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E-commerce: consistent recovery takes time

In the short term, macro headwind has weighed on consumption willingness and YoY growth in online retail sales of physical goods, and the consistent recovery of growth could still take time, but we do expect a gradual recovery trend driven by gradual recovery in macro and easier comps trending into 2023. Amid soft consumption willingness, e-commerce companies are focusing on addressing the demand of core membership user base and enhancing merchant engagement in recent Double 11 sales promotions in order to drive for higher efficiency. The strategic move of leveraging established consumer mindshare to control sales promotion intensity and to adopt more strict cost saving plans could be focal points to drive near-term profit growth. We prefer stocks with greater earnings visibility in the near term, while we remain upbeat on the long-term development opportunities generating from overseas expansion and the deployment in enterprise internet business.

- **E-commerce: consistent recovery on YoY growth of online physical goods GMV could take time.** Online retail sales GMV of physical goods has been seeing constant gradual recovery since July, with YoY growth in September 2022 number came in at 8.3% (June/July/August 2022: 5.6/6.3/6.5%), and YoY growth of 7.1% in 3Q22. However, early stage express delivery data from Double 11 shopping festival indicated that robust consumption recovery could still take time, in our view. According to Ministry of Transport, the number of collection for express delivery reached 529mn on 1 November 2022, the first day of which merchants started to ship pre-sale orders that were placed during the first half of Double 11 sales promotion festival, down 7% YoY. In addition, average number of collection for express delivery was 384mn per day over 1-8 Nov 2022, as compared to 425mn per day over 1-16 November 2021.
- **Addressing demand of core user base and enhance engagement of brands and merchants to enhance operating efficiency.** E-commerce platforms have been aiming at addressing the demand of core user base since the beginning of 2022, and have been streamlining new initiatives and driving for higher operating efficiency, which should propel greater visibility on earnings growth amid macro headwind. According to Alibaba, on 1 November 2022, 82 brands saw their respective sales GMV generated from members surpass RMB100mn, and 2700 brands saw over 50% of GMV coming from members. On JD's platform, close to 50,000 small and medium brands saw their GMV grew over 100% YoY, and close to 70,000 small and medium merchants saw their GMV grew over 100% YoY (8pm 31 October-1 November 2022).
- **Stock pick: earnings visibility remains the key in the short-term.** Among e-commerce companies, we expect PDD and JD will still deliver relatively better earnings growth in 3Q22. PDD's strong earnings growth is supported by its strong user stickiness, which puts PDD in a more proactive position to manage its sales and marketing spend. We estimate JD's non-GAAP net income has grown 44% YoY to RMB7.3bn in 3Q22, aided by efficient cost saving and expansion in gross margin, driven by more controlled sales promotion activities, and we expect robust margin expansion trend to sustain in 4Q22. For Alibaba, the strategic move to streamline new business and drive for operating efficiency improvement will likely propel its non-GAAP net income back on YoY growth track in 3Q22E.

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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3Q22 preview: earnings visiability is vital

Among e-commerce and local life-style services companies, we expect greater revenue growth visibility for PDD and Meituan. For PDD, its strong user stickiness and strategic move to incorporate more branded and high ASP products are likely to drive robust GMV growth and further increase monetization rate, thereby driving robust revenue growth for 2H22 and 2023. For Meituan, we estimate its GMV generated from first-tier cities in China accounted for over 40% of total in-store GMV in 2021, which should aid revenue recovery once pandemic risks ease.

We also expect steady revenue recovery for JD in 2023E, supported by its established consumer mindshare aided by superior logistic infrastructure, but demand for home appliance, electronics could still remain weak in 2023, and market share gain potential is much reduced compared with 2020-2022 period. For Alibaba, we estimate its GMV accounted for 48% of total online retail sales GMV in 2022E, and its core commerce revenue recovery will be inline with China overall consumption recovery pace but its earnings recovery is boosted by rationalization strategy on its new-retail businesses.

