

Comparative Analysis of the Financial Stability of Global IT Companies, Alibaba and Kakao

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글로벌 IT 기업의 재무적 안정성 비교 분석 -알리바바, 카카오를 중심으로-

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Summary

IT services refer to service products and service processes that meet users' IT needs. Currently, due to COVID-19, IT companies are adopting remote work and digital solutions, further encouraging the growth of the IT service market. Among securities investments, investment through rational decision-making is to invest in high-quality companies that can produce large returns, where the value of a company is currently undervalued but has a dominant positive outlook when invested in the long term. This paper selects two of the most influential companies in IT companies in both China and Korea (Alibaba and Kakao) and conducts an analysis of corporate management stability based on the financial ratio for the discovery and evaluation of "superior companies that can produce stable profits in the long term."

1. Introduction

As many people consider securities investment a key method for wealth accumulation, the securities market has come to occupy a significant role in economic activities. In securities investment, making rational decisions involves investing in high-quality companies whose value may currently be undervalued but have a favorable long-term outlook for substantial returns. The ability to identify and evaluate "high-quality companies capable of generating stable, long-term profits" has become a critical success factor for both investors and managers.

The method for identifying such high-quality companies among numerous securities is through financial statement analysis. This analysis refers to analyzing a company's current and future business

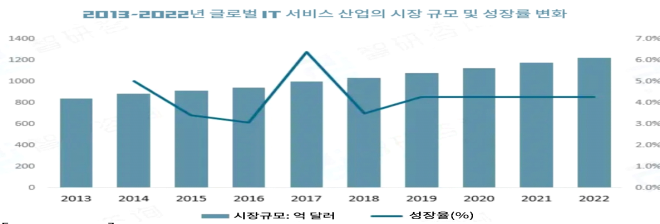
operations and financial health to assist stakeholders in making informed decisions. The level of financial security is a crucial standard for assessing a company's operational status. To select companies within the IT industry for stable investments, two companies are chosen. Through a comprehensive analysis of financial ratios and indicators, the aim is to evaluate each company's financial stability. This analysis will help identify whether the companies qualify as "excellent" or "highly sustainable growth" businesses, ultimately supporting safe, profitable, and successful investment decisions.

2. Current Status of Global IT Industry and Alibaba and Kakao

2-1 Global IT Industry Status

IT service products include hardware integration,

software integration, general solutions, industry-specific solutions, and IT integration services. The service process encompasses everything from the IT service provider offering IT consulting to the user, defining IT requirements, selecting suitable IT service providers and service products, implementing IT projects, testing and evaluating the effectiveness of IT services, and providing ongoing maintenance and upgrades.



[Figure 1] Changes in market size and growth rate of global IT service industry from 2013 to 2022

Companies are increasingly relying on digital technologies to enhance efficiency, innovation, and customer experience. This trend encourages IT service providers to offer services related to digital strategy, application development, and data analytics. Artificial intelligence, machine learning, and automation play a crucial role in digital transformation, providing intelligent solutions. According to the data presented in [Figure 1], the global IT services industry market size was approximately \$122.31 billion in 2022.

2-2 Alibaba

Alibaba Group is currently a leading IT internet company in China. It operates a diverse range of internet businesses, including an online marketplace that facilitates B2B international and domestic trade, online retail and payment platforms, an online shopping search engine, and data-driven cloud computing services. The company is dedicated to creating convenient online trading channels for people worldwide.

Alibaba's core mission is to enable merchants around the world to conduct business easily by providing cost-effective products and services through a marketing platform that allows small and medium-sized enterprises (SMEs) to participate in

global trade. The company has established offices in 21 countries, continuously expanding its overseas presence and collaborations to form a global business network. Its cross-border trade operations are growing rapidly, driving the development of the digital economy and helping businesses achieve digital transformation, improve efficiency, and create value. This also offers consumers a more complete, convenient, and personalized shopping experience, attracting the attention of numerous investors and users not only in China but globally.

From a strategic perspective, Alibaba Group has been actively pursuing globalization. The company not only maintains a competitive edge in the Chinese market but is also aggressively targeting overseas markets in Southeast Asia, Europe, and the United States. Simultaneously, Alibaba is strengthening its global strategy by establishing close partnerships with companies and organizations worldwide through investments and collaborations.

2-3 KAKAO

Kakao is a leading internet IT conglomerate in South Korea, building an ecosystem that encompasses a wide range of digital services and content, including telecommunications, entertainment, e-commerce, transportation, video games, and mobile payments. The group's flagship product, KakaoTalk, is a messaging app that has gained immense popularity not only in Korea but also globally, offering social sharing and multimedia features. Key services include KakaoTalk (messaging), KakaoBank (internet banking), KakaoPay (mobile payments), and Kakao Mobility (taxi-hailing services), alongside a robust operation in content and media through Kakao Entertainment. Kakao tends to acquire companies that have entered the market but lack brand identity, gaining monopoly in those sectors and thereby raising entry barriers for other companies.

