

China Internet

November online retail sales recap

NBS released (15 December) November online retail sales data. YoY growth of online physical goods GMV slowed to 1.2% YoY amid soft consumption sentiment, but online retail sales penetration rate of physical goods reached 27.1% in 11M22 at a historical high, which we attribute to further constrained offline activities and further commerce adoption of new online format. The high online penetration could sustain into December, in our view, as offline activities will remain constrained and continue to shift online. Although we expect that the overall consumption recovery will still take time, it should normalise from 2Q23 onwards on the back of economic stimulus policy and easing pandemic outbreaks. 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 November and is expected to rise higher.** According to NBS, China's online retail sales GMV grew 4.2% YoY in 11M22 vs a two-year CAGR of 13.4% in 11M21. Specifically, online physical goods GMV rose 6.4% YoY in 11M22, implying 1.2% YoY growth in November 2022 (3Q22: 7.1% YoY; October 2022: 15.3% YoY). Online retail sales of physical goods accounted for 27.1% of total consumer goods sales in 11M22 (11M21: 24.5%; 10M22: 26.2%), a historical high, which we attribute to the pull from new-form live-streaming e-commerce and community group buy, coupled with constrained offline foot-traffic which pushed further sales promotions online. By types of consumption, online retail sales GMV of food/clothing/consumer goods grew 15.1%/3.4%/6.1% YoY in 11M22 from 16.7%/5.3%/6.5% YoY in 10M22. We expect e-commerce sector will receive additional demand boost until 2Q23 due to current pandemic situations.
- **Overall consumption recovery still takes time.** According to NBS, total retail sales GMV of consumer goods was down 5.9% YoY in November 2022 (Oct 2022: -0.5% YoY), or down 6.1% if excluding GMV generated from auto sales, indicating a further softened consumption sentiment. In addition, catering services GMV was RMB443.5bn in November 2022, down 8.4% YoY (Jul/Aug/Sep/Oct: -1.5%/+8.4%/-1.7%/-8.1%), which could be partly worsened by restricted offline foot traffic. Regarding key categories in retail sales, sales GMV of apparel/cosmetics/household appliance declined by 15.6%/4.6%/17.3% YoY respectively in November 2022 (Oct 2022: down 7.5%/3.7%/14.1% YoY). Although staples demonstrated greater resilience than discretionary consumption, the growth was slowed in November. Food/beverage retail sales were up 3.9%/-6.2% YoY in November 2022 (October 2022: +8.3%/4.1% YoY).
- **Focus turns to both profitability and new business growth.** 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), the growth of online retail sales GMV of physical goods could recover to 12.0% YoY, based on our estimates. E-commerce platforms will compete on enhancing core user base stickiness, aiming for quality growth through driving for higher repurchase rate and cross category sales. 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 to focus on both core business profitability and development of new business growth drivers in 2023. We maintain BUY on Alibaba, Pinduoduo, Meituan and JD.

China Internet Sector

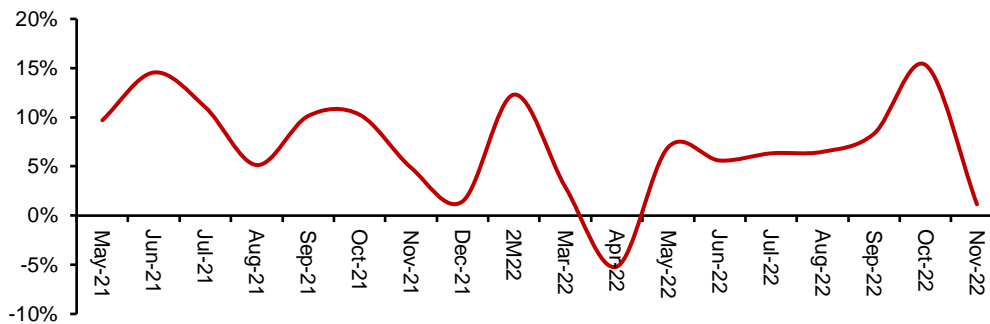
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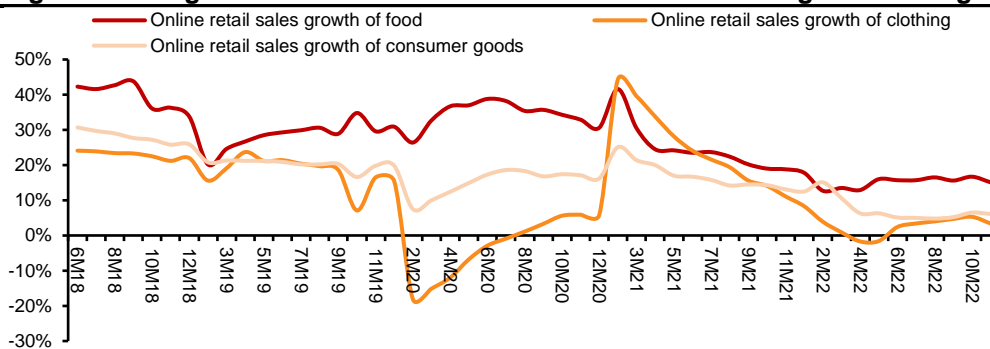
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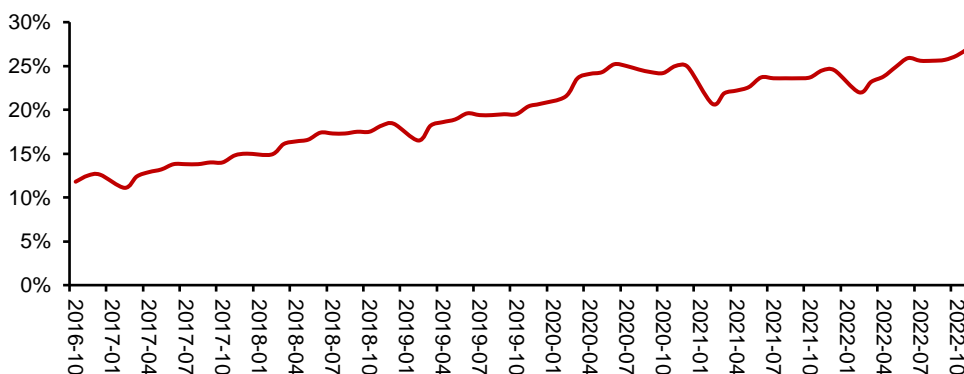
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Figure 1: YoY growth of online retail sales of physical goods

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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