

SECTOR UPDATE

Internet – China

Under The Shadow Of The Lockdown

The MCSI China Tech index has tumbled about 22% to-date since early-March after lockdown measures were re-imposed in cities like Shanghai and Shenzhen. We reiterate that persistent sluggish macro data may continue to weigh on the sector's near-term outlook; however, we expect the sector to see a meaningful rebound in early-2H22 if the lockdown measures are lifted. Maintain MARKET WEIGHT on the internet sector.

WHAT'S NEW

- E-commerce: Weak Q22 numbers from NBS.** China's online retail sales recorded flattish yoy growth in Mar 22 of +0.5% yoy (versus: +10.2% in Jan-Feb 22; +25.8% in Mar 21) to Rmb1,056.2b. Online physical goods saw a 2.9% yoy rise (vs +12.3% increase in Jan-Feb 22, +18.5% in Mar 21) to Rmb888.6b, better than our expectation due to the higher growth from inner-city on-demand fulfillment in preparation for the lockdowns. China's retail market sales growth contracted 3.5% yoy in Mar 22. By 1Q22, total online retail growth was +6.6% yoy (vs 1Q21: +30.6%; 4Q21: +4.9%) with tangible/intangible goods' gross merchandise value (GMV) being +8.8% yoy/-3.5% yoy respectively.
- Online game: Unusually strong grossing growth in March/April in China due to lockdowns; near-term sentiment supported by new game approval.** The recent lockdowns in multiple regions across China has boosted the usual seasonally weaker March with game grossing growing 12% yoy, and further accelerating into the first half of April with average daily grossing growth of 13% yoy. China's Feb 22 mobile game grossing revenue grew only 2% yoy to Rmb21.6b, and -2.8% mom due to the absence of Chinese New Year promotional activities. While overseas mobile game grossing saw -9% yoy normalising from the high base last March of 27% yoy due to the easing of lockdown measures. In addition, we expect the resumption of new game approval to revitalise investors' sentiment within the online game sector and boost company confidence to invest and carry out R&D for new games. In terms of the overseas game performance, Tencent's Honour of King (HOK) remains in the top spot in the global App Store with total grossing of US\$272.4m, up 5.8% yoy during Mar 22. Other notable games developed by China developer was Genshin Impact, which raked in total grossing revenue of US\$41m, ranked 3rd at the table.
- OTA: An uneven recovery path in 2022.** Domestic tourism is expected to experience significant decline in Mar-April as the persistent lockdown measures may continue to hinder tourists' activities. In the past Qing Ming Festival, air passenger volume sharply dropped 90% vs 2019 levels. While comparable to Feb 20, the online travel agencies (OTA) companies are in a better position as the cost cutting has been done and there is no need to solve the large amount of cancellation and refunding requests. With the upcoming Labour Day holiday, the government officials had reminded the citizens to stay put to prevent the risk of cross-infection. We can expect the travel industry to fully recover to pre-COVID-19 levels once COVID-19 is under control. Looking back to May-Jul 21, domestic hotel/air bookings were up 10-20% vs 2019 levels. For overseas travelling, Europe aviation traffic has now recovered to more than 81% of 2019's level during the 7-13 April period and US scheduled service airline passengers recovered to 73.2% of the pre-pandemic level. Preliminary Feb 22 airline traffic data also suggested a recovery of 81%, representing a 106% yoy growth. Key downside risks in the overseas traveling market are intensified geopolitical tension and outbreak of a new variant.

PEER COMPARISON

Company	Tickers	Rec	Price @ 22 Apr 22 (HK\$)	Target Price (HK\$)	Upside/(Downside) To TP (%)	Market Cap (US\$m)	PE			EV/EBITDA			EV/Sales			ROE (%)
							2021 (x)	2022F (x)	2023F (x)	2021 (x)	2022F (x)	2023F (x)	2021 (x)	2022F (x)	2023F (x)	
JD.com	9618 HK	BUY	208.40	320.00	53.6	83,814.2	32.6	30.6	19.9	27.2	18.3	11.4	0.4	0.4	0.3	4.9
Netease	9999 HK	BUY	137.30	187.00	36.2	58,706.4	21.0	19.0	16.3	15.7	13.9	11.9	3.5	3.1	2.7	17.6
Trip.com	9961 HK	BUY	171.70	271.00	57.8	13,949.4	69.2	78.2	17.5	119.8	76.6	16.6	4.6	4.4	2.9	0.6

