Alibaba Stock: Buy the Bounce?

Description

Alibaba Group (NYSE:BABA) has been one of the most talked-about stocks of 2021. The stock has been falling for the most part, but investors are eager to figure out when to buy-in. Charlie Munger made waves by buying the stock earlier this year. Since then, BABA has been the source of enormous controversy, with some seeing it as a rock-bottom value play, and others viewing it as too risky to touch.

Just recently, Charlie Munger gave BABA yet another got a shot in the arm, as the *Daily Journal* 13-F filings revealed that he had doubled down on his position. Since then, the stock has rallied 20%. News that Munger had bought BABA in the $140 range re-invigorated BABA bulls, who began buying the stock in high volume. In this article, I will explore the reasons why BABA stock is rising and ask whether it's worth buying the bounce.

Why BABA stock is rising

A number of possible reasons could explain why Alibaba stock has been rising in the past weeks. As mentioned, the Charlie Munger dip buy is one plausible explanation. Others include:

- **Upcoming earnings.** Alibaba is releasing earnings on November 4 and investors could be looking to get into BABA stock before a surprise beat.
- **Deep value.** At its lowest prices this year, Alibaba was getting incredibly cheap. At one point it traded for just 16 times earnings and three times sales. Yet it was growing revenue at 40% year over year. This combination of growth and value in one stock is pretty rare, so perhaps investors bought sensing deep value.
- **Easing concern over Chinese risks.** One thing driving the decline in BABA stock was concern over risks in China. Earlier in the year, the Chinese Communist Party (CCP) was administering a crackdown on China's top tech stocks. It hit BABA hard. However, we haven't heard any news on that front in some time, which may have contributed to investors chilling out.

How I played the dip and bounce

For my part, I played the BABA dip and not the bounce. I started buying at $209 and averaged down to about $168. So, BABA stock is currently near the cheapest price I bought it at. If the upcoming earnings are good, I expect BABA to move closer and closer to my average cost, and maybe surpass it. We'll have to wait and see.

Similar Canadian stocks?

If you're a Canadian investor, you might be wondering whether there are Canadian stocks that offer BABA's rare combination of growth and value. Sure, you can always buy BABA itself on the **NYSE**, but there's nothing like supporting your own country.

So, does any BABA-like Canadian opportunity exist?

Well, yes and no.

On the one hand, there aren't really any Canadian *tech* plays that offer a great mix of growth and value. Most big Canadian tech players are expensive, and that's not changing any time soon.

On the one hand, there is a Canadian sector that offers a decent combination of growth and value:

Banking.

Canadian bank stocks like the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) currently trade at low multiples, yet their earnings are growing at 50% or more. Last year's COVID-19 recession hit the banks hard, sending them to rock-bottom prices. This year, their earnings are popping. TD Bank grew earnings at 56% in its most recent quarter. It was a similar story for the other big banks. Today TD trades at just 10 times earnings despite the high growth. It's definitely a Canadian value play worth considering.

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