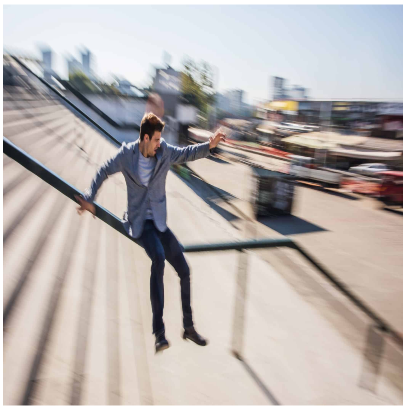

Why I Own Alibaba Stock

Description

Alibaba Group Holding (NYSE:BABA) stock is one of the most controversial in the world right now. Unquestionably cheap (it trades at just 11.2 times cash flow), the e-commerce leader is embroiled in a number of controversies. Basically, if Alibaba were valued like a U.S. or Canadian tech stock of similar size, it would be a lot more expensive than it is. The company is gigantic, doing $120 billion a year in sales – most North American companies of that size are worth US$500 billion or more in the markets. But because it's a Chinese stock, and Chinese stocks are out of favour right now, Alibaba's market cap is only US$236 billion.

The source of BABA stock's cheapness is the perceived political risk it faces. The company was fined $2.8 billion in China's 2021 tech crackdown. Its sales growth slowed down due to China's zero-COVID policies. Founder Jack Ma disappeared for a year and later resurfaced in Tokyo, in a move that seemed calculated to put distance between him and China's ruling Communist Party. Basically, this stock looks quite risky – which is precisely why I consider it a good opportunity.

Cheap valuation

One of the things Alibaba has going for it is a dirt-cheap valuation. As mentioned earlier, it trades at just 11.2 times cash flow. Other valuation metrics include:

- Adjusted P/E: 12.
- Price/sales: 2.
- Price-to-book: 1.8.

By the standards of tech stocks, these are all incredibly cheap multiples. Of course, people think that the stock deserves to be cheap because of all the risks mentioned above. However, I'll show in the next section that it is a solid company despite all of the risks that it is exposed to.

Great fundamentals

What immediately jumps out at you when you look at Alibaba's financials is its strong fundamentals. Among other things, it enjoys:

- Positive revenue growth.
- $5 billion in quarterly free cash flow.
- A 17% profit margin.
- A variety of different business segments (a factor sometimes called 'operational diversification').

Despite all the risks investors are concerned about, Alibaba is nevertheless doing $5 billion per quarter in cash flows and profits. That speaks to a very strong company.

A similar TSX stock

If you're looking for a Canadian stock that's similar to Alibaba, you could consider **Shopify Inc** (TSX:SHOP). Like Alibaba, it's an e-commerce company that drives a very high percentage of online sales globally. Also like Alibaba, its shares have been beaten down severely this year. Since the start of the year, Shopify stock has fallen 71.3%. Yet, its revenue is still growing at 22% year over year. This speaks to a company whose shares have gotten beaten down while the company itself has become more valuable.

Now, there's a reason for this: at the start of the year, SHOP was unbelievably expensive. At its highest ever levels, the stock traded at more than 60 times sales. To put that in perspective, if you were to buy a local business for 60 times sales, you'd be paying all of that company's annual sales for 60 years in order to own it. The chance of such an investment ever paying off would be slim to none.

Large, well-funded tech companies aren't like local retailers. They often enjoy superior growth, and Shopify historically has: in 2020, it grew its sales by 86% compared to the prior year. These days, SHOP is growing a little more slowly, but it's cheaper now, too. Maybe it's time to take a look at it.

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1. Investing
2. Tech Stocks

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2. NYSE:SHOP (Shopify Inc.)
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