With IPO, Alibaba looks to unlock new markets

September 18 2014, by Rob Lever

Alibaba's record-setting stock offering due this week gives the Chinese online group a huge war chest that can help its global expansion.

Yet it remains to be seen whether the initial public offering (IPO) will propel Alibaba into challenger for the dominant technology firms like Amazon, Google and eBay, analysts say.

Alibaba this week boosted the price range for what was already expected to be the biggest stock offering on record, and will raise as much as $25.03 billion.

Alibaba would have a market value of $163-$168 billion based on the new price range.

A final offering price was expected Thursday, which would allow the stock to trade Friday, said sources familiar with the deal.

The IPO allows investors to get a piece of the huge Chinese market, but it also will fuel Alibaba's expansion plans.

Watershed moment?

Warwick Business School professor Qing Wang, who researches Chinese enterprises, said the IPO could be a watershed moment.

"Alibaba's IPO could well be the end of US dominance in the world technology sector," Wang said.

"Alibaba's annual growth rate of more than 30 percent shows that the gap between the Chinese companies, Alibaba and Tencent, and US companies is getting ever closer."

Wang said that among the global Internet firms, the biggest in terms of size are now Google, Alibaba, Tencent and Amazon.

The Britain-based academic said Chinese firms like Alibaba needed to be "highly entrepreneurial and market-oriented" and that this will serve them globally.

The research firm PrivCo said Alibaba, set to launch at $66 to $68 a share, is probably worth a lot more—as much as $100 a share or $240 billion—because of its "substantial and largely underreported string of private company stake purchases and acquisitions, which the data shows have only been growing in size and pace in recent years."

Other analysts were skeptical.

"Despite its dominance in China, Alibaba won't be sweeping away US market share in the near future," a Forrester Research report said this week.

"Rather, it will take a major acquisition or a number of years for Alibaba to pull together a platform that could compete with major players like Amazon, Apple, eBay, and Facebook."

Exporting China model?

Trip Chowdhry, analyst at Global Equities Research, said the formula for success in China may not work elsewhere.

"Alibaba has been widely successful in China by imitating successful global companies like Amazon, Google, PayPal and their offerings," Chowdhry said, and noted that the group has also benefited from a "protected Internet business environment" in China.

"For Alibaba to be successful outside China, Alibaba has to out-innovate Amazon, Google, Facebook, Twitter and other global companies—and so far we have not seen innovation from Alibaba.

Alibaba's consumer services are similar to a mix of those offered by US Internet titans eBay, PayPal and Amazon, and it also operates services for wholesalers.

The company earlier this year announced plans for a US marketplace called 11 Main, which is currently in a test phase.

Alibaba Group made a profit of nearly $2 billion on revenue of $2.5 billion in the quarter ending June 30. Revenue rose 46 percent from the same period a year earlier.

The Chinese firm will trade on the New York Stock Exchange under the symbol "BABA."

A US government panel has warned of risks to investors because of a complex corporate structure—Alibaba is registered in the Cayman Islands and controlled by a partnership through a series of shell companies.

Harvard law professor and governance specialist Lucian Bebchuk meanwhile warned that the structure which allows inside minority shareholder control at Alibaba is worrisome.

"With an absolute lock on control and a limited fraction of the equity capital, the Alibaba insiders will have substantial incentives to divert value from Alibaba to other entities," Bebchuk said in a New York Times blog.