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### Companies discussed

**Alibaba (unlisted)**  
**Global Logistic Properties (GLP SP)**  
**Changan Minsheng Logistics (1292 HK)**  
**Guangdong Yueyun Logistics(3399 HK)**  
**China Dongxiang Group (3818 HK)**  
**Giant Interactive (GA US)**  
**Sina.com (SINA US)**  
**AutoNavi (AMAP US)**  
**Sohu.com (SOHU US)**  
**Sinsoft (1297 HK)**  
**Huayi Bros (300027 CS)**  
**Renren (RENN US)**

China | E-commerce

## Alibaba (private)

# Alibaba's coattails

### + Companies that own it

Softbank and Yahoo! are the obvious candidates to see benefit from an Alibaba listing. Dongxiang (3818 HK), which paid USD 100 mln for a stake, is another. Giant Interactive (GA US) recently sold the USD 50 mln stake it had bought in September 2011 for USD 199 mln.

### + Companies it owns

If history is a guide, then Alibaba investees, from application software developer Sinsoft to Sohu's Sogou, Sina's Weibo, and the film studio Huayi Bros, may be repurchasing their equity from Alibaba at a mark-up.

### + Collateral benefits

Alibaba is already investing ambitiously in all aspects of logistics. The investments, along with heightened attention to the growth of e-commerce, should increase valuations among the small group of public companies providing logistic services to Chinese e-commerce companies.

### + Worth a deeper look: Dongxiang and GLP

We think that Dongxiang, now valued at USD 1.143 bln, is probably a buy, given that the company is sitting on Alibaba shares that might be worth USD 500 and has USD 322 mln in cash. Its core business, though weak, is worth more than the balance. Singapore-listed Global Logistics Properties, currently worth SGD 13.3 bln, is the best of the logistics companies, is positioned to serve e-commerce, and is growing like wildfire in China.

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## Remember about the 40 thieves?

Alibaba delisted from the Hong Kong securities exchange in June 2012 following a scandal in which mid-tier management was purged. Press reports in China had revealed that Alibaba managers had sold the “gold supplier” status to companies that accepted payment and never made delivery of goods. The company was required to establish a fund to compensate those who had been defrauded by the more than 2,000 fraudulent suppliers.

The go-private price in the end, HKD 13.50, was precisely the price at which the company had gone public, in November 2007, such that the public investors essentially gave Alibaba an interest-free, eight-year loan.

**Alibaba may be concerned about an investor lawsuit if it lists in the U.S. In Hong Kong, Yahoo! investors lack standing.**

Now, Alibaba is back and promises to become one of the biggest IPOs of all time. Estimates of the company’s future valuation range from USD 70 bln to USD 200 bln. If USD 100 bln, based on very rough estimates of the current earnings in the portions of the company currently owned by Yahoo!, that implies a valuation of 35x 2013 earnings.

Drama has surrounded the IPO registration process: Alibaba management says it wants to control voting rights regardless of equity control, and the Hong Kong exchange does not permit that structure. In the United States, it is rumored, Alibaba fears a class-action lawsuit. This is because Alibaba unilaterally extracted assets associated with its payment service, Alipay, in order to become eligible in China for a banking license, not available to foreign-invested companies. Whether or not this concern is true, Alibaba appears to be more engaged in its negotiations with the Hong Kong authorities than the SEC, and Chinese investors assume the deal will be struck.

### Who will benefit?

If Alibaba does IPO and achieves a rich valuation, many companies within its comet tail stand to benefit, and some of them may be worth buying up ahead of time. We put them into three bundles: companies that own Alibaba, companies owned by Alibaba, and companies that serve the industry in China and will benefit from growth as well as from the inevitable competition to acquire them.

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## Owners of Alibaba

### Softbank

Listed on the Japanese Motherboard as 9984 TYO, Softbank is a mobile and internet investor that owns 36.7% of the Alibaba Group. That means that a USD 100 bln valuation for Alibaba would translate to about JPY 3,000 or more than USD 29 per share. Given that Softbank has indicated it is unlikely to sell its stake, Alibaba's profit growth, now reportedly tracking 65% YoY, would add significantly to Softbank's cash generation.

### Yahoo!

Yahoo! has committed to selling 10% from its 24% stake in the currently traded Alibaba assets at IPO. We believe that additional and higher-value assets will be merged into Alibaba before the listing, and so we assign the lower range of the IPO value the market is assuming, or USD 70 bln, to the Yahoo-owned assets at IPO. At this valuation, Yahoo would get USD 7 bln in cash for its first tranche of shares and retain the balance as residual value. The remaining 14% would be likely to see much faster appreciation than the rest of the Yahoo assets.

