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Harding and Company – BABA - 3 Reasons Alibaba Stock Could Rise

The Chinese internet giant's shares are unlikely to stay at these levels for long.

BABA - Stock Expected to Rise Over Coming Weeks

MANHATTAN, NEW YORK, UNITED STATES, October 22, 2018 /EINPresswire.com/ -- After reaching an all-time high of $211.70 in June, Alibaba shares have shed nearly a third of their value as fears of an escalating trade war between China and the U.S. rattled investors.

Yet at this point, the sell-off appears overdone. Here are three reasons why the Chinese internet titan's stock price could rebound to new all-time highs before too long.

A massive and rapidly expanding core market

China's e-commerce market will grow to $1.8 trillion by 2022, according to analysts at H&C, up from $1.1 trillion this year. With only 38% of China's 1.4 billion people currently making purchases online, this massive market is set to grow briskly for many years to come.

Alibaba is positioned to benefit from this growth perhaps more than any other business. The company dominates e-commerce in China, with a greater-than-50% share. Alibaba has built a formidable presence in both the business-to-consumer (B2C) and consumer-to-consumer (C2C) segments through its popular Tmall and Taobao marketplaces.

Alibaba is also making aggressive moves to capture a larger share of China's offline retail industry. The company's "New Retail" initiatives include Hema supermarkets, Intime department stores, and a host of partnerships with other brick-and-mortar retailers. This area of Alibaba's business is booming; New Retail helped drive a 344% year-over-year increase in "other revenue" to more than $1 billion in Alibaba's fiscal 2019 first quarter.

Better still, Alibaba expects the success of these projects to entice many more brick-and-mortar retailers to partner with it in the coming years. Alibaba offers its retail partner’s technology upgrades such as data analytics, digital payment systems, and omnichannel capabilities. In return, these businesses become part of Alibaba's ever-expanding ecosystem, and Alibaba often acquires sizable investment stakes in these companies.

Best of all, New Retail helps to expand Alibaba's total addressable market to include nearly all of China's retail economy, in which sales are projected to reach $7.2 trillion by 2020, according to the Ministry of Commerce. So despite its current $40 billion annual revenue base, Alibaba has tremendous room for growth ahead.

Intriguing international growth opportunities

Not content to dominate just its home market, Alibaba is expanding its operations in several key international regions.

For example, Alibaba has invested $4 billion in Lazada, a Singapore-based online mall that's given it a strong foothold in the high-growth Southeast Asia market. Alibaba also recently partnered with Russian tech giant Mail.ru to launch a new e-commerce joint venture that reportedly has the support of the Kremlin, giving it a powerful advantage over rival platforms.

Alibaba's global ambitions are already bearing fruit: International commerce retail revenue surged 64% to $652 million in the first quarter.

During a recent interview, longtime Alibaba executive Ming Zeng explained some of the reasoning behind the company's international efforts:

We are spending globally because of our mission. We want to build a global online marketplace that can really link consumer, producer, and service providers all over the world. And we are pushing the digital economy for the whole world to go forward.

With global expansion at the core of its mission, investors should expect Alibaba to continue to ramp up its investments in international markets in the coming years. This should help to augment Alibaba's robust growth in China and boost the stock's upside potential for long-term shareholders.

A bargain price

Despite its bright future, Alibaba is now trading at less than 20 times forward earnings estimates after its 30% decline in recent months. That's an attractive price to pay for a dominant business that's projected to grow its revenue and earnings per share by 39% and 36%, respectively, in the next year.

Alibaba is an even better bargain when you account for its 33% stake in Ant Financial, which operates the No. 1 mobile payments platform in China and recently raised $14 billion in funding at a $150 billion valuation.
As such, the recent pullback in Alibaba stock is giving long-term investors a chance to scoop up shares of this elite business on the cheap. But this opportunity may not last long; I expect Alibaba's shares will rise to new all-time highs as the market eventually comes to appreciate the immense potential of its New Retail and global expansion initiatives.

Harding and Company have a STRONG BUY rating on Alibaba.

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