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Jack Ma Got a Better Deal Than Bezos With $266 Million SCMP Deal

Lulu Yilun Chen Dec 13, 2015 9:13 pm ET

THE WASHINGTON POST (Bloomberg) -- Jack Ma's Alibaba Group Holding Ltd. looks to be getting a better deal in its $266 million acquisition of the South China Morning Post and related assets, compared with recent newspaper deals including the purchase by Amazon.com Inc.'s Jeff Bezos of the Washington Post.

At HK$2.06 billion ($266 million), the Chinese e-commerce giant is buying the SCMP's media assets at 10 times the latest annual adjusted earnings before interest, taxes, depreciation and amortization. By comparison, the $250 million Bezos paid for the Washington Post in 2013 was 17 times ebitda.

The SCMP is even cheaper when put side by side with more recent deals. Nikkei Inc.'s $1.3-billion purchase of the Financial Times earlier this year was valued at 35 times adjusted operating profit, while the SCMP acquisition is valued at a multiple of 15. In September, Axel Springer SE agreed to buy Business Insider Inc. for six times projected revenue for 2016, while the SCMP fetched less than twice the media business's revenue for 2014.

Limited Scope

The 112-year-old SCMP, once the envy of the industry in terms of profitability, has in recent years joined other mastheads in struggling to attract advertisers amid the rise of free publications online. Control of the city's premier English- language broadsheet has been unchanged since media magnate Rupert Murdoch sold most of his stake to Malaysian billionaire Robert Kuok in 1993.

“SCMP’s market is very limited as it only operates in Hong Kong and cannot compare with the FT,” said Kenny Tang, chief executive officer of Jun Yang Securities Co. in Hong Kong. “Alibaba can help SCMP explore online markets.”

SCMP Group Ltd., the paper’s listed parent, has seen three years of profit declines and had it not been for some extraordinary gains, its latest semiannual profit would have plunged more than 40 percent.

Alibaba is taking on the media business, which includes the newspaper and magazine publishing operations that generate more than 90 percent of SCMP Group revenue and about 65 percent of adjusted operating profits. Besides newspapers and magazines, SCMP Group also has a business segment that leases out various real estate properties.

Editorial Independence

Beyond money, Chinese ownership will test the Hong Kong newspaper’s editorial independence as the SCMP regularly publishes stories such as anniversaries of the Tiananmen Square massacre, which are taboo topics for mainland media.

“Jack Ma would view an acquisition of the South China Morning Post as a national service,” said Peter Schloss, managing partner of CastleHill Partners LLC, a Beijing-based advisory and investment company. “He’d be doing the central government a favor by ensuring that the South China Morning Post is in friendly hands.”

Asked about concerns the deal may lead to a reining in of the Hong Kong paper’s freedoms, Alibaba Vice Chairman Joe Tsai told the SCMP that the e-commerce company would let editors decide the direction of coverage for any story. Alibaba also said on Friday it would scrap the SCMP’s Internet pay wall.

Different Lens

“Today when I see mainstream western news organisations cover China, they cover it through a very particular lens," Tsai said. “We see things differently, we believe things should be presented as they are."

Politics aside, the purchase of the publication raise the profile of Alibaba’s growing media empire. In June, the company announced the purchase of a stake in one of China’s most influential business media companies and months later, helped set up a media and entertainment company called CMC Holdings. It also agreed to buy video service Youku Tudou Inc. and invested in Paramount Pictures' latest "Mission Impossible" movie through its Alibaba Pictures Group unit.

SCMP Group has been suspended from trading since February 2013 after the company failed to have at least 25 percent of shares held by minority investors, the minimum proportion required for a company to trade its shares in Hong Kong.

--With assistance from Shai Oster.