BOW Finance Newsletter

November 5th, 2020
Issue IV

Investment Banking: Ant Group IPO

Type of Deal: IPO

Industry: FinTech

Leading Advisors: Citigroup, JP Morgan Chase, Morgan Stanley

Time Announced: **SUSPENDED**

First Trading Day: Nov. 5, 2020 in Hong Kong and Shanghai

IPO Price: $10.32 per share

Opening Price: -

IPO Valuation: $34.4 B

UPDATE FROM CNN BUSINESS:

https://www.cnn.com/2020/11/03/tech/ant-ipo-postponed-beijing-jack-ma/index.html

“Ant Group's **highly anticipated IPO** has been suspended following a meeting between the company's billionaire co-founder **Jack Ma** and regulators in China, an abrupt move that threatens what was due to be the largest share sale in history.

The **Shanghai Stock Exchange** said in a statement on Tuesday that it had postponed the company's listing, less than two days before its shares were due to begin trading, because of "major issues" that might cause it "not to meet the listing conditions or disclosure requirements."

The IPO has also been suspended in Hong Kong, according to a statement from Ant Group, which referenced the meeting between Ma and Chinese officials as well as "recent changes" in regulations. In a statement on its official WeChat account, Ant Group apologized to investors for "any inconvenience caused by this development.'”

About Ant Group:

Ant Group is the financial arm of the e-commerce giant Alibaba and serves as an all-in-one platform that processes transactions, runs money-market funds, and facilitates small loans. It is most well known for its ubiquitous Alipay app. This is the second of Jack Ma’s biggest projects. The first is Alibaba, which **helped China turn into the world’s biggest e-commerce market** in the past 20 years. In recent years, **Ant has emphasized its focus on technology**, dropping the term “financial services” and rather positioned itself as a partner for banks that helps assess credit risk.

It is important to note the difference in roles between mobile wallets in the USA and China. Ant Group goes beyond what PayPal, Venmo, Apple Pay, etc. do and offers services for everything from payments to credit, insurance, and investments. App-based payments are much more commonplace in China -- cash is increasingly becoming obsolete. Alipay now handles **more transactions yearly than Mastercard and Visa**.

Ant’s main competition comes from Tencent Holdings, whose product WeChat Pay eats into Alipay’s market share. **But Ant is “well ahead” in its other areas of business**, being 4x bigger on AUM on the wealth-management side and having about 3x more insurance partners. Indeed, despite being the most well-known part of Ant’s business, Alipay is just part of it, and its credit business may prove to be much more interesting.

Ant is currently the world’s most valuable technology startup, and it is likely to break global records by raising more than $30 billion from its concurrent IPOs.

Discussion:

The deal is the first concurrent listing in Shanghai and Hong Kong for a decade, and the largest listing to date on Shanghai’s Science and Technology Innovation Board (STAR Market). It would rank along the largest IPOs ever, raising $34.5 B, with Saudi Aramco at $29.4 B in December 2019. The share sales will **value Ant Group at $313 B** just before its trading debut.

While Ant Group is avoiding the US stock market, it is still relying heavily on US banks for its IPO. Moreover, considering escalating US-China tensions, it is an interesting time for Ant Group’s IPO. In the past few months, Hong Kong has seen an **increase in secondary listings** from US-listed Chinese companies. Historically, international banks had little involvement with the Chinese domestic IPO market, but many of the American bulge-bracket banks have **ambitions to be leading Asian/Chinese investment banks**. A dual-listing in Hong Kong and Shanghai would solidify the company’s position as a Chinese tech champion. While this IPO may contribute to China’s importance as a **digital powerhouse, it also shows how the tech world is fracturing**, with trends pointing to less reliance on US tech giants.

Around 95% of Ant’s revenue in 2019 came from mainland China. It has invested in Paytm, an Indian payment app, and acquired EyeVerify, a startup from Kansas City that makes biometric authentication technology. Even internally, the Chinese government is wary of fast-growing financial products. But the fact that Ant Group has survived and thrived for so long under regulatory pressure means that it can probably continue navigating what authorities throw at it. Moreover, China has helped Ant Group by **keeping foreign competitors out**. Foreign companies often have an uphill battle to enter the Chinese market.