### Dongxiang

This Chinese shoe company is in decline, with a 32% drop in revenue in the first half of 2013. Still, Dongxiang, which owns international rights to the Kappa brand, does about USD 200 mln a year in sales and will see around USD 20 mln in net profit in 2014.

Dongxiang bought into Alibaba through Yunfeng, the private equity company of which Jack Ma and the Dongxiang chairman, among others, are founders, in 2011. Based on the experience of Giant Interactive (GA US), which sold its 2011 stake in Alibaba to Tiger Global Funds at a 4x mark-up. Dongxiang's stake, by the time Alibaba lists, ought to be worth half a billion. Added to the company's cash, that is USD 850 mln, only USD 300 mln less than the company's total market capitalization. We consider USD 300 mln a fair valuation for the shoe business given that it is a solid brand but is seeing rapid declines in sales.

If Dongxiang holds onto that Alibaba stake, the company may eventually find itself sitting on an asset originally purchased for USD 100 mln but now worth the company's own market value.

In February 2014, Giant sold its entire limited partnership interest

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in Yunfeng, which holds all of Giant's remaining shares in Alibaba, to Tiger Global Mauritius Funds for USD 199.1 mln. GA disclosed that it owned approximately 10% of Yunfeng in conjunction with 10 other owners. Giant had acquired the stake in September 2011 for USD 50 mln.

## **Companies owned by Alibaba**

### **Sina/Weibo**

In April 2013, Sina sold 18% of Weibo to Alibaba for USD 596 mln.

How to value Weibo? In 2012, Sina reported that Weibo accounted for 12% of its ad revenues, which were USD 413 mln. If revenues to Weibo in 2013 grew 50%, to USD 74 mln, then the Alibaba purchase would have valued Weibo at 44x revenues. At the time of the purchase, Weibo was losing money.

Twitter (TWTR) achieved an IPO valuation of roughly 20x forward revenue, much higher than the rest of the frothy Internet sector, so any way the Weibo purchase is regarded, it looks expensive. But froth is likely to emanate in at least equal portions from Chinese internet stocks as from U.S. names. If Alibaba were to hold its shares in Weibo for a couple of years post IPO, the investment could pay off.

### **Sinsoft**

In January 2011, Alibaba purchased a 25% stake in Sinsoft (1297 HK) for USD 27.78 mln. With Sinsoft now valued at USD 388 mln, that stake is worth nearly USD 100 mln.

### **Sohu/Sogou**

In August 2010, Sohu sold 14.4 mln shares in its Sogou search division to Jack Ma and 24 mln to Alibaba for USD 15 mln and USD 9 mln respectively. In June 2012, Sohu repurchased the Alibaba shares for USD 25.8 mln but did not repurchase the Jack Ma shares. Presumably this stake ties Alibaba into promoting Sogou, which could be a plus for Sogou. Search revenues for Sohu were reported at USD 198.9 mln for 2013.

### **Huayi Bros (300027 CS)**

This Shenzhen-listed film company has not disclosed the number of shares owned by Alibaba or the amount paid for them, but it discloses that each of Alibaba and Jack Ma own more than 5% of the company. Huayi Bros' current market capitalization is RMB

64.69 bln or USD 10.57 bln.

**Wasu Media (000156 CS)**

On March 5, Alibaba bought a 20% stake in Wasu Media for a reported USD 1 bln. The market cap of Wasu, a digital television company, at that time was RMB 29.28 bln, or USD 4.78 bln. Alibaba had already spent 128 mln RMB in 2010 and 2011 to acquire assets from Wasu.

New Hope Group (000876 CS) is another investee via Yunfeng capital but has not disclosed the stake.

**AutoNavi Holdings (AMAP US)**

On February 10, AMAP announced that Alibaba had made a “going private” proposal to acquire all AMAP ADSs and ordinary shares not already owned by Alibaba for USD 21/ADS. At the time of this offering, Alibaba already owned 28% of AMAP’s total issued shares. AMAP has a current market cap of USD 1.1 bln, and at the time of the proposal, the offer was at an almost 40% premium to the trading value of AMAP shares of the past six months. AMAP is now trading at more than USD 20/ADS. There has been no further indication about whether this deal will move forward.

