Yahoo stock surges in anticipation of Alibaba IPO (Update)

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Yahoo is getting another lift from its stake China's Alibaba Group, a thriving Internet company that has helped mask Yahoo's own financial funk.

Investors latched on to Yahoo Monday in anticipation of a huge windfall from Alibaba's initial public offering of stock later this year. Alibaba triggered the latest wave of excitement about its forthcoming IPO with a Sunday announcement of its intention to list its stock on a U.S. exchange instead of in Hong Kong. The precise timing of the IPO is still unclear, although the documents for the filing are expected to be filed within the next six months.

Alibaba's IPO is anticipated to produce Yahoo's second multibillion dollar windfall in two years. The money could be used to pay stockholders a one-time dividend, buy back more stock or finance an acquisition of another Internet service that could help Yahoo bring in more revenue after years of contraction.

Yahoo's stock gained $1.51, or 4 percent, to close Monday at $39.11. The shares have nearly doubled in the past year, primarily because Yahoo's 24 percent stake in Alibaba has been the only way for most investors to buy a slice of a company that is likened to China's version of eBay and Amazon.com. Yahoo now boasts a market value $39 billion—most of which analysts estimate is tied to Alibaba's success.

Even as Yahoo's stock surges, the Sunnyvale, California, company's longrunning struggle to revive its revenue growth continues as online advertisers steadily shift more of their spending to Internet search leader Google Inc. and social networking leader Facebook Inc.

Yahoo Inc. hired its current CEO, Marissa Mayer, from Google in July 2012 in hopes of engineering a turnaround, but so far she hasn't been able to boost Yahoo's revenue. Mayer has said that it still may take another year or two before Yahoo's revenue is growing at the same rate as the overall Internet market, a timeline most investors are willing to tolerate because of the company's prized investment in Alibaba.

Although her regime benefits from the Alibaba stake, Mayer had nothing to do with Yahoo's original $1 billion investment in the company in 2005. The deal was engineered by two of her predecessors as CEO, company co-founder Jerry Yang and former movie studio boss Terry Semel. Another former CEO, Carol Bartz, resisted shareholder pressure to sell all of Yahoo's Alibaba stake during 2010 and 2011.

Yahoo trimmed its Alibaba stake from about 43 percent in 2012 when it sold 523 million shares back to the Chinese company for $7.1 billion, or $13.54 per share. Alibaba is now believed to be worth considerably more than that, largely because of its rapid growth. Although Alibaba doesn't disclose its results, Yahoo has been revealing how the Chinese company is faring as part of its quarterly earnings announcements.

Alibaba's revenue during the first nine months of last year totaled $4.9 billion, a 60 percent increase from the previous year, according to Yahoo's regulatory filings. By comparison, Yahoo's revenue during the same period totaled $3.4 billion, a 6 percent decline from the previous year.

As part of its 2012 deal with Alibaba, Yahoo can sell about half of its stake —up to 261.5 million shares in the Chinese company's upcoming

IPO. That would likely be enough to bring billions of dollars into Yahoo while still allowing the company to retain a roughly 12 percent stake in Alibaba, a slice that could become even more valuable if Alibaba keeps growing at a rapid clip.

BGC Financial Partners analyst Colin Gillis sees a downside to Yahoo cashing out of Alibaba. After Yahoo sells more of its Alibaba holdings, the company's earnings are likely to shrink because less money will be coming in from its Asian investments. Those investments, which also include a 35 percent stake in Yahoo Japan, accounted for two-thirds of Yahoo's $1.4 billion profit last year.