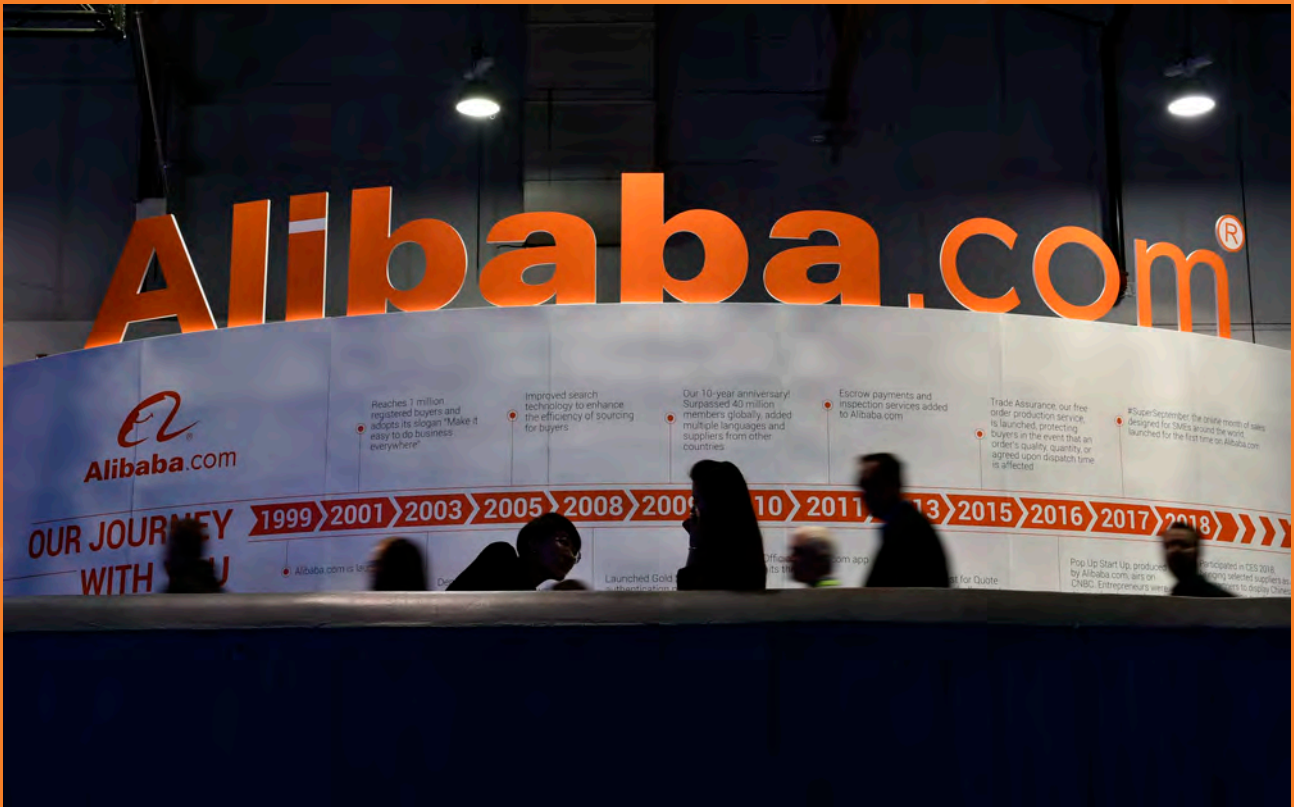




THE FUTURE OF ALIBABA & THE HONG KONG IPO



SPECIAL REPORT

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It is billed as the biggest IPO'S on the Hong Kong Stock Exchange. The Chinese internet giant, will be going public in September, 5 years on from its mega listing on the New York Stock Exchange.

What do they do?



Alibaba may not be a household name in the UK, but in China and USA it simply dominates e-commerce.



Their websites handle an astonishing 80% of all online retail sales in China, receiving more than 150 million visitors a day.



To put that in to perspective, its online marketplaces have combined transaction volumes that are more than triple that of eBay and more than double that of Amazon.

Like most of today's tech giants, Alibaba began with a simple idea and the vision and passion of a single entrepreneur.

Quick Facts:

Founded: 1998	Employees: 101,958
Annual orders: 14 billion	Annual value of goods sold on marketplaces: 475 billion
Annual active buyers: 636 million	Revenue: \$5.66 billion (9 months to 31 Dec 18)
Average annual orders per active buyer: 49	Net income: £2.85 billion (9 months to 31 Dec)
Active Mobile users: 120 million	



HOW WAS ALIBABA BORN?

