Study on the Investment Value of Alibaba based on Financial and Valuation Methods

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Abstract. This article analyzes the significant advantage of the e-commerce industry in China through the average beta coefficient, while Alibaba, as a leader in the e-commerce industry, has suffered a severe blow, leading to an analysis of the investment value of Alibaba. Through financial analysis and valuation, it is found that Alibaba is in good financial condition, competitive with peer companies, and has room for growth. According to the analysis, The analysis shows that Alibaba maintains a high profit growth rate of 30% to 40% all the year round, and the TTM EPS and NTM EPS are compared and analyzed, and the data are more than 7, while the PE ratio of Alibaba is obviously low, and its financial status is greatly underestimated. Furthermore, an analysis of other factors affecting the investment value of Alibaba reveals that factors such as financial crises impact the stability of Alibaba's equity and influence investors' misjudgment of value, leading to stock price declines. This provides researchers and business leaders with more insights.

Keywords: Alibaba; Financial Analysis; Valuation analysis; Investment Value.

1. Introduction

Research on the investment value analysis of e-commerce is very rich. For example, Li and Gong have studied the average beta coefficients (table 1) of major industries in China, and concluded that the investment returns of the Internet in China exceed those of other traditional basic industries [1]. At the same time, big data makes the Internet better combined with finance, improves the financing level and financing ability of Internet enterprises, and is more conducive to the fund raising and development of relevant enterprises [2]. The Internet has also promoted the development of the profit model of enterprises in a more comprehensive way, and the development of the profit model combining online and offline has also promoted the status of Internet enterprises in society [3].

Soros Fund Management also liquidated its holdings before the end of June, which dealt a heavy blow to BABA. Although Alibaba's revenue was RMB 20.245 billion (approximately USD 32.65 billion) by June 30, 2015, an increase of 28% compared to the previous year. Net profit was RMB 30.816 billion (approximately USD 49.70 billion), an increase of 148% compared to the same period last year. However, the significant profit was unable to change the fact of its significant stock losses. By the close of August 12, Alibaba's stock price plummeted by 5.12%, closing at $73.38, dropping to as low as $71.03, a nearly 40% decrease from its high of $120 in November of the previous year [4]. This has triggered a discussion on the investment value analysis and discussion of Alibaba's earnings and risks. This study expands on the theoretical research literature on Alibaba, supplements the e-commerce research field, helps Alibaba investors make more accurate investment judgments, and also assists Alibaba Group in analyzing the shortcomings in its own business development and making more rational decisions.

Table 1. Average beta.

Industry name	Average beta coefficient		Industry name	Average beta coefficient
bank	0.55		air transport	1.4
bank	0.61		pharmacy	1.59
petroleum	0.67		biont	1.63
catering	0.68		corpuscle	1.65
insurance	0.73		communication service	1.69
special chemical industry	0.9		software	2.06
basic chemical industry	1.03		computer equipment	2.23
steel	0.94		Internet	2.78

2. Financial Analysis

Analysis of Alibaba's information over the past four years compared to three other major e-commerce companies. As show in table 2, Alibaba has maintained a high profit growth rate since 2020, staying consistently at 30% to 40% high growth rate. Although it slowed down in 2023, it still has a growth rate of over 25%, comparable to AMZN. In 2020, its growth rate even exceeded that of AMZN. Compared to EBAY and ETSY, although Alibaba's growth rate is lower than these two e-commerce companies, its profits are much higher. Alibaba's profit growth has exceeded 4.5 billion since 2020, far exceeding the approximately 700 million of EBAY and less than 2 million of ETSY. This indicates that, apart from being slightly behind the world's leading e-commerce company AMZN, Alibaba still has strong competitiveness compared to the other two well-known e-commerce companies, representing its strong profit-making ability and profit space, which is a core factor chosen by stock investors and also represents its risks.

Table 2. Financial indicators.

