Amazon (NASDAQ:AMZN) vs. Alibaba (NYSE:BABA): Which Is Better?

Description

Amazon (NASDAQ:AMZN) is a legendary stock. After crashing 90% in the 2001/2001 bear market, it went on to rise 40,000%, making many investors wealthy in the process. The company is best known for its popular online store, which sells almost everything a person could want. It also has a cloud service company called Amazon Web Services (AWS), which has been driving an ever-growing share of the company's total profit.

In a recent article, I'd noted that Amazon Web Services alone is arguably enough to justify an investment in Amazon. The segment is growing at 37% annually and is the most consistently profitable of Amazon's businesses. However, Amazon stock has one glaring downside: it's expensive. At today's prices, AMZN trades at 118 times earnings, which means it would take 118 years of last year's profit to fully pay off investors. On top of that, its sales are only growing 9%, so it's not the type of ultra-fast grower that usually trades at a high earnings multiple.

It's for this reason that many people have gotten interested in **Alibaba Group Holding** (NYSE:BABA) stock. It's a Chinese e-commerce company that's similar to Amazon, only way cheaper. At today's prices, BABA trades at just 12.5 times adjusted earnings (meaning profit minus unusual non-recurring costs). It's far cheaper than Amazon, yet its growth is comparable. The question is, which stock is a better buy?

Valuation

When it comes to valuation, there is no contest: Alibaba is far cheaper than Amazon.

Alibaba today trades at 12.5 times earnings vs. 118 for Amazon. Additionally, Alibaba trades at 11.4 times cash flow and 1.5 times book value (i.e., assets minus liabilities). The same multiples for Amazon are 38 and 10.3, respectively. There's no question: Alibaba is the better "value" stock. But is there some factor that could make Amazon more valuable than Alibaba, despite its high price tag?

Growth

Often, an expensive stock is thought of as “worth the price” if it has high growth and profit margins. High growth means that the company is becoming bigger over time. High margins mean that the company passes on profit to shareholders. Alibaba beats Amazon on both scores.

Over the last 12 months, Alibaba has grown its sales at 10.8%, while Amazon has grown them at 9.6%. Meanwhile, Alibaba’s 4.5% profit margin beats Amazon’s 2.6% margin. So, growth and profitability don’t explain Amazon’s premium to Alibaba.

Risks

Having explored Amazon and Alibaba’s valuations, growth, and profitability, we can now look at risk factors. It’s here that we finally start finding things that justify Amazon’s premium price tag.

Alibaba faces a lot more political risk than Amazon does. In 2021, China cracked down on its own tech companies, fining Alibaba $2.8 billion and forcing it to accept competitors’ payment apps. Today, it is at risk of being removed from the New York Stock Exchange, because U.S. regulators suspect it doesn’t adhere to U.S. accounting standards.

Amazon is not exposed to any of these risks, so that justifies some kind of premium. In my opinion, the premium is too high, which is why I hold BABA and not AMZN. However, the risks are certainly greater in the case of the former.

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