**Renren Inc. (RENN US)**

Concurrent to Renren’s IPO, the company sold 23,571,426 Class A common shares in a private placement to “entities affiliated with” Alibaba, China Media Capital, and CITIC Securities at USD 4.67 per common share, which matches the IPO price of USD 14.00 per ADS. This represented a total of 13% of shares at the time of IPO.

**Floating boats**

In addition to the companies that own or are owned by Alibaba, companies supplying logistics services to e-commerce should see their valuations rise. Alibaba has announced, together with Yunfeng Capital, China Yintai, Fosun, and others, a RMB 300 bln investment plan to build out e-commerce logistics solutions. This will generate an acquisition drive that is certain to drive up valuations in this frail sector with few private contenders. Among the contenders, we see Global Logistic Properties, listed in Singapore as MCO, as having the most potential.

**Global Logistic Properties**

GLP, listed in Singapore in October 2010 and principally owned by

**Alibaba’s IPO should have a positive impact in the valuation of companies supplying services to e-commerce.**

the Singapore sovereign fund, develops, owns and leases roughly USD 17 bln in logistics facilities, principally in China, Japan, and Brazil. In China, GLP operates in 34 cities and serves companies like Amazon and Vancl. The China properties have a lower lease ratio, at 90%, than do the properties in Japan (99%) or Brazil (95%), suggesting vulnerability in the focus on Chinese expansion. But the network effect of expansion to multiple cities provides an increasingly strong argument for e-commerce companies to use GLP instead of leasing or building piecemeal. China's operations show the highest exposure to e-commerce, at 22% of the portfolio, followed by Brazil, at 21%, and Japan, at 11%. The Brazil portfolio is valued at about USD 1.7 bln. In Japan, GLP manages facilities in seven cities and owns a publicly traded REIT fund.

GLP's growth is now coming entirely from China, which makes the company highly vulnerable to a slowdown. In the first half of its FY 2014, ending September 30, 2013, the company reported 39% growth in China revenues and 15% revenue growth overall, adjusted for the sale of Japanese assets to its J-REIT; without that adjustment, revenue fell 19%, given that revenue from those Japanese assets is no longer counted in the listed company. China revenue for the six months was USD 161 mln. Rental rates rose 5% YoY in China, and new and expansion leases were up 60%. On a like-on-like basis in China, operating income from the warehouses rose 7.8%.

In November 2013, GLP announced the formation of a China Logistics Fund at USD 3 bln, along with six financial institutions. The deal structure, essentially, is as follows:

- GLP will restructure existing China operations, around 500 completed properties and a land bank of about 20.6 square km, into a separate holding company (Holdco).
- The Holdco, 100% owned by the listed company, will permit the investors and GLP employees to subscribe to new shares in two tranches, the first at 21% of the Holdco and the second, a year later, about 13%, bringing the listed company's stake down to 66%.

The deal in essence hives off the China business at book value—a discount to the 1.2x book value at which the company was trading in November—and creates management incentives for focusing on fast growth in that market. This creates vulnerability. But if there is to be growth in Chinese e-commerce, GLP would be the company best positioned to realize its benefits.

### Guangdong Yueyun Logistics (3399 HK)

Yueyun is a reconstituted SOE that provides transportation and logistics services, much more focused on vehicles than on warehouse management. The company's 2013 Interim revenue rose 1% like-on-like: Yueyun transferred assets to its parent and so in absolute terms saw a 9.8% decline in revenue. Profit rose 23% in the period, an effect of parent-company transactions and government subsidies.

### Changan Minsheng Appl Logistics (1292 HK)

Changan Minsheng is dedicated to supply chain management in the automobile sector and so is only very distantly affected by trends in e-commerce. The company saw Interim 2013 sales of RMB 2.03 bln (USD 332 mln), up 23% YoY, with profit up 32%, 87% from transportation and supply chain management. About 27% of the business comes from transportation of non-vehicle-related commodities.

### Why all the transactions?

In reviewing the last few years of Alibaba's transactions with other firms, they are easier to understand as loans than as strategic investments. Alibaba sometimes buys equity in a company and then sells it back, or sells equity and buys it back, in relatively short periods of time. Additionally, its reliance on transactions through Yunfeng Capital suggests that there could be pricing irregularities, as the nature of the transactions is hidden from public view. There is no reason for Yunfeng to offer itself as simply a pass-through, but commissions taken, equity left behind, and other conditions of the deals are not known.

For example, Alibaba bought 24 mln shares in Sohu's Sogou search division and then sold them back to Sohu at a 72% mark-up two years later.

