

Internet

2M24 online retail sales recap

Based on NBS data, 2M24 online retail sales GMV/online physical goods GMV reached RMB2.2tn/1.8tn, up 15.3/14.4% YoY, which implied a two-year CAGR of 10.7/9.8%. The growth of total online retail sales GMV continued to outpace that of online physical goods GMV, which was likely due to the robust growth in online travel bookings during the CNY holiday. Leading e-commerce platforms are prioritizing GMV and revenue growth over margin improvement in 2024, and guided to reinvest incremental operating profit generated to drive further business growth, which likely indicates more intensified industry competition. However, the move to enhance shareholder return based on a relatively stable operating profit level should provide support for valuation, while further rerating may hinge on the recovery of consumption sentiment. Overseas expansion remains vital to propel long-term revenue and earnings growth. Maintain BUY on Pinduoduo (PDD), Alibaba Group (Alibaba), and JD.com (JD).

- **Consumption sentiment likely still takes time to recover.** YoY growth of retail sales came in at 5.5% in 2M24, per NBS, slightly better than Wind consensus of 5.4%, and the two-year CAGR picked up slightly to 4.5% (Oct/Nov/Dec 2023 two-year CAGR: 3.5/1.8/2.7%). Offline activities also demonstrated an improvement trend, evidenced by the 10.8% two-year CAGR of catering services GMV (Nov/Dec two-year CAGR: 7.3/5.7%), which in our view could be partly attributable to the CNY holiday season.
- **Online physical goods GMV growth saw a further recovery MoM.** Per NBS, YoY growth in online retail sales GMV of physical goods demonstrated a further MoM improvement on a low base in 2M24 compared to Dec 2023, coming in at 14.4% in 2M24 (Dec 2023: 9.4%), and the two-year CAGR improved to 9.8% (Dec 2023: 6.8%). By type of consumption, online retail sales GMV of food/clothing/consumer goods grew 26.1/17.8/10.8% YoY in 2M24, implying a two-year CAGR of 15.2/10.7/8.2% (2023 two-year CAGR: 13.6/7.1/6.4%). Online retail sales penetration of physical goods dropped to 22.4% in 2M24 from 22.7% in 2M23 due to normalization of offline activities.
- **Driving GMV and revenue growth in a more ambitious way.** In view of potential consumption stimulus policy and improving business operating metrics (i.e., user growth, order frequency growth), backed by enhanced supply chain capabilities, leading e-commerce platforms are prioritizing GMV and revenue growth over margin improvement in 2024, and guided to reinvest incremental operating profit to drive further business growth, likely indicating more intensified industry competition.
- **Move to enhance shareholder return should provide support for valuation.** Leveraging stable operating profit levels, leading e-commerce companies are improving their shareholder return (see Fig.1 for details). **Alibaba** has guided for at least 3% of annual reduction in total shares outstanding through Mar 2027, and **JD** announced that it will repurchase up to USD3bn worth of shares over the next 36 months through Mar 2027. The companies also guided for steadily increasing total dividend amounts or a stable dividend payout ratio relative to non-GAAP net income. JD/Alibaba is trading at 8.6x/8.7x FY24E/2024E non-GAAP P/E, and we expect the improved shareholder return policy should provide support for valuation of e-commerce companies, while further rerating may hinge on the recovery of consumption sentiment. **For PDD**, in the ecommerce sector, PDD has relatively more proactive room to drive GMV growth through targeting bigger consumer wallet share. Leveraging strong domestic supply chains, overseas expansion is on track to support PDD's long-term revenue and earnings growth, in our view.

OUTPERFORM
(Maintain)

