DOWJONES

INVESTOR'S BUSINESS DAILY®

Internet & Technology
Yahoo Asset Alibaba Has Fans, Critics

PETE BARLAS
790 words
23 March 2009
Investor's Business Daily
English

As new CEO Carol Bartz restructures Yahoo, there's at least one thing the company and most analysts agree on: Alibaba is a keeper.

Yahoo (YHOO) owns 40% of Alibaba Group, and selling that stake could help the Web portal fill its coffers at a time of economic strife.

But Alibaba, China's leading e-commerce company, controls Alibaba.com, which is that region's top business-to-business e-commerce service, and Taobao.com, an online auction service that is China's largest consumer e-commerce site.

The global recession isn't sparing China. And Alibaba's stock crumbled 90% from the time it went public on the Hong Kong stock market in November 2007 through 2008. But the stock's been rising this year, and many observers like its outlook. On Thursday, Alibaba reported that its fourth-quarter revenue rose 27% compared with fourth-quarter 2007. Net income fell 57% but rose excluding a large one-time gain in the year earlier quarter.

"Alibaba is a plum," said **Usha Haley**, co-author of "The Chinese Tao of Business, The Logic of Successful Business Strategy," a guide of how to build a successful business in China. "It's a well-run and good company."

That opinion isn't universal, however. The Chinese often prefer to pay in cash rather than online, making e-commerce a stickier proposition there, points out Trip Chowdhry, an analyst for Global Equities Research.

"The (e-commerce) trend is much weaker there than it is here," he said. "So somebody thinking that within a few quarters or a year or two all of a sudden people are going to be comfortable doing credit card transactions over the Internet -- that's not going to happen.

"It's the hope-and-pray strategy."

For now, it appears the prayers are being answered. Profit and sales have been rising by double digits at Alibaba. And it ended the year with 35.6 million registered users, up 40%.

That is substantial growth, Chowdhry says, but he also says that might be as good as it gets.

"You can (get) those 20 million to 40 million people, but after that it becomes very difficult to penetrate," he said. "It's not going to be a mass- market phenomenon in China -- at least not for a generation -- like it is here in the U.S."

Yahoo executives, though, remain behind Alibaba.

In the January conference call with analysts, Blake Jorgensen, Yahoo's outgoing chief financial officer, called the company's offshore holdings "very valuable assets."

But they are less valuable now. As of year-end, Yahoo pegged the value of its offshore assets, including Alibaba Group, at $9.4 billion, or $6.50 a share. That's down from about $14 billion, and 10 a share, a year earlier. Both figures exclude the value of Taobao and other Alibaba privately held businesses, which Yahoo says provide additional value.

Analysts, though, say Alibaba has upside.

They point 15 such figures as Taobao's total transaction volume, jumping 131% in 2008 from 2007. And now Taobao is looking to launch a U.S. version of the service.

It makes sense for Yahoo to keep its investment in Alibaba, given that some of eBay (EBAY) and Google's (GOOG) offshore operations haven't done well, says Youssef Squali, an analyst for Jefferies & Co.

"Alibaba is a very strong franchise and a franchise that has allowed Yahoo to effectively have a footprint where other large U.S. Internet players have failed," he said.

Plus, he says Yahoo would take a loss on the sale of the stake, in this economy. This is one case where Yahoo is better off taking a longer view, he says.

Analysts also note that Yahoo has cash. It ended 2008 with $2.29 billion in cash and equivalents, up from $1.51 billion a year ago.

That's a relatively healthy cash position, so Yahoo doesn't need to conduct any fire sales, says Ryan Jacob, portfolio manager for the Jacob Internet Fund, which owns shares in the company.

"Yahoo isn't desperate for cash; this isn't AIG," he said. "They will never be a majority owner (of Alibaba), but it is an area where to have equity ownership stake is not necessarily a bad thing."

Yahoo invested $1 billion in Alibaba in 2005. As part of the deal, Yahoo gave Alibaba its Yahoo China Internet business, which included its search technology, as well as the Yahoo China Web site and its online ad business.

In exchange, Yahoo received a 39% stake in Alibaba.

It bought another 1% in Alibaba's initial public offering in Hong Kong.

Document INVDAI0020090321e53n0000z