Alibaba engaged in its highest-value transaction while it was listed in Hong Kong with Synnex Corporation (SNX US). In December 2009, this business process services company sold 79% of its HiChina division to Alibaba for USD 60 mln. Alibaba divested the subsidiary in September 2011, saying it planned to list HiChina in the United States. It then re-merged HiChina into Aliyun in January 2013.

**Alibaba's transactions with other firms are easier to understand as loans than as strategic investments.**



### A short-term thing

China's economy, including its e-economy, is clearly slowing, and we ourselves would hesitate before investing in a company that is shifting its balance sheet heavily toward China. In the wake of an Alibaba IPO, however, it is hard to see how the whole sector would not see sympathy growth in valuations.

**Chart 1. Table of relationships**

Company	Ticker	Current Market Cap (mln)	Relationship	Purchase Price (mln)	Date of Purchase	Notes
AutoNavi Holdings	AMAP US	USD 1,177	Alibaba owns 28%.			Alibaba to purchase all publicly traded shares for USD 21 per share.
Changan Minsheng Logistics	1292 HK	HKD 1,614	Changan Auto and Minsheng Industrial JV, focused on supply chain management in autos.			China exposure: 96%.
China Dongxiang Group	3818 HK	HKD 8,858	Alibaba and Dongxiang chairmen are partners in Yunfeng Capital.	100	September 2011	Purchased through Yunfeng Capital. In 2012 recorded an investment gain of about USD 22 mln (RMB 137 mln). However, the company reported an impairment loss of 82 mln RMB on its investment in Mecox Lane and Minsheng Bank, also through Yunfeng.

China Eastern Airlines Corp	CEA US	USD 5,011	Strategic alliance 2009.			They appear to have formed a joint venture to sell discounted air tickets. There is also an agreement to use Alipay as a payment mechanism for Dongfang tickets.
China Yintai	private		Yunfeng investee 2013.			Announced joint investment with Alibaba, Fosun, and three others of RMB 300 bln in logistics infrastructure.
Giant Interactive	GA US	USD 2,765		50		Sold to Tiger Global.
Global Logistic Properties	GLP SP	SGD 13,375	Exposure to China: 40%.	630.59		Biggest logistics provider for ecommerce in China, clients include Vancl and Amazon. Got USD 2.5 bln in February for expansion but only USD 163 mln to public company, rest to subsidiary.
Guangdong Yueyun Logistics	3399.HK	HKD 1,336	Transportation services.			
Wasu Media	000156 CS	USD 4,780	Alibaba bought 20% in March 2014.			
Huayi Bros	300027 CS	USD 5,155	Alibaba and Jack Ma both own > 5%.			

New Hope Group	000876 CS	USD 3,159	Strategic partnership, Yunfeng investee 2013.	12.27 bln RMB		
Renren	RENN US	USD 1,693	Alibaba purchased 13% of shares at IPO.			
Sina.com	SINA US	USD 4,890	Sold 18% of Weibo to Alibaba.	596	April 2013	<p>in 2012, Weibo accounted for 12% of ad revenues, which were USD 413 mln. If revenues in 2013 grew 50%, then the Alibaba purchase values Weibo at 44x revenues. Twitter's IPO implied a valuation of 20x gross revenues, while most of the internet sector trades at 5x. If Twitter's valuation can be used as a guide to Weibo, and Weibo manages to double or triple revenue, at a profit, before IPO, Alibaba could value its Weibo holding at over USD 1 bln. Unit claimed profit for first time last quarter. IPO planned.</p>
Sinosoft	1297 HK	HKD 3,902	25% of company.	27.78	January 2011	
Sinotrans	598 HK	HKD 15,509	SOE freight forwarder and shipper, very sensitive to macro economy and int'l trade, not so much into ecommerce.			China exposure: 100%.
Softbank	9984 JT	USD 92,800	36.7% of Alibaba Group.			

Sohu.com	SOHU US	USD 2,830	Sold 14.4 mln shares to Jack Ma and 24 mln to Alibaba for \$15 mln and \$9 mln respectively	24	August 2010	In June 2012, Sohu repurchased this equity from Alibaba for \$25.8 mln. Search revenues for Sohu were reported at \$198.9 mln for 2013.
Yahoo!	YHOO US	USD 40,033		0.24		YHOO has agreed to sell 10% of its stake pre-IPO. It has the right to sell the other half after a lock-up period.

Source: Companies' filings, Bloomberg

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