Among e-commerce companies, we expect PDD and JD will still deliver relatively better earnings growth in 3Q22. PDD's strong earnings growth is supported by its strong user stickiness, which puts PDD in a more proactive position to manage its sales and marketing spend. We estimate JD to sustain over 40% YoY growth in non-GAAP net income in 3Q22, aided by efficient cost saving and expansion in gross margin, driven by more controlled sales promotion activities. For Alibaba, the strategic move to streamline new business and drive for operating efficiency improvement will likely propel its non-GAAP net income back on YoY growth track in 3Q22E.

Pinduoduo (PDD US, BUY, TP US$92.9)

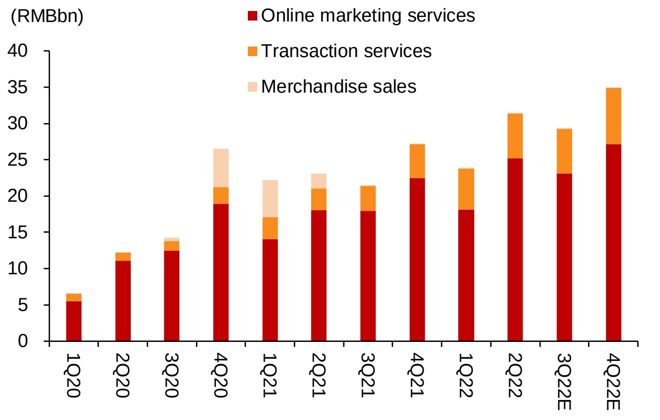
Pinduoduo (PDD) has established strong consumer mindshare with value proposition, which will aid resilient revenue growth amid macro uncertainties. PDD is also strategically incorporating more branded products, which will aid monetization rate improvement. Strong user stickiness enables PDD to optimize Opex, providing merchants with cost-effective traffic on its platform which lead to sustainable competitive edge and online GMV market share gain. As PDD is an asset-light marketplace model, its strong operating cash flows can help explore more TAM markets, such as expanding into overseas markets. With a 21-24E revenue CAGR of 20.9%, we forecast non-GAAP net profit CAGR of 48.2%. Our DCF-based TP is US$92.9 per ADS, akin to 24.2x 2023E PE (non-GAAP).

- **3Q22 preview: robust profitability improvement likely to sustain, watch for pace of investment for new initiatives**

Aided by the established consumer mindshare in key categories, and high user stickiness, PDD is in a more proactive position to manage its S&M spend, in our view. As PDD adheres to strict ROI target while driving revenue growth, S&M expense ratio could see a continuous optimizing trend over 21-24E, in our view, until PDD becomes more determined in investing in new initiatives that could support long-term revenue and earnings growth, such as cross-border e-commerce.

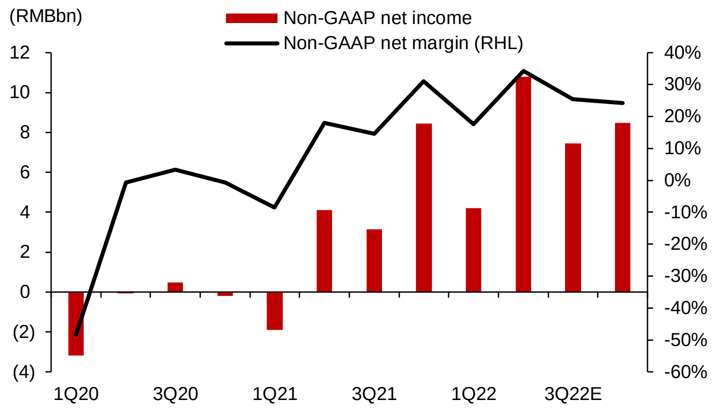
We forecast PDD to have recorded 3Q22E revenue of RMB29.3bn, up 36.4% YoY (3Q21: 51.3%; 2Q22: 36.4%), driven by 36.7% YoY growth in online marketplace services revenue, and 77.7% YoY growth in transaction services revenue. We estimate non-GAAP net income of RMB7.5bn (3Q21: RMB3.2bn), indicating a non-GAAP NPM of 25.4% (3Q21: 14.6%) driven by optimization in sales and marketing spend which is aided by strong user stickiness, and the unleash of operating leverage supported by robust revenue growth. Our 3Q22E revenue forecast was 5% short of Bloomberg consensus while non-GAAP net income forecast was 6% higher than consensus.