In 1995, Jack Ma, a Chinese English teacher, headed to Seattle as an interpreter for a trade delegation. While there, a friend showed him the internet for the first time.

After doing some basic searches, he discovered that the internet had virtually no information about China. He decided to launch an online directory of Chinese companies (like an online Yellow Pages) called Chinapages.com.

A year later, China Telecom saw its potential and persuaded Ma to form a joint venture with them. But the deal gave China Telecom five board seats to Ma's two, and Ma soon had little say in how the business was run. He eventually got fed up and left.

In 1999, he came up with a new business idea: **a website that linked Chinese manufacturers to international buyers (mainly in the US).**

He then gathered 18 potential investors in his one-room apartment in the eastern city of Hangzhou and pitched them his idea for 2 hours. He raised \$60,000 and Alibaba was born.

THE IDEA BEHIND THE NAME

Ma chose Alibaba as a name because "I wanted to have a global company, so I chose a global name. Alibaba is easy to spell, and people everywhere associate that with Open, Sesame, the command that Ali Baba used to open doors to hidden treasures in One Thousand and One Nights."

EARLY BEGINNINGS

Given the limited money available, Alibaba started out slowly, operating out of Ma's apartment. However expansion and development accelerated following a combined investment of \$25 million from Goldman Sachs, Softbank and Fidelity over the course of 1999/2000.

PROFIT TIMELINES

Alibaba was able to achieve profitability by December 2001, around two years after being launched.

That's quite an achievement when you look at the history of most of the big US tech names, some of which are still struggling to break-even today (despite being valued in the billions).

OTHER VENTURES IN ALIBABA

Following on from its success in its business-to business (B2B) platform, in 2003 Alibaba launched Taobao (which means searching for treasure), a consumer e-commerce platform.

This part of Alibaba is similar to eBay as it enables members of the public to sell things to each other. It's essentially an online bazaar where you can buy just about anything. Alibaba, just acts as a middleman, matching buyers and sellers. And like eBay, Alibaba makes its money from charging sellers a fee.

The more prominent the placement, the higher the fee.

It's also got a shopping search and comparison engine, eTao, that's like Google and an online payment system called AliPay, which is the equivalent of PayPal.

MORE VENTURES IN ALIBABA

In 2008, Alibaba then launched Tmall, an online shopping mall, which allows companies to sell goods directly to the public. The site tends to sell branded goods and is even built like a mall, with departments on different "floors" of the website.

While this part of the business is likened to Amazon, it's got a key difference. Alibaba doesn't have huge warehouses of stock.

The companies that sell the goods must fulfil the orders, so Alibaba doesn't have to deal with the logistical costs and complexities.

IN SUMMARY

Alibaba is more like an online landlord, collecting rent from anyone that wants to sell goods through its sites.

ALIBABA CLOUD COMPUTING

Another part of the business worth highlighting is Alibaba Cloud Computing. The division made \$1.15 billion in the latest results (9 months to 28 May, 2019), which is only around 3% of Alibaba's total profit. But its fast growing and its potential is huge.

Alibaba already has more than 1,000,000 cloud computing customers, the majority of which are sellers on its sites, who are increasingly reliant on Alibaba to provide the infrastructure (computer power and data storage) to operate their businesses.

In a nutshell, Alibaba is the dominant global player in online commerce.

It's like Amazon, eBay, PayPal and Google all rolled into one.



How do they make money?

About 84% of Alibaba's revenue comes from its China-facing websites, particularly its Taobao and Tmall sites, according to the confidential IPO prospectus.

The remainder of its revenue comes from international commerce accounts and cloud-computing/internet infrastructure.

In basic terms, the main source of Alibaba's revenue is charging sellers fees to acquire user traffic, as well as from commissions based on completed sales transactions settled through Alipay.

From this you can assume that Alibaba is largely a volumes business. The more transactions, the more money it makes.

The company stated that on its marketplace in 2018, goods sold was worth

\$448B

This is more than Amazon and eBay put together.

This is up from

\$248B

recorded in 2017 and a 58% increase.

Alibaba believes there is plenty more growth to come as it rides the wave of two mega- trends.

THE FIRST OF THESE MEGA-TRENDS IS THE RELENTLESS GROWTH OF THE CHINESE ECONOMY.

It's already a well-known fact that the Chinese economy is growing rapidly – quadruple the rate of most major Western countries.

As China develops and personal wealth rises, consumption is expected to play a bigger role in the overall economy.

