

China Internet

December online retail sales recap

NBS released (17 January) Dec and full year 2022 online retail sales data. YoY growth of online physical goods GMV reaccelerated to 4.4% YoY in Dec 2022 (1.2% YoY in Nov), which in our view could be attributed to recovery in logistics and fulfilment capability in late Dec and frontloaded sales generated from the Spring Festival shopping festival due to the early Spring Festival in 2023. But solid recovery in YoY growth trajectory likely takes time, in our view, echoed by the 4.7% YoY online retail sales growth during the first five days of the shopping festival (30 Dec 2022-3 Jan 2023; per Ministry of Commerce). That said, we expect consumption to gradually recover along with macro recovery, backed by economic stimulus policy and easing pandemic outbreaks. We forecast 12% YoY growth in online retail sales GMV of physical goods on the back of 7% YoY growth in total retail sales in 2023E. Regarding stock pick, we expect the market will first focus on earnings visibility quality, and then will move on to chase stocks with new growth drivers. We maintain BUY on Alibaba, Pinduoduo, Meituan and JD.com.

- **Online penetration of retail sales reached a new high in Dec amid first wave of pandemic impact.** Per NBS, China's online retail sales GMV grew 4.0% YoY in 2022 vs a two-year CAGR of 12.5% in 2021. Specifically, online physical goods GMV rose 6.2% YoY in 2022 (2021: 12.0%), implying 4.4% YoY growth in Dec 2022 and 6.4% YoY in 4Q22 (3Q22: 7.1% YoY). Online retail sales penetration of physical goods rose further to 27.2% in 2022 (2021: 24.5%; 11M22: 27.1%), coupled with the "first wave" impact of pandemic infection. However, we expect online penetration to see some short-term volatility given a recovery in offline activities in 1H23. By types of consumption, online retail sales GMV of food/clothing goods grew 16.1/3.5 YoY in 2022 from 15.1/3.4 YoY in 11M22.
- **The worst likely behind us but solid recovery takes time.** According to NBS, total retail sales GMV of consumer goods was down 1.8% YoY in Dec 2022 (Nov 2022: -5.9% YoY), better than Wind consensus of -6.5% YoY. The YoY decline in catering services GMV worsened to 14.1% in Dec 2022 (Jul/Aug/Sep/Oct/Nov: -1.5/+8.4/-1.7/-8.1/-8.4%), which can be attributed to reduced offline activities due to pandemic infections in the short term, but the worst is likely behind us. Regarding key categories in retail sales, sales GMV of apparel/cosmetics/household appliance declined by 12.5/19.3/13.1% YoY respectively in December 2022 (Nov 2022: down 15.6/4.6/17.3% YoY). Amid the first-wave impact, staples consumption saw rapid growth, food/beverage retail sales lifted 10.5/5.5% YoY in Dec 2022 (Nov 2022: +3.9/-6.2% YoY).
- **Market focus likely to turn to both profitability and new business growth in 2023.** Looking into 2023, with the support of macro stimulus policy and new online retail format to further increase market share (ie live streaming e-commerce & on-demand retail), we estimate the YoY growth of online retail sales GMV of physical goods could recover to 12.0%. E-commerce platform is likely to maintain their strategy to target for quality growth through driving for higher repurchase rate and cross category sales in 1H23 when consumption willingness remains soft. Meanwhile, leveraging China's strong supply chain advantage, e-commerce platforms could broaden their overseas expansion to unlock long-term growth potential. We expect the market will first focus on earnings visibility quality, and then will move on to chase stocks with new growth drivers. We maintain BUY on Alibaba, Pinduoduo, Meituan and JD.

