

Prime B2B E-commerce player in China**China Internet****Alibaba.com (1688 HK)****Not Rated**

Background. Founded in 1998, Alibaba.com Ltd (Alibaba) provides an online B2B platform to facilitate e-commerce between business sellers and wholesale buyers, particularly among small and medium enterprises (SMEs). The listco is engaged in the provision of B2B services in China and abroad and generates revenue from fixed subscription fees.

Table 1: Offer statistics

No. of shares offered (greenshoe option: 13.2%)	858.9m*
Funds raised	HK\$2,728.3-3,069.3m
Price range	HK\$12.0-13.5
Offer P/E (FY12/07F F.D.)	94.5-106.3x
FY12/06A EPS – F.D.	HK\$0.044
FY12/07F EPS – F.D.	HK\$0.127
Market cap.	US\$7,832.2m-8, 811.2m
IPO open	23-Oct
IPO close	26-Oct
Listing	6-Nov

Source: Company data

*Including 227.4m new shares and 631.5 m old shares

Wide sales and customer network. As of June 2007, Alibaba had 20.9m registered users in China and 3.6m abroad. According to iResearch, in 2006 it was China's largest online B2B company, based on the number of registered users. Its sales and customer service network covers 30 cities in China and HK and includes more than 1,900 full-time field sales employees, about 800 telephone sales employees and more than 400 full-time customer service staff.

Huge upside. SMEs are one of the key driving forces of China's economic growth. According to the National Development and Reform Commission, by end-2006, China had more than 42.0m SMEs, representing 99.8% of all enterprises and contributing about 60% of the country's GDP. Their spending on third-party B2B platforms as a percentage of their total marketing budgets increased from 0.5% in 2002 to 6% in 2006 and should reach 11.7% by 2012, based on iResearch's data. This will be driven by: 1) rising online marketing budgets - up from 2.1% total budgets in 2002 to 10.8% in 2006 and to 20.4% by 2012, and 2) rising online third-party B2B platform spending - up from 26.0% of the total online budget in 2002 to 55.5% in 2006 and expected to reach 57.2% in 2012. Alibaba's paying members grew from over 77,000 in FY12/04A to 255,000 1H FY12/07A.

Financial performance. The company's revenue increased from RMB359.4m in FY12/04A to RMB1,363.9m in FY12/06A, representing a CAGR of 94.8%. Profit before tax rose from RMB28.5m to RMB291.4m in the same period, representing a CAGR of 219.8%.

Relationship with Alibaba Group. Alibaba Group will hold 75.0% of the listco (72.8% if the over allotment option is exercised in full). Alibaba Group's subsidiaries and affiliates include Taobao, Alipay, Yahoo! China, Alisoft, Koubei and Alimama. The listco has an agreement with Alibaba Group to provide cross-selling and cross-marketing services, including Alipay's online payment services related to its China marketplace. Also, Alibaba Group and Industrial and Commercial Bank of China Limited (ICBC) will provide online loan services to its paying members in China.

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Table 2: Use of net proceeds

	HK\$m	%
Strategic acquisitions and business development initiatives	1,572.0-1771.0	60
Existing business in China and internationally	524.0-591.0	20
Purchase of computer equipment and development of new technologies	262.0-295.0	10
General working capital	262.0-295.0	10
Total	2,620.0-2,952.0	100

Source: Company data

Table 3: Financial highlights

Year-end Dec (RMBm)	04A	05A	06A
Turnover	359.4	738.3	1,363.9
Gross profit	296.9	611.8	1,126.2
Profit before taxes	28.5	103.4	291.4
Net profit	73.9	70.5	219.9

Source: Company data

Table 4: Margins

Year-end Dec (%)	04A	05A	06A
Gross	82.6	82.9	82.6
Before taxes	7.9	14.0	21.4
Net	20.5	9.5	16.1

Source: Company data

Table 5: Strategic investors

Strategic investors	No. of shares(m)*	% Post IPO
Yahoo!	60.9	1.2
AIG Global Investment Corporation (Asia) Ltd.	21.3	0.4
Foxconn (Far East) Ltd. (Hon Hai Precision)	21.3	0.4
Baldonna Investments Ltd. (Mr. Peter Woo Kwong Ching)	18.3	0.4
Finawood Investments Ltd. (The Kwok family-Sung Hung Kai Properties Ltd.)	18.3	0.4
Honeybush Ltd. (Mr. Kuok Hock Nien)	18.3	0.4
Cisco Systems International B.V.	12.2	0.2
Industrial and Commercial Bank of China (Asia) Ltd.	12.2	0.2

Source: Company data

* Rounded down to the nearest board lot of 500 shares and assuming an Offer Price of HK\$12.75 (being the mid-point of the Offer Price range) and assuming that there is no reallocation of Offer shares from the international Offering to the Hong Kong Public Offering..

Table 6: Key ratios

Year end Dec	04A	05A	06A	Pro Forma 06A
Inventory days	-	-	-	-
Receivable days	-	20	14	14
Payables days	-	22	18	18
Current ratio (x)	1.1	1.0	0.9	2.4
Gearing (%)	Cash	Cash	Cash	Cash
ROE (%)	-	29.9	73.9	13.5
Debt/equity (%)	-	-	-	-
Interest coverage (x)	-	-	-	-

Source: Company data, SBI E2-Capital

Investment highlights

- Prime B2B e-commerce player providing services to 20.9m registered users in China and 3.6m abroad.
- Wide sales and customers network covering 30 cities in China and Hong Kong with more than 1,900 full-time field sales employees, over 800 telephone sales employees and more than 400 full-time professional customer service staff.

- Huge potential among China's 42.0m SMEs which are expected to increase their spending on third-party B2B platforms as a percentage of their total marketing budgets from 6% in 2006 to 11.7% by 2012.
- Strong strategic investors including Yahoo!, AIG Global Investment Corporation (Asia), Hon Hai Precision, Mr. Peter Woo Kwong Ching, the Kwok Family (Sun Hung Kai Properties Ltd., Honeybush Ltd., Cisco Systems international and ICBC (Asia).

Valuation.

Alibaba expects net profit of RMB622.0m in FY12/07F. Its offer price of HK\$12.0-13.5 represents a FY12/07F P/E of 94.5-106.3x on a fully diluted basis, which we believe is reasonable given its unique position in the Chinese market and high growth potential.