China Internet Sector

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

Ye TAO
franktao@cmbi.com.hk

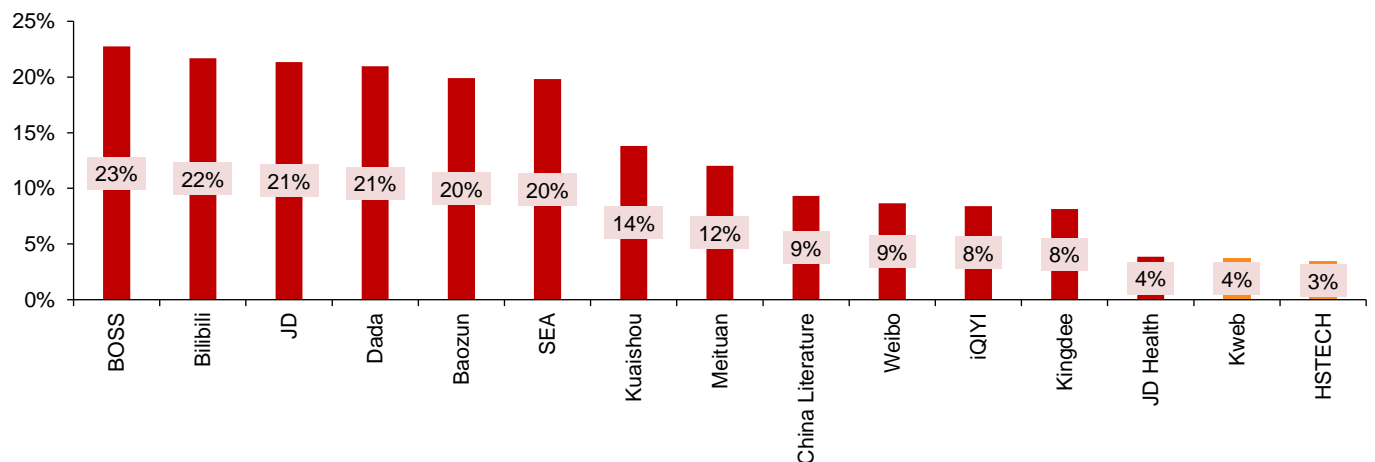
Wentao LU, CFA
luwentao@cmbi.com.hk

Figure 1: Comparison of shareholder return among China TMT companies (ranked by estimated 2024E dividend yield + share repurchase yield)

Company	Ticker	Price (Local)	Mkt cap (US\$mn)	Cash generation			Shareholder return			DPS (local)		Dividend Payout ratio	Share repurchase (US\$mn)		
				FY24 Net cash	FCF Yield	Net cash /Mkt cap	Div+Repo Yield	Dividend Yield	Share Repurchase /Mkt cap				FY24E	FY23	FY22
				(US\$mn)	FY24E	FY24E	FY24E	FY24E	FY24E	FY24E	FY23	FY24E			
VIPShop	VIPS US	17.2	9,338	4,124	11.9%	44.2%	11.2%	2.5%	8.7%	0.43	0.43	17.2%	(815)	(699)	(931)
Weibo	WB US	9.9	2,332	1,213	25.4%	52.0%	10.7%	8.3%	2.5%	0.82	0.82	41.2%	(58)	NA	(58)
Alibaba Group	BABA US	73.4	186,985	38,257	10.4%	20.5%	6.4%	0.9%	5.5%	0.67	-	7.7%	(10,226)	(10,909)	(9,542)
Beike	BEKE US	14.0	17,429	(5)	9.8%	0.0%	5.1%	2.5%	2.6%	0.35	-	32.2%	(458)	(719)	(196)
JD.com	JD US	27.5	43,641	13,415	8.5%	30.7%	5.1%	2.8%	2.3%	0.76	0.76	25.0%	(1,000)	(356)	(271)
NetEase	NTES US	106.9	68,940	17,578	7.2%	25.5%	3.7%	2.2%	1.4%	2.37	2.60	32.8%	(989)	(739)	(1,238)
TME	TME US	10.3	17,727	1,092	4.9%	6.2%	2.7%	0.1%	2.6%	0.01	-	2.0%	(465)	NA	(465)
Tencent	700 HK	283.8	342,197	7,885	7.4%	2.3%	2.5%	0.9%	1.6%	2.45	2.40	12.0%	(5,488)	(6,190)	(4,787)
Boss Zhipin	BZ US	19.2	8,550	1,426	4.2%	16.7%	1.6%	0.0%	1.6%	-	-	0.0%	(137)	NA	(137)
Meituan	3690 HK	89.4	71,256	2,713	5.9%	3.8%	1.4%	0.0%	1.4%	-	-	0.0%	(1,000)	-	-
Baidu	BIDU US	103.9	36,309	12,008	9.5%	33.1%	1.3%	0.0%	1.3%	-	-	0.0%	(478)	(669)	(286)
Kingsoft	3888 HK	22.2	3,792	2,658	7.7%	70.1%	1.3%	0.6%	0.7%	0.12	0.13	13.1%	(28)	(31)	(24)
Bilibili	BILI US	11.8	4,962	(136)	-3.5%	-2.7%	1.0%	0.0%	1.0%	-	-	0.0%	(52)	NA	(52)
Trip.com	TCOM US	43.4	29,679	2,198	5.9%	7.4%	0.4%	0.0%	0.4%	-	-	0.0%	(112)	(224)	-
Kuaishou	1024 HK	50.7	28,170	(5,655)	8.4%	-20.1%	0.3%	0.0%	0.3%	-	-	0.0%	(91)	(182)	-
Cloud Village	9899 HK	90.2	2,472	(6)	4.6%	-0.2%	0.1%	0.0%	0.1%	-	-	0.0%	(2)	-	(5)
Pinduoduo	PDD US	123.7	164,399	33,813	8.6%	20.6%	0.0%	0.0%	0.0%	0.04	-	0.5%	-	-	-
TCEL	780 HK	19.7	5,700	980	6.2%	17.2%	0.0%	0.0%	0.0%	-	-	0.0%	-	-	-
Fourth Paradigm	6682 HK	72.8	4,336	285	-1.5%	6.6%	0.0%	0.0%	0.0%	-	-	0.0%	-	-	-
SenseTime	20 HK	0.8	3,594	(494)	-9.9%	-13.7%	0.0%	0.0%	0.0%	-	-	0.0%	-	-	-
China Literature	772 HK	26.4	3,454	1,045	5.2%	30.2%	0.0%	0.0%	0.0%	-	-	0.0%	-	-	-

