

Alibaba (NYSE: BABA) Steps Up Global Expansion Strategy by Raising its Stake in Lazada



- 1) Alibaba announced that it will pay almost \$1 billion to increase its stake in leading Southeast Asia e-commerce platform Lazada to 83% from 51%.
- 2) We view the investment as an inevitable move to reinforce the group's global expansion strategy and believe it fits well with Alibaba's phased-in acquisition approach.
- 3) We expect Alibaba to continue to generate synergies by integrating Lazada into its international retail commerce ecosystem and further expand its global market share.

Alibaba announced on June 29 that it will invest approximately \$1 billion to increase its stake in Lazada, Southeast Asia's leading e-commerce platform, from 51% to approximately 83%.

Alibaba will purchase the shares from certain Lazada shareholders at an implied valuation of \$3.15 billion for the company, reflecting an almost 60% increase in value since Alibaba's initial investment in April 2016. The transaction will increase Alibaba's total investment in Lazada to over \$2 billion and make Lazada its biggest overseas investment to date.

Following the transaction, Temasek will remain the only outside shareholder. In our view, the increase in Alibaba's stake will allow it to make decisions and capital injections more quickly.

Strategic Rationale Behind Alibaba's Stake Increase

Alibaba's decision to increase its stake in Lazada demonstrates the company's confidence in the growth prospects of Southeast Asia's e-commerce market, as well as its commitment to the region as part of its global strategy. The company believes Lazada will serve as one of its key cross-border e-commerce platforms.

1) Alibaba's Global Vision: GMV to reach US\$1 trillion by 2019

At the 2017 Alibaba investor day, Executive Chairman Jack Ma outlined his long-term vision for Alibaba and identified globalization as one of the company's major opportunities. Ma expects Alibaba's gross merchandise volume (GMV) to reach US\$1 trillion by 2019. By 2036, Ma expects the company's platform economy to serve 2 billion customers—one-third of the world's total population—and support 10 million profitable businesses.

2) Respond to Intensifying Competition from E-Commerce Players’ Overseas Expansion

We view Alibaba’s announcement to increase its stake in Lazada as a response to other e-commerce players’ recent overseas expansion activities. Chinese e-commerce players have announced plans to go overseas, as the country’s e-commerce growth has shown signs of deceleration.

JD.com, China’s second-largest e-commerce platform and Alibaba’s major competitor, announced on June 21, 2017 that it will invest \$397 million in Farfetch, a global luxury online platform. This follows from JD’s announcement to enter the Thai e-commerce market by the end of 2017, in a move to expand its overseas business beyond Indonesia. Tencent is also a backer of Sea Ltd, which operates online marketplace Shopee, e-wallet AirPay and Garena digital entertainment platform. Shopee, one of Southeast Asia’s e-commerce marketplaces, has achieved over \$3 billion of annualized GMV since its launch in 2015.

3) A Phased-In Approach Which Minimizes Integration Risk

Alibaba prefers a phased-in approach instead of full acquisitions, according to the presentation Executive Vice Chairman Joe Tsai gave during Alibaba’s investor day 2017. The group gradually increases its stake in a target company through progressive consecutive investments, as demonstrated by its investments in UCWeb and Lazada.

The aim of the phased-in approach to completing the acquisition is to minimize capital or integration risk. We believe the gradual investment approach allows the company to align its incentives with the target’s management team, and to give the group adequate time to plan for the eventual integration and generate strategic synergies.

Figure 1. Strategic Goals of M&A and Investments

STRATEGIC GOALS	UC Web	高德地图 amap.com AutoNavi	YOUKU	LAZADA Lazada Group paytm	日日顺 RRS.com 日日顺集团	CAI NIAO	银泰商业 Intime Retail	联华超市 Lianhua Supermarket 三江 Sanjiang	Suning 苏宁
Improve Customer Experience	✓	✓	✓	✓	✓	✓	✓	✓	✓
User Acquisition and New User Profiles	✓	✓	✓	✓					
Geography Expansion	✓			✓		✓			
New Retail					✓	✓	✓	✓	✓

Source: Company data

Figure 2. Strategic Uses of Capital

COMPANY	TYPE OF INVESTMENT	TOTAL INVESTMENT	YEAR OF LATEST INVESTMENT	STRATEGIC AREAS
	Acquisition (98%)	\$5.5B	FY17	Digital Media and Entertainment
	Investment (20%)	\$2.0B	FY17	Electronics category
	Investment (47%)	\$1.0B	FY16	Logistics
  	Acquisition (74%) and Investments (35%, 18%)	\$2.7B	FY18	New Retail
 	Investments (38% and 23%)	\$1.6B	FY18	Local O2O services
	Investment (31%)	\$1.2B	FY17	Social media
  	Acquisition (54%) and Investments (9%, 36%)	\$1.5B	FY17	Southeast Asia and India
		\$15.5B		

Source: Company data



FLASH REPORT

Performance of Alibaba's International Commerce Retail Business

The inclusion of Lazada boosted the revenue of Alibaba's International Commerce Retail Business. Alibaba's international commerce retail business reported fiscal year 2017 revenues of ¥7.34 billion, reflecting an increase of 233% year over year. This was mainly driven by the consolidation of Lazada and the increase in revenues generated from AliExpress.

Alibaba-Lazada Cooperation

Lazada has been launching partnerships with Alibaba's Taobao to broaden its service offering to consumers since the initial acquisition in 2016. Lazada introduced the Taobao Collection program to consumers in Singapore and Malaysia. Taobao Collection makes available to Lazada's customers more than 4 million products displayed on Taobao. The company plans to expand the offering to the rest of Southeast Asia in the near term.

Outlook

We expect Alibaba to continue to leverage its investment and partnership with Lazada to cement its market share in the relatively fragmented Southeast Asia online retail market, and to support its globalization strategy.



FLASH REPORT

Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Esme Pau
Analyst

Zane Yang
Research Assistant

Hong Kong:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:

242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:

1359 Broadway, 18th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com