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## Alibaba Still Faces Competitive Risks Amid Startling Growth

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HONG KONG (Standard & Poor's) Nov. 12, 2015--China's e-commerce giant, Alibaba Group Holding Ltd. (A+/Stable/--; cnAAA/--), is in a solid position to drive revenue and profitability growth. The company smashed global sales records at yesterday's 11.11 Global Shopping Festival, where about a third of the buyers bought international products. Alibaba also continues to benefit from strong online user traffic. But competition is growing.

"Alibaba appears to be successfully transitioning into a mobile platform, and we believe it is in a firm position to grow its cross-border e-commerce," said Standard & Poor's credit analyst Tony Tang. "The company offers international products from more than 40 countries on its Tmall Global platform to domestic customers, and this could be the major growth driver for its future earnings."

On Nov. 11, 2015, Alibaba announced that the total gross merchandise value (GMV) at yesterday's shopping festival increased to US\$14.3 billion from US\$9.3 billion on the same day in 2014. Mobile GMV as of percentage of total GMV reached 68.7%. We estimate that Alibaba generated about Chinese renminbi (RMB) 2.4 billion (about US\$370 million) revenue at the event. We also forecast that the company's blended and mobile monetization rate could reach above 2.60% in the last quarter of 2015.

In our view, Alibaba will continue to grow its mobile traffic as it transitions into a mobile platform marketplace from a PC-based platform. The company's mobile monetization rate has increased to 2.39% as of Sept. 30, 2015, from 1.87% on Sept. 30, 2014. Mobile accounted for 62% of the company's total revenue on Sept. 30, 2015, compared with 36% on Sept. 30, 2014. We

believe the growing mobile penetration rates will further attract traffic to Alibaba's online marketplace platform, and enhance user experience and "stickiness" when making purchases.

However, we see growing competition to Alibaba's marketplace business model from alternative business models. For example, JD.com offers an integrated solution of direct sales, marketplace, and in-house logistics networks.

"In the near term, growing competition may not be a substantial threat to Alibaba's business model. However, over the next three to five years, the mass market is likely to be dominated by both Alibaba and JD.com. Companies like Vipshop and Dang Dang will likely focus on offering specialized services to the niche market to differentiate themselves from the mass-market players," said Mr. Tang.

We have determined, based solely on the developments described herein, that no rating actions are currently warranted. Only a rating committee may determine a rating action and, as these developments were not viewed as material to the ratings, neither they nor this report were reviewed by a rating committee.

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