

# Ant's non-payments ambitions make Alipay a global power

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The Chinese fintech and payments colossus Ant Group is doing what likely will be the biggest IPO in history.

It aims to raise a whopping [\\$35 billion at a \\$250 billion valuation](#). Ant's payment system Alipay launched in 2004 and built network critical mass on the world's largest online commerce platform Alibaba. It was spun out in 2011 and rebranded Ant (Financial).

Today Alipay is China's leading mobile-payments system, with a billion users, 711 million of whom are active monthly. In the year ended June, 2020 it did a breathtaking \$17.3 trillion and \$91.2 billion in payment volume domestically and abroad, respectively, from which it generated \$8.049 billion, principally in merchant-acceptance fees. During the same period e-commerce phenom PayPal did [\\$791 billion in payment volume](#). China's monopoly card network China UnionPay did \$14.4 trillion in purchase volume in 2019.

As of the third quarter, 2019 Alipay had [54.5% and WeChat Pay 39.5% of](#) China's mobile payments market. But both are full-spectrum payment networks. While PayPal hasn't successfully challenged Mastercard and Visa at the physical POS, Alipay and WeChat Pay have put CUP on its back heels at bars, cafes, grocery stores, and salons.

Mastercard, PayPal, and Visa are payments thoroughbreds. While payments is its foundation, "super app" Alipay is more than payments. It's a platform of services including consumer and SMB credit, insurance, and wealth management, which generated \$12.4 billion in revenue in the year ended June, 2020 – 60% of Ant's revenue. It has more than 2,000 partner

financial institutions. While it has a bank called MyBank, most loans are on partners' balance sheets.

For a behemoth, Ant's growth trajectory is phenomenal. Revenue increased 31.1%, 49.7%, and 38% year-over-year in 2018, 2019, and the first half of 2020, respectively.

Mastercard, PayPal, and Visa are valued at 20.5x, 12.25x, and 19.1x revenue. A \$250 billion market capitalization would value Ant at 12.1x revenue.

China's payments giants aren't content with their mammoth domestic market. They're expanding abroad, and, astutely, partnering with foreign merchant acquirers to build acceptance. Persuading them to offer Alipay to merchants wanting Chinese consumers isn't a hard sell. But building a presence on the spend side of the network and replicating its ecosystem, however, are more challenging.

Bearing that in mind, Ant has invested in and acquired a portfolio of payments assets abroad.

In India it has a 30.33% stake in Paytm, a digital-wallet-anchored payment network with 150 million active users, and a 20% stake in food-delivery app Zomato. Ant also has a 20% stake in southeast Asian e-payments and micro-loan provider Ascend, a 45% stake in Filipino MNO Globe Telecom's payments subsidiary Mynt (GCash), a minority stake in a joint venture with Malaysian bank CIMB to bring mobile payments to its "Touch'n Go" users, a 20% stake in Bangladeshi mobile-financial-services provider bKash, and 45% of Telenor's Pakistani MicroFinance Bank. In 2017 it invested \$200 million in Kakao Pay, the payments subsidiary of Korea's leading chat service, and, in 2019 acquired London-based money-transfer network WorldFirst for \$700 million.

Where conditions permit it will rebrand or co-brand additional acquired payments assets. Alibaba acquisition Lazada's Helloway was merged into and rebranded Alipay.

Alipay's assembling a portfolio to stitch together a multinational financial-services ecosystem.

The mobile payments titan's IPO will provide an enormous war chest to develop new services, turbocharge international expansion, and fund acquisitions.

Alipay uses blockchain to support money transfers between Hong Kong and the Philippines (GCash), and Pakistan (Telenor) and Malaysia (Valyou). It's sure to invest further in interoperability between its own and partner payment systems.

Buying local firms is a time-honored way to establish credible beachheads in foreign markets. Acquiring emerging-market mobile-payment system MPesa, Latin American Mercadopago, or European mobile wallets Bluecode, ePassi, Momo Pocket, Pagaqui, Pivo, and Vipps, with which it has an interoperability alliance, would expand its footprint.

What could slow the fintech Goliath's momentum? Payments and financial services are competitive.

While protected bank cooperative CUP is unlikely to take share, WeChat Pay might. It has roughly 800 million active users. On China's dominant chat (1.2 billion active monthly users) and gaming platform, it's more embedded in consumers' quotidian activities. Foreign networks like Mastercard and Visa, however, won't threaten Alipay on its home turf.

Facebook Pay, Libra, Google Pay, Apple Pay, and Amazon Pay, have no realistic avenue into China.

Digital fiat currencies could change the landscape. The PBOC is piloting a digital yuan. If it gets traction it will compete with physical cash, Alipay, WeChat Pay, and CUP.

And China's Communists aren't ideological Communists. While major banks are state-owned, there are many enormously profitable private-

sector enterprises like Ant and Tencent. As long as they serve the state's purposes, they'll be permitted to prosper.

Still, regulators may crimp Alipay's business model. In September they curbed the ability of lenders such as Alipay to use asset-backed securities to fund quick micro-loans. Due to an August court ruling, regulators may cap interest rates on loans not made by licensed financial institutions at a benchmark rate currently set at 15.4%.

To monitor online payments the PBOC mandated e-commerce payment providers like Alipay use the clearing utility NetsUnion rather than proprietary bilateral relationships they'd built with hundreds of banks.

The mobile payments giant will face increased protectionist headwinds abroad.

China has a brewing cold war with the U.S., increased tensions with Europe, and military skirmishes and territorial disputes with India. It's engaged in naval brinksmanship and territorial disputes with Japan, has bullied Australia, and faces blowback from emerging-market debt imperialism. The U.S. blocked Ant's acquisition of MoneyGram on national security grounds. President Trump ordered TikTok to divest its U.S. business. India banned Alipay and WeChat.

It's a great story. Alipay enjoys powerful network effects in China. Notwithstanding its alluring global opportunity, the humongous Chinese market will remain Ant's locomotive for the foreseeable future.

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