Figure 1: PDD: Revenue forecast and growth (Qtr)



Source: Company data, CMBIGM estimates

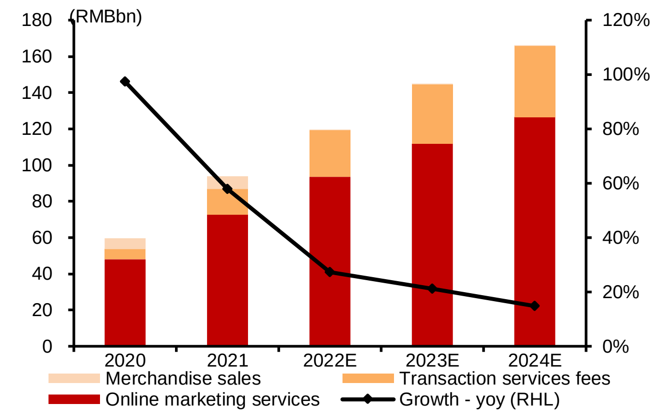
Figure 2: PDD: non-GAAP NP and NPM (Qtr)



Source: Company data, CMBIGM estimates

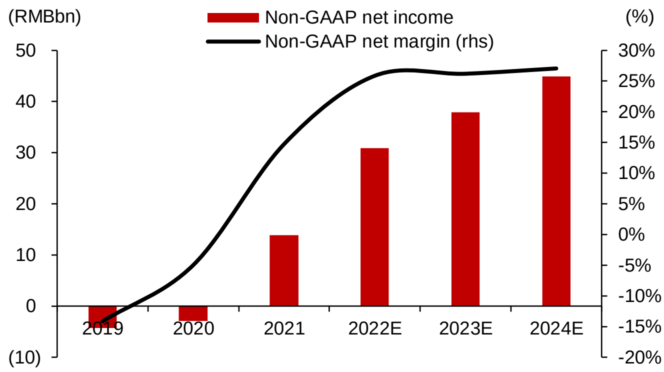
On full year basis, we forecast PDD to achieve revenue growth of 27.2/21.1/14.8% YoY in 2022/2023/2024E, driven by GMV growth of 22.7/15.9/11.3%, aided by expansion in average revenue per user (ARPU), which we see support from the incorporation of more branded products as well as high average selling price (ASP) products, and strong user stickiness. We forecast non-GAAP S&M expense ratio to drop to 37.4/36.0/35.0% in 22/23/24E (2021: 46.0%), which could drive an increase in non-GAAP OPM to 27.1/28.7/29.6% (2021: 12.4%).

Figure 3: PDD: revenue forecast and growth



Source: Company data, CMBIGM estimates

Figure 4: PDD: non-GAAP NP and NPM



Source: Company data, CMBIGM estimates

PDD is our top pick among e-commerce stocks, given its relatively greater visibility on earnings growth, and more attractive valuation versus earnings growth. PDD is trading at 0.4x 2022E PEG based on 2021-2024E earnings CAGR of 48.2%, compared to 0.6x for JD and 1.4x for Alibaba.

Figure 5: E-commerce comps table

Companies	Ticker	Price (Local)	PE (x) 2022E	PE (x) 2023E	PE (x) 2024E	NP CAGR 2021-2024E	PEG (x) 2022E	PS(x) 2022E	PS(x) 2023E	PS(x) 2024E
Alibaba Group	BABA US	68.1	8.5	7.9	7.2	6.0	1.4	1.4	1.2	1.1
JD.com	JD US	45.5	19.8	15.3	11.2	35.1	0.6	0.4	0.4	0.3
Pinduoduo	PDD US	62.9	17.8	14.5	12.2	48.2	0.4	4.6	3.8	3.3
Average			15.4	12.6	10.2		0.8	2.1	1.8	1.6

Source: Bloomberg, CMBIGM
Note: 1) data as of 8 November market close; 2) data are based on CMBIGM estimates; 3) we are using FY23-25E estimate for Alibaba (March year-end); 4) data is based on non-GAAP measure.

