

Stance

Neutral

Company

Alibaba Group

IPO Price Range \$60 – 66
(EXPECTED)

Country

China

Date updated

12th September 2014

Price Target

\$90

Industry Class

E-Commerce

Ticker

BABA

Events

18th Sep 2014 – End of Roadshow

19th Sep 2014 – IPO



Introduction

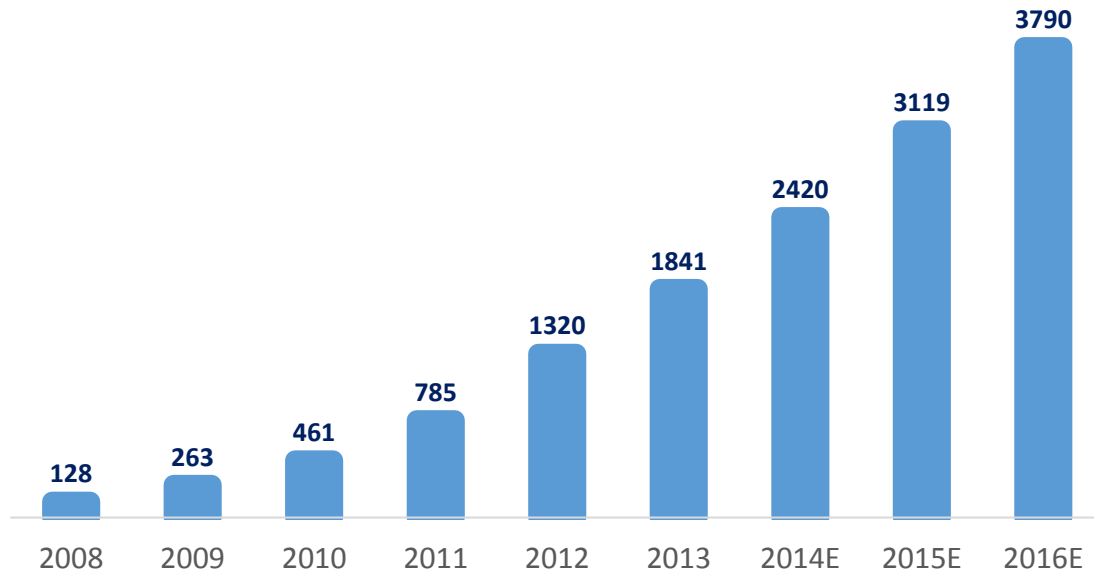
Alibaba Group are the largest online and mobile commerce company in the world in terms of gross merchandise volume in 2013, according to the IDC GMV Report. Alibaba Group operate the following:

- Taobao Marketplace: China's largest online shopping destination (similar to eBay)
- Tmall: China's largest third-party platform for brands and retailers,
- Juhuasuan: China's most popular group buying marketplace by its monthly active users.
- Alibaba.com: a global wholesale marketplace for domestic Chinese small businesses
- Alipay: a PayPal-like service. In 2014 Alipay processed \$623 billion in digital payments
- Aliyun: cloud services and infrastructure
- 1688.com: a business to business trade website
- AliExpress: an online wholesale website

Alibaba; what you should know.

Alibaba is expected to be the biggest IPO in history. In 2008 Visa Inc. set the US record at \$19.7 billion. Alibaba is expected to raise \$21 billion or up to \$24.3 billion in case the IPO is oversubscribed, in which case, Alibaba would beat the global record set by Agricultural Bank of China at \$22.1 billion.

Online Shopping in China (in Billions of RMB)



Source: Alibaba Prospectus

Alibaba's growth is fueled by China's increasing middle class and expanding Internet access, as well as an economy on track to be the world's largest by the 2020s. Alibaba handles more sales than eBay and Amazon combined.

Founder & Ownership

Mr. Jack Ma is a Chinese entrepreneur who founded Alibaba out of his apartment in Hangzhou in 1999. Ma still holds 8.9% stake in Alibaba. Yahoo Inc. holds 22% and Softbank Corp. 37%. Alibaba is investing heavily in businesses outside of China. This year Alibaba spent over \$200 million on messaging app Tango, \$250 million on Lyft and \$120 million on video game start-up Kabam. Alibaba is rumoured to be in pursuit of Snapchat.

Ma has stated that 'customers come first, employees second and shareholders third'. Ma is interpreted as saying that he will not succumb to short-term investor pressure. Ma believes that if the company treats his customers and employees right it will be the investors who will ultimately benefit. Jack Ma follows Brin and Page who prior to their Google IPO wrote, 'we will avoid quarterly forecasts, we will maintain perks to employees and risk capital on new projects even if it reduced short-term profits. Mark Zuckerberg similarly wrote 'Simply put: we don't build services to make money; we make money to build better services.'

Share Structure

Alibaba openly acknowledges that stock holders would have little recourse in the event of malfeasance, warning that investors unhappy with the company might be unable to sue its officers. The company intends to sell stock on Wall Street instead of in Hong Kong to give its corporate executives greater control of the company.

Alibaba has a complex corporate structure and is often criticised for its corporate governance. Shareholders will be buying a shell company based in the Cayman Islands that controls the operating company through a legal agreement with the Chinese government.

Positioning

Alibaba is working on increasing its preferential postal agreements, it currently has such agreements with Brazil, Italy, France and Singapore.

Alibaba may be attractive to the aggressive client. The company's growth earnings path is currently impressive and high earnings multiples will probably be supported as long and EPS growth continues. Cautious investors should be wary.

Valuation

The IPO is expected to be priced between \$60 and \$66. In financial year 2014 which ended last March Alibaba generated \$1.63 per share in earnings to shareholders. This compares favourably with \$0.57 in 2013.

In Q1 2015 EPS came at around \$0.83; annualized this would mean \$3.32. Using a 'realistic' multiple of 20x earnings the price would be \$66. The share price may comfortably exceed this price if the current earnings trajectory continues.

Assuming that Alibaba will trade at a high PE, probably around 30x, assuming EPS of over \$3.00 in 2015 than the target price of \$90 appears within reach. The price target is based on projected earnings per share of \$3.00 in 2015 and a 'market' multiple of 30x.

The Neutral rating reflects:

- There is a risk that it will be more difficult for Alibaba to increase earnings going forward due to increasing competition in China and strong competition in the US.
- The speculative nature of the IPO
- Alibaba is a Corporate Governance nightmare; Alibaba is in fact a shell company based in the Caymans
- The fair value is probably close to the IPO price.

A note on Pricing and Valuation

This report is intended to set a future price on the stock. This may differ from the actual value or fair value of the company as several elements come in play in the short term. These include demand, marketing and other subjective metrics like PE. The fair value of the company would be a more standardized accounting exercise and would probably yield a price close to the IPO price. In our approach we attempt to standardise the methodology in a way that is easier to understand and compare with similar companies. The outcome will not always reflect the fair value of the stock, but we believe will be closer to what the price will be in a year's time. **In theory there are few reasons why Alibaba should be worth more than \$60 a share, however, due to other factors the share price will probably trade at a higher price following the IPO.**

Historical 1 Year Price Target

Date	Price	Price Target	Analyst	Recommendation
10.09.2014	-	\$90	Team Coverage	Neutral

FAQ – Information to Investors

PRIMARY MARKET (IPO)

Q: What is the expected IPO pricing date?

A: The expected date is currently **18 September 2014**.

Q: When is the expected first trading day?

A: The expected date is currently **19 September 2014**.

Q: Is Calamatta Cuschieri offering access to the primary market/book-building?

A: We will be book building and applying for shares at IPO stage, however allocation is not guaranteed. Investors will however definitely have the opportunity to trade on the secondary market as soon as the stock begins trading. More information about this is available below.

Q: How can I apply?

A: If you would like to register your interest kindly send an email to tradingdesk@cc.com.mt quoting the amount you would like to apply and your client code. You can also use the webtrader secure messaging system.

SECONDARY MARKET

Q: When will clients be able to create orders in CC WebTrader?

A: As soon as we have a reference price, at earliest after market close on the day prior to first trading day (i.e. after US-markets close on 18 September 2014).

Q: Will orders placed before the first trade, participate in the initial matching/opening auction?

A: Yes, if clients have created a Market Order prior to first trade it will be filled at the auction price on the first trading day.

Q: What will be the symbol code for Alibaba Group in CCWebTrader?

A: The ticker will be **BABA**.

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