

China Internet

August online retail sales recap

Based on NBS data, 8M23 online retail sales GMV/ online physical goods GMV reached RMB9.5/8.0tn, up 12.1/9.5% YoY. The YoY growth of online physical goods GMV in Aug 2023 came in at 6.1% (July 2023: 5.0%), which was largely in line with our estimate at 5.5%, demonstrated a marginal sequential improvement trend but indicated that consumption recovery still takes time. Although overall top-line growth of e-commerce platforms is likely to face short-term fluctuation due to macro uncertainties, e-commerce platforms are driving revenue growth and scale expansion in an efficient way and targeting for operating efficiency improvement, which likely leads to benign-than-expected industry competition, and better-than-expected earnings growth in 3Q23. Maintain BUY on Alibaba and Pinduoduo (PDD).

- **Consumption recovery better than feared.** YoY growth of retail sales came in at 4.6% in Aug, per NBS data, better than Wind consensus of 3.5%. Two-year CAGR of catering services GMV saw an improvement on a MoM basis to 10.4% in Aug 2023 (May/June/July: two-year CAGR of 3.2/5.6/6.8%).
- **Growth of online physical goods GMV came largely inline with expectation.** Per NBS, China's online retail sales GMV/online physical goods GMV grew 12.1/9.5% YoY to RMB9.5tn/8.0tn in 8M23. Online retail sales penetration of physical goods rose to 26.4% in 8M23 from 25.6% in 8M22, thanks to structural change in consumption behaviour from offline to online, aided by the continuous penetration of live streaming e-commerce. YoY growth in online retail sales GMV of physical goods demonstrated a marginal improvement on a MoM basis, came in at 6.1% in August 2023, largely inline with our estimates at 5.5% YoY, and improved from 5.0% YoY in July 2023. By type of consumption, online retail sales GMV of food/ clothing/ consumer goods grew 8.4/10.9/9.2% YoY in 8M23, implying a two-year CAGR of 12.4/7.4/7.0% (7M23: two-year CAGR 12.1/7.6/7.2%).
- **More benign-than-expected industry competition could lead to a better-than-expected margin profile for e-commerce platforms in 3Q23.** E-commerce platforms are escalating investment to drive user growth and to enhance consumer engagement through providing more personalized content feed, and through enhancing price competitiveness. The investment to enhance price competitiveness is not costly, as it centres on enriching product supply and improving supply chain capabilities. Although overall top-line growth is likely to face short-term fluctuations due to macro uncertainties, e-commerce platforms are driving growth in an efficient way and targeting for operating efficiency improvement, which likely leads to a better-than-expected earnings growth in 3Q23.
- **Stock recommendations: maintain BUY on Alibaba and PDD.** For **Alibaba**, although near-term business development trajectory may face short-term fluctuations due to macro uncertainties, Alibaba has proved its ability to drive better operating efficiency across business lines, and is better positioned to recover along with overall consumption recovery ahead. The strategic move to drive user engagement improvement through enhancing supply of value for money products and brands to reach targeted consumers, which in turn improves merchants' willingness to invest in advertising, secures long-term revenue and earnings growth prospects to be in line with industry trend. For **PDD**, in the ecommerce sector, PDD has relatively more proactive room to drive GMV growth through targeting bigger consumer wallet share, and further increasing monetization rate given its relatively better ROI compared with peers. Also, leveraging strong domestic supply chain, overseas expansion is on track to support PDD's long-term revenue and earnings growth, in our view.

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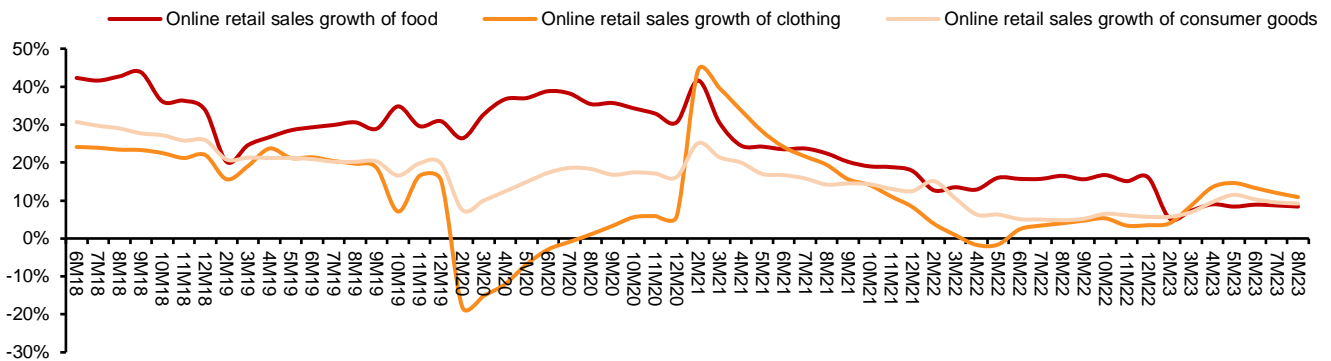
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Figure 1: YoY growth of online retail sales of physical goods



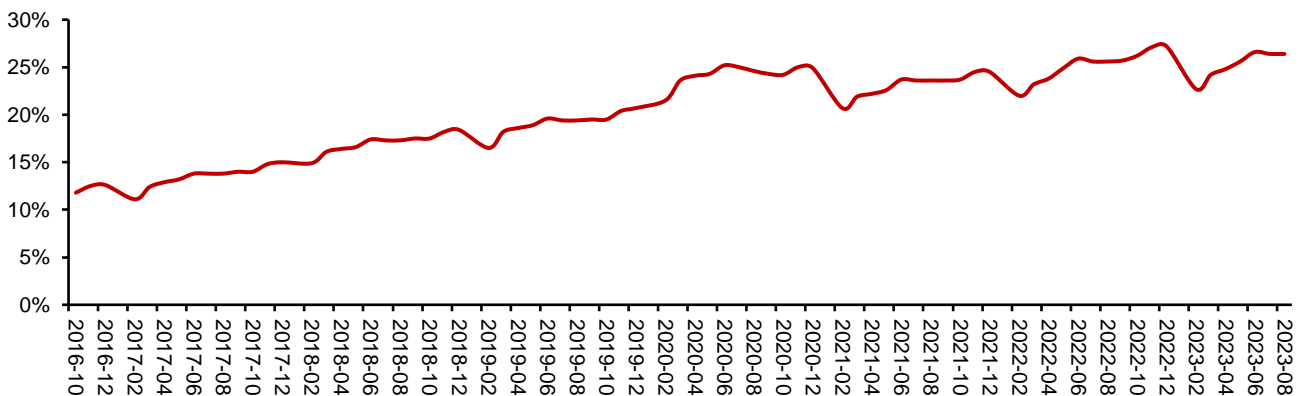
Source: NBS, CMBIGM

Figure 2: YoY growth of online retail sales GMV of food/clothing/consumer goods



Source: NBS, CMBIGM

Figure 3: Online penetration of physical goods retail sales



Source: NBS, CMBIGM

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