Revision of estimates

Based on the results of the FY 2015 4Q and our discussions with senior management, we change our forecasts as follows:

- We lift our FY16/17E China retail GMV assumption by 2%/2%
- We lift our FY16/17E revenues forecast by 3%/4%
- We lift FY16/17E non-GAAP operating income by 3%/5%.
- We increase FY16/17E non-GAAP EPADS by 0%/1% respectively.

Figure 1: Revision of estimates

YE 31 Dec	FY2015	2016E					2017E					2018E				
Figures in RMB,mn		DB old	DB new	% change	Consensus	% delta	DB old	DB new	% change	Consensus	% delta	DB old	DB new	% change	Consensus	% delt
GMV(in RMB bn)	2,444	3,274	3,329	2%	-	na	3,998	4,073	2%	-	na	4,632	4,677	1%	-	n
Net Revenue	76,204	99,264	101,997	3%	102,500	0%	130,422	135,293	4%	134,625	0%	162,197	171,735	6%	173,614	-1%
Gross profit	52,370	69,047	71,451	3%	71,457	0%	91,494	95,459	4%	94,080	1%	114,619	121,689	6%	122,398	-1%
EBITDA (non GAAP)	40,127	53,283	54,818	3%	54,298	1%	70,635	73,533	4%	72,118	2%	88,388	93,940	6%	97,301	-3%
EBIT (GAAP)	22,645	31,148	32,151	3%	36,965	-13%	45,788	48,495	6%	52,454	-8%	61,389	66,239	8%	67,883	-2%
EBIT (non GAAP)	35,848	47,145	48,672	3%	37,717	29%	63,364	66,250	5%	53,475	24%	80,689	86,223	7%	74,381	16%
PBT (GAAP)	31,836	36,958	37,964	3%	40,940	-7%	55,408	58,116	5%	59,008	-2%	75,239	80,090	6%	86,794	-8%
Net income (GAAP)	23,366	28,145	27,484	-2%	31,291	-12%	42,852	43,328	1%	46,103	-6%	58,006	60,229	4%	68,852	-13%
Net income (Non-GAAP)	33,245	47,005	46,785	0%	45,520	3%	63,184	63,746	1%	61,898	3%	79,383	82,189	4%	89,536	-8%
EPADS (GAAP)																
Diluted (RMB)	9.43	10.76	10.51	-2%	$12.02	-13%	16.19	16.37	1%	$17.27	-5%	21.67	22.50	4%	$25.69	-12%
EPADS (Non GAAP)																
Diluted (RMB)	13.19	17.97	17.88	0%	$17.38	3%	23.87	24.09	1%	$23.22	4%	29.65	30.70	4%	$32.42	-5%
Margin analysis (%)																
Gross margin	68.7%	69.6%	70.1%	0.5%	69.7%	0.3%	70.2%	70.6%	0.4%	69.9%	0.7%	70.7%	70.9%	0.2%	70.5%	0.4%
EBITDA margin	52.7%	53.7%	53.7%	0.1%	53.0%	0.8%	54.2%	54.4%	0.2%	53.6%	0.8%	54.5%	54.7%	0.2%	56.0%	-1.3%
EBIT margin (GAAP)	29.7%	31.4%	31.5%	0.1%	36.1%	-4.5%	35.1%	35.8%	0.7%	39.0%	-3.1%	37.8%	38.6%	0.7%	39.1%	-0.5%
EBIT margin (non-GAAP)	47.0%	47.5%	47.7%	0.2%	36.8%	10.9%	48.6%	49.0%	0.4%	39.7%	9.2%	49.7%	50.2%	0.5%	42.8%	7.4%
Net margin (GAAP)	30.7%	28.4%	26.9%	-1.4%	30.5%	-3.6%	32.9%	32.0%	-0.8%	34.2%	-2.2%	35.8%	35.1%	-0.7%	39.7%	-4.6%
Net margin (non GAAP)	43.6%	47.4%	45.9%	-1.5%	44.4%	1.5%	48.4%	47.1%	-1.3%	46.0%	1.1%	48.9%	47.9%	-1.1%	51.6%	-3.7%
YoY %																
Revenue	45%	30%	34%	4%	35%	-1%	31%	33%	1%	31%	1%	24%	27%	3%	29%	-2%
Gross profit	34%	32%	36%	5%	36%	0%	33%	34%	1%	32%	2%	25%	27%	2%	30%	-3%
EBIT (GAAP)	-9%	38%	42%	4%	63%	-21%	47%	51%	4%	42%	9%	34%	37%	3%	29%	7%
EBIT (Non-GAAP)	23%	32%	36%	4%	5%	31%	34%	36%	2%	42%	-6%	27%	30%	3%	39%	-9%
Net income (GAAP)	1%	20%	18%	-3%	34%	-16%	52%	58%	5%	47%	10%	35%	39%	4%	49%	-10%
Net income (Non-GAAP)	20%	41%	41%	-1%	37%	4%	34%	36%	2%	36%	0%	26%	29%	3%	45%	-16%
EPADS (GAAP)																
diluted	-6%	14%	11%	-3%	27%	-16%	51%	56%	5%	44%	12%	34%	37%	4%	49%	-11%
EPADS (Non GAAP)																
diluted	11%	36%	36%	-1%	32%	4%	33%	35%	2%	34%	1%	24%	27%	3%	40%	-12%

Source: Deutsche Bank

Valuation and risks

Valuation

Our target price of US$104 is based on a weighted average of 1) forward CY15E non-GAAP PER (50% weighting), 2) CY15E EV/EBITDA (30% weighting), and 3) a 20% DCF value. TP implies a CY15E PER of 36 (vs prior 38x), a PEG of 1.1x (unchanged) against a CY15-17 CAGR of 33% (vs prior 33.2%).

Downside risks

- Mounting competitive pressures from global/local e-commerce platforms and off-line players
- Failure to maintain sound relationships with participants in the ecosystem
- Inability to develop efficient technological platforms and to innovate
- Failure to monitor fraudulent transactions on the platform which can result in slowdown in user base growth and activity