BABA	Period Ending	3/31/2023		3/31/2022		3/31/2021		3/31/2020
	TOTAL revenue	$126,412,000		$134,487,000		$109,426,000		$71,860,000
	Cost of Revenue	$79,992,000		$85,045,000		$64,257,000		$39,809,000
	Gross Profit	$46,420,000		$49,441,000		$45,169,000		$32,051,000
	Gross Margin	26.70%		36.76%		41.27%		44.60%
AMZN	Period Ending	12/31/2023		12/31/2022		12/31/2021		12/31/2020
	TOTAL revenue	$574,785,000		$513,983,000		$469,822,000		$386,064,000
	Cost of Revenue	$304,739,000		$288,831,000		$272,344,000		$233,307,000
	Gross Profit	$270,046,000		$225,152,000		$197,478,000		$152,757,000
	Gross Margin	46.98%		43,8%		42.03%		39.56%
EBAY	Period Ending	12/31/2023		12/31/2022		12/31/2021		12/31/2020
	TOTAL revenue	$10,112.00		$9,795,000		$10,420,000		$8,894,000
	Cost of Revenue	$2,833,000		$2,680,000		$2,650,000		$1,797,000
	Gross Profit	$7,279,000		$7,115,000		$7,770,000		$7,097,000
	Gross Margin	71,98%		77.37%		74.56%		80.00%
ETSY	Period Ending	12/31/2023		12/31/2022		12/31/2021		12/31/2020
	TOTAL revenue	$2,748,000		$2,566,111		$2,329,114		$1,725,625
	Cost of Revenue	$828,675		$744,592		$654,512		$464,745
	Gross Profit	$1,919,702.00		$1,821,519		$1,674,602		$1,260,880
	Gross Margin	69,85%		70,98%		71,9%		73,06%

3. Valuation analysis

Valuation analysis based on data from March 20, 2024, from https://www.nasdaq.com/. Table 3 and figure 1 show that Alibaba still has a strong competitive advantage compared to other world-class e-commerce companies, especially in terms of TTM EPS and NTM EPS, both figures exceed 7, a significant edge over other major companies during the same period, which typically have figures above 3. This implies that Alibaba has a higher growth rate and potential for improvement in the future. Additionally, its share price performs well at $73.24 per share. It is worth noting that Alibaba's PE ratio is notably low, indicating that its financial situation is significantly undervalued, and providing room for higher growth in the future.

Table 3. Valuation.

3.20.2024				
	BABA	AMZN	EBAY	ETSY
share price	73.24	175	51.82	66.84
TTM EPS	7.95	4.05	3.63	2.6
NTM EPS	7.67	5.3	3.92	3.05
TTM PE	9.21	43.11	14.24	25.71
NTM PE	9.54	33.06	13.22	21.91
EPS growth rate	-3.50%	30.80%	7.90%	17%
PEG	-2.63	1.39	1.8	1.51

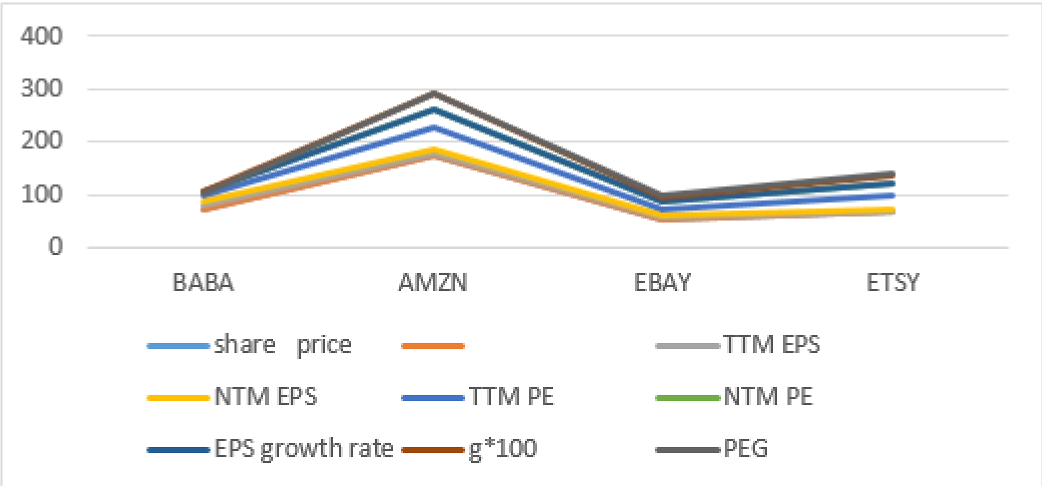

Figure 1. BABA VS AMZN/EBAY/ETSY.

