

China Internet

2M23 online retail sales recap

2M23 online retail sales data showed a gradual recovery trend, with online physical goods GMV YoY growth rate improved to 5.3% YoY in 2M23 from 4.4% YoY in December 2022. The YoY growth of 6.2% in online retail sales GMV outpaced that of online physical goods, which in our view could be attributed to the recovery in online travel related services and products aided by the relaxation of pandemic prevention policy. Offline activities also demonstrated a recovery trend, with catering services GMV making a turnaround to 9.2% YoY growth in 2M23 from 14.1% YoY decline in December 2022, which likely drive a recovery of advertising sentiment, especially for offline verticals. With JD.com (JD) launching “RMB10bn subsidy” campaign, competition in user retention in the e-commerce industry is likely to intensify in the near term, while the ability to drive for better consumer engagement and merchants ROI are still key factors to exceed peers over the long run.

- **YoY growth of online retail sales GMV saw a gradual recovery.** Per NBS, China's online retail sales GMV grew 6.2% YoY in 2M23 vs 10.2% in 2M22. Specifically, online physical goods GMV rose 5.3% YoY in 2M23 vs 12.3% in 2M22. Online retail sales penetration of physical goods rose to 22.7% in 2M23 from 22.0% in 2M22, in our view, thanks to structural change in consumption behaviour from offline to online, driven by the penetration of new business formats such as community group purchase and live streaming e-commerce. The figure, however, declined from the peak of 27.2% in 2022, owing to recovery in offline activities. By types of consumption, online retail sales GMV of food/ clothing/ consumer goods grew 5.3/4.0/5.7% YoY in 2M23 (2M22: 12.7/3.9/15.1%).
- **Offline activities demonstrated a recovery trend.** According to NBS, total retail sales GMV of consumer goods was up 3.5% YoY in 2M23 (2022: -0.2% YoY), better than Wind consensus of 2.9% YoY. Catering services GMV showed a turnaround to YoY growth of 9.2% in 2M23 (Aug/ Sep/ Oct/ Nov/ Dec 2022: +8.4/-1.7/-8.1/-8.4/-14.1%), per NBS data, and the daily average subway passenger volume in China's 10 large cities in recent week (6-10 March 2023) grew 7.5% compared to the comparable period in 2019. The recovery in consumption and offline activities could aid recovery of advertising sentiment, in our view, and ads platforms that have greater exposure to offline verticals will likely benefit more than its peers.
- **Driving for better consumer engagement and merchants ROI are key factors to outperform peers over the long run.** The launch of “RMB10bn subsidy” by JD likely leads to escalated competition in consumer retention in the near term, and delays the pace of non-GAAP operating margin expansion for JD. But we think this is vital to drive JD's long-term growth, as consumer and merchant base expansion is important for its platform business development. Over the long term, we think: 1) business model evolution to better address consumer demand, and to provide merchants with better ROI, and 2) driving for consumer experience enhancement and engagement to gain more wallet share remain key factors to differentiate and outshine competitors over the long run. We prefer companies whose core business have stable ROE and new business with long-term growth prospects. We maintain BUY on Pinduoduo (PDD), Alibaba, Meituan, and JD. We like PDD on its steady domestic business growth and overseas expansion potential, and Alibaba on its deep value discount. For Meituan and JD, investment opportunities may appear after the market has fully digested competition impact.

