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Dongdiang's Alibaba Fortune

Investors looking for Alibaba treasure shouldn't forget that some of it lies outside the company's cave.

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The promise of the Chinese e-commerce giant becoming the largest-ever initial share sale in the U.S. has already boosted the stocks of its major shareholders, Yahoo and SoftBank.

But Alibaba has minor shareholders, too, which often are overlooked. One of these offers perhaps the best opportunity to play this IPO.

China Dongxiang Group is a Hong Kong-listed sportswear maker with a market capitalization of $1.13 billion. In 2011, it spent $100 million to buy a 0.31% stake in Alibaba through a private-equity fund co-founded by Alibaba chief Jack Ma. This stake will certainly fetch more today.

Dongxiang shares are up 17% this year in anticipation of the Alibaba IPO, yet that hasn't captured the company's overall worth.

To calculate Dongxiang's full value, start with its sportswear business, anchored by nearly 1,200 Kappa-brand retail stores in China. Its peers trade at about nine times this year's estimated earnings before interest, taxes, depreciation and amortization, as measured by FactSet. Slapping this multiple onto Dongxiang's sportswear line yields $199 million.

Next, Dongxiang sat on $178.3 million of cash as of Dec. 31, to which it has since added $4.8 million by disposing of shares in a U.S. apparel firm. It also owns bank treasury products, plus investment funds. These mostly liquid assets total $886 million. The company holds no debt.

To this, add Alibaba. If Mr. Ma manages to get a $200 billion valuation, the higher end of market estimates, Dongxiang's stake comes to $620 million. That means the sum of this company's parts would be worth 52% more than its market cap, though that is before applying a discount for being a holding company and any possible taxes.

A more moderate $150 billion Alibaba valuation still leaves a 39% gap between the value of Dongxiang's assets and its shares. Even assuming Dongxiang's sportswear business is worth zero, and that its other investments are somewhat impaired, it still appears the shares undervalue the Alibaba stake.

Such a wide gap should close, as Alibaba's market value becomes apparent closer to its listing. Dongxiang says that it may unload some of its shares after the IPO. If it doesn't, the stock will likely become a smaller tracking version of Alibaba.

Unlike Yahoo or SoftBank, Dongxiang's regular business is less important to its overall value. That leaves Dongxiang's fortune hitched to Alibaba. The e-commerce giant doesn't even have to reach a supercharged valuation for Dongxiang investors to make out like bandits.

-- Abheek Bhattacharya

BHP's Investors in a Spin

BHP Billiton was trying to pull off a high-wire act. Instead, the Anglo-Australian miner took a wobble.

BHP's London-listed shares fell 4% after the miner, which reported full-year results Tuesday, said it would spin off a collection of noncore aluminum, manganese, nickel and coal assets. BHP's shares have rallied on anticipation of the spinoff. But Tuesday's adverse reaction reflected an unsteady performance from the miner.

Spinning off subscale assets should create a simpler, more efficient company, a welcome break with mining's empire-building past. BHP's remaining businesses over the past 10 years have grown more quickly and been more profitable than the company as a whole.

The miner pledged to find a further $3.5 billion in cost savings and efficiency gains by 2017, partly mitigating lost earnings. The noncore assets generated about $2.1 billion in earnings before interest, taxes, depreciation and amortization in the year to June, or about 6.5% of BHP's total. At the average margin over the past decade, the assets made $3.4 billion, about 10% of last year's total.

But two other factors knocked BHP off balance. First, there is likely to be angst about the spinoff's structure. Both Australian and U.K. shareholders will receive stock in the new company, which will be listed in Australia and South Africa. That is designed to treat all investors equally. But the mechanism means London shareholders who aren't able to hold overseas equities will have to sell, likely weighing on the new company's stock in its early weeks of trading. Both sets of shareholders, then, have reason to be wary.

Second, and more important, the absence of a widely expected share buyback is a real blow. Instead, BHP said it would maintain and grow the absolute level of its dividend after the spinoff, meaning its payout ratio would rise from last year's 48%. Investors this year have bet that falling capital spending and improving free cash flow around the mining sector would mean an imminent ramp-up in returns.