4. Other factors affecting the investment value of Alibaba

4.1. Financial Crises

Financial crises and other sudden conflicts have a more direct impact on Internet companies [5]. In particular, the high dependence of the Internet on financial markets and stock expectations inevitably requires investors to pay close attention to risk issues while analyzing stock value. The harmfulness and uncontrollability of these factors are important considerations that investors cannot ignore.

4.2. The Quarter of Investment

An interesting study suggests that the quarter in which investments are made is also an important factor in investment. Using extreme value theory analysis, investing in Alibaba stocks can yield greater returns from high risks. The optimal choices for investment are in the third and fourth quarters, while conservative investments should be made in the first and second quarters [6]. This reflects the multi-faceted complexity of risk and return in investments, where numerous factors influence outcomes. Hence, investors are required to conduct multifaceted analysis and design to create the most valuable portfolios to maximize risk-return ratios. Therefore, the quarter of stock investment is an important factor influencing stock returns and risks.

4.3. Equity Changes

Moreover, changes in a company's equity ownership are also a significant factor impacting stock price changes. For example, in a report dated January 29, 2024, the U.S. Securities and Exchange Commission website released a new 13F filing indicating that the Tsai family fund Blue Pool further increased its holdings of nearly $150 million worth of Alibaba stocks. Simultaneously, according to reports from The New York Times, Jack Ma also increased his holdings of Alibaba stocks. This move made Jack Ma, together with the Tsai family fund, surpass SoftBank as the largest shareholder, making Jack Ma the new top shareholder [7].

The news of Jack Ma increasing his stake directly drove up the stock price, with Alibaba's stock price rising to $74.02 per ADS in the financial report of January 29, representing a significant increase of 7.85%. Similarly, reductions in the holdings of founder stocks can trigger chain reactions in the stock market. On November 16, 2023, the SEC website announced that Jack Ma's family trust, JC Properties Limited, and JSP plan to reduce their holdings of 5 million shares of Alibaba founder shares on November 25, involving a stock market value of $870.7 million. This was undoubtedly a substantial figure, which significantly shook investor confidence. As of the close of the U.S. stock market on November 16, Alibaba's stock price decreased by 9.14% compared to the previous day, and the downward trend continued on the 17th in the Hong Kong stock market, closing with a decrease of 9.96%. Therefore, in a comprehensive analysis, a decrease in the core founder's shareholding percentage can impact the stock market, reducing stock prices, while an increase in shareholding percentage boosts investor confidence, driving stock growth. Hence, the shareholding percentage of stockholders is also an important factor influencing the risk and return of stocks.

4.4. Corporate Mergers and Restructuring

Furthermore, corporate mergers and acquisitions are also indicators affecting stock changes. On September 6, 2019, Alibaba paid $2 billion to acquire 100% ownership of Hangzhou Youmai Network Company from Netease, gaining operational rights over Netease Kaola. According to information provided by the U.S. Securities and Exchange Commission, Alibaba and Netease utilized up to $2 billion in cash and stocks in the stock transaction [8]. In trading, Alibaba's strategy of complete acquisition implies that the payment process carries unavoidable financial risks. However, benefiting from Alibaba's robust internal reserves, the company can maintain stability and sustainable development. By distancing itself from reliance on foreign capital, Alibaba faced minimal risks during the acquisition of NetEase Kaola, ensuring steady stock development. Nevertheless, unreasonable mergers, such as misvaluation due to asymmetric information, can severely impact the stock market, leading to irreversible consequences. Alibaba's acquisition of Sun Art Retail also underscores the importance of corporate mergers. By combining traditional offline and online internet platforms, it effectively boosts user traffic. Despite initial profitability efficiency challenges and increased operating costs, the multidimensional branding effects validate the relative success of this merger [9].

