

Hong Kong E-commerce Sector

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DBS Group Research . Equity

29 Sep 2022

Shopping behaviour changes to drive growth in post-COVID era

- **Percentage of consumers purchasing half of groceries online retreated by only 3% from the peak to 29% as pandemic situation eases**
- **Changes in shopping habits, increased online SKUs, expansion into new categories are key drivers**
- **Expect e-commerce growth in Hong Kong to stay healthy at a CAGR of 13% for 2021-2025**
- **[HKTV \(1137 HK\)](#) remains the most popular online retailer in Hong Kong. Maintain BUY**

Expect double-digit growth to sustain post COVID outbreak. The Hong Kong e-commerce market has experienced robust growth of 24% y-o-y during 1H22, and the momentum started normalising since July. Only c.30% of consumers purchased half of their food-related groceries online, which indicates future growth potential. Contrary to general market concerns of slower growth post-pandemic, our analysis suggested that online retail can maintain double-digit growth over the next three years.

Online consumer behaviours changed. The percentage of consumers that shop for groceries online retreated by only 3% to 29% from its peak. Long-term growth is supported by structural changes in behaviour during COVID, including (1) the habit of purchasing groceries online, (2) increase in online merchants and SKUs, and (3) further expansion into relatively underpenetrated and fast-growing product categories. Another driver for Hong Kong players is cross border e-commerce.

Maintain BUY on HKTV with TP of HK\$13.7. HKTVmall is the most popular online retailer in Hong Kong, followed by Wellcome, PARKnShop, Mannings, and Ztore (under TVB [511 HK]). We also highlight emerging pure e-commerce platforms in HK, such as Yoho (2347 HK), which focuses on consumer electronics. HKTV is riding on the robust growth of the online retail market. We forecast the company's GMV to grow at a CAGR of 18% for 2021-2024.

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Recommendation & valuation

| Company | Currency | Price | | Recom | Mkt Cap US\$m |
|--------------------------------|----------|---------|----------------------|-------|---------------|
| | | Local\$ | Target Price Local\$ | | |
| HKTV (1137 HK) | HKD | 4.85 | 13.70 | BUY | 567 |
| Yoho (2347 HK) | HKD | 1.13 | NA | NR | 72 |
| TVB (511 HK) | HKD | 3.62 | NA | NR | 202 |

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")



Introduction

The Hong Kong e-commerce market has experienced robust growth of 24% y-o-y during 1H22 under the fifth wave of COVID, yet the growth rate started to normalise to the mid-teen level from July 2022.

In this report, we study the structural changes in consumer behaviour during the COVID outbreak. Contrary to general market concerns, our analysis concludes that the Hong Kong e-commerce market can maintain double-digit growth over the next three years. We will discuss (1) medium-term growth drivers for the sector as well as (2) emerging e-commerce players in Hong Kong.

Overview of Hong Kong online retail market

The Hong Kong e-commerce market has seen a consistent growth curve in the past two years, fuelled by the changes in consumer shopping behaviours amid the pandemic.

Hong Kong online retail sales demonstrated robust growth of 28% p.a. during 2019-2021 to HK\$29bn, outperforming overall retail sales, which declined by 10% to HK\$353bn for the same period. During the fifth wave of COVID, the sector grew by 24% in 1H22, vs. a 2.6% decline in overall retail sales. We share below some interesting industry findings, based on a YouGov survey and PayPal reports.

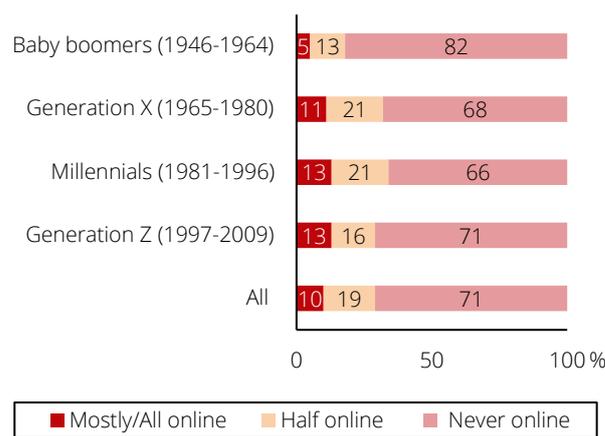
Finding #1: 30% of consumers purchased half of their groceries online. Around 30% of consumers in Hong Kong purchased at least half of their food-related groceries online as of July 2022. The remaining 70% represents the future growth potential of customers developing online shopping behaviour with more frequent buying.

Finding #2: Grocery shopping online a structural change in behaviour. Around 32% of consumers bought at least half of their food-related groceries online during 17 March-4 April, the period of COVID resurgence. The number only slightly lowered to 29% during 23 June to 12 July, three months after the peak, according to the YouGov survey report. Online purchase patterns are largely unchanged after the COVID situation eased. This suggests that the change in online grocery shopping behaviour is structural.

Finding #3: HKTV is the most popular online retailer. HKTVmall is the most popular online retailer in Hong Kong, followed by Dairy Farm's Wellcome, A.S. Watson's PARKnShop, Dairy Farm's Mannings, as well as TVB's Zstore.