Consumption as a % of GDP is only 76.2% in China compared to 66.8% in the US and 64% in the UK.

So over time, the average Chinese consumer is expected to spend a lot more money, which is obviously great news for Alibaba.

THE SECOND BIG MACRO TREND IS THE FORECAST GROWTH IN CHINESE ONLINE SHOPPING.

Online shopping in China represents only 20.1% of total consumption.

This should rise considerably as more Chinese consumers begin using the internet. Internet penetration is very low in China compared to Western countries. It presently stands at 54.3% in China, compared to 83.2% in the US and 88.9% in the UK.

By 2020, **online retail sales in China are forecast to reach \$420-\$650 billion, as much as the United States, Japanese, UK, German and French markets combined**, according to a recent analysis by McKinsey Global Institute.

In short, the rise of the Chinese consumer should play directly into the hands of Alibaba, China's dominant e-commerce business.

Going mobile fast

One of the obstacles facing many tech stocks is the transition from the PC era to the mobile era. In other words, internet traffic is moving from computers to mobile phones and tablets.



Alibaba is already proving its business model is thriving in the mobile age.

In the prospectus it reported that in the last three months of 2018,

26.4%

of the value of goods sold on its sites, came from mobile users.

That's over triple the

7.4%

recorded at the end of 2018.

The company is also maintaining its dominant position, accounting for

82.4%

of all mobile e-commerce sales in China.

This demonstrates that competitors are struggling to make any inroads on Alibaba's dominant position.

Growth Potential for 2019

We have seen the stock increase

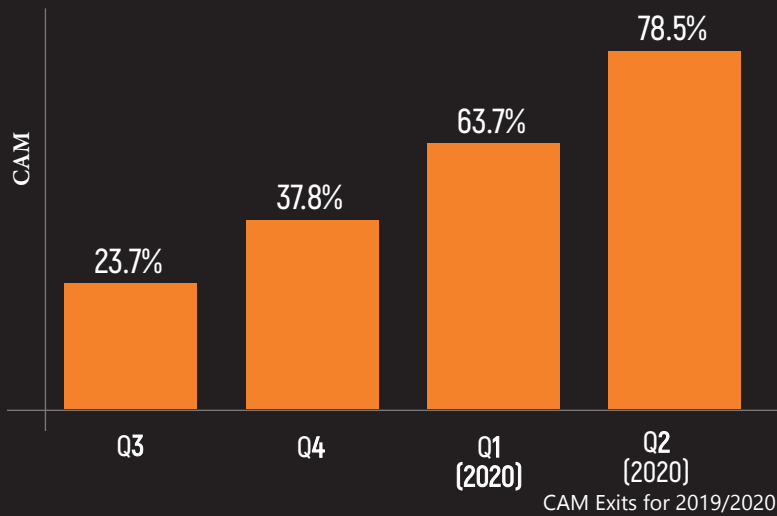
25%

throughout this year and there is plenty more potential for its Hong Kong IPO.



We have included a profit projection for the next four quarters of 2019/2020.

Here at Alpha Apex Global Management we believe price and timing are key to the entry of any investment vehicle and the key to any successful investment are clear exit strategies.



We believe Alibaba is a unique high- growth company. It has massive scale, enormous market share and is raking in extraordinary profits.

What’s more, it has considerable growth opportunities as the dominant player in China’s huge and very fast growing e-commerce market. The company has a forecast within 12-18 months that it will become the global leader in not only the e-commerce sector but a media and entertainment company of the future.

ABOUT US

Alpha Apex Global Limited is a full-service Venture Capital Firm with its head office in Hong Kong.

We have exclusive relationships with many large international investment firms. We also have strong affiliations with major underwriters.

Our reach means we attract a broad range of clients throughout Europe, Asia, and the US. We advise our international clients on domestic and global Initial Public Offerings and have extensive experience advising on blue-chip investment vehicles.

With more than 140 partners and many years of experience within the financial industry, we assist a wide range of international clients, advising across the full and diverse range of financial products through private funding rounds and ultimate exit, whether by M&A or IPO. We are active in the private equity market, advising equity investors and fund managers.

Our venture capital & private equity practice is supported by our leading intellectual property, technology, commercial, regulatory, tax and equity capital markets practices.

Alpha Apex Global Limited has a unique set of design capabilities to construct and manage investment solutions through researchers and analysts constantly scouring the market for the right opportunities on your behalf. This research is used to develop portfolios that are sophisticated and combine the skills of diverse investment managers among the very best in their related field.

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