

China Internet Sector

Ecommerce sector: Jun online sales in line

2022 Jun online retail sales +5.6% YoY (vs. +7% YoY in May). We think it is more suitable to combine parcel delivery trend as reference. Parcel volume in Jun +5.4% YoY, improving from +0.2% in May, according to SPB. We think the parcel trend suggests gradual recovery is on a good track. By platform, BABA/JD/PDD GMV was estimated at -10%/+1%/+12% YoY in 2Q22E. Market focus lies in Jul recovery amid epidemic resurgence. According to our channel check, PDD GMV maintained double-digit growth in the first week of Jul (before Covid resurgence). JD maintained solid growth even after 618 promotions. On a 12-month horizon, we expect China ecommerce GMV to rebound +15% YoY in FY23E (vs. +11% YoY in FY22E), with slight margin improvement ahead. Sector valuation at 14x FY23E P/E is attractive. Our pecking order: PDD > Kuaishou > BABA > Baozun.

- **What is new.** NBS published 2022 Jun online retail sales, with online retail sales of goods **+5.6% YoY in Jun** (vs. +7% YoY in May), largely in line. By category, food /consumables /apparel online sales +15.7%/+5.1%/+2.4% YoY in 6M22 (vs. +16.0%/+6.3%/-1.6% YoY in 5M22). In Jun, cosmetics/home appliances/ communication devices sales +8.1%/+3.2%/+6.6% (vs. -11%/-10.6%/-7.7% in May). Parcel delivery in Jun was 10.3bn (+5.4% YoY), according to SPB.
- **Our comments:** We view Jun's growth as largely in line. Note that there are some inconsistency in Jun & May growth between industry data (Jun < May) and platforms (Jun > May), on some calculation methods difference. We think it is more suitable to combine parcel delivery trend as reference. Parcel volume in Jun +5.4% YoY, improving from +0.2% in May (vs. +19.6%/-3.1%/-11.9% in Jan-Feb/Mar/Apr), according to SPB. We think the parcel trend suggests gradual recovery is on a good track. Based on company data and our channel check/expert color, BABA GMV in 618 achieved positive growth (above expectation), JD +10% YoY, and PDD >+20% YoY (estimate). Market focus lies in Jul recovery amid epidemic resurgence. According to our channel check, PDD GMV maintained double-digit growth in the first week of Jul (before Covid resurgence).
- By platform, BABA/JD/PDD GMV was estimated at -10%/+1%/+12% YoY in 2Q22E. For BABA, it saw strong momentum of outdoors, healthcare vertical (despite soft apparel). JD maintained solid growth even after 618 promotions (especially for 3C and home appliance categories). PDD kept resilient in 2Q22, forecasting 4%/8%/22% GMV growth in Apr/May/Jun. We expect PDD to continuously outperform with above-peers GMV growth and solid margin in 2Q22E (DDMC UE was estimated at -9.5% in 2Q22E).
- Ecommerce stock prices have corrected 15% from Jun peak, mainly on epidemic resurgence and profit taking. We view this correction was within market expectation. On a 12-month horizon, we expect China ecommerce GMV to rebound +15% YoY in FY23E (vs. +11% YoY in FY22E), in which PDD, JD and short video platforms continue to gain share. Additionally, we see high visibility for ecommerce sector to deliver slight margin improvement in FY23E, backed by operating leverage & narrowing loss of new biz to offset continuous social responsibility cost.

OUTPERFORM
(Maintain)

