

Citron Research is Bullish on the Most Shorted Stock in the World.

Alibaba on its way to \$250

Citron Research believes the most compelling growth story in the market is also the world's most heavily shorted stock.

The professionals at Citron have been shorting stocks for a combined 100 years and wonder: "Why be short the most compelling TAM situation in the history of the stock market?"

On Friday morning, we will see the release of Alibaba earnings and fiscal year 2019 revenue guidance and one of two things will happen:

- Alibaba will exceed expectations on its quarter and guidance and could easily go over \$200 as "the setup" (explained below) is in place
- Alibaba will show lower operating margins than "sell side consensus" due to offensive, value creating investments which may give investors an opportunity to buy what could be the first trillion-dollar company at a cheap price.

The odds of the later are lessened as the company has already proactively "previewed" this to both the sell side and buy side and brought down expectations so the bar is very low.

There has been so much written on Alibaba there is no need for Citron to reiterate sell side research. Instead, we will focus on what we believe to be some of the most compelling reasons why we have been and continue to be long Alibaba. We first discussed our long position in BABA over 18 months ago.

<https://www.streetinsider.com/Trader+Talk/Citron+Research+Andrew+Left+long+Alibaba+%28BABA%29+-+CNBC/11986221.html>

While most commonly referred to as "***The Amazon of China***", Alibaba has a differentiated business model from Amazon that is more asset light and empowers the small business. If investors needed a catchphrase this would be more appropriate:

"The tollbooth to middle class consumption in China"

Here are Citron's points to ponder going into Alibaba earnings knowing that Alibaba trades at a 40% discount to Amazon:

The larger Amazon becomes, the more they must fear government interference in their business, whether it be postage, taxation or anti-trust. On the other hand, the Chinese Government blesses the reach of Alibaba as its partnering with BABA on key initiatives for the "New China". This is best articulated in today's article in the NY Times <https://www.nytimes.com/2018/05/02/technology/china-xi-technology-innovation.html>

Jack Ma is more than a CEO, he is the face of business in China who serves as a global ambassador. Last year, he spent more time visiting foreign heads of state than Xi Jinping himself. Ma is in Jerusalem this week meeting with tech dignitaries and Prime Minister Benjamin Netanyahu. China needs Ma. No stopping him.

How can you be short this???

- Amazon's market cap is about 70% larger than Alibaba's yet China's ecommerce market alone is going to be larger than the rest of the world
 - By 2020, Asia is projected to account for 66% of global e-commerce sales with China accounting for 58%
- Alibaba has a more dominant e-commerce business than Amazon
 - Though Amazon claims about 40-50% of all online US retail sales, Alibaba claims about 80% of all online Chinese retail sales
 - To put it in perspective, on Singles day, Alibaba sites notched up \$25.3 billion USD in sales. The promotion was 18 times larger than Amazon Prime Day, and 2.5 times bigger than Black Friday and Cyber Monday put together
- Alibaba grows revenue over 20% faster than Amazon, and has much higher margins despite a more nascent cloud business that hasn't yet scaled
- Alibaba also owns a 33% stake in Ant Financial, which is worth \$150 billion and is given ZERO credit in Alibaba's stock price. Within ANT lies Sesame Financial, which is the largest credit database in the world. All of this integrates right into the Alibaba Ecosystem. Ant is the world leader in mobile payments.