In the first half of 2020, Ant Group’s operating margin was 34% (**meaning for every dollar in revenue, it was making $0.34 in profit**, before interests and taxes). The revenue comes from two sources: 1. Fees from merchants when people transact with Alipay, and 2. Fees from banks that make loans or sell investment products on its platform. Those who invest in Ant Group are betting that its domination in the Chinese domestic market will continue and that there will be continued protection from possible foreign competitors. Regulatory risks are still a formidable concern, with Chinese and global compliance needs and US-China political tensions. A final risk is Ant’s **reliance on its relationships with other financial institutions**. Ant Group is a technology company, so it doesn’t issue credit on its own. 98% of the credit used for its ballooning microlending businesses is extended by banks. Ant can blunt this threat by maintaining healthy partnerships with financial institutions.

M&A: Blackstone Acquiring Simply Self Storage

Type of Deal: M&A

Industry: Private Storage

Acquirer: Blackstone Real Estate Income Trust Inc. (“BREIT”), Blackstone Group Inc. (Ticker: BX) (Stock Price of BX as of 10/27/20: US $51.87)

Target: Simply Self Storage, owned by Brookfield Asset Management Inc., (Ticker: BAM) (Stock Price of BAM as of 10/27/20: US $31.85)

Time announced: October 26, 2020

Goal for closing: End of 2020

Purchase Price: US $1.2 billion

Acquisition Rationale/Discussion:

1. *Industry Background:*
    1. Throughout the pandemic, the storage industry has remained relatively stable. The self-storage industry is dominated by large publicly-traded companies; however, Simply Storage is one of the largest private firms in the industry. Brookfield acquired Simply Storage and its 90 locations in 2016 for $830 million. Since then, the company has grown to over 200 locations, primarily in big cities that have experienced strong economic growth, including New York, Dallas, and Seattle. The self-storage sector is highly fragmented, so there is significant potential for future growth of the Simply Storage business through acquisitions, according to Frank Cohen, chief executive of Blackstone.
2. *Stable Investment for BREIT:*
    1. Blackstone Real Estate Income Trust Inc. (BREIT) focuses their investment portfolio around stable, income-generating properties in growing markets. Self-storage businesses, such as Simply Storage, experience low tenant turnover, minimal maintenance costs, and consistent cash flows. Additionally, Simply Storage leads the industry with a fully established brand and talent on deck. Therefore, investing in the stable self-storage industry makes a lot of sense for BREIT during this time.
3. *More on the Blackstone Real Estate Income Trust*
    1. BREIT was founded to provide individual investors with the opportunity to invest in Blackstone’s industry-leading and experienced real estate platform. The fund is not publicly traded, so the value of shares is completely tied to real estate fundamentals. BREIT invests across property types, focusing on generating stable returns for “income-focused investors.” BREIT already has a portfolio of over 2.6 million square feet of self-storage facilities valuing at $300 million. This deal would make BREIT the third biggest private owners of storage space in the United States and they plan to acquire a number of smaller assets in the industry to run under the umbrella of the Simply Storage brand.
4. *Brief Analysis*
    1. This acquisition is completely in line with fulfilling the criteria of BREIT. Simply Storage is a stable business that will most likely generate the consistent returns that BREIT seeks for its investors.

Sources:
https://www.wsj.com/articles/blackstone-to-buy-simply-self-storage-for-about-1-2-billion-11603656073

https://www.blackstone.com/press-releases/article/blackstone-real-estate-income-trust-to-acquire-simply-self-storage-for-approximately-1-2-billion/

https://www.marketwatch.com/story/blackstone-real-estate-to-acquire-simply-self-storage-for-about-12-billion-2020-10-26

https://www.breit.com/about-breit

Market Updates

How Will Presidential Election Results Impact the U.S. Stock Market?