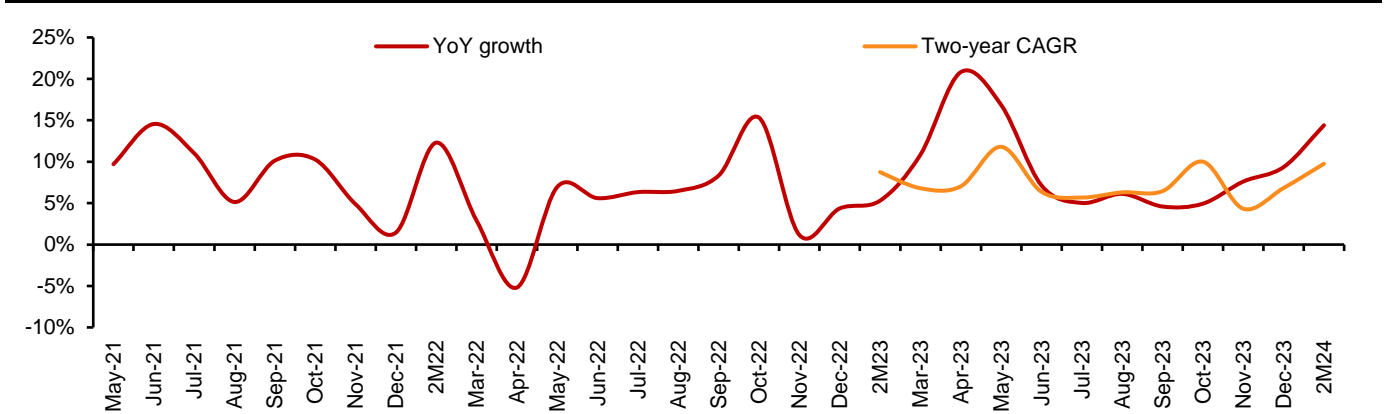
Source: Bloomberg, CMBIGM estimates

Note: 1) FY24E share repurchase = average of FY23 & FY22 share purchase, based on our estimate; 2) FY24E net cash/cash flow/DPS/EPS estimates based on Bloomberg consensus or our estimate; 3) data as at market close on 15 Mar 2024.

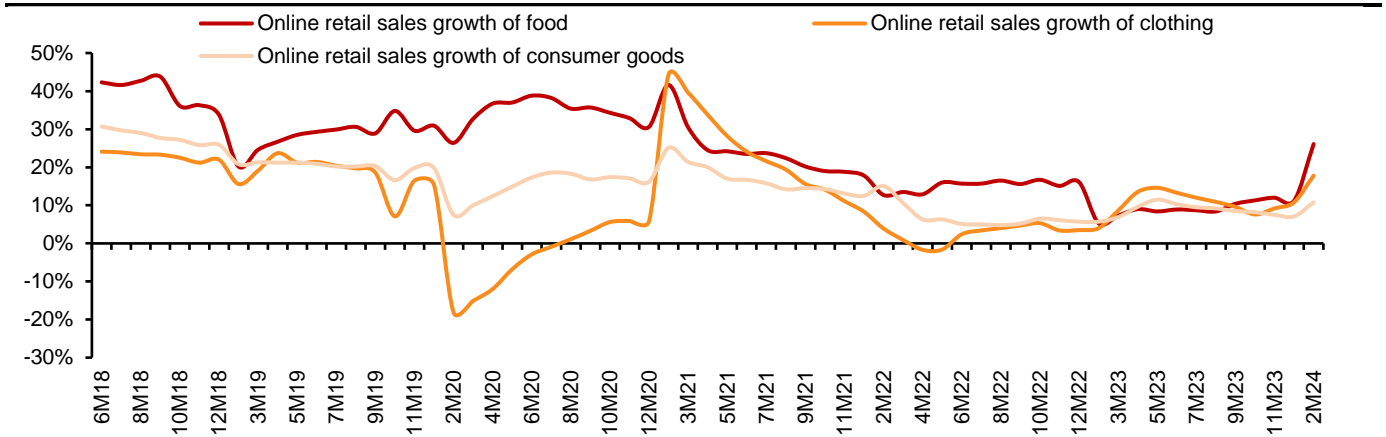
Figure 2: MTD stock performance of TMT companies that have outperformed industry benchmark