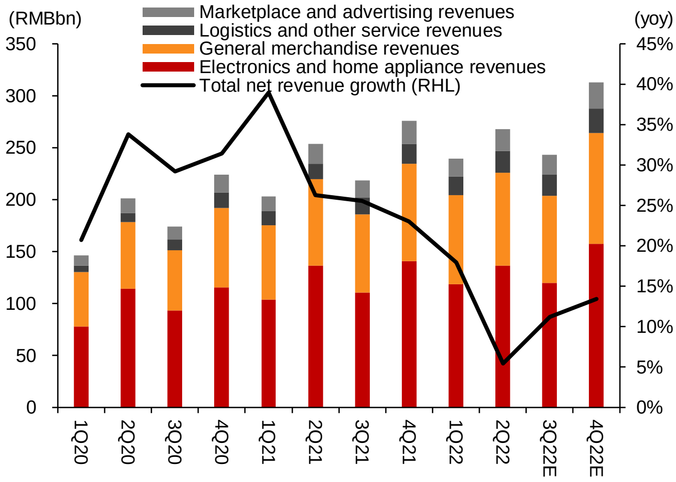
JD (JD US, BUY, TP US$78.5)

Leveraging its superior supply chain and fulfilment capability, JD has established solid consumer mindshare in key categories (i.e., electronics & home appliance, FMCG, etc.). Relative to peers JD has lower exposure to discretionary apparel categories. We expect category expansion, lower tier city expansion, and omni-channel retail development to support its long term growth. Steady margin expansion trend could continue over 21-24E, driven by economies of scale, more controlled sales promotions, and increase in revenue contribution from high-margin marketplace business, aided by enhanced platform optimization and user stickiness. On a 21-24E rev CAGR of 13.1%, we forecast NP CAGR of 35.1% (non-GAAP). Our DCF-based TP of US$78.5 akin to 28.1x 2023E PE.

- **3Q22 preview: solid revenue growth with steady improvement on profitability**

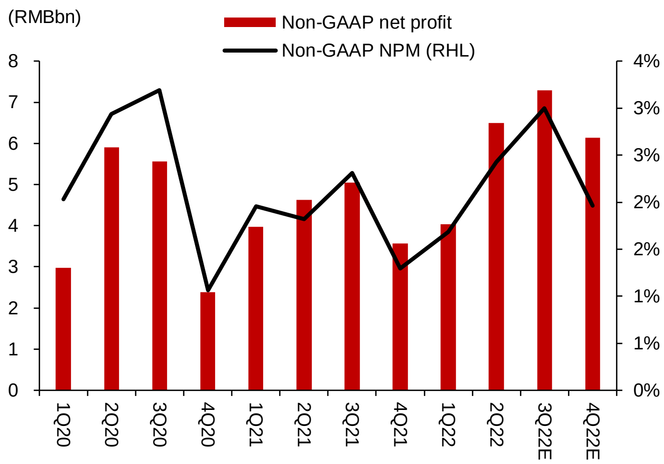
We forecast JD recorded 3Q22E revenue of RMB243.2bn, up 11.2% YoY (3Q21: 25.5%; 2Q22: 5.4%), driven by 9.4% YoY growth in net product revenues and 21.3% YoY growth in net services revenues. We estimate non-GAAP net income of RMB7.3bn in 3Q22E, up 44.3% YoY, which implies 3.0% non-GAAP net profit margin, up 0.7pp YoY, driven by gross margin expansion, aided by JD's more controlled sales promotion and increasing economies of scale. Our 3Q22E revenue forecast is in line with Bloomberg consensus, while non-GAAP net income forecast is 1.3% higher than consensus.

Figure 6: JD: Revenue growth and forecast (Qtr)



Source: Company data, CMBIGM estimates

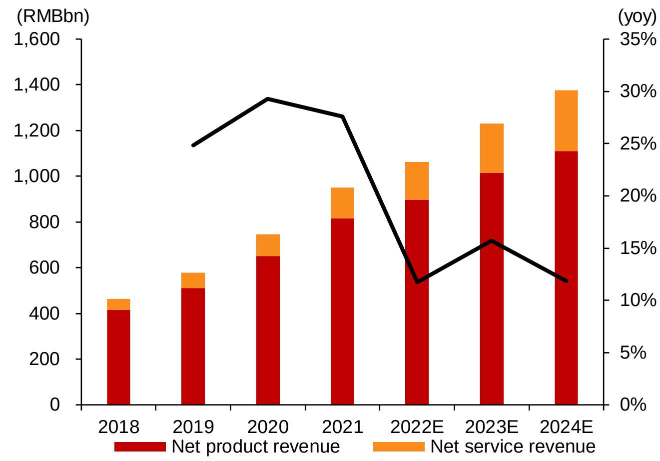
Figure 7: JD: non-GAAP NP and NPM (Qtr)



