Here’s Why I Just Bought Alibaba Stock

Description

Last month, I purchased some shares in **Alibaba Group** (NYSE:BABA) near their all-time low price of $63. It wasn’t my first time buying the stock, but it was the lowest price I ever got in at. In this article, I will explore why I bought Alibaba stock despite it declining in price prior to my purchase.

Great fundamentals

One of the things that BABA stock has going for it is great fundamentals. In financial terms, “fundamentals” means the quality of the business underneath the stock. If a company is profitable, growing, and has a durable competitive advantage, then it has good fundamentals.

Alibaba has all of these characteristics. It’s China’s biggest and most well-known e-commerce company, so it has scale advantages compared with competitors. It had strong growth in its most recent quarter; revenue was up 3%, operating profit 68%, and free cash flow (a kind of pure-cash earnings metric) 61%. Finally, it’s highly profitable, with free cash flow and adjusted earnings both coming in at around 17% of revenue. This means that each dollar of revenue generated 17 cents of profit – a pretty healthy profit margin.

China is economically re-opening

In the previous section, I showed that Alibaba has strong growth in earnings and cash flows. That’s a good thing, but how do we know it’s going to continue? The past means nothing if there’s not a plausible reason to believe the trend will continue into the future. Fortunately, in Alibaba’s case, there is a good reason to believe that it will. China, Alibaba’s home country, is finally re-opening after three years of strict zero-COVID policies. China’s COVID policies, which involved stricter lockdowns than those ever seen in the West, had been holding back economic growth for years. Several Alibaba earnings releases explicitly said that COVID outbreaks interfered with the company’s results. Now that China is turning a corner on COVID, Alibaba will see a new opportunity to grow and thrive.

A similar Canadian stock worth considering

If you find my analysis of Alibaba compelling but aren't quite ready to invest in an unfamiliar foreign market like China, one strategy you could employ is to look for similar Canadian stocks. There's no shortage of Canadian tech stocks out there, and at least one of them is similar to Alibaba in some ways: **Shopify Inc** (TSX:SHOP).

Shopify is a Canadian e-commerce company that provides people with website and payment tools to run their own online stores. With Shopify, small businesses can sign up and have their own online store running in minutes. Unlike Alibaba, Shopify does not run a "one-size-fits-all" store that people use to search for goods. Instead, it provides people with the tools to build their own. What the two companies have in common is helping people sell goods online. They just approach it in different ways.

Whatever Shopify is doing, it's working pretty well. In its most quarter, revenue increased by 22% compared to the same quarter a year before. The growth rate accelerated compared to the prior quarter. Technically, SHOP lost money in the third quarter, but that was in no small part to the value of its investments declining. Operating performance was pretty good. Shopify is a very expensive stock, though, so be on the lookout for volatility if you choose to buy it. The market is still jittery and big losses are possible.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BABA (Alibaba Group Holding Limited)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. cleona

Category

1. Investing

Date
2025/08/18
Date Created
2022/12/15
Author
andrewbutton