

Seeking Alpha  $\alpha$

# Alibaba: The Mass Exodus

Aug. 25, 2021 8:26 AM ET | **Alibaba Group Holding Limited (BABA), BABAF** |  
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## Summary

- Institutional investors sold 8.1% of Alibaba's entire share total in the last 13F cycle.
- The selling could continue and drag Alibaba's shares to new lows in the coming weeks.
- Alibaba is surrounded by several uncertainties which make its stock a risky bet.



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Shares of Alibaba (NYSE:[BABA](#)) ([OTCPK:BABAF](#)) have crashed by over 40% since their February highs but the selloff might not be over yet. Latest data reveals that institutional investors collectively sold about 8.1% of the company's entire share total on a net basis, in the last 13F filings cycle. This is a clear indication that this class of investors is desperate to quickly offload their holdings in the company. These investors still hold a significant chunk of Alibaba (or at least its variable interest entity), and if this pace of selloff continues, we could see the stock drop to new lows in the coming weeks and months.

## **The Monstrous Selloff**

Let me start by saying that institutional investors – such as mutual funds, hedge funds, pension funds, ETFs, insurance companies, managed accounts, etc. – are mandated by the SEC to disclose their trades through 13F filings at least once every quarter. We can analyze this mound of trading data to track the Street's ever-evolving market sentiment pertaining to any given stock and to also gain leading insights about where the stock might head next. After all, if a broad swath of these investors is buying or selling a stock in significant quantities, then they're likely to have a legitimate thesis behind it.

Having said that, let's now shift attention to Alibaba. Institutional investors collectively sold about 219 million of Alibaba's shares on a net basis in the last 13F cycle. To fully understand the extent of this selloff, readers should note that Alibaba has about 2.71 billion shares outstanding. This means that this class of investors collectively sold about 8.1% of the company's entire share total within one quarter. The pace of this selloff suggests that these institutions are too eager to offload their holdings in the company, as quickly as possible.

## Ownership Summary

Institutional Ownership	25.80 %
Total Shares Outstanding (millions)	2,712
Total Value of Holdings (millions)	\$110,538

