The Meaning of Ant, and What Could Be the Biggest IPO In History

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Chinese fintech and payments giant the Ant Group is going to IPO in October. It aims to raise up to $35 billion in Hong Kong and Shanghai at over a $200 billion valuation. In 2018 it raised $14 billion in the biggest-ever single fundraising by a private company at a $150 billion valuation. Ant's epic IPO could surpass Saudi Aramco's raise of $29.4 billion as the largest ever.

Most Americans would love the backstory. The world's largest e-commerce company Alibaba was founded by English teacher Jack Ma in 1999. He improved the lives of hundreds of millions of his countrymen. Today, Ma's one of the world's richest men. Alibaba's payments platform Alipay was spun out in 2011 and renamed Ant (Financial) in 2014.

Ant's Alipay is China's leading mobile and e-commerce payment system with a whopping billion users, 711 million of whom are active monthly, plus 80 million businesses. Alipay's a "super app" from which users pay utility bills, hail taxis, buy movie tickets, borrow, buy insurance, purchase asset-management services, pay for coffee, and send money to each other. It's a multi-sided market. Consumers, businesses, and more than 2 thousand partner financial institutions engage on the platform generating powerful network effects.

Alipay debuted in 2004, enabling payments on Alibaba where it built critical mass. Similarly, PayPal built critical mass on eBay, which wasn't well-served by traditional card networks. Alipay benefited from having no foreign competitors. China flouted its 2001 WTO commitment to open up its payments market by 2006. There still hasn't been a single domestic Mastercard, Visa, American Express, PayPal or Discover/Diners Club transaction in China.

In the year ended June, 2020 Alipay did a mind-boggling $17.3 trillion and $91.2 billion in payment volume domestically and abroad, respectively, generating $8.049 billion in revenue, largely merchant-acceptance fees. Unlike PayPal, China's leading mobile-payments system is widely used in-person at restaurants, barbershops, and grocery stores, as well as online.

In contrast with American payment systems, Alipay's an ecosystem of services including consumer and SMB credit, insurance, and wealth management, enabled by massive engagement and data generated from P2P, bill, and retail payments. In 2019 fees from credit, insurance, and investment services surpassed payments. In the year that ended in June of 2020, loans, insurance, and wealth management generated $12.4 billion in revenue.

Ant has been a phenomenal growth story. Revenue increased 31%, 40.7%, and 38%, yoy, in 2018, 2019, and the first half of 2020, respectively. Alipay has been more aggressive expanding abroad than bank-owned card-network monopoly China UnionPay, and gaming and chat giant Tencent's WeChat Pay.

All three payments dragons partner with merchant processors for international acceptance. But while foreign merchants selling to Chinese consumers want to accept Alipay, foreign consumers have no reason to use it. Consumers aren't interested in a payment system until merchants accept it and merchants aren't interested in accepting one until consumers use it.

In contrast with CUP and WeChat Pay, to build critical mass abroad on both sides of the network, and, therefore, relevance, Ant has also invested in or acquired businesses, principally in East, Southeast, and South Asia, and London-based money-transfer network WorldFirst. From these it's knitting together a multinational payments system. Where it can, it will export the super-app model.

What's not to like?

Ant is domiciled and its business is concentrated in China, which doesn't enjoy the rule of law, property and contract rights impartially enforced irrespective of the men in power, or corporate transparency comparable to Western markets.

In You Will Be Assimilated: China's Plan to Sino-form the World, David Goldman observes China's Communist Party selects the emperor and mandarins. They aren’t, however, ideological communists. While there are plenty of state-owned corporations, private firms are permitted to prosper if they heed the state and serve its interests. Ant must kowtow to Beijing.

During development it enjoyed benign regulatory neglect. Now, however, it’s a payments gargantuan and national champion. To monitor activity the PBOC mandated e-commerce payment systems like Alipay clear transactions through a central clearing utility NetsUnion rather than directly with banks. Further regulation is inevitable.

The central bank is piloting a digital yuan. If China’s digital fiat currency gets traction, it will compete with Alipay.

China has long been flagrantly protectionist in payments. The US and Europe have been wide open for Alipay, CUP, and WeChat Pay. However, with the Middle Kingdom’s burgeoning cold war with the US, military skirmishes and territorial disputes with India, bullying Australia, naval brinksmanship with Japan, increased tensions with Europe, and spats over emerging-market-debt imperialism, Alipay faces increased protectionist headwinds abroad.

Washington blocked Ant’s acquisition of global money-transfer network MoneyGram over national-security concerns. President Trump banned WeChat and demanded TikTok divest its US business. India banned 118 Chinese apps including Alipay, WeChat, and search engine Baidu.

Ant can’t affect the geopolitical climate. It must cope.

While not perfect, public payment systems are useful valuation benchmarks. Global payment-network duopolists Mastercard and Visa, and PayPal, are richly valued at 20.5x, 19.1x, and 11.25x revenue, respectively. At a $200 billion valuation Ant would command a 9.7 revenue-valuation multiple. But, while growing faster, Ant's a bet on one humongous market. It doesn't enjoy Mastercard's and Visa's pricing power. And, it derives over half its revenue from credit, insurance, and wealth-management activities, which, typically command lower valuation multiples.

Nonetheless, Ant's a great fintech and payments innovator and success story. If it were headquartered in London and its business spread across China, Europe, India, and the US, it would be even more appealing.

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