Source: Company data, CMBIGM estimates

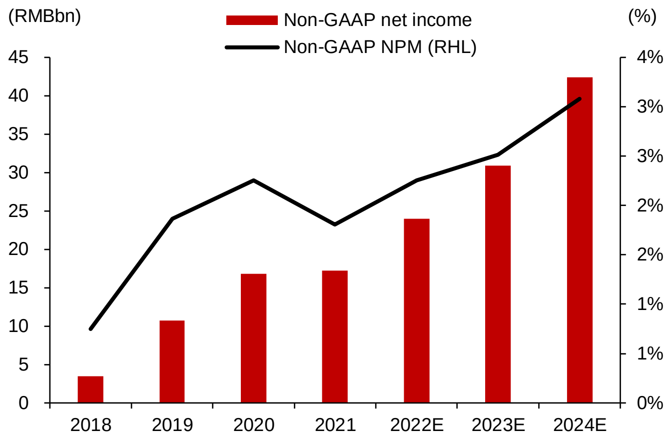
On full year basis, we forecast JD to achieve 2022E revenue growth of 11.7%, driven by 10.1% YoY growth in net product revenues and 21.6% YoY growth in net services revenue. We are forecasting JD to achieve 15.7/11.9% YoY revenue growth in 2023/2024E, driven by the gradual recovery in macro as well as category expansion to low online penetrated categories such as FMCG.

Figure 8: JD: Revenue growth and forecast



Source: Company data, CMBIGM estimates

Figure 9: JD: non-GAAP NP and NPM



Source: Company data, CMBIGM estimates

Alibaba (BABA US, BUY, TP US$154.5)

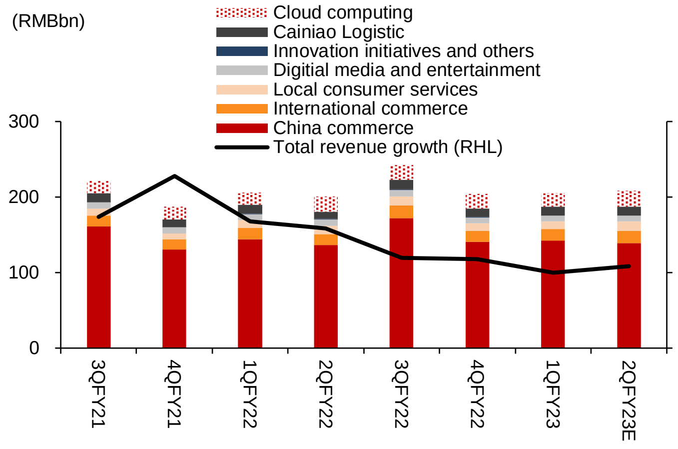
Alibaba's earnings recovery will be aided by the streamlining of new businesses and operation optimization across business lines. Macro headwinds and low consumption sentiment dampened Alibaba's GMV growth of China commerce marketplace in 1H22, but we do expect gradual recovery in 2023, which could provide additional support for earnings recovery. International expansion and cloud business remain on track for long-term development, despite some short-term challenges. On a FY22-25E rev CAGR of 8.9%, we forecast non-GAAP NP CAGR of 6.0%. Our SOTP based TP of US$154.5 translates into 20.1x FY23E PE (non-GAAP). With current trading valuation of 8.5x FY23E PE (non-GAAP), risk-award is attractive.

- **3Q22 preview: likely to reach inflection point of earnings growth**

We forecast Alibaba to have recorded revenue of RMB208.9bn in 2QFY23E (March year-end), up 4.1% YoY, mainly due to more gradual than expected recovery in overall macro conditions, which weigh on recovery of consumption sentiment.

