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Short and a long

Anne Stevenson-Yang, co-founder of J Capital Research, specialists in the People's Republic of China, presented two Chinese securities, a long and a short. Whatever the merits of the long idea—Tingyi, China's top maker of instant noodles—it was the short that caught the *Grant's* audience's fancy.

Alibaba was her pick not to click. The world's No. 1 business-to-business online trading platform is "maxed out," she said. It is a poor steward of capital, and a poor investor of capital. It's operating metrics are implausible and not a few of its assets are "dubious."

"I think that at this point most investors understand that turnover is inflated," she said, "but they may not realize all the different components of inflated turnover. You have uncompleted and returned orders. You have balance transfers that customers make from account to account that can be included in gross merchandise volume [GMV]. You have sales of financial products like wealth-management products which are included. You have discounts that are not realized in the invoicing."

"Why is Alibaba a weak investor of capital?" Stevenson-Yang pressed on. "Just since listing, as of the end of 2015, it had accrued nearly $26 billion in what you might think of as dubious assets, assets that are not creating revenue and profit for Alibaba. That is intangibles, goodwill, and investment in associates. They are not producing revenue for Alibaba.

"Some of their acquisitions appear to be either circular or . . . loan transactions, as when they purchased half of a football team from Evergrande, then listed the football team with Evergrande and Evergrande bought some Alibaba assets. It is kind of a peculiar deal."

Then there is Alibaba's curious, persistent cash-hunger: "Of all the big U.S. tech companies," our speaker wound up, "only Netflix rates worse in the excess of financing over operating cash flows than Alibaba, and yet Alibaba is more profitable than most of these companies. Certainly much more profitable than eBay and Amazon. So why should it need so many financing cash flows?"

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