BHP's balance sheet, with net debt of $25.8 billion, is only just approaching the point at which the company suggested it could return capital. That serves to underline that BHP's cuts to investment and debt reduction have been less dramatic than at rival Rio Tinto.

In the longer term, BHP boasts a more-diversified portfolio with a better growth pipeline than does Rio Tinto. But BHP's latest growth announcement trumpeted its ability to increase iron-ore production in Western Australia to 290 million metric tons a year, adding 65 million tons for a cost of less than $3.3 billion.

Investors wanting to bet on low-cost volume growth in Australian iron ore already have an option: Rio Tinto, which is trading at a 15% discount to BHP on a price/earnings basis. That is one place shareholders may turn while BHP regains its poise.

-- Helen Thomas

Apple's iPhone Could Crack GT

Apple's interest in sapphire has led investors to take quite a shine to GT Advanced Technologies. Its value has tripled in the past year. But the coming iPhone 6 launch may dim that luster.

GT is building a plant in Arizona in partnership with Apple to make sapphire material for the latter's devices. The next iPhone, expected to hit stores late next month, will reportedly use sapphire to make its screen tougher and more scratch-resistant. Apple hasn't announced details of its next device. But leaks about a new screen design have set a high bar for GT to ramp up a new business -- and quickly.

Historically, GT has sold manufacturing equipment to producers of sapphire and other materials, but the venture with Apple will turn GT into a sapphire supplier in its own right.

The Arizona plant is nearly complete. GT said on its last earnings call that the facility is beginning to shift to volume production, but it doesn't expect "full operational efficiency" until early next year.

That timing suggests GT may not be the sole supplier of sapphire for the iPhone 6, should that device incorporate the new display material. But the firm still has high targets to hit in the near term. About 88% of GT's full-year revenue will have to come in the second half if it is to meet its current projection.

And despite Apple's public commitment to the partnership, the deal still has risks. Apple isn't locked into taking any specific volume from GT, which means it can still shop elsewhere. The deal also places some limits on sapphire-producing equipment that GT can sell to its other customers, though GT hasn't shared any further details on this.

Apple is expected to announce its new iPhone on Sept. 9. UBS estimates that GT's stock could swing as much as 10% up or down that day on the news. The stock now trades at more than 30 times forward earnings. Corning, which makes the Gorilla Glass material used in many current smartphone models, trades at 13.3 times forward earnings.

GT has a strong position with a promising technology. But its lofty valuation also assumes it can deftly handle the industry's most demanding customer.

-- Dan Gallagher

CO cdxing : China Dongxiang (Group) Co., Ltd. | alibab : Alibaba.com Corporation | bkhlp : BHP Billiton Ltd | bltplc : BHP Billiton PLC

IN isptwr : Sports Clothing/Footwear | i1 : Energy | i3302 : Computers/Consumer Electronics | i645 : Clothing Stores | i656 : Mixed Retailing | imet : Mining/Quarrying | irenewee : Renewable Energy Equipment | i32 : Machinery | i64 : Retail/Wholesale | i654 : Specialty Stores | ibasicm : Basic Materials/Resources | iclt : Clothing/Textiles | icnp : Consumer Goods | iindstrls : Industrial Goods | ilgood : Leisure/Travel Goods | iretail : Retail | isptgds : Sports Goods | itech : Technology | i211 : Metal Ore Mining | iebus : B2B e-commerce | iecom : E-commerce | iint : Internet/Online

NS cspin : Spin-offs | c1521 : Analyst Comments/Recommendations | c1711 : Initial Public Offerings | c22 : New Products/Services | ccat : Corporate/Industrial News | m11 : Equity Markets | ndj : Dow Jones Top Stories | nedc : Commentaries/Opinions | neqac : Equities Asset Class News | nhrd : Heard on the Street | nsum : News Digests | ntesi : Essential Stock Market Information | ntop : Top Wire News | c02 : Corporate Changes | c11 : Plans/Strategy | c14 : Stock Listings | c15 : Performance | c152 : Earnings Projections | c17 : Funding/Capital | c171 : Share Capital | c18 : Ownership Changes | cactio : Corporate Actions | cncc : New Companies Creation | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nfcpex : FC&E Executive News Filter | nfcpin : FC&E Industry News Filter | niwe : IWE Filter | redit : Selection of Top Stories/Trends/Analysis

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