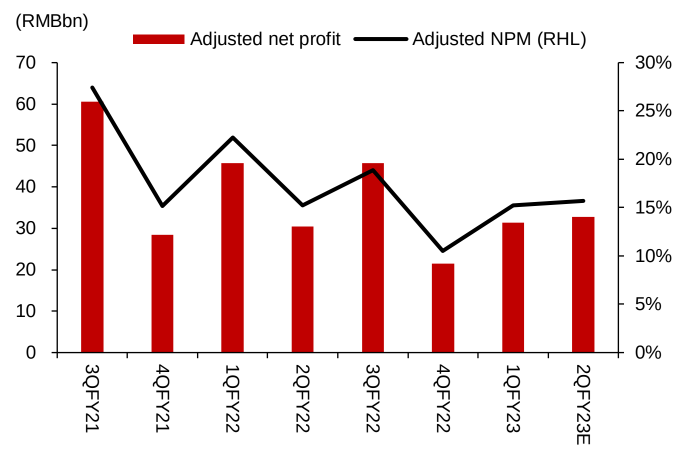
Alibaba is focusing on quality growth in FY23, streamlining new businesses, and targeting for operating efficiency improvement across business lines. We expect the inflection point on positive earnings growth to be seen in 2QFY23E. We forecast non-GAAP net profit of RMB32.8bn for 2QFY23E, implying a 7% YoY increase, driven by stringent cost control.

Figure 10: BABA: Revenue growth and forecast (Qtr)



Source: Company data, CMBIGM estimates

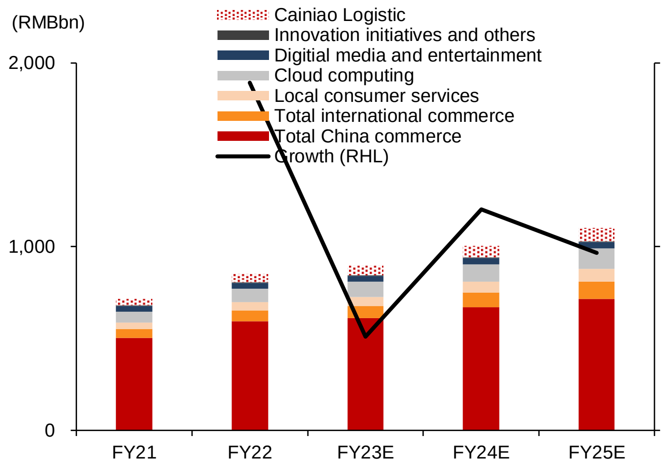
Figure 11: BABA: non-GAAP NP and NPM (Qtr)



Source: Company data, CMBIGM estimates

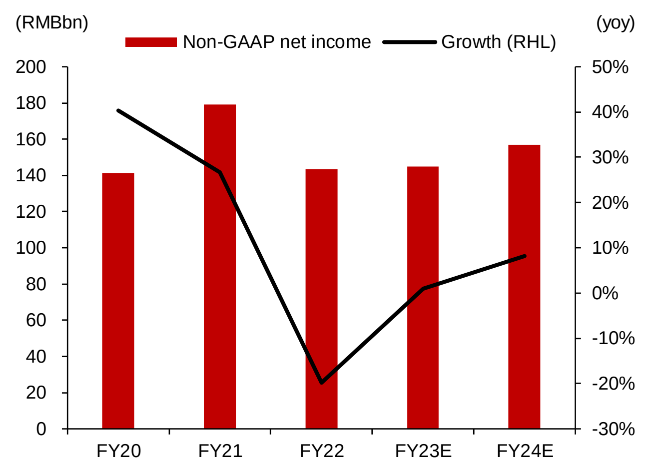
On full-year basis, we forecast Alibaba to achieve a revenue CAGR of 8.9% in FY22-FY25, reaching RMB1.1tn in FY25, and a non-GAAP net profit attributable to ordinary shareholders CAGR of 6.0% to RMB171.0bn in FY25E.

Figure 12: BABA: Revenue growth and forecast



Source: Company data, CMBIGM estimates

Figure 13: BABA: non-GAAP NP and NPM



Source: Company data, CMBIGM estimates

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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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