

Analyst: Kelvin Li

Main Board Listing – Research

Alibaba.com Limited [Stock Code: 1688] 阿里巴巴網絡有限公司

Joint Global Coordinators and Joint Sponsors : Goldman Sachs (Asia) LLC
Morgan Stanley Asia Ltd
Joint Bookrunners and Joint Lead Manager : Goldman Sachs (Asia) LLC
Morgan Stanley Asia Ltd
Deutsche Bank AG, Hong Kong Branch

Sector : Software & Services

Business : B2B online services

<p>Total share offer: <u>*858,901,000</u> shares (17% of the enlarged share capital)</p> <p>Public Offer: 128,835,500 shares (10%)</p> <p>Placing: 730,065,500 shares (90%)</p> <p><i>*Comprising 227,356,500 New Shares and 631,544,500 Sale Shares</i></p>	<p><u>Business of Alibaba.com</u></p> <p>Based in Hangzhou, China, Alibaba.com is the leading B2B e-commerce company in China. Its international marketplace (www.alibaba.com), which is in English, focuses on global importers and exporters and its China marketplace (www.alibaba.com.cn), which is in Chinese, focuses on suppliers and buyers trading domestically in China.</p> <p>The company provides different online services including active listings, inquiry exchanges, instant messaging, discussion forums and other easy-to-use community features for both suppliers and buyers.</p> <p>Alibaba.com offers basic features and services to all registered users at no charge. It earns the revenue from suppliers who purchase membership packages that provide priority placement of supplier storefronts and listings in the industry directory and search results on the marketplaces. It generates additional revenue by offering value-added services which can increase exposure to potential buyers.</p> <p>As of June 30, 2007, suppliers had established over 2.4 million storefronts on its marketplaces and in the first half of 2007, a monthly average of 2.9 million new listings were added to its marketplaces. There were 255,000 paying members and 24.6 million registered users.</p>
<p>Price: HK\$12.00 – HK\$13.50 per share</p> <p>Market Cap: HK\$60,628 million– HK\$68,207 million</p> <p>Pro forma FY2007E PER: 94.5X – 106.3X</p> <p>Adjusted NTA per share: HK\$0.53 – HK\$0.59</p> <p>Staffing: 4,437 (as of 30th June 2007)</p>	
<p>HK Public Offer period: 23rd October 2007 – 26th October 2007</p> <p>Receiving banks: HSBC Bank of China (Hong Kong) Bank of Communications ICBA (Asia)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 6th November 2007</p>	

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Shareholding Structure after Listing (Assuming the over-allotment option is not exercised)

Alibaba Group*	75.0%
Employees and consultants of the company and Alibaba Group	8.0%
Public Investors	17.0%
	<u>100.0%</u>

Remark: (*) Yahoo! And Softbank (directly and through subsidiaries) had an interest of 39.0% and 29.3% respectively; Jack Ma, the chairman and chief executive officer of Alibaba Group, owned 7.74% of long position and 0.39% of short position of Alibaba Group. The management & employees of Alibaba Group held the remaining shares.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$2,786.0 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$12.75 each, being the midpoint of the indicative price range)

	HK\$ million
For strategic acquisitions and business development	1,671.5
To grow the existing business both in China and internationally	557.5
To purchase computer equipment and development of new technologies	278.5
To fund working capital and other general corporate purposes	278.5

Financial Highlights

	Year ended 31 st December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Turnover	359,435	738,297	1,363,862
Gross profit	296,866	611,788	1,126,237
Operating profit	24,877	95,543	268,229
Attributable profit	73,861	70,454	219,938
Gross margin	82.6%	82.9%	82.6%
Operating margin	6.9%	12.9%	19.7%
Net margin	20.5%	9.5%	16.1%

Revenue Breakdown (% of Total Revenues)

	Year ended 31 st December		
	2004 %	2005 %	2006 %
International marketplace	70.9	71.4	72.7
China marketplace	29.1	28.6	27.3
Total	100.0%	100.0%	100.0%

Strengths/Opportunities

- ✓ **Strong existing and potential customer base** Alibaba.com owned over 255,000 paying members and 24.6 million registered users. Together with its extensive sales force and comprehensive customer service, consisting of over 3,100 employees, Alibaba.com creates a sustainable entry barrier to the potential competitors in B2B e-commerce marketplace.
- ✓ **Solid growth prospect of B2B e-commerce in SME market** In 2006, there were over 42 million SMEs and other private sector companies in China. Compared with the number of Alibaba's paying members, which was less than 0.26 million in mid-2007, the low penetration of its paying customers offers Alibaba.com a substantial growth prospect.



- ✓ **Network effect created by Alibaba's brand name** "Alibaba.com", a leading B2B e-commerce brand name in China and a highly reputable Internet brand name globally, was named as one of the six "best sites for global entrepreneurs" by Fortune in July 2007. The premium brand name helps Alibaba.com attract potential suppliers and buyers to visit its online marketplace, leading to a powerful network effect, which further captures more registered users and paying members.
- ✓ **Opportunities to expand by offering additional services** Given its huge customer base in SME market and its business backed by the parent company, Alibaba Group, it is not surprising that Alibaba.com will offer new value-added services or issue new technologies such as inventory management, logistics or return analytics in the coming future, so as to enhance user experience and drive up ARPC.

Weaknesses/Threats

- × **Aggressive Valuation** Based on the high end of the indicative offer price of HK\$13.50, the corresponding pro forma price/earnings multiple reaches 106.3X. Such aggressive valuation may create a significant downside risk if the actual growth of the company in the coming years is worse than the forecast.
- × **Negative signal implied by selling shareholders** Around 74% of total shares offered are from the existing shareholders. It gives a negative impression to investors that the public listing is a "profit-taking" action of the selling shareholders, rather than a fund-raising event for the company's future growth.
- × **Promising businesses retained by parent company** Alibaba Group, the parent company of Alibaba.com, decided to retain certain promising segments namely Taobao (淘寶網 consumer e-Commerce), Alipay (支付寶 Online payment), Yahoo!China (中國雅虎 Chinese language portal & web search), Alisoft (阿里軟件 Internet-based business software), Koubei (口碑網 local classified listings), Alimama (阿里媽媽 marketplace for web publishers and advertisers). Although the management claimed they want Alibaba.com to focus on the B2B business, the exclusion will definitely limit the growth potential of Alibaba.com and hinder the company from creating synergy effect with the mentioned businesses.

Recommendation: Trading Buy

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