China Internet Sector

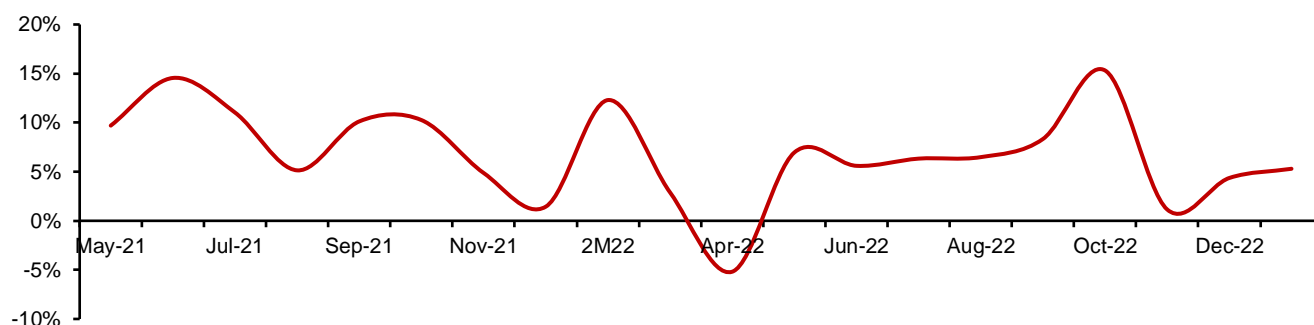
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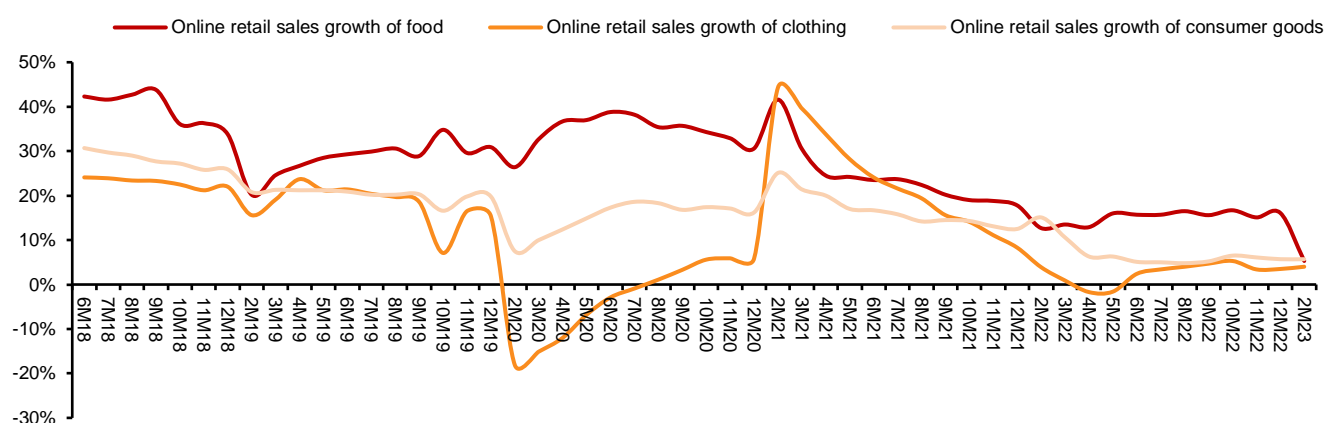
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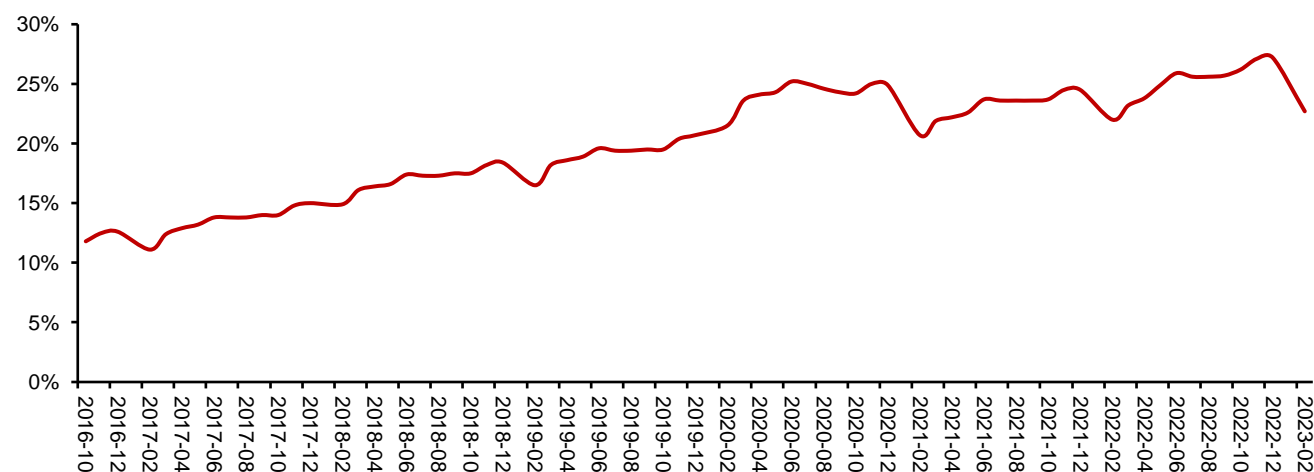
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Figure 1: YoY growth of online retail sales of physical goods

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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