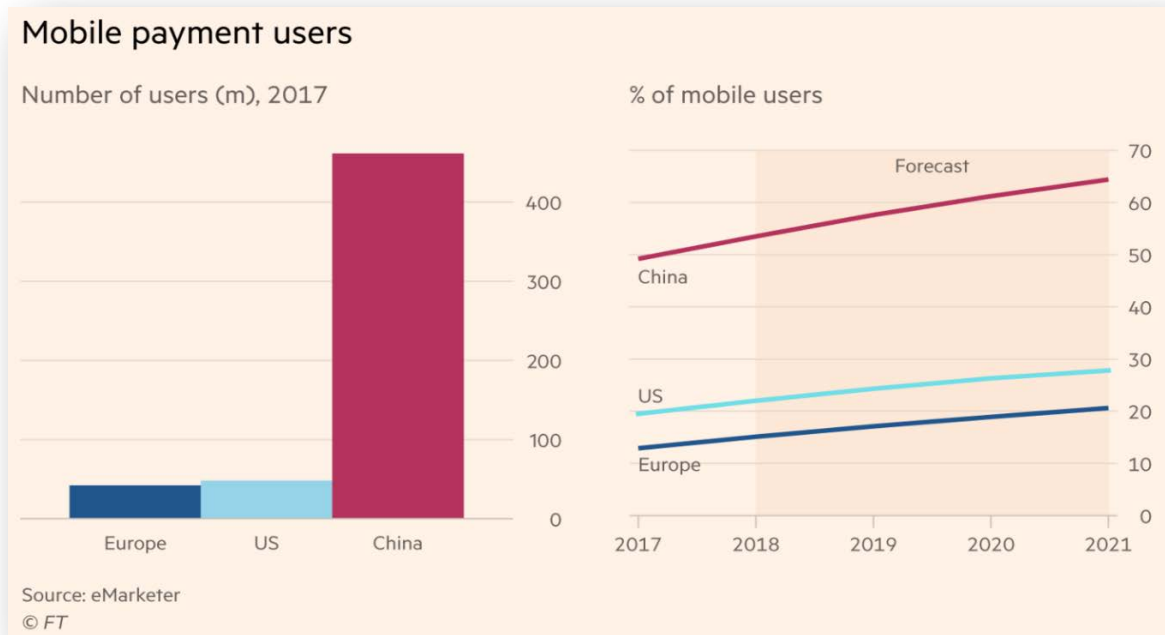
According to a study done by McKinsey & Company.

"Mobile payments in China had already reached \$790 billion in 2016, compared to just \$74 billion in the U.S."

<https://www.mckinsey.com/featured-insights/china/what-can-we-expect-in-china-in-2018>

It is our opinion that US investors have not yet grasped the dominance of mobile payments and mobile audience in China.

Below is a chart borrowed from the Financial Times:

