

# China Internet Sector

## September online retail sales recap

NBS released (24 October) September online retail sales data. Our take: 1) Sequential gradual recovery in YoY growth of online retail sales of physical goods GMV sustained in September 2022, but overall recovery in retail sales GMV growth was dragged by non-physical goods, which we attribute to soft performance in online games and online travel agency (OTA); 2) the data implies a 7.1% YoY growth for online retail sales of physical goods GMV in 3Q22, which is inline with our forecast of 7.0%, while we think more concrete recovery in 4Q22 may rely on more effective stimulus policies and a recovery in consumption willingness; 3) growth of online retail sales still outpaced that of offline in September, with online penetration on retail sales of physical goods expanded by 2.1pp YoY and 0.1pp MoM in September to 25.7%, and the coming Double 11 shopping festival likely to give a further boost to online penetration in the coming November.

- **Sequential recovery in YoY growth of online retail sales of physical goods GMV persists in September.** According to NBS, China's online retail sales GMV grew 4.0% YoY in 9M22 vs a two-year CAGR of 14.0% in 9M21. Specifically, online physical goods GMV rose 6.1% YoY in 9M22, implying 8.1% YoY growth in September 2022 (April/May/June/July/August 2022: -5.2/7.0/5.6/6.3/6.6%), demonstrating a sequential recovery trend in YoY growth. The data also implies 7.1% YoY in 3Q22 (3Q21: 8.7%; 2Q22: 3.0%), which is largely inline with our forecast of 7.0% YoY. Online retail sales of physical goods accounted for 25.7% of total consumer sales in 9M22 (9M21: 23.6%; 8M22: 25.6%). By type of consumption, online retail sales GMV of food increased by 15.6% YoY in 9M22, slightly decelerated from 16.5% YoY in 8M22, while that of clothing/consumer goods accelerated to 4.7/5.2% YoY in 9M22 (8M22: 4.0/4.8%).
- **Overall recovery in online retail sales was dragged by soft performance of non-physical goods.** NBS data implies that China's online retail sales was RMB1.2tn in September 2022, up 6.2% YoY (April/May/June/July/August 2022: -6.8/+1.5/+3.8/+3.8/7.1% YoY). We attribute the rocky recovery in YoY growth to soft performance in non-physical goods, such as online games and online travel. According to Game Publication Committee (GPC) and CNG data, revenue for China's game market was RMB59.7bn in 3Q22, down 19.1% YoY (2Q22: -7.0% YoY; 3Q21: +7.7% YoY). We expect concrete recovery of non-physical goods GMV growth to take some time, given the lack of approval for highly anticipated game titles in the near term, and strict pandemic prevention policy.
- **Earnings visibility is the key focus in the near term.** We expect gradual recovery in YoY growth of online retail sales GMV of physical goods to continue in 4Q22, driven by gradual improvement in macro and easier comps in 4Q21 (5.3% YoY). We forecast overall online retail sales GMV of physical goods to grow 8.5% YoY in 4Q22 and 6.9% YoY for 2022 (2021: 12.0%). In the short-term we still prefer companies with relatively higher visibility for earnings growth in e-commerce sector.

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