3. Comparative Analysis of Financial Stability

3-1 Short-term stability analysis

The analysis of short-term financial stability primarily focuses on liquidity ratios, which include the current ratio, quick ratio, defensive interval ratio. These liquidity ratios provide information about a company's ability to meet its short-term financial obligations and the state of its financial condition.

This ratio helps assess the company's ability to repay its short-term obligations. For financial institutions that lend money to companies or suppliers that extend credit to businesses, evaluating the ability of borrowers or clients to repay their short-term debts and the overall liquidity situation is crucial. As shown in [Table 1], Alibaba's current ratio remained consistently around 150% from 2021 to 2023, with a recorded 181.1% in 2023, while Kakao maintained a current ratio between 100% and 150%. This indicates that Alibaba's higher liquidity ratio makes it more suitable for bond investments by investors.

[Table 1] Alibaba and Kakao Liquidity Ratio

ratio	Alibaba			KAKAO		
	2021	2022	2023	2021	2022	2023
current ratio(%)	170.5	166.4	181.1	143.2	148.9	132.2
quick ratio(%)	136.6	85.1	49.5	92.5	91.7	77.9
Defensive Interval Ratio(days)	328.5	241.4	277.0	494.0	376.8	388.5

The quick ratio compares liquid assets to short-term liabilities and can be more effective in assessing a company's ability to meet short-term debts.

The defensive interval ratio is calculated by dividing liquid assets by the average daily cash expenditure. Over the three years, Alibaba's defensive interval decreased from 413.2 days in 2021 to 349.4 days in 2023, while Kakao's defensive interval also dropped from 494 days to 388.5 days.

Overall, while Alibaba shows a strong capacity to meet its short-term obligations due to its high liquidity ratio, Kakao maintains a slightly longer defensive interval, indicating a minor advantage in cash liquidity.

3-2 Long-term stability analysis

The leverage ratio provides information about a

company's stability in management and its ability to repay principal and interest associated with long-term debt, indicating the risk of default. In this context, it is also referred to as a long-term solvency ratio.

[Table 2] Alibaba and Kakao Stability Ratio

As shown in [Table 2], In 2023, Alibaba's debt ratio

ratio	Alibaba			KAKAO		
	2021	2022	2023	2021	2022	2023
debt-assets ratio(%)	56.0	56.7	56.1	67.9	69.9	81.7
equity-assets ratio(%)	44.0	43.3	43.9	32.1	30.1	18.3
interest-bearing debt to total capital ratio(%)	16.4	16.6	18.6	13.4	16.8	17.9
interest coverage ratio(times)	24.7	20.1	18.5	14.9	5.2	2.8
ratio of fixed assets to long-term capital(%)	58.1	56.4	34.6	40.9	39.9	38.5

was 127.9%, remaining stable around the 127% mark over the past three years. In contrast, Kakao's debt ratio increased significantly from 211.8% in 2021 to 446.2% in 2023, consistently higher than Alibaba's. This doubling of Kakao's debt ratio in just three years indicates that Alibaba bears less risk, whereas Kakao appears to require more effective debt management.

The interest coverage ratio indicates a company's ability to pay interest. This ratio reflects how many times the cash flow generated from operating activities can cover interest expenses, demonstrating the company's safety in this regard. According to the data, both Alibaba and Kakao have experienced a decline in their interest coverage ratios from 2021 to 2023. Alibaba's ratio dropped from 24.7 times in 2021 to 18.5 times in 2023, a 25% decrease. Kakao saw a more dramatic reduction from 14.9 times in 2021 to 2.8 times in 2023, an 81% decline.

Overall, Alibaba maintains stable levels for both its debt ratio and interest coverage ratio, indicating good long-term debt management. In contrast, Kakao has faced a sharp rise in its debt ratio and a significant decrease in its interest coverage ratio, leading to a relatively higher financial risk. This situation suggests an urgent need for Kakao to improve its debt management and ensure its ability

to meet interest payments to enhance its long-term stability.

4. Conclusion

The financial stability analysis of Alibaba and Kakao reveals that Alibaba has a more solid capital structure and superior funding capabilities, enabling it to respond better to market fluctuations and expand its business. In contrast, while Kakao manages its capital well, it faces significant volatility in its operations due to market fluctuations.

Alibaba and Kakao exhibit differences in terms of short-term and long-term stability. In terms of short-term stability, Alibaba boasts relatively high liquidity and a low debt ratio, indicating strong overall short-term debt repayment capacity. In contrast, Kakao has a higher defensive period ratio, which suggests a slight advantage in cash liquidity. This indicates Kakao's ability to maintain stable operations for a certain period, even amid rapid market changes or financial crises.

In terms of long-term stability, Alibaba maintains stable levels of both debt ratio and interest coverage ratio, indicating effective long-term debt management. These stable financial metrics contribute to a more optimistic outlook for the company's future, enhancing investor confidence and attracting more capital inflow. In contrast, Kakao has recently experienced a sharp increase in its debt ratio and a significant decline in its interest coverage ratio, resulting in relatively higher financial risk. If the interest coverage ratio continues to decrease, it could impact market confidence in Kakao, potentially leading to stock price volatility and capital outflows. To improve long-term stability, there is an urgent need for better debt management and ensuring the capacity to meet interest payments.

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