China Internet Sector

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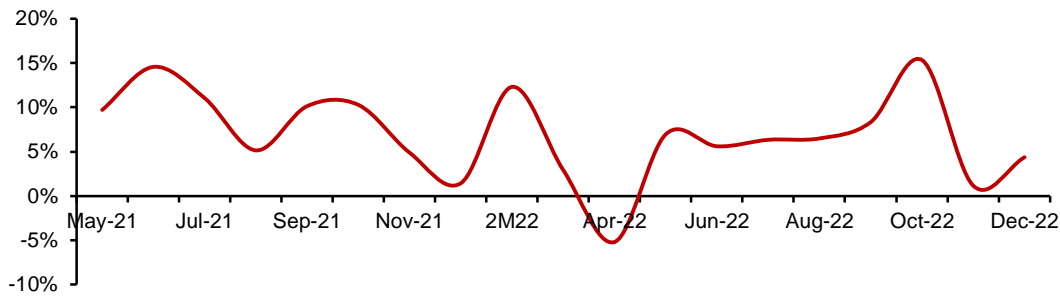
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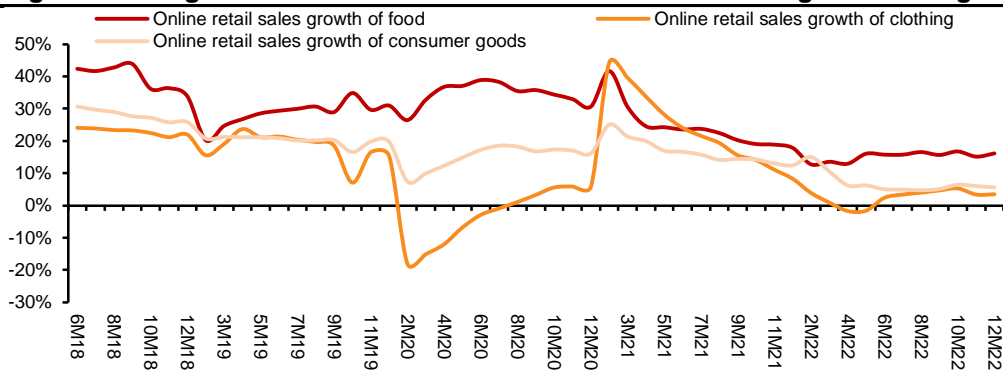
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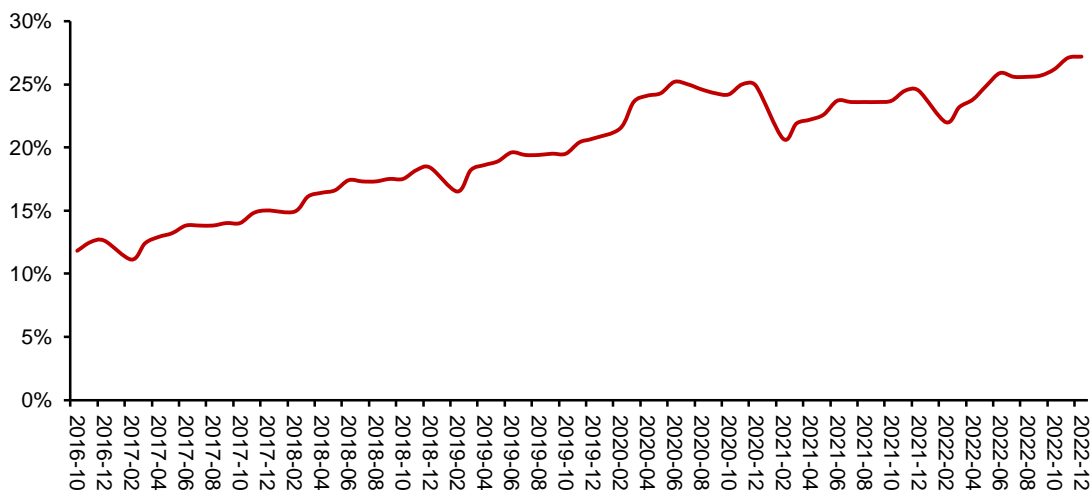
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Figure 1: YoY growth of online retail sales of physical goods

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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