloud. I assume AI-led cloud services scale faster than the market expects, helped by an open-source model ecosystem that pulls in developers and enterprise demand. I assume China commerce stabilises and lifts monetisation through higher take rates, membership, and better advertising tools, while quick commerce becomes a repeatable growth driver rather than a margin drag. I assume international commerce reaches durable profitability and adds a second geographic engine, which supports higher growth and stronger long-run returns without breaking realism for a firm of this size.
Revenue growth rate: 9.8%
Stable growth rate: 1.1%
FY+1 net margin: 12.5%
Stable net margin: 16.0%
Sales-to-equity ratio: 1.6
Years to stability: 10.0
Stable ROE: 14.0%

10.4 Other assets and claims

(in Rmb millions unless stated)

Excess cash
Excess cash: 464,765.3

Employee stock options
Number of stock options: 9.6
Weighted avg. strike price: 83.88
Weighted avg. maturity: 4.9
Assumed volatility: 48.9%
Assumed dividend yield: 0.0%
Value of options: 8,733.0

Unfunded liabilities
Pension obligations: 0.0
Post-retirement benefits: 0.0
Healthcare liabilities: 0.0
Deferred compensation: 0.0

Lawsuit contingencies: 0.0
Environmental liabilities: 0.0
Other: 0.0
Total liabilities: 0.0

10.5 Cost of equity

Inputs for risk-free rate

Ten-year bond yield, %	1.9%
Bond yield country	China
Default spread, %	0.7%
Risk-free rate, %	1.1%

Beta calculation

Operating segment	Sales	EV/Sales	Weight, %	Business beta
Specialty Retail	274,276	1.2	9.3%	1.1
Entertainment	42,685	3.5	4.1%	1.4
Specialty Business Services	46,613	2.7	3.4%	0.6
Integrated Freight & Logistics	123,379	1.0	3.4%	0.8
Software - Application	424,877	5.9	68.9%	1.5
Software - Infrastructure	84,517	4.7	10.9%	1.8

Business beta	1.43
Debt-to-equity ratio, %	11.6%
Marginal tax rate, %	25.0%
Equity beta	1.6

Debt valuation inputs

Book value of debt (millions)	248489.8
Risk-free rate, %	1.1%
Sovereign spread, %	0.7%
Country used	China
Corporate spread, %	0.4%
Interest expense used (millions)	9596.0
Coverage ratio	9.8x
Synthetic credit rating	Aaa/AAA
Pre-tax cost of debt, %	2.2%
Average debt maturity (years)	5.0
Market value of debts, estimate (millions)	267352.6
Debt-to-equity ratio, %	11.6%

Beta selection notes

Specialty Retail (50th percentile of the industry, 1.1): Sales of goods include a broad mix of discretionary and more everyday categories, so demand cyclicality is not clearly extreme either way. Retailing also has some variable cost benefits alongside fulfilment and platform fixed costs, supporting a middle-of-the-range beta.

Entertainment (70th percentile of the industry, 1.4): Entertainment revenues are discretionary and can be volatile with changes in consumer sentiment and intense competition for attention.

Content and platform costs create operating leverage, so a higher beta within the peer range is appropriate.

Specialty Business Services (40th percentile of the industry, 0.6): Membership fees and related value-added services are relatively sticky because customers pay for ongoing access and tools rather than one-off discretionary purchases. The cost base is more service-led and less capital intensive, so risk sits slightly below the industry average.

Integrated Freight & Logistics (50th percentile of the industry, 0.8): Logistics demand is linked to trade volumes and consumer activity, but a large part of the cost base can move with volumes through outsourcing and per-parcel costs. With mixed cyclicality and cost flexibility, the middle of the industry distribution is the best fit.

Software – Application (60th percentile of the industry, 1.5): Customer management services are largely advertising and performance marketing, which are discretionary and usually cut back when merchants become cautious. The platform has meaningful operating leverage in technology and sales spend, so risk is moderately above the middle of the industry range.

Software – Infrastructure (70th percentile of the industry, 1.8): Cloud infrastructure is exposed to business IT spending, which can slow in downturns, and it tends to have a high fixed cost base in data centres and engineering. This makes earnings more sensitive to revenue swings than a typical infrastructure software peer, so a higher-than-median beta is suitable.

Equity risk premium (ERP) calculation

Geographic segment	Sales	Weight, %	ERP, %	Tax rate, %
China	996,347	100.0%	5.0%	25.0%

Company ERP, %	5.0%

Cost of equity calculation

Risk-free rate, %	1.1%
Beta x ERP	7.8%
Equity beta	1.6
Equity risk premium, %	5.0%
Cost of equity, %	8.9%

Stable cost of equity calculation

Risk-free rate, %	1.1%
Beta x ERP	6.0%
Stable beta (clamped)	1.2
Equity risk premium, %	5.0%
Stable cost of equity, %	7.2%

10.6 Reverse DCF

Expected IRR	9.3%

Driver	Base value	Market-implied value	Difference
Stable net profit margin, %	13.0%	10.7%	-2.3
Revenue growth rate, %	7.3%	6.0%	-1.3
Sales-to-equity ratio	1.4	1.1	-0.2