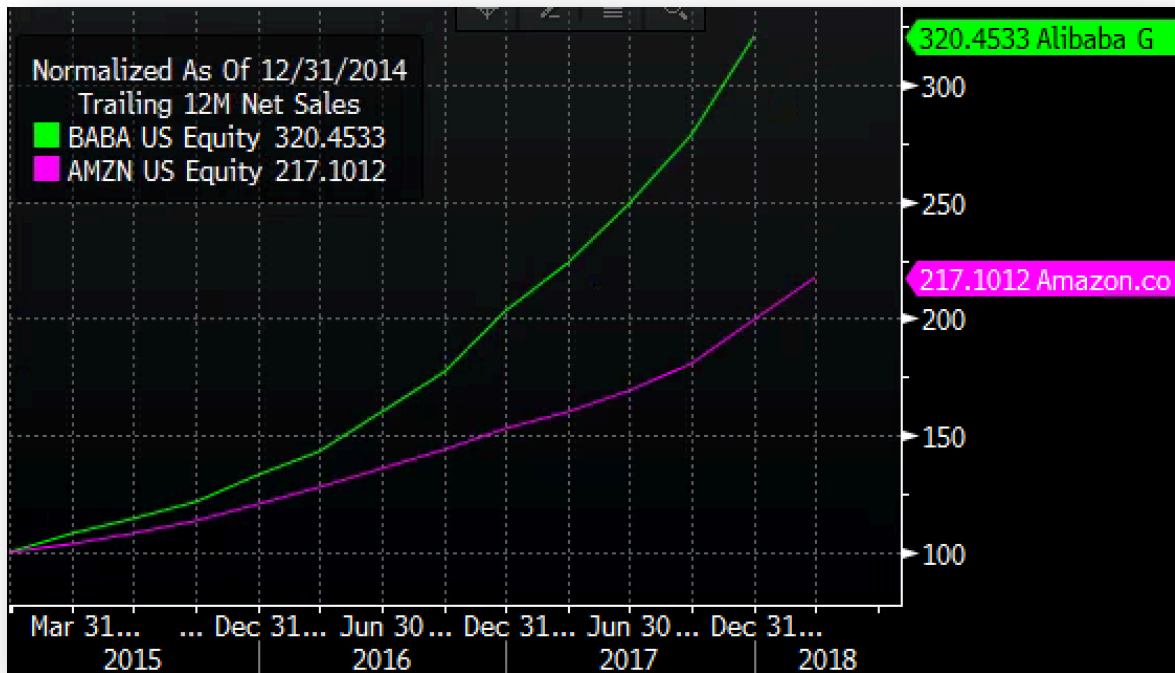


Here are charts that support Alibaba being a more compelling investment than Amazon at these prices:

Alibaba has historically traded in-line with Amazon on EV/EBITDA. However, Amazon is currently trading at about a 40% premium to Alibaba on 2020 EBITDA.



From 2014 to 2017, revenue grew 220% at Alibaba vs. 100% at Amazon. Yet, while during the same time, Alibaba's stock is only up 70% vs. Amazon is up more than 400%!



All of this leads us to the 2 scenarios we call “The Setup” and “The Wildcard”:

The Setup

Uniquely, over 50% of Alibaba stock is controlled by 3 entities: Softbank, Altaba, and Jack Ma. This concentration of ownership combined with Alibaba being the most shorted stock in the world could make for some exciting stock moves if we see a change in fundamentals.

Also, the stock has flat-lined for 9 months now, despite growing revenue over 50% throughout this time. BABA’s P/E multiple has compressed by a whopping 7x over the same time period and is at its lowest level since early 2017 before the company saw an inflection in business fundamentals. **The stock is a coiled spring.**

The Wildcard

The Chinese government is adamant that it wants the major tech giants to return to their home country. WSJ reported a month ago that a BABA secondary listing could happen as soon as this summer in the local Chinese A-share market.

Chinese Tech Titan Alibaba Plans Stock-Market Homecoming

Wall Street Journal | March 15, 2018 8:15 a.m. ET

<https://www.wsj.com/articles/china-tech-titan-alibaba-plans-stock-market-homecoming-1521116131>

China Unveils Plan to Lure Big Tech Stock Listings Back Home

Bloomberg News | April 1, 2018, 2:00 PM PDT

<https://www.bloomberg.com/news/articles/2018-04-01/china-unveils-its-plan-to-bring-nation-s-tech-giants-back-home>

A secondary listing would be a major positive catalyst for Alibaba’s ADR stock.

Locally listed Chinese stocks trade a material premium to their US counterparts as illustrated by Qihoo, Focus Media, and Giant Interactive, which were re-listed in Shanghai/Shenzhen and all three stocks saw an increase in market cap of 3x-5x by doing so.

China Luring Tech Giants like Alibaba, Tencent and Baidu to Relist at Home

BY XIAOCHUN ZHAO 2 MONTHS AGO

<https://kr-asia.com/china-luring-tech-giants-like-alibaba-tencent-and-baidu-to-relist-at-home/>

Imagine being short BABA on the day if this announcement hits.

These points have evidently gone unnoticed by Wall Street as Alibaba currently trades at the largest discount to price target in the GS big cap internet universe.

Alibaba has created a global enterprise with a footprint that includes every buzzword from artificial intelligence, cloud, datacenter, ridesharing, etc. Obviously if the stock market has a major correction for the rest of the year, then Alibaba might not see the appreciation we expect. But nothing is going to derail this company from going to \$250 in the near term.

Still scratching the head thinking who is short

Cautious Investing to All