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MARKET INSIGHT

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"Tech companies now have to face an environment of greater regulatory scrutiny."

OPPORTUNITIES AND RISKS OF THE ANT GROUP

ANT Group's long awaited listing debut in Shanghai and Hong Kong was astonishingly suspended at the eleventh hour by financial regulators. The record US$34.5 billion IPO would have seen ANT overtake Saudi Aramco to become the largest IPO of all-time. The listing received a frenzy of investor interest as both institutional and retail investors scrambled to try to get an allocation to the hottest IPO of the year. The retail tranches were more than 800x oversubscribed in Shanghai, and more than 150x oversubscribed in Hong Kong.

SCALE, PROFITABILITY & GROWTH

The reason for the huge investor interest is that ANT has a unique combination of scale, profitability and growth. The IPO pricing values ANT in the top echelon of the largest listed financial institutions by market capitalisation, overtaking the likes of JP Morgan. Unlike other FinTechs, ANT is highly profitable with strong net margins, while also being able to deliver stellar top-line growth driven by the development of new product and service offerings.

Digital payments is the backbone of ANT with Alipay the dominant digital payment platform in China with over 700 million monthly active users. Alipay was invented by Alibaba as an online digital payments solution to solve the trust issue that was hampering Alibaba's early e-commerce initiatives. Alipay, together with Tencent's WeChat Pay, proved immensely popular and totally revolutionised the payments markets in China. Despite having established scale in China, there is further room for Alipay to grow as more merchants leverage on the platform to expand their businesses. There are currently over 80 million monthly active merchants on the Alipay platform, but currently only a quarter of them are using the functions and tools available on Alipay to further drive business. This means that there is scope to grow the volume of digital payments as merchant adoption increases.

DIGITAL FINTECH SERVICES DRIVING GROWTH

The volume of these transactions that users churn out provide the data for ANT to develop innovative financial products in the areas of CreditTech, InsureTech, and InvesmentTech. ANT has already become the largest online platform in China for these three business lines and is set to enjoy strong growth for the next few years as they continue to gain scale. It is important to note here that ANT is an enabler for these new products on its platform. ANT works closely with hundreds of financial service partners on the products and services on its platform, and it does not use its balance sheet or provide guarantees for these financial services. This allows ANT to maintain a capital-light business model, explaining its high profitability.

In the longer term, perhaps the most exciting growth driver for ANT could be Antchain. Antchain, which was launched in July, is a productivity "blockchain-as-a-service" platform that is integrated into China's state-backed Blockchain Service Network. For a small fee, Chinese SMEs will have access to blockchain technology to help them improve their business processes. Helping SMEs improve their efficiency could in turn have a positive feedback loop into the other parts of ANT's businesses.

POTENTIAL RISKS

ANT could become a victim of its own hype if the expected growth fails to meet lofty expectations. While the domestic growth story appears compelling, potential overseas expansion plans could be hampered due to the current backlash against Chinese investments. India banned Alipay earlier this year due to a border skirmish, while ANT's proposed acquisition of MoneyGram in 2018 was blocked by a US government agency (CFIUS). As such, ANT's overseas growth could be limited in the near term to the foreign entities it already owns.

Another risk is the impending paring down of a significant insider's stake in ANT. Jack Ma-controlled corporate entities own around 50% of ANT's shares and have publicly disclosed the intention to reduce this stake to 8.8%. The lack of clarity over the time frame and method for this divestment could potentially depress the stock price as the shares to be sold is almost three times as large as the IPO size.

The biggest risk, however, is regulatory. There is always a delicate balance that regulators have to tread between managing financial risks and providing an environment conducive for financial innovation. ANT's IPO suspension is reportedly due to new draft rules regulating online micro-lending to reduce systematic risk. These rules directly impact ANT's CreditTech business line – ANT's two microfinance platforms contribute around 40% of operating income, which will undoubtedly result in lower profitability and growth potential.

ANT now has to go back to the drawing board and ensure that all regulatory requirements are satisfied before it comes back to the market again. With Google facing an antitrust probe in the US, tech companies now have to face an environment of greater regulatory scrutiny. The hope is that this will not stymie innovation.

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