Ant Group’s Delayed IPO
By Vandit Modi

Ant Group, formerly known as Ant Financial was founded in 2004 by Jack Ma. It is an affiliate company of the Chinese Alibaba Group. Jack Ma, the founder of Alibaba owns a one-third stake in the Ant Group, which owns the digital payment platform Alipay. Alipay is the largest mobile and payment platform in China, but the dark horse of the Ant group is its credit business which lends loans to small businesses through credit cards as well as micro-loans. The company which is considered to be more valuable than many other banks worldwide has its business highly concentrated in just one country- China. Like other Chinese companies, this internet company has also decided to go public in the Hong-Kong and Shanghai market instead of New York.

Jack Ma, to support his growing e-commerce business founded Alipay, a mobile payment service as an intermediary that would keep the buyer’s money secure until the product was satisfactorily delivered and then it would be transferred to the sellers. China had an undeveloped digital payment system in the early 2000s. So Alipay tried using this as an opportunity to expand outside Alibaba and by 2006 more than 300,000 sellers were using Alipay as a medium to accept money. Very few people have credit cards, and the government banks were slow to modernize. People seek out small loans, invest their savings and buy health and life insurance.
Fees from those businesses accounted for more than half of Ant’s revenue last year. While Alipay boosted Alibaba’s sales to great extent, it failed to create much value for itself. Initially Alipay was able to use the funds in user accounts to earn interest for itself. However later on Chinese government-imposed restrictions on this, preventing Alipay to earn more cash. In 2014, Alipay restructured itself into Ant Financial to operate as a banking service, MY Bank under its money market fund Yu’e Bao(yoo-uh bow).

Today, Ant group manager $560 Billion in wealth management. The money market fund gained its popularity due to digital service offering higher interest rates on spare cash Chinese consumers deposited in their accounts. At one point the company was offering 5% interest when other banks were offering 2.75% interest on deposits. Due to increased government regulations the interest rates have come down significantly. Regulators have criticized Ant for not adequately protecting consumer’s money. The fact that Ant has survived through this rough and strong regulatory policies demonstrates that it will continue to do so even in future.

The IPO Debacle

ANT Group, a Chinese Financial technology Giant that was gearing to get listed in Shanghai and Hong Kong Stock Market on November 5 announced to suspend its IPO just 2 days before its listing. The IPO valuing over $300 Billion would have been the biggest IPO in history if it would have gone through. According to sources, the IPO was suspended after Jack Ma and one of the other Ant Group’s top investors criticized Chinese Government regulation policies at Shanghai Bund Summit on October 24. Ma stated that many of the state-run banks have a “pawnshop mentality” regarding their collateral standards. He believes the Chinese Financial system isn’t ready for the future financial world.

Alipay and its major rival Tencent have been helping small businesses by lending small loans. Both of these companies hold the majority of the digital payment market challenging the country’s state-run banks. The Chinese government wants the Ant group to function as a bank and also regulate it like a bank. Ant Group changed the name in June 2020 from Ant Financial Services Group with an aim to rebrand the company as a tech company instead of a bank service.

Effect on Alibaba

Last September, Alibaba swapped its right of 37.5% of fintech’s pre-tax profit with 33% equity stake in the company. Alibaba’s equity stake generated 5.32 billion yuan in investment profits in its fiscal year 2020. In the first six months of fiscal 2021, Alibaba’s stake in Ant generated 7.72 billion yuan ($1.12 billion) in investment profits or 10% of its net income. Ant’s IPO would have helped Alibaba boost its profit. Alibaba’s primary source of revenue is its core commerce business. If Ant’s IPO had gone through it would have helped Alibaba boost its other non-commerce business. Alibaba’s cloud business is still Asia’s top cloud infrastructure service. Therefore Ant’s IPO suspension wouldn’t affect Alibaba significantly.

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GFMC email id: gfmc2019@gmail.com
Ruchi Agrawal ,Editor-in-Chief:
rxa190016@utdallas.edu
I completed my Bachelors & Masters in Accounting from India & decided to pursue my masters in Finance in Fall-19 as I had already passed CFA Level 1 at that time. Coming to a new country, starting from the scratch with cutthroat competition all around you can be daunting. This is where the team at GFMC changed my perspective. My seniors and the officers at that time selflessly helped me ease into the transition at UTD. They showed me that it was not a dog-eat-dog world, one can be successful and still help their community grow. I wanted to be a part of it, so I volunteered from my first semester to be a part of GFMC. I have been fortunate enough to serve my peers for all four semesters of my time here at UTD via different roles through GFMC.

I started working for the finance trading lab as a Teaching Assistant in my 2nd semester where I got the chance to help students, host workshops & learn new software for finance. By the time I started interviewing for summer internships the pandemic shut everything down, so I transitioned towards my fulltime job search as I would be graduating in December. One lesson I have learnt from my seniors & faculties is that good things take time, be patient, persistent & just keep putting in the hard work.

**The DealDesk congratulates Varshil on his graduation and best wishes for his next adventure**