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT (Maintained)

STOCK PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
JD.com	9618 HK	BUY	208.40	320.00
Netease	9999 HK	BUY	137.30	187.00
Trip.com	9961 HK	BUY	171.70	271.00

Source: Bloomberg, UOB Kay Hian

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ESSENTIALS

• **Taking a deep dive into companies under our coverage:**

a) E-commerce: We expect JD.com to continue to outperform its peers ie Alibaba and Pinduoduo (PDD) thanks to: a) continued margin expansion via the 3P segment, b) 20%-ish growth guidance for 2022, c) and vast logistic network coverage in China. Although we are expecting revenue growth of 27% yoy for PDD, we remain concerned on the company due to the absence of dual-listing in Hong Kong amid the US SEC continuing to add a new list of China-listed American Depository Receipts (ADR) to the Holding Foreign Companies Accountable Act (HFCAA) watchlist. For Meituan, we expect the company's food delivery business to face headwinds in 1Q22 as its riders encounter hurdles in making their deliveries due to the lockdown measures. On top of that, the temporary closure of restaurants and tourists' stay put behaviour are expected to materially impact its 1Q22 and 2Q22 top-line performance.

b) Online game: According to Sensor Tower, Tencent's top 10 grossing game had achieved a 4.9% yoy increase during Mar 22 as its signature IP HOK led the gain, whereas the newly-launch title mobile League of Legends took the bright spot, ranking 6th in the chart offset by subdued performance from Peacekeeper Elite and PUBG Mobile. For Netease, the company's top 10 grossing game experienced a 10.9% yoy decline during the same period due to the weaker performance of some of the obsolete titles such as Knives Out, Westward Journey, and Onmyoji. Although Harry Potter: Magic Awakened was in the chart, its total grossing has experienced a 66% decline in total grossing to-date. In view of that, we like Tencent for its exposure to the international gaming market (30.8% of 4Q21 revenue) amid the subdued performance from the domestic market.

c) OTA: The OTA names had been trading sideways since mid-March when the lockdown measures in Shanghai were imposed. Taking cue from the previous guidance given by both Tongcheng Travel (TT) and Trip.com (TCOM) with top-line expected to grow within the range from -6% to 5% in 1Q22, we believe the numbers may fall below the guided range for domestic-heavy TT whereas TCOM's performance should be well anchored by the robust overseas travelling demand. We had switched our top pick in the OTA sector to TCOM thanks to its 20% exposure to the international travelling market as the domestic COVID-Zero policy will continue to hinder investors' sentiment in the OTA sector.

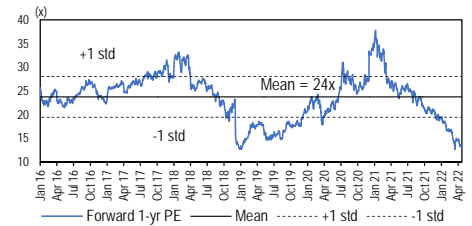
• **What to expect from China internet sector.** Following the hawkish Fed statement last night, Nasdaq tumbled 2.1% on 21 April, erasing its same day gain of 1.9%. Meanwhile the Hang Sang Tech index rebounded 0.28% on 22 April. We think the downside potential on China's internet sector will have minimal impact from the Fed rate hike but more sensitive towards the sluggish macro data as well as geopolitical risk (ie delisting from the US).

SECTOR CATALYST AND RISK

• **Catalysts:** a) Supportive governmental policies, b) increasing online retail penetration driven by less developed areas and younger generations, and c) continued improvements in technology and e-commerce infrastructure.

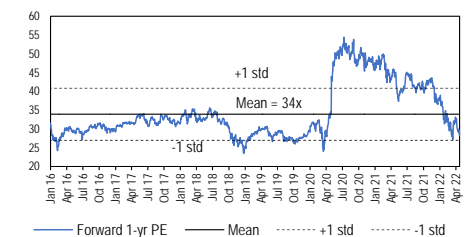
• **Risks:** a) Delisting risk in the US market, b) a challenging regulatory landscape, c) weak macro environment, and d) high user acquisition expenses and increased competition as multiple players seek to increase market share, heavy investments in new retail and local services strategy dragging down e-commerce companies' margins and ROEs.

