Alibaba steals Yahoo's thunder ahead of IPO

April 16 2014, by Sophie Estienne

A Chinese Alibaba employee walks through a communal space at the company headquarters in Hangzhou on June 20, 2012

If Yahoo appears back in favor, it can thank Alibaba, the Chinese Web giant in which it holds a big stake and which is set for a public stock offering.

Yahoo shares soared 7.3 percent to $36.71 at the opening Wednesday on the heels of a better-than-expected quarterly report, but some were more focused on the Alibaba financial results buried in the document.

"The salient point of Yahoo's first quarter results was the very strong December quarter results from Alibaba," said Jordan Rohan, analyst at the brokerage Stifel.

"Alibaba's results paint a favorable picture for a favorable IPO despite the recent period of weakness in the Internet sector."

The Chinese firm has not yet released details on its finances, but Yahoo's figures showed Alibaba with a 2013 fourth quarter profit of $1.35 billion on some $3 billion in revenues. That indicates 66 percent growth, up from 51 percent in the past quarter.

The data from Alibaba "gives us decent conviction that the valuation will ultimately be higher than $200 billion," Rohan said, dwarfing Yahoo's market value of around $36 billion.

Other analysts say a more realistic value for Alibaba could be in the range of $130-150 billion.

Fresh life for Yahoo

Yahoo holds a 24 percent stake in Alibaba and under the latest plans is expected to sell about 10 percent of the capital in the Chinese group in the initial public offering.

If Yahoo appears back in favor, it can thank Alibaba, the Chinese Web giant in which it holds a big stake and which is set for a public stock offering

The US firm bought 40 percent of Alibaba in 2005 for $1 billion and now stands to reap a handsome profit from that. Yahoo sold part of its stake in 2012, getting a gain of $7.6 billion.

Collin Gillis, analyst at BCG, said the agreement could make Yahoo the majority seller on the IPO "and potentially reduce Alibaba's incentive to aggressively price the offering."

Gillis said the IPO would give Yahoo a fresh cash infusion, adding: "We expect the cash proceeds to primarily be used to repurchase shares and to pursue acquisitions."

Alibaba is preparing what is expected to be the biggest tech sector IPO since Facebook's in 2012. It comes amid intense activity in the Web sector, but also concerns about excessive valuations.

But the transaction could give new momentum to Yahoo, which has struggled since losing its position as the leading Web search engine but is refocusing under chief executive Marissa Mayer.

Mayer, a former Google executive, said her efforts are showing signs of turning things around.

"If you look at our core businesses, which we define as search and display, you see an important shift," Mayer said in an earnings call. "Our search revenue grew nine percent year over year, marking our ninth consecutive quarter of growth."

Mayer said Yahoo's mobile service was attracting more than 430 million monthly users. "More than half of Yahoo's total monthly audience joins us on a mobile device," she said.

The logo of online shopping portal Alibaba.com is seen near its office in Hong Kong on February 22, 2012

'Compelling' value

Analyst Brian Pitz at Jefferies suggested the stars are lining up for Mayer and Yahoo, and said the firm is a "compelling" stock to buy.

"The core business is showing slow signs of an inflection, cash flow is being used to buy stock, and the Asian investments are showing strong performance, so we think the stock has compelling risk/reward," Pitz said in a note to clients.

Yahoo's future remains clouded by an uncertain outlook for growth, and it is unclear whether Mayer will be aggressive in areas like video programming or simply conserve capital and buy back shares.

Some say the company has yet to show it has turned a corner, and data this week from comScore showed a new low point in its search engine market share of 10.1 percent.

"Yahoo management emphasized a focus on responsible stewardship of capital, which likely includes buybacks and asset acquisitions going forward," says a note from Brian Wieser at Pivotal research.

Wieser noted that Yahoo has lost ground in advertising to social media and that "with most all of the company's current market value wrapped up in the value of Yahoo's minority stakes in Yahoo Japan as well as Alibaba Group, it is important to consider that Yahoo may be unsuccessful in unlocking full value."

Citation: Alibaba steals Yahoo's thunder ahead of IPO (2014, April 16) retrieved 12 September 2024 from https://phys.org/news/2014-04-alibaba-yahoo-thunder-ipo.html