

China Internet

June online retail sales recap

Based on NBS data, 1H23 online retail sales GMV/ online physical goods GMV reached RMB7.2/6.1tn, up 13.1/10.8% YoY, and were both 39% above 1H20 level. The YoY growth of online physical goods GMV in June 2023 came in at 7.1% and indicates a two-year CAGR of 6.4%, falling from two-year CAGR of 11.8% in May 2023, as part of the 618 shopping festival sales GMV was frontloaded to May, and the overall consumption sentiment takes time to recover. Although e-commerce platforms are escalating investment to enhance consumer mindshare gain amid recovering consumption sentiment, the deterioration of industry competitive landscape is likely to be better than feared given that investments are ROI driven, and this may indicate a better than market expected margin profile for e-commerce platforms in the near term, in our view. Maintain BUY on Pinduoduo (PDD), Alibaba, and JD.com (JD).

- **YoY growth of retail sales in June remains soft.** YoY growth of retail sales came in at 3.1% in June, per NBS data, shy of Wind consensus of 3.5%. Two-year CAGR of catering services GMV saw a slight rebound on MoM basis to 5.6% in June 2023 (March/April/May: two-year CAGR of 2.8/5.4/3.2%).
- **Online penetration rose further in June.** Per NBS, China's online retail sales GMV/online physical goods GMV grew 13.1/10.8% YoY to RMB7.2/6.1tn in 1H23, and were both 39% above 1H20 level. Online retail sales penetration of physical goods rose to 26.6% in 1H23 from 25.9% in 1H22 and 25.6% in 5M23, thanks to structural change in consumption behaviour from offline to online, driven by the penetration of new business formats such as live streaming e-commerce. In our view, categories such as household appliance, FMCG, and fresh groceries still has room for further online penetration. By type of consumption, online retail sales GMV of food/ clothing/ consumer goods grew 8.9/13.3/10.3% YoY in 1H23, implying a two-year CAGR of 12.2/7.7/7.7%, of which food and clothing categories showed a sequential MoM recovery trend while consumer goods softened.
- **Consumer sentiment takes time to recover despite a solid 618 shopping festival.** Online physical goods GMV rose 7.1% YoY in June 2023, indicating a two-year CAGR of 6.4%, falling from two-year CAGR of 11.8% in May 2023, as part of the 618 shopping festival sales GMV was frontloaded and booked in May, and the overall consumption sentiment takes time to recover. Online physical goods GMV rose 14.0% YoY in 2Q23, based on NBS data and our calculation, indicating a two-year CAGR of 8.3%, which improved from two-year CAGR of 8.0% in 1Q23.
- **Better than feared industry competition could lead to a better-than-expected margin profile for e-commerce platforms in 2Q23.** Although e-commerce platforms are escalating investment to enhance consumer mindshare gain amid recovery consumption sentiment, the deterioration of industry competition is likely to be better than feared given that investments are ROI driven. Also, the investments mainly centres on enhancement of product supply and supply chain capabilities, as well as enhancement of user stickiness for core user base, which likely indicates potentially better than expected earnings growth in 2Q23 for e-commerce platforms.

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

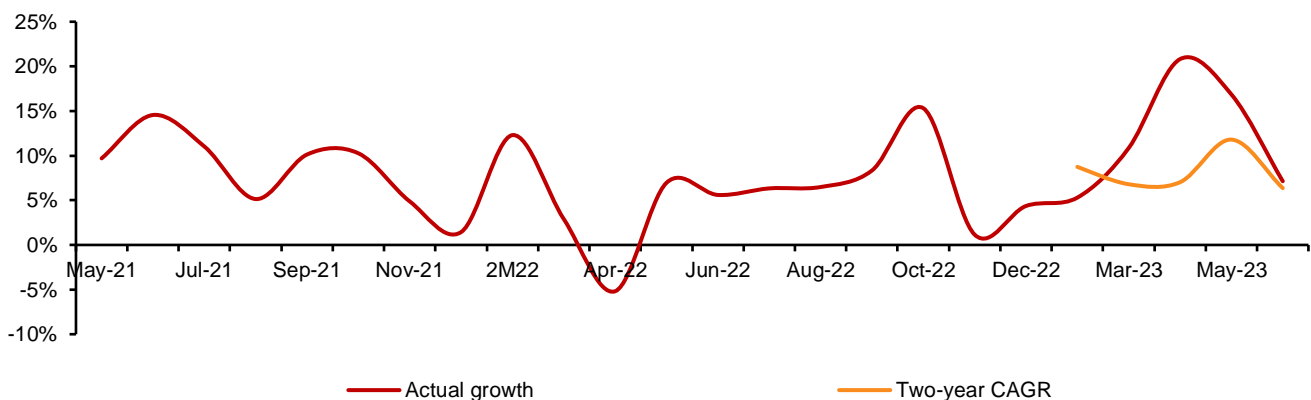
Related Reports

1. [Alibaba \(BABA US\) - Fundamentals on constant recovery track – 10 July](#)
2. [Internet: Trends observed from this year's 618 shopping festival – 20 June](#)
3. [Trip.com Group \(TCOM US\) - Strong recovery to sustain in 2Q23 – 9 June](#)
4. [Meituan \(3690 HK\) - Determined to maintain local consumer services industry consumer mind share – 29 May](#)
5. [PDD Holdings \(PDD US\) - Core business delivered quality growth – 29 May](#)
6. [E-commerce - April online retail sales recap – 17 May](#)
7. [JD.com \(JD US\) - Focusing on driving healthy and quality growth – 12 May](#)