MSCI CHINA IT INDEX 12-MONTH FORWARD PE



Source: Bloomberg, UOB Kay Hian

NASDAQ CTA TECH INDEX 12-MONTH FORWARD PE



Source: Bloomberg, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Currency	Year end	Price (lcy)	Mkt Cap (US\$m)	Calendarised PE			Calendarised EV/EBITDA			Calendarised EV/Sales			ROE	EPS 22-25 3-yr CAGR
						2021	2022	2023	2021	2022	2023	2021	2022	2023		
China e-commerce																
Alibaba Group Ho	9988 HK	HKD	03/2021	86.7	239,502.1	32.6	30.6	19.9	27.2	18.3	11.4	0.4	0.4	0.3	9.9	18%
Jd.Com Inc-CI A	9618 HK	HKD	12/2021	208.4	82,814.2	n.a.	30.6	19.9	27.2	18.3	11.4	0.4	0.4	0.3	4.9	49%
Pinduoduo In-Adr	PDD US	USD	12/2021	34.7	43,526.7	41.2	23.3	15.1	n.a.	13.0	8.2	2.1	1.8	1.4	15.6	49%
Meituan-B	3690 HK	HKD	12/2021	141.4	111,412.2	n.a.	n.a.	77.9	n.a.	n.a.	35.4	3.7	2.9	2.2	-9.4	n.a.
Vipshop Hold-Adr	VIPS US	USD	12/2021	7.1	4,800.3	6.8	5.4	5.0	n.a.	1.9	1.7	0.1	0.1	0.1	14.0	55%
Baozun Inc-Adr	BZUN US	USD	12/2021	7.0	484.4	n.a.	9.2	6.0	n.a.	6.6	4.2	0.3	0.3	0.3	4.3	39%
Vesync Co Ltd	2148 HK	HKD	12/2021	5.5	822.6	19.4	12.8	9.9	12.3	9.6	7.4	1.7	1.3	1.0	16.7	29%
Average						22.4	15.4	20.6	15.8	9.4	10.5	1.4	1.1	0.9	8.0	40%
China online game																
Tencent	700 HK	HKD	12/2021	340.6	417,267.4	12.2	20.6	17.0	15.6	14.8	12.1	5.1	4.5	3.9	15.0	20%
Netease Inc	9999 HK	HKD	12/2021	137.3	58,706.4	21.0	19.0	16.3	15.7	13.9	11.9	3.5	3.1	2.7	17.6	16%
Bilibili Inc-Z	9626 HK	HKD	12/2021	169.9	8,392.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.6	1.9	1.5	-45.4	n.a.
Kingsoft Corp	3888 HK	HKD	12/2021	22.4	3,911.7	66.4	54.9	30.3	14.9	5.8	4.5	2.0	1.6	1.3	2.2	62%
Joyy Inc-Adr	YY US	USD	12/2021	37.9	2,787.4	n.a.	19.1	13.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.4	28%
Xd Inc	2400 HK	HKD	12/2021	19.6	1,202.6	n.a.	n.a.	n.a.	n.a.	n.a.	40.9	2.1	1.7	1.3	-26.1	n.a.
Netdragon Websof	777 HK	HKD	12/2021	15.5	1,071.0	6.7	5.5	4.8	n.a.	2.1	1.9	0.6	0.5	0.4	15.8	n.a.
Tiange	1980 HK	HKD	12/2021	0.8	130.9	6.5	n.a.	n.a.	14.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average						23.0	23.8	16.4	15.3	9.2	14.3	2.7	2.2	1.9	-2.6	31%
China OTA																
Trip.Com Group L	9961 HK	HKD	12/2021	171.7	13,949.4	69.2	78.2	17.5	119.8	76.6	16.6	4.6	4.4	2.9	0.6	114%
Tongcheng Travel	780 HK	HKD	12/2021	13.9	3,935.0	36.1	19.8	14.1	14.0	12.4	8.5	2.8	2.4	1.9	6.7	18%
Meituan-B	3690 HK	HKD	12/2021	141.4	111,412.2	n.a.	n.a.	77.9	n.a.	n.a.	35.4	3.7	2.9	2.2	-9.4	n.a.
Tuniu Corp-Adr	TOUR US	USD	12/2021	0.8	93.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average						36.1	49.0	36.5	14.0	12.4	20.2	3.7	3.2	2.3	-0.7	66%

Source: Bloomberg, UOB Kay Hian

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