

# China Internet

## May online retail sales recap

Although total retail sales growth of 12.7% YoY in May 2023 missed Wind consensus (+13.6% YoY) again, the YoY online retail sales of physical goods of 16.9% (two-year CAGR of 11.8%) was a beat compared to our estimates of 11%, which we attribute to shopping festival promotions of online channels that stimulates consumer's willingness to shopping online. In addition, overall online retail sales GMV growth accelerated to 13.8% YoY in 5M23 (4M23: 12.3%) as online game was less a drag and online travel recorded strong performance, which both likely to sustain in the rest of 2Q23. We await for more concrete results to become more bullish on e-commerce industry growth as overall consumption sentiment takes time to recover, while the aggressive efforts that e-commerce platforms spent to drive for better consumer engagement may provide support. Maintain BUY on Pinduoduo (PDD), Alibaba, and JD.com (JD).

- **YoY growth of retail sales in May shy of Wind consensus again.** Following the miss in April, YoY growth of retail sales missed consensus again in May. According to NBS, total retail sales GMV of consumer goods was up 12.7% YoY in May 2023, shy of Wind consensus at 13.6% YoY. Due to a low base and constant recovery in offline activities, catering services GMV saw YoY growth of 35.1% in May 2023, indicating a two-year CAGR of 3.2% (2M23/March/April: two-year CAGR of 9.0/2.8/5.4%).
- **Online retail sales data in May better than our expectation.** Per NBS, China's online retail sales GMV grew 13.8% YoY in 5M23, improving from 12.3% in 4M23, thanks to consumption recovery and low base. Specifically, online physical goods GMV rose 16.9% YoY in May 2023, indicating a two-year CAGR of 11.8%, improving from two-year CAGR of 6.8/7.0% in March/April 2023. We attributed this to solid GMV growth for Brand and Quality (B&Q) shopping festival, and resilient 618 pre-sale performance. According to Ministry of Commerce, online retail sales GMV of physical goods generated during B&Q shopping festival (28 April-12 May) was RMB609bn, up 11.6% YoY.
- **Online penetration rose further in May.** Online retail sales penetration of physical goods rose to 25.6% in 5M23 from 24.9% in 5M22 and 24.8% in 4M23. By types of consumption, online retail sales GMV of food/ clothing/ consumer goods grew 8.4/14.6/11.5% YoY in 5M23, implying a two-year CAGR of 12.1/6.2/8.9%, all of which demonstrated a recovery trend compared to that in April (two-year CAGR of 10.9/5.6/7.9% for food/ clothing/ consumer goods).
- **Stock recommendations.** Amid a recovering consumption sentiment, e-commerce platforms are escalating investment to enhance consumer mindshare gain, which lead to intensified industry competition but likely to drive resilient overall e-commerce industry growth. **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.

### China Internet Sector

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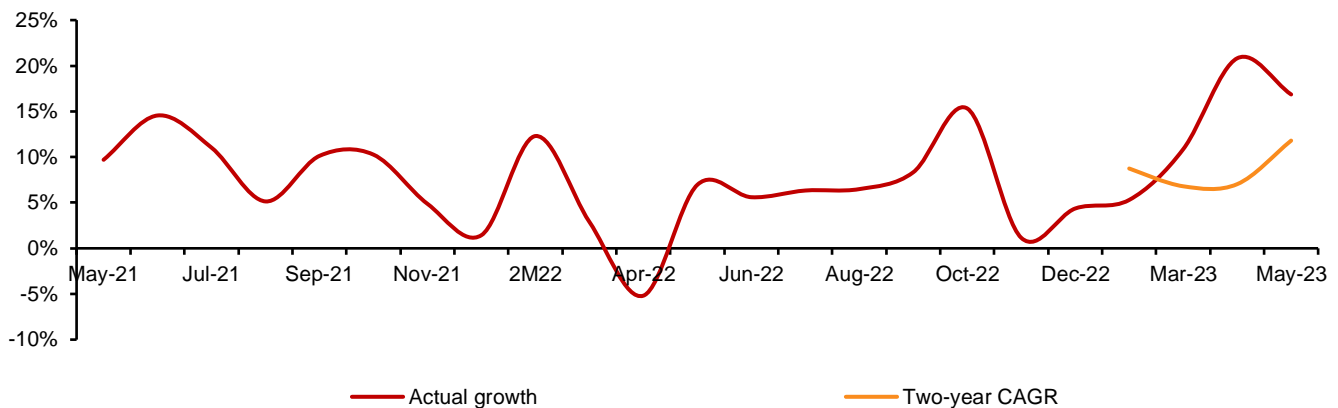
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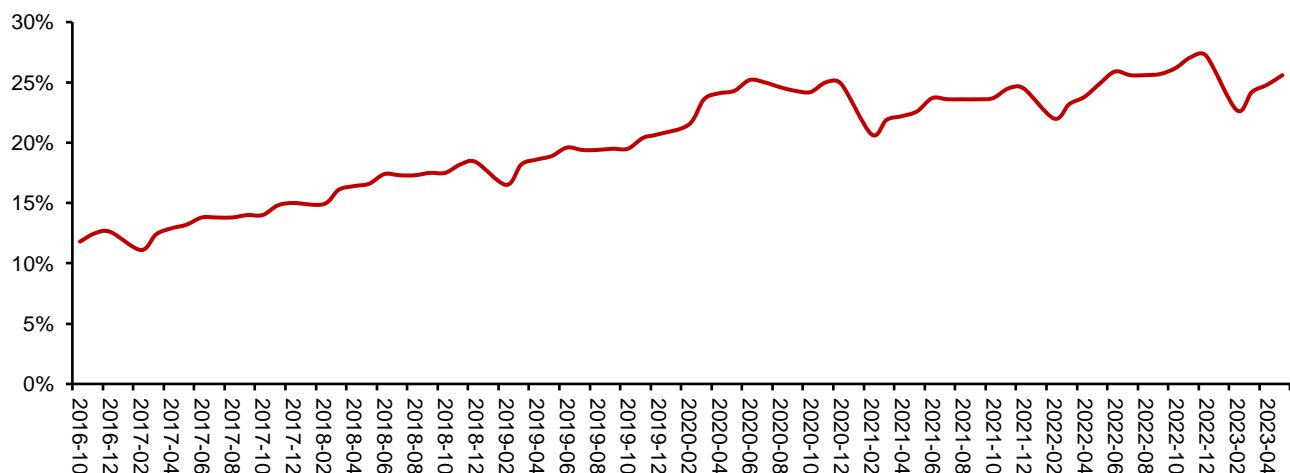
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**Figure 1: YoY growth of online retail sales of physical goods**

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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