Source: Wind, CMBIGM

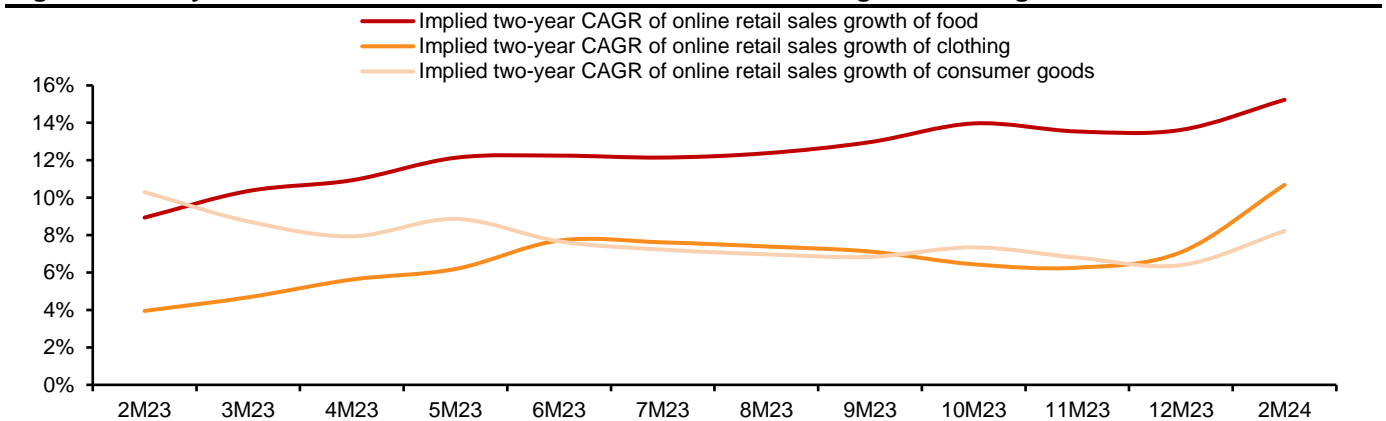
Note: base date as at 29 Feb 2024

Figure 3: YoY growth of online retail sales of physical goods

Source: NBS, CMBIGM

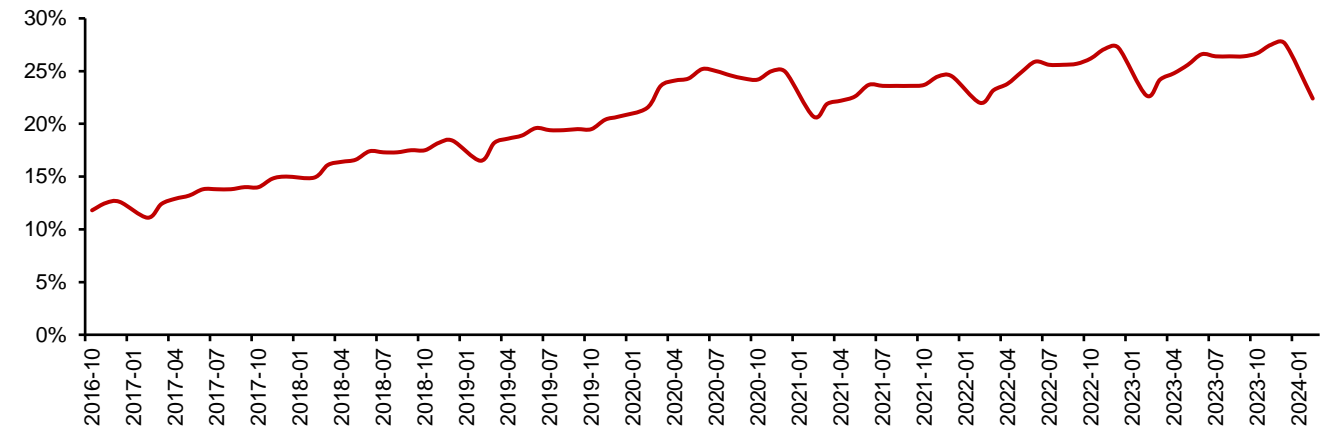
Figure 4: YoY growth of online retail sales GMV of food/clothing/consumer goods

Source: NBS, CMBIGM

Figure 5: Two-year CAGR of online retail sales GMV of food/clothing/consumer goods

Source: NBS, CMBIGM

Figure 6: Online penetration of physical goods retail sales



Source: NBS, 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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