Better e-Commerce Buy – Shopify vs Alibaba

Description

Shopify (TSX:SHOP) and **Alibaba** (NYSE:BABA) are the biggest tech companies in Canada and China, respectively. Shopify is an e-commerce company that sells a platform on which people host online stores. Alibaba is also an e-commerce company, with an **Amazon**-like "one stop shop" business model, and an attached cloud business.

Both Shopify and Alibaba got pummelled last year. SHOP fell after a string of earnings releases disappointed investors, while BABA plummeted due to the fallout from China's Zero COVID policy. Both stocks are now cheaper than they were in the past. In this article, I'll compare them side by side, so you can decide which is the better buy.

The case for Shopify

The case for picking Shopify over Alibaba rests on historical growth. Since it went public, Shopify has grown its sales by about 40% per year on average. In recent quarters, the growth has been slower than that (around 20%), but still faster than Alibaba's. In the last 12 months, Alibaba's revenue only grew 5.5%. So Shopify has far more rapid growth than Alibaba does. With that said, Shopify's revenue growth has historically been about the same as Alibaba's – these last two years have been somewhat of an anomaly for BABA, as I'll show in the section below.

The case for Alibaba

The case for Alibaba rests on profitability and valuation.

There can be no doubt that Alibaba is more profitable than Shopify is. In its most recent quarter, it recorded positive adjusted earnings and free cash flow – SHOP's earnings in the same period were negative. If we look further back, BABA's profit advantage is even greater. Alibaba has been profitable for most of the last decade. SHOP only briefly achieved profits in 2020 and 2021, and then lost them.

It's a similar story for valuation. At today's prices, BABA trades at just 14.4 times adjusted earnings, 2.4

times sales, 2 times book value, and 13 times operating cash flow. It's a pretty inexpensive stock.

Of course, BABA doesn't have SHOP's growth. That's part of why it's valued more modestly. However, some background information is needed here.

China's economy has been artificially restrained by government policy for much of the last three years. During the COVID-19 pandemic, China followed a policy known as "Zero-COVID," in which strict lockdowns were implemented in response to very small case numbers. In many cases, the lockdowns lasted for months, and the general policy lasted until long after lockdowns ended in North America.

Last December, China permanently ended its Zero-COVID policy. Most of the lockdowns across the country were ended in the span of a week, and now China has one of the most open economies in Asia. This doesn't mean that growth will immediately rush back. Due to its rapid re-opening, China recorded 60,000 COVID deaths in a month, when it had hardly any deaths prior to that. Initially, the re-opening slowed the economy even more than the lockdowns did. But just recently, China put out economic data that showed strong growth in the services sector, so there should be a boost in sales soon.

Foolish takeaway

For my money, Alibaba is a better buy than Shopify is. It's cheaper, it's more profitable, and it would probably be growing just as rapidly had China not shut down its economy. As a value investor, I consider that an open and shut case. But if you're a growth investor, you might prefer SHOP, as its recent growth has been better than BABA's.

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