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# Alibaba Breakup Shows Global Tech Giants a Way to Unlock Value

By Drew Singer / Bloomberg News / March 28, 2023

- ADRs soar on plan to split off units into standalone companies
- US tech giants also face higher scrutiny, calls for partitions

A plan to split Alibaba Group Holding Ltd. into six units sent the company's stock soaring Tuesday while introducing a potential model for global tech giants facing mounting breakup pressures.

Alibaba's American depositary receipts climbed as much as 15% on Tuesday, its best performance since June, after the company announced a plan to separate its $255 billion empire into divisions that will raise funds individually and eventually explore initial public offerings.

The move appears designed to appease Chinese regulators after a yearslong crackdown on the nation's tech giants and could serve as a blueprint for similar firms.

"This is a game changer in terms of raising the expectations for other companies," said Tom Masi, portfolio manager at GW&K Investment Management. "If it is consistent with the direction that the government wants them to go in and shareholders respond positively, other companies are likely to pursue the same path."

Tencent Holdings Ltd. is probably the most obvious candidate because it has so many entities that could be standalone units, Masi said. Its US-traded shares rose as much as 7.3% Tuesday. Online retailer JD.com Inc., which is planning to list its shipping unit, and Baidu Inc., which has businesses ranging from online search to autonomous vehicles, both climbed around 5%.

Read more: Alibaba's Split to Whet IPO Appetite in Tough Year

The market's enthusiasm for Alibaba's strategy is notable since the company has been trading at a steep discount to the sum of its parts, Morgan Stanley analyst Gary Yu wrote in a note on Tuesday.

"The headline P/E is effectively implying zero value to Alibaba's major consolidated subsidiaries and certain private and public equity investments," he wrote.

While the ADRs are trading around $98, Morgan Stanley sees substantial potential upside as the market comes to appreciate the value of its business segments. Other sell-side analysts were similarly encouraged by the strategy.

**Shrinking Monopolies**

The breakup plan is in-line with China's policy to reduce the monopolistic nature of tech giants, according to Bloomberg Intelligence analyst Marvin Chen.

"While China tech spinoffs are not uncommon, the move looks to be more encompassing, including core businesses, that may serve as a blueprint for the industry going forward," he said.

The strategy may be a risk for companies that compete with the newly public firms. Purer plays in local consumer services and e-commerce sectors like Meituan, JD, PDD Holdings Inc. and Sea Ltd. could see reduced demand for their shares as investors move into the new standalone units, Bloomberg Intelligence analyst Catherine Lim wrote in a note Tuesday.

***In addition, US tech giants like Meta Platforms Inc. and Amazon.com Inc. could be ripe for breakups due to privacy concerns and to unlock value in stock prices that are well off all-time highs, according to Jim Osman, founder of special situations research firm The Edge Consulting Group.***

***"This has changed the environment for looking at these big tech names that have been under pressure to do this," he said.***

***If Amazon separates its cloud and subscription services units, the company could deliver a breakup value that's 70% above its current share price, Osman said. Meta's WhatsApp and Instagram businesses are also not being valued appropriately, he said.***

Scrutiny of large technology firms in the US continues to gain traction in Washington. TikTok chief executive officer Shou Chew will appear before a House committee Thursday to respond to warnings from lawmakers about the risks poised by the platform that's used by 150 million people in the US.

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