Weekly Report

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Microeconomic Analysis

Alibaba: From largest IPO in history to a bear market in a matter of months

By Jonathan Loughran

Given all of the pre-IPO hype and huge expectations for Alibaba Group, the stock has been a major disappointment for investors. Whilst there have been opportunities to profit for traders with shorter investment horizons, long-term buy and hold investors have experienced share price depreciation. Only those institutional and established investors who bought in at the IPO price of $68 in September are staring at a profit; others that had to wait until the stock reached $93 as it floated on the NYSE before getting in on the action are less fortunate as the stock has dropped down to $85.68. The share price soared to its highest point of $119 on the 10th November (the day before Alibaba's record-breaking Single's Day scheme), but since then it has seen a steady decline.

The Chinese behemoth is responsible for over 80% of e-commerce in its country of origin and with only half of China's 1.4 billion strong population being recognised as having an online presence, there is a huge opportunity for the company to grow even further. The group is branching out into different industries too; for example it has an established online payment escrow service called Alipay, a cloud computing division and is striking up a partnership with US peer-to-peer lending company Lending Club to provide financing to US businesses buying from Chinese suppliers. These operations however pale in comparison to its flagship businesses Alibaba.com (business-to-business e-commerce), Taobao (consumer-to-consumer e-commerce that brings in over twice the revenue that Amazon does alone) and Tmall (business-to-consumer e-commerce) in terms of generating revenue.

The stock price suffered a 9% drop last Thursday as revenue figures failed to meet analyst estimates for Q4. This is despite the top line coming in at $4.22bn, which was a 40% increase on the previous period. As well as this earnings per share (EPS) excluding extraordinary items came in at $0.81, which exceeded the average forecast of $0.75. As Alibaba demonstrates, companies with such high expectations placed upon them can see their share prices suffer even when they are experiencing exceptional growth.

A key reason for the decline is the current ongoing disputes with Chinese regulatory authorities who are unhappy with the number of counterfeit goods that are being advertised and sold through Alibaba's platforms. A transcript that supposedly contained quotes from the director of the Chinese business regulator SAIC emerged with comments including that it is "normal" to penalise Alibaba as "their staff individually make thousands more than our team combined". This must be deeply concerning for Alibaba investors and highlights the risks of investing in firms that operate primarily in countries that have questionable regulatory standards. Additionally in the US, Alibaba Group is being sued by law firm Robbins Geller Rudman & Dowd LLP for "using false information regarding the soundness of its business operations and the strength of its financial prospects prior to its listing on the NYSE".

It will be interesting to see where the stock goes from here. A few months ago some analysts were tipping the stock to hit $150, which would represent a very attractive upside of 75% based on the current market price. Investors will certainly hope the company can turn the corner sooner rather than later.

Macroeconomic Analysis

Macroeconomic Analysis

Can Japan teach the Eurozone a lesson?

By Sagar Pandit

Since December 2012, Shinzō Abe has been firing his "three arrows" of fiscal stimulus, monetary easing and structural reforms in order to revive the faltering Japanese economy. Abenomics has been effective in producing monetary regime change, and this has lead to an increase in output; however considerable work is still left to be carried out. Japan currently faces increases in prices but no real wage increases making it difficult to stimulate aggregate demand. Similarly in the Eurozone, high levels of debt and the increases in quantitative easing (QE) are just some of the factors affecting a sustainable growth.

At the World Economic Forum in Davos, Antony Jenkins, CEO of Barclays said, "QE is an important part of the solution… Europe can learn from Japan's Three Arrows". Abe's third arrow is supply-side reforms, where promoting enterprise and pushing for an effective labour market is important to get the Eurozone working again. The prolonged period of macroeconomic GDP growth at 2.5%-3% creates pressures on local economies and thus reforms are required. Supply-side reforms are sometimes neglected; however they offer sustainable economic improvement especially in a sustainable rise in wealth. However, speaking in Cambridge, Vitor Constâncio, the ECB's vice-president, attacked what he called a "misguided view" that the Eurozone's economic problems were solely the result of supply-side problems. He insisted that the Eurozone needed to "raise aggregate demand" to escape the risk of a debt trap.

Thomas Piketty, a French economist, corroborates the view that Europe should learn from Japan, that monetary policy alone cannot prevent the economy entering deflation. The trouble with extensive quantitative easing is that it can create bubbles rather than increasing consumer price inflation and increasing growth. Consumer prices in the Euro-area fell to 0.6% in January from the previous year. In another speech, Piketty also mentions that the economic growth is very poor in Europe and blames much of this due to austerity. "We tried to reduce the public deficit too fast. So we've killed growth. And now we have a little bit the same problem as Japan with deflation." Until consumers get more confident, it will be hard to create a cycle of positive inflation, where rising spending provides the fuel for wage increases and thus more spending.

In the UK and US, quantitative easing was favourable as the economies are much more flexible, allowing them to progress out of a recession. In contrast, Abe's use of quantitative easing has failed to boost its economy continuously. The policies used by the UK and US such as shifting away from corporation tax and into indirect tax as well as greater commitment to boost employability has not yet been seen in Japan nor in continental Europe. Combine quantitative easing and the start of supply-side reform and European equity markets will be among the strongest performers of 2015.

Yemen

By Alexander Galt

Yemen's al-Houthi rebels, who stormed the government headquarters on Jan 20th demanding more political representation, have announced the establishment of a five-member presidential council to serve a 551-member transitional national council and replace the recently resigned government. The group has said the council would govern for a two-year period and that revolutionary committees would be in charge of forming a new parliament with 551 members. Some Yemeni lawmakers and military officials were reportedly present during the announcement, suggesting that the al-Houthis have the blessing of at least some political factions.

Whilst on the face of it the announcement may seem unilateral, in actual fact the council is likely to be fairly inclusive, albeit being led by a member of the al-Houthis. However it is unclear whether the al-Houthis sincerely intend to be any more inclusive than former President Abd Rabboh Mansour Hadi. Even if they are sincere, it is also unclear as to whether the opposition will play along. Opposition figure Tawakkol Karman's Peaceful Revolutionary Youth Council has rejected the al-Houthis' announcement, as have the tribal alliance in Marib and the Southern Movement, who said they will continue to operate as they have done so since Hadi resigned. Other notable political groups have yet to weigh in at all. Those groups include former President Ali Abdullah Saleh and the General People's Congress, the factions of the al-Islah Islamist party that are aligned with Karman's, and several important tribal leaders.

For its part, the United Nations does not seem too enthused about the announcement. But there is still the possibility that it could unify at least some of Yemen's political actors (the conservative Salafists and al Qaeda in the Arabian Peninsula will never endorse it.) If it can bring together the al-Houthis of the north and garner significant support from the south, it may be bring the country temporary relief.

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