

China Internet

Quality growth and further digitization penetration provide growth support

During the 2022 Central Economic Work Conference (CEWC), key topics that are relevant to the internet sector are: 1) the development of digital economy; 2) improvement in oversight on a regular basis, in order to let platform economy to drive the important role in quality economic development, jobs creation, and increasing competitiveness internationally. In our view, industry regulatory guidelines have always been aimed at propelling healthy and sustainable industry development, and the policies have been consistently giving guidance and support to technological innovation, enhancing global presence and competitiveness, enterprise digital transformation and efficiency improvement. While under-owned China internet sector will remain sensitive to various sector regulations and other beta factors in the near term, business model robustness, operating leveraging improvement, and ability to expand new revenue streams will be the key stock alpha drivers in 2023.

- **Continue to support digital economy development.** The 2022 CEWC's regulatory tone towards platform economy is largely in-line with the Political Bureau of the Central Committee meeting held in mid-2022: to support the healthy development of platform economy and create more predictable regulatory environment. The CEWC also introduces potential policy support to direct platform economy to play an important role in creating jobs & international competitions: 1) for mass market jobs creation, revitalizing commerce and services will support e-commerce, logistics, services and food delivery industries which creates millions of employment opportunities. 2) Digitization development will also provide much needed employment for higher education graduates and lift overall labour force productivity; 3) We expect leading technology and platform companies will continue to receive support to expand overseas. This should benefit platforms that already have solid overseas presence, including Alibaba, Pinduoduo, Tencent, NetEase, Bytedance and Kuaishou, etc.
- **Encouraging technology breakthroughs, innovations, and overseas expansion.** Regulations on China's platform economy have been aiming at correcting blockage to fair competition, innovations, and disruptions to the non-scalable offline economy and fairly treating all participants in the economy, and the goal of the regulations is to support long-term and sustainable development. Looking ahead, policy may remain supportive on encouraging platforms to accelerate technology breakthroughs in AI, cloud, blockchain, software technologies and crucial technology bottleneck subindustries. We also expect platform companies will be encouraged to expand overseas, and to compete on both technology and business model advantages. China's leading internet technology companies have always been open in their technology infrastructure and their investment and empowerment remains crucial in supporting China's technological advancement.
- **Business model robustness, operating leveraging improvement, and ability to expand to new revenue streams will be the key stock alpha drivers.** Looking into 2023, we expect the market will first focus on earnings visibility quality, and companies that have new growth drivers will deliver superior alpha potential. Our stock picks on one-year investment horizon are: Alibaba, Tencent, Baidu, Pinduoduo, and Meituan.

China Internet Sector

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

Wentao LU
 luwentao@cmbi.com.hk

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Figure 1: Comments on platform economy in major central conference

Date	Comments on platform economy in major central conference	今年主要中央会议对平台经济的表述
Apr 2022	The Political Bureau of the Central Committee meeting in April stated that it is necessary to promote the healthy development of the platform economy, complete the special rectification of the platform economy, implement regular supervision, and introduce specific measures to support the healthy development of the platform economy.	要促进平台经济健康发展，完成平台经济专项整改，实施常态化监管，出台支持平台经济规范健康发展的具体措施。
May 2022	The CPPCC National Committee held a special consultation meeting on "promoting the sustainable and healthy development of the digital economy", stating: will support the sustainable and healthy development of the platform economy and the private economy, study specific measures to support the healthy development of the platform economy, and encourage platform enterprises to participate in major national scientific and technological innovation projects.	要支持平台经济、民营经济持续健康发展，研究支持平台经济规范健康发展具体措施，鼓励平台企业参与国家重大科技创新项目。
Jul 2022	The Political Bureau of the Central Committee meeting in July stated that it is necessary to promote the healthy and sustainable development of the platform economy, complete the special rectification of the platform economy, implement regular supervision, and introduce a number of "green light" investment cases.	要推动平台经济规范健康持续发展，完成平台经济专项整改，对平台经济实施常态化监管，集中推出一批“绿灯”投资案例。
Dec 2022	Central Economic Working Conference (CEWC) stated that China will step up effort to develop digital economy, enhance the capability of implement regular supervision, <u>support platform enterprises to play an important role in promoting economic development, creating jobs and international competition.</u>	要大力发展数字经济，提升常态化监管水平， <u>支持平台企业在引领发展、创造就业、国际竞争中中大显身手。</u>

Source: Gov.com, CMBIGM

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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