GLOBAL ECONOMY AND FINANCIAL MARKETS SHORT COMMENTARY

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Alibaba’s record fine 2.8 billion for antimonopoly violations

Alibaba shares rose 6.5% in HK on 12 Apr after the company was fined a record 18.23 billion yuan (US$2.8 billion) by Chinese regulators in a result of an anti-monopoly investigation. The penalty is triple of U.S. chipmaker Qualcomm previous high US$975 million in 2015. Alibaba said in a statement that it would accept the penalty “with sincerity” and would strengthen internal systems “to better serve our responsibility to society.”

The State Administration for Market Regulation (SAMR) concluded that Alibaba used its platform rules and technical methods like data and algorithms “to maintain and strengthen its own market power and obtain improper competitive advantage, and broke the anti-monopoly law by prohibiting sellers sell goods on other platforms, a practice known as ‘choose one out of two”. The regulator added that Alibaba’s practices had hindered competition in online retail, affected innovation in the internet economy and harmed consumers’ interests.

The fine is not about the amount

The fine (US$2.8 billion) is unlikely to make a substantial dent in Alibaba’s fortunes. The fine accounted for just 4% of Alibaba’s domestic sales in 2019. Alibaba reported profits more than US$12 billion in the last three months of 2020 alone.

Besides, the fine could be relatively positive for both investors and company. The share in HK climbed as much as 6.5% on 12 Apr as the market speculated the multibillion dollar fine announced at the weekend would mark the end for the policy uncertainty on Alibaba.

Apart from the fine, Alibaba will also need to have a “comprehensive rectifications,” from protecting merchants and customers to strengthening internal controls, the agency said in a statement. But in general, such penalties have not changed the nature of the companies’ businesses enough to significantly affect its competitiveness with its peers and its growth outlook.

The uncertainties for Chinese tech giants

China started reinforcing scrutiny of tech giants last year. The market regulatorsz proposed updating the antimonopoly law with new provisions for large internet platforms like Alibaba. In November, officials halted the plans of Alibaba's affiliate company, the consumer-lending Ant Group, to tighten their oversight of internet finance. The regulator stated that the ramp up on anti-monopoly will be tightened this year, especially in tech, before their dominance into other sectors like finance, health services and other areas. The government then issued anti-monopoly guidelines in February aimed at preventing anti-competitive practices such as exclusive agreements with merchants and use of subsidies to squeeze out competitors.

The other internet giants retreated amid concerns that they could be the next.
Tencent is an obvious potential target for future antimonopoly action by officials. Its software application WeChat, the company has created and nurtured an all-in-one platform for news, entertainment, finance, shopping and more, giving it great leverage over rivals and smaller companies.

The next step for Chinese government still remains an uncertainty, tech giants are still under pressure. Is this fine represents the end of the Chinese government's rectification to technology industry in short term? Or more to come?

It can be seen as positive news to Alibaba and/or whole industry if the fine can end the recent policy uncertainty (even just in short term). On the other hand, if the fine is one of the steps for Chinese government to ramp up scrutiny for the whole industry, then the uncertainties will be remained or even be further increased.

In this regard, the market cannot make any guess because only Chinese government will know.

The tightening regulations had already leading downward pressure on most tech companies' stock prices. For example, due to sweeping restructuring imposed on Ant Group regarding regulatory oversight and capital requirements, its expected market valuation dropped dramatically from US$300 billion before the originally planned IPO to half or even less at this moment.

Another classic example was happened in 2018, Tencent's stock price dropped by nearly half from HK$476.6 in Feb 2018 to HK$251.4 in Nov 2018 as the Chinese government started to strengthen regulation on the mobile gaming industry.

After Alibaba was heavily fined

The State Administration for Market Regulation (SAMR) tightens control on the booming 'platform economy'. A total of 34 online platform firms, including Alibaba, Tencent, Meituan, Baidu, Bytedance etc. were summoned by SMAR, the Central Cyberspace Administration of China and the State Administration of Taxation for guidance meeting. The officials emphasized that "should take full play on Alibaba case, and it is clearly stated that online platform companies must be respectful and abiding by the rules". The " choose one out of two " should be prohibited. China's market regulators issued a one-month ultimatum to all online platforms to troubleshoot their breaches of market competition orders or face severe penalties.

At last, despite the recent drastic adjustments, the valuations for some tech giants are still at a high level.

	Drawdown (%) from recent high	The past one-year increase, despite after the recent drawdown	Historical P/E ratio
Tencent	~20%	54%	30.9x
Alibaba	~20%	18%	35.4x
Meituan	**~40%**	**182%**	**299x**
Baidu	**~40%**	**114%**	**31x**
JD	**~30%**	**79%**	**71x**
Pinduoduo	**~40%**	**214%**	**No profit**

Source: Bloomberg, Reuters, Global Times, The Standard, SCMP, Yahoo Finance, WSJ, ZDNet, BBC News

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