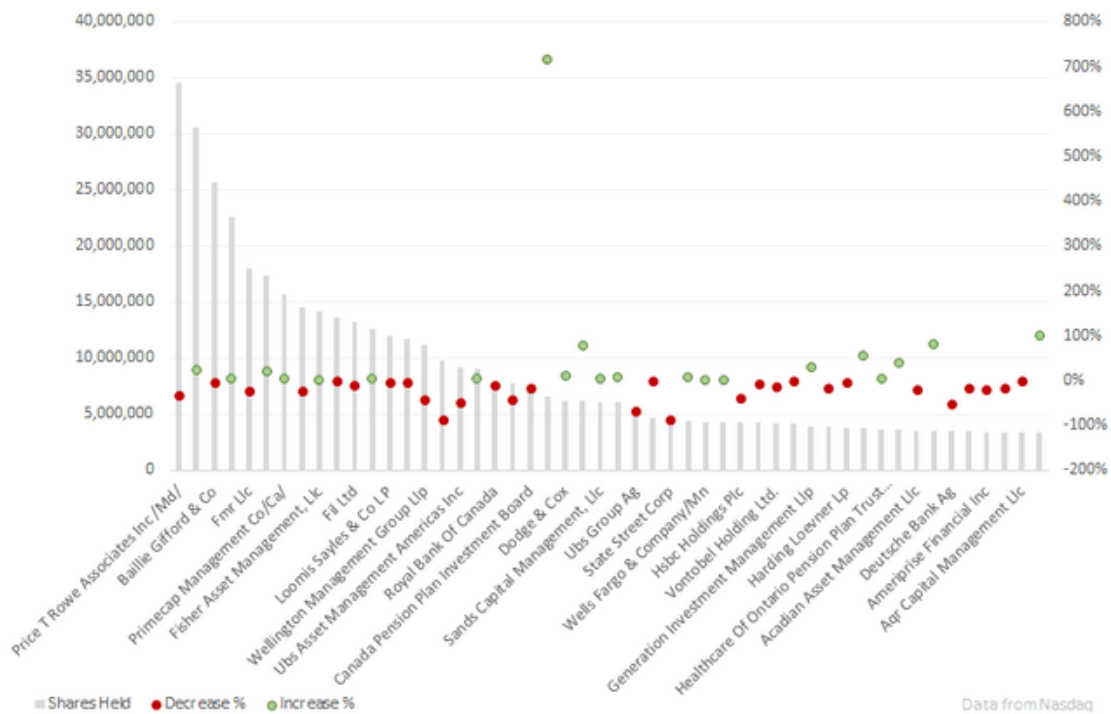
## Active Positions

ACTIVE POSITIONS	HOLDERS	SHARES
Increased Positions	998	63,081,709
Decreased Positions	802	282,177,629
Held Positions	274	354,528,051
Total Institutional Shares	2,074	699,787,389

(Source: [Nasdaq](#))

One might think that the selloff is over now, but that may not necessarily be the case. These institutions were still holding about 26% of the company's total shares at the end of the last 13F filing cycle. If they're still desperate to offload Alibaba stock, these fire sales can continue for a lot longer which, in turn, might drag the stock to new lows. For the record, the latest 13F filings cycle spanned from April through June, and the data was fully disseminated only last week. This means the data is still fresh and relevant to our discussion here.

Another interesting picture comes to light when we look at the trading activity of Alibaba's 50 largest institutional investors. As it turns out, 29 of these institutions reduced their positions in the company during the last 13F cycle whereas only 21 increased their exposure to the name.