Stock recommendations

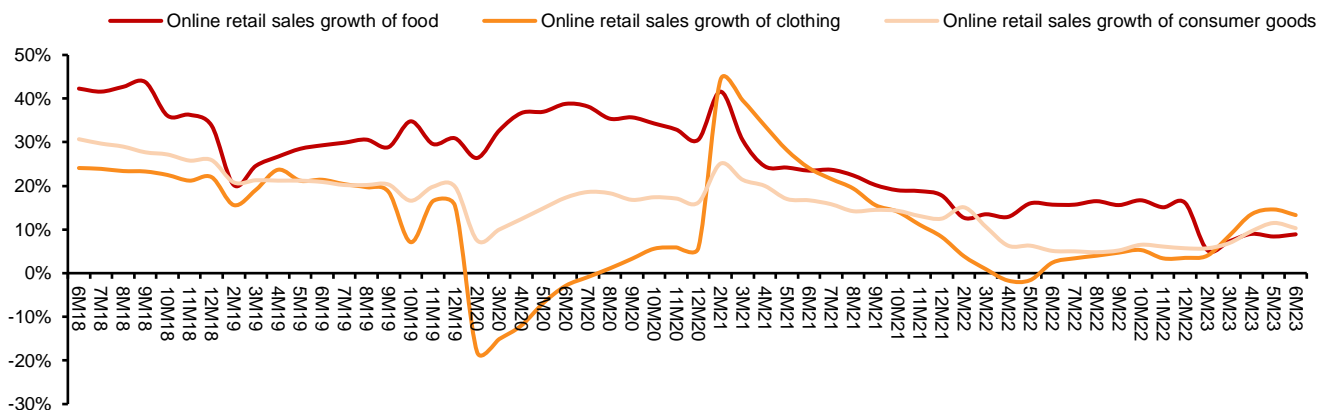
PDD has potential to drive for robust GMV growth through incorporation of branded products and high ASP product, and PDD's monetization has potential to further increase given its relatively better ROI compared with peers. We also like **Alibaba** on its deep value discount. Alibaba's core China marketplace GMV is on a stable recovery track, aided by discretionary consumption recovery. The potential full spin-off of Cloud intelligence group, as well as other capital market activities of different business units are likely to provide more update regarding business development and propel a valuation rerating when market sentiment recovers. For **JD**, near-term earnings visibility remains high given that the move to enhance supply chain and product supply is not costly, while the company still needs to grow user base in order to drive for steady platform business development over the long run, in our view.

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

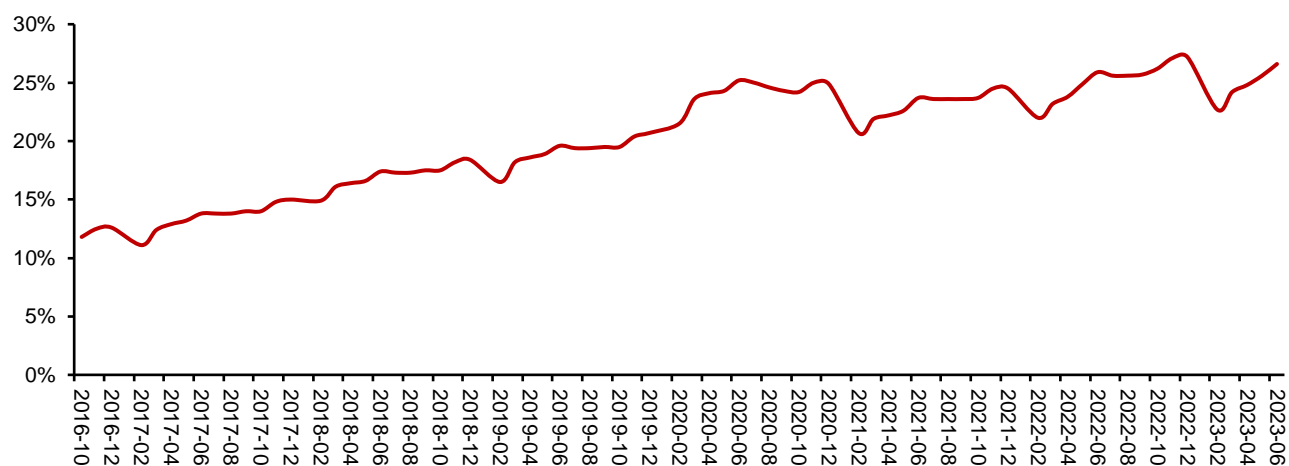


Source: NBS, CMBIGM

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.