The presidential election result is important for equities, as regulations over corporate practices like taxes and legislation for financial aid that will boost the economy are just some of the factors that will greatly impact company performance and move markets.

Stock market performance under current presidency: Before Covid-19, Trump often mentioned the U.S. has a strong stock market. Business-friendly policies and less regulation helped boost the S&P 500 index about 60% since Trump won the 2016 election even after Covid-19. However, these gains were offset by Trump’s trade war and tariffs on imports that made goods more expensive for consumers. In fact, the trade war and tariffs on imports cost the typical U.S. household approximately $831, according to the New York Fed. Moody’s Analytics estimated that the trade war with China also cost the U.S. about 300,000 jobs.

If Trump wins: Potentially a maintained status quo. Studies have shown that stocks tend to do well following the re-election of an incumbent. After Ronald Reagan, Bill Clinton, and Barack Obama’s reelections, the S&P 500 was up 26.3%, 31.0% and 29.6%, respectively, over the following year. Many believe the stock market will similarly rally due to policy continuity this year, especially with an expectation of future tax cuts. However, escalating trade tensions and greater protectionism may continue to dampen equity growth in the next term while strengthening the US dollar.

If Biden wins: Mixed factors. On the downside: Biden’s plans include increased government spending and taxing capital gains and dividends at 39.6% for investors with income greater than $1 million. He proposed raising the corporate tax rate from 21% to 28%, which would cut into companies’ bottom lines. On the upside, global trade tensions may ease under Biden, and we would see more conventional political governance (think no more Trump’s Twitter), which could bring stability to markets. Taxes may also not matter as much given that Biden’s victory could also mean a greater probability of a “Blue Wave” or a Democratic sweep across the national government, which would make passing a stimulus bill (and a larger one) more likely. With greater stimulus, we may see greater inflation and a drop in the US dollar.

Potential Worst Case Scenario: Contested Election that Drags On

In 2000, unclear election results in Florida for the race between Bush v. Gore led to a recount, a Supreme Court case, and a month with no declared president. The S&P 500 significantly dropped, falling nearly 5% in the first week after the election. By December 20, a week after Bush’s declared victory, it was down 11%, and markets continued to be volatile afterward. A contested, drawn-out election result this year would potentially create similar volatility and weigh on equity markets. If investors become more fearful and pull out of equities, we will likely see them retreat into safe-haven assets like gold and treasuries.

Long term: Regardless of the election outcome, the market's performance will probably be significantly influenced by the winner’s ability to pass a stimulus bill and therefore help the U.S. out of the current downturn caused by Covid-19. Looking farther into the future, while we may see short-term differences in stock market performance under these two presidents, research from Vanguard dating back to 1853 found that, in the long term, equity returns are almost identical no matter who is in the Oval Office. The average annual U.S. stock market returns between 1853 and 2015 were 10.7% when a Democrat was president and 10.5% when the president was a Republican, with similarly little impact on fixed income investments like bonds. These trends suggest investors should consider taking a long-term view, maintain their positions in the stock market after Election Day, and not overreact to short-term volatility.

Sources:
https://www.bloomberg.com/news/articles/2020-10-29/election-2020-how-trump-or-biden-win-could-affect-your-money-and-finances?utm_campaign=likeshopme&utm_medium=instagram&utm_source=dash%20hudson&utm_content=www.instagram.com/p/CG8KifFjPQr/

https://thehill.com/opinion/finance/524116-how-the-election-outcome-may-influence-investors-and-markets

https://www.entrepreneur.com/article/358490

Advice Column: What I Wish I Knew

Advice from upperclassmen who have been through the finance recruitment process

- Take the time to determine which area of finance most appeals to you. There are HUGE differences between, for example, Investment Banking and Sales & Trading. The way to best do this is to reach out to other Duke students who have done internships in such roles! They also had to decide between divisions once upon a time...
- Read up on the bank before your interview and know at least one recent deal in extreme detail. Be ready to express your own opinion on the deal! Know the basic outlines of at least two other deals.

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