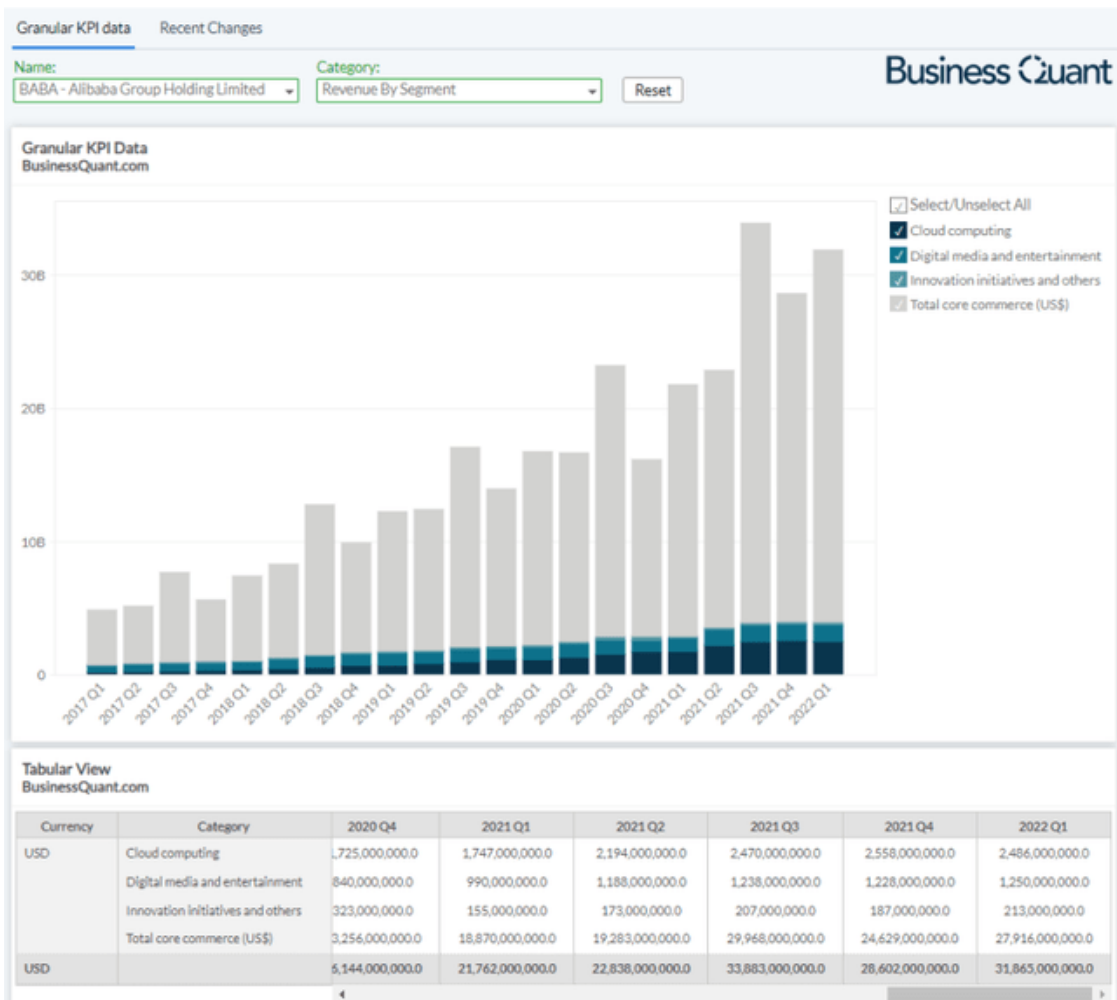


(Source: BusinessQuant.com)

This indicates that even the largest institutional investors of Alibaba don't have much confidence in the company's growth prospects, or at least, are worried about the risks associated with investing in the stock. This brings us to the next question – why are these institutions actively selling Alibaba stock?

## Spooked for Good Reason

There's no denying that Alibaba is a rapidly growing company. The company is, in fact, growing across all its reportable segments which makes it an ideal candidate for growth-seeking investors. Also, like most e-commerce companies, Alibaba too has benefited immensely from the onset of the COVID-19 pandemic and the ensuing work-from-home norms.



(Source: BusinessQuant.com)

Besides, the Chinese Communist Party's resolve to redistribute the country's wealth and income from a few hands, to the masses, should, in theory, boost the purchasing power of its people. Alibaba is already a well-positioned e-commerce giant in the country so its gross merchandise value can quickly grow by leaps and bounds if this wealth redistribution plan works well and the international political climate doesn't deteriorate any further.

While these points make Alibaba seem like a solid growth investment, there are several risks involved that are scaring investors away. First, Alibaba was slapped with a [\\$2.8 billion](#) fine earlier in April for forcing its merchants to exclusively sell their goods on its platform. Its management eventually vowed to make changes to the way it operates. This may seem like a vague managerial promise, but it's likely to involve significant investments on Alibaba's part to keep its merchants happy and the platform competitive at the same time. This could very well hurt Alibaba's profitability going forward.

Secondly, as many Seeking Alpha authors have already pointed out, investors buying the US-listed Alibaba stock are buying into a variable interest entity (or a VIE) and they're not actually getting any ownership in the real Alibaba company that operates in China. The Asian superpower is now [threatening](#) to ban this VIE structure. Maybe it'll be a full-blown ban, maybe it'll involve a penalty on companies with this structure, we just don't know.

Alibaba actually disclosed this risk factor in its last [20-F filing](#):

If the PRC government deems that the contractual arrangements in relation to our variable interest entities do not comply with PRC regulations on foreign investment, or if these regulations or the interpretation of existing regulations changes in the future, we could be subject to penalties, or be forced to relinquish our interests in those operations, which would materially and adversely affect our business, financial results, trading prices of our ADSs, shares and/or other securities.

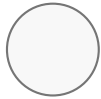
The problems don't end there. Chinese companies aren't subject to the same kind of stringent auditing practices that US and European companies do. So, the Congress passed a law last year which [requires](#) the delisting of Chinese stocks from US bourses, whose auditors aren't allowed to be inspected by the Public Company Accounting Oversight Board (or PCAOB). We just don't know to what extent are Alibaba's numbers fudged. It's also possible that China threatened to ban the VIE structure, perhaps because they don't want to open the likes of Alibaba, to scrutiny by US regulators.

## Final Thoughts

There's no denying that Alibaba has its share of growth catalysts that can potentially catapult its shares higher. However, it also involves serious risk factors that actually threaten the existence of the stock. Even if Alibaba's shares don't go to zero, as many are fearing, there's no telling how badly it'll be hurt by the US and Chinese regulators.

It's risk factors such as these that make Alibaba stock a gamble at the current juncture. Institutional investors that have a low-risk appetite - such as pension funds, insurance companies - would prefer to reallocate their capital elsewhere than gamble with people's life savings. These heightened risks, in my opinion, are why institutional investors actively sold Alibaba's shares.

This selloff could continue until the regulatory risks subside and/or institutional ownership in the US-listed stock drops to negligible levels. As far as I'm concerned, I'm neutral on the stock. This article, however, should not be construed as a call to short the stock. Good Luck!



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