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The Newest Largest IPO In History

Last fall it was Twitter. Before that, it was Facebook. Now it's Alibaba, the huge Chinese e-commerce company that just became the largest tech IPO in history, after raising $21.8 billion in its initial public offering on September 18.

As it turns out, Facebook and Twitter turned out to be decent investments at their IPO price. Post-IPO buyers purchased Twitter shares at roughly $45 a share, and over the nearly 12 months since, the stock has climbed to around $50--an 11% return that is below what the market as a whole has delivered, but above the negative returns most investors experience in the first year after a public offering. Facebook has done better, starting life at $38 a share in May of 2012, following a very bumpy path that saw investors deeply under water for months, and then recovering so that shares are now trading around $75.

Will Alibaba continue the streak? Amid all the hype, one voice to listen to is veteran emerging markets analyst/manager Mark Mobius, of Franklin Templeton Investments. Mobius acknowledges that Alibaba has some interesting fundamentals--including a return on equity of 24%, operating margins of 26% and revenue of $1.02 billion, making it by far the biggest e-commerce engine in China.

But he also notes that the company has an unusual corporate structure that could lead to problems for investors down the road. He warns that the company's ownership team controls the board of directors, which means that if shareholders are concerned about the direction of the company, well, there isn't much shareholders could do about it.

What, exactly, did investors buy in this IPO? In most cases, IPO investors are purchasing direct ownership shares of the company. But Alibaba is listed as a variable interest entity, which creates a somewhat more complicated ownership structure. The bottom line is that shareholders, in this public offering, are actually buying a stake in a company registered in the Cayman Islands, which has a contract to share in Alibaba's profits. If shareholders ever became concerned about Alibaba's management decisions, they would have to go to a Chinese court to get redress. It is hard to imagine a positive outcome for American investors.

Along this line, it is interesting to note that the original plan was for Alibaba to go public on the Hong Kong stock exchange, but the Hong Kong regulators declined to allow it, citing concerns about (you guessed it) the ownership structure and fairness to Hong Kong investors.

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