

# China Internet

## October online retail sales recap

NBS released (15 November) October online retail sales data. The recovery of YoY growth of online retail sales of physical goods GMV to 15.3% in October (3Q22: 7.1% YoY) is stronger than expected, which in our view could be attributable to: 1) a shift to online channels caused by constrained offline activities, as indicated by the 0.5pp increase in online penetration of physical goods retail sales, the strongest MoM increase in October over the past five years; 2) greater share of Double 11 sales GMV fell in the first half of pre-sale, which echoed by Syntun data that 35.8% of e-commerce platform's Double 11 shopping festival GMV was generated in the first half of sales promotion period, compared to 34.8% in that of 2021. Although we do expect a sequential recovery trend of YoY online retail sales in 4Q22 and 2023 given relatively easier comps and gradual recovery in macro, we think the sustainability of strong rebound will depend on the adjustment of pandemic prevention policy and pace of consumption confidence recovery.

■ **Pull and push to online e-commerce channels propelled the strong YoY growth in online retail sales of physical goods GMV.** According to NBS, China's online retail sales GMV grew 4.9% YoY in 10M22 vs a two-year CAGR of 14.1% in 10M21. Specifically, online physical goods GMV rose 7.2% YoY in 10M22, implying 15.3% YoY growth in October 2022 (3Q22: 7.1% YoY). Online retail sales of physical goods accounted for 26.2% of total consumer sales in 10M22 (10M21: 23.7%; 9M22: 25.7%). We expect the pull from new-form live-streaming e-commerce, coupled with constrained offline foot-traffic which pushed further sales promotions online, and prompted strong online physical goods sales growth in October. By type of consumption, online retail sales GMV of food/clothing/consumer goods grew 16.7/5.3/6.5% YoY in 10M22 from 15.6/4.7/5.2% YoY in 9M22, which proves our thesis on cause of strong growth.

■ **Overall consumption sentiment still needs confidence boost.** According to NBS, total retail sales GMV of consumer goods was down 0.5% YoY in October 2022, or down 0.9% if excluding GMV generated from auto sales, indicating the overall persistently weak consumption sentiment. In addition, catering services GMV was RMB409.9bn in October 2022, down 8.1% YoY (Jun/Jul/Aug/Sep: -4.0/-1.5/+8.4/-1.7%), which could be partly worsened by restricted offline foot traffic. Regarding key categories in retail sales, sales GMV of apparel/cosmetics/household appliance/home furniture declined by 7.5/3.7/14.1/6.6% YoY respectively in October 2022 (September 2022: down 0.5/3.1/6.1/7.3% YoY). Staples demonstrated greater resilience than discretionary consumption, among which food/beverage retail sales were up 8.3/4.1% YoY in October 2022 (September 2022: +8.5/4.9% YoY).

■ **Ability to stabilize earnings remains the key focus in the near term.** Among e-commerce companies, we expect PDD and JD will still deliver relatively better earnings growth in 3Q22. PDD's tremendous earnings growth is supported by its strong user stickiness, which puts PDD in a more proactive position to manage its sales and marketing spending. 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 which will help margin expansion trend to sustain in 4Q22. For Alibaba, the strategic move to streamline new business and drive for operating efficiency improvement will support its non-GAAP net income back on YoY growth track in 3Q22E. Reiterate BUY on PDD, JD and Alibaba.

### China Internet Sector

#### Saiyi HE, CFA

(852) 3916 1739

hesaiyi@cmbi.com.hk

#### Ye TAO

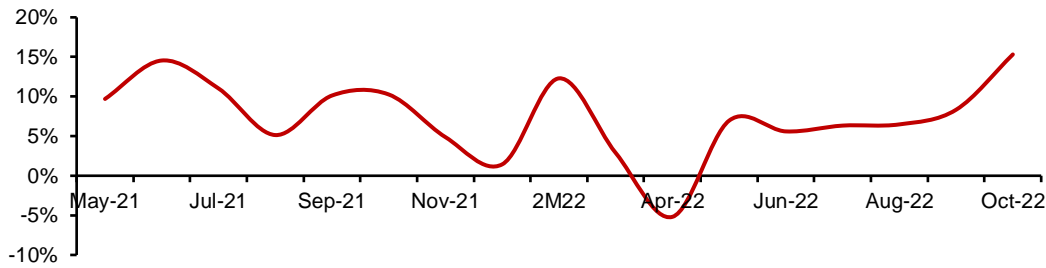
franktao@cmbi.com.hk

#### Wentao LU

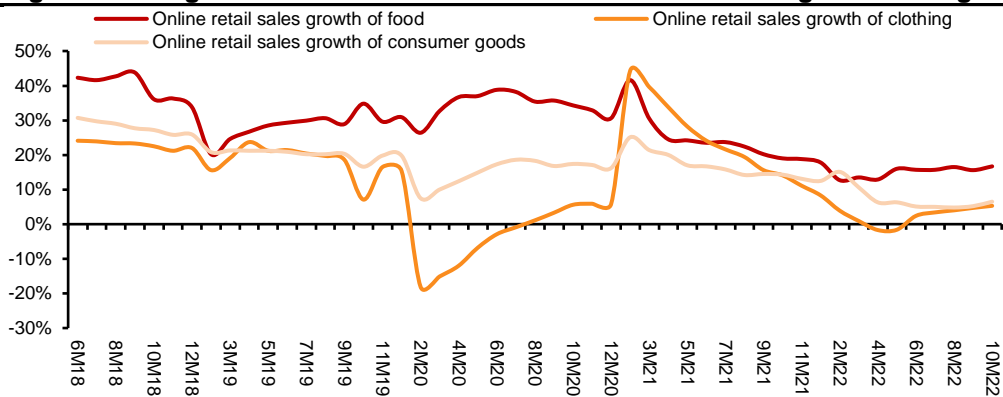
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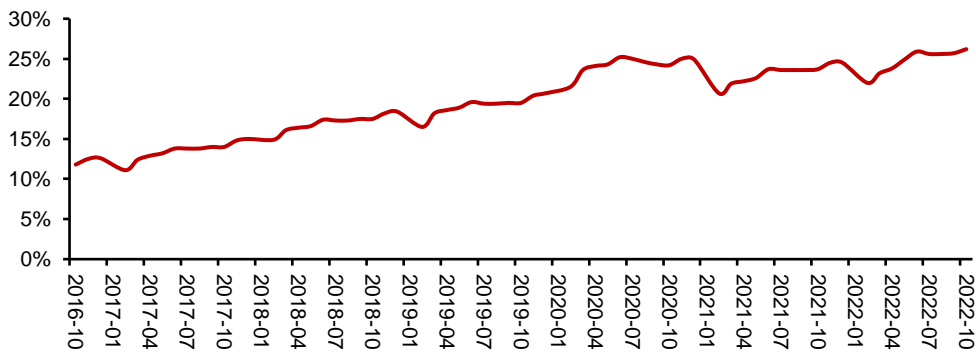
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**Figure 1: YoY growth of online retail sales of physical goods**

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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## 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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