China Internet Sector

Sophie Huang

(852) 3900 0889

sophiehuang@cmbi.com.hk

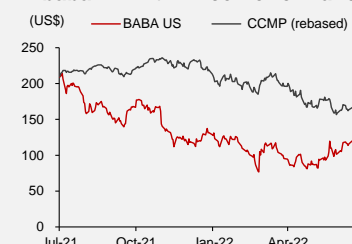
Eason Xu

(852) 3900 0849

easonxu@cmbi.com.hk

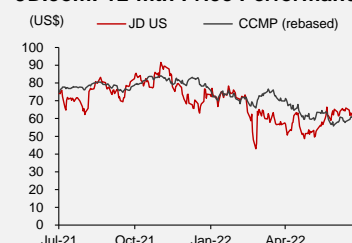


Alibaba: 12-mth Price Performance



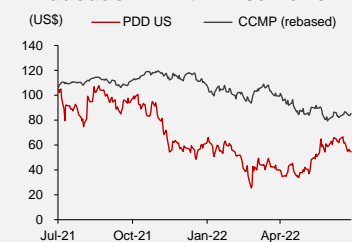
Source: Bloomberg

JD.com: 12-mth Price Performance



Source: Bloomberg

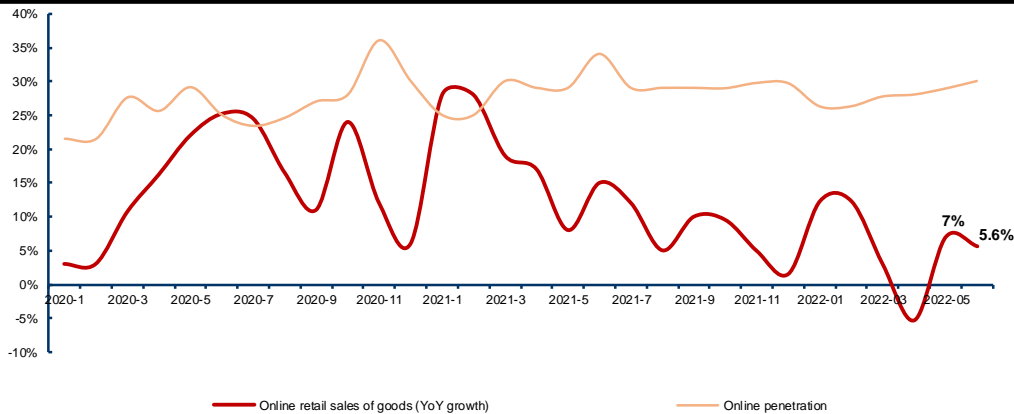
Pinduoduo: 12-mth Price Performance



Source: Bloomberg

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2. Comments on resumption of new games approval – 12 Apr 2022

Figure 1: Online retail sales growth +5.6% YoY in Jul 2022

Source: NBS

Figure 2: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBIT			FY22-24 EPS
							FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	CAGR
China Internet Giants																
Tencent	700 HK	398,383	HKD	325	BUY	480	22.9	18.7	15.8	4.6	4.0	3.6	18.4	15.9	14.1	21%
Alibaba	BABA US	277,706	USD	102	BUY	151	14.2	11.8	10.3	2.0	1.8	1.6	14.9	12.0	9.6	22%
Baidu	BIDU US	48,408	USD	140	BUY	203	19.9	15.6	12.1	2.6	2.2	2.0	18.3	13.4	10.1	25%
JD	JD US	94,111	USD	60	NA	NA	34.7	22.9	17.1	0.6	0.5	0.4	54.4	28.3	18.3	39%
Meituan	3690 HK	141,184	HKD	179	BUY	263	NA	NA	42.4	4.4	3.4	2.7	NA	NA	42.9	NA
Pinduoduo	PDD US	69,175	USD	55	BUY	70	25.8	18.0	14.0	4.2	3.4	2.9	26.2	16.7	11.7	40%
NetEase	NTES US	56,767	USD	86	BUY	132	18.6	16.1	14.2	3.8	3.4	3.1	14.9	12.9	11.2	18%
Kuaishou	1024 HK	42,650	HKD	78	BUY	120	NA	NA	33.9	3.0	2.5	2.1	NA	NA	NA	NA
Average							22.7	17.2	13.9	3.2	2.7	2.3	24.5	16.5	16.8	27%
E-commerce																
Alibaba	BABA US	277,706	USD	102	BUY	151	14.2	11.8	10.3	2.0	1.8	1.6	14.9	12.0	9.6	22%
JD	JD US	94,111	USD	60	NA	NA	34.7	22.9	17.1	0.6	0.5	0.4	54.4	28.3	18.3	39%
Pinduoduo	PDD US	69,175	USD	55	BUY	70	25.8	18.0	14.0	4.2	3.4	2.9	26.2	16.7	11.7	40%
Meituan	3690 HK	141,184	HKD	179	BUY	263	NA	NA	42.4	4.4	3.4	2.7	NA	NA	42.9	NA
Vipshop	VIPS US	6,305	USD	10	NA	NA	7.8	7.0	6.4	0.4	0.4	0.4	5.0	4.5	4.1	10%
Yatsen	YSG US	1,137	USD	2	NA	NA	NA	NA	NA	1.7	1.6	1.4	NA	NA	NA	NA
Baozun	BZUN US	639	USD	9	BUY	12	17.7	9.0	6.7	0.4	0.4	0.3	31.2	11.7	7.9	61%
Average							20.0	13.7	10.9	2.0	1.6	1.4	26.3	14.7	15.7	34%
OTA																
Trip.com	TCOM US	16,275	USD	25	BUY	48	90.9	20.4	13.7	5.7	3.6	2.8	NA	31.5	17.3	152%
Tongcheng	780 HK	4,317	HKD	15	BUY	18	29.6	17.6	14.3	4.1	3.0	2.5	41.7	17.5	13.4	53%
Average							60.3	19.0	14.0	4.9	3.3	2.7	41.7	24.5	15.3	103%

Source: Bloomberg

Note: Data updated as of 16 Jul 2022

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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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