Structural reorganization adjustments can also trigger stock fluctuations. Rational structural optimization can effectively enhance operational efficiency and strengthen a company's value creation capability. Conversely, unreasonable structural changes can lead to decreased operational efficiency, even causing critical disruptions and irreversible impacts. On the evening of March 28, 2023, Alibaba Group announced the restructuring of its original structure into six groups specializing in different business areas, directly resulting in over a 10% increase in its New York Stock Exchange trading during early trading. Simultaneously, its Hong Kong stock prices rose by 12.23% to 94.55 Hong Kong dollars [10]. This restructuring also makes investors' investments more targeted, optimizing their investment portfolios, promoting stock growth. Conversely, irrational restructuring can deteriorate the investment environment, triggering significant stock declines.

4.5. Black Swan' events

Beware of 'Black Swan' events, which refer to unpredictable, sudden, and disruptive incidents. For Alibaba, the suspension of Ant Group's IPO serves as a classic example. Due to Ant Group not meeting regulatory requirements, its IPO was halted, subsequently impacting Alibaba's stock price, plunging to a five-year low. The abrupt stock drop caused Alibaba to lose over $68 billion in market value in a day [11]. This unforeseen event, despite Alibaba's prompt response, resulted in irreparable consequences. Therefore, as investors, guarding against the impact of 'Black Swan' events is crucial.

4.6. Other factors

Furthermore, a leader's personal influence significantly affects stock fluctuations, a crucial aspect to consider. For instance, on April 10, 2024, Jack Ma's article "To Reform, To Innovate" indirectly led to a 5% increase in Alibaba's Hong Kong stock [12]. Therefore, a leader's personal influence is a crucial factor to consider. External competition can also influence a company's decisions, subsequently affecting stock prices.

On March 28, 2024, Xiaomi SU7 was listed, achieving an astonishing milestone of 10,000 large orders within just 4 minutes, surpassing 50,000 large orders within 27 minutes, and reaching 88,898 large orders within 24 hours. These data showcase the significant influence of the Xiaomi Group. In light of the capital market situation, Alibaba made the decision on the 26th to withdraw its logistics subsidiary Cainiao’s application for public offering and listing on the Hong Kong Stock Exchange [13] to mitigate the impact from Xiaomi Group. Other companies can also learn from this approach, such as responding to antitrust policies. Tencent, another internet industry leader, promptly implemented response measures worth emulating [14]. Analyzing these cases can aid Alibaba’s development. Using scientific analytical methods is an essential way to organize corporate information. Through scientific data analysis, a better overall understanding of a company’s information can be gained, leading to more accurate judgments based on the actual circumstances. For instance, utilizing absolute valuation methods and relative valuation methods can provide a more precise analysis of its intrinsic value [15].

5. Conclusion

This article utilizes valuation and financial analysis methods to analyze Alibaba's financial situation. Alibaba has maintained a high profit growth rate, demonstrating strong competitiveness compared to other global e-commerce companies, with significant profit potential and a lower PE ratio indicating undervaluation. It has a broader growth space. The article also focuses on financial crises, investment quarters, equity changes, financial mergers and restructuring, 'Black Swan' events, and other influencing factors.

This research provides important insights for understanding Alibaba's investment value correctly, reflecting Alibaba's good valuation, financial condition, and significant growth potential. The study also reveals that uncertain factors can impact Alibaba's revenue fluctuations. Leaders should develop reasonable strategies to ensure stock stability, avoiding investors' unreasonable judgments that could lead to market declines. However, there are shortcomings in the timeliness of data collection, case analysis, and the breadth of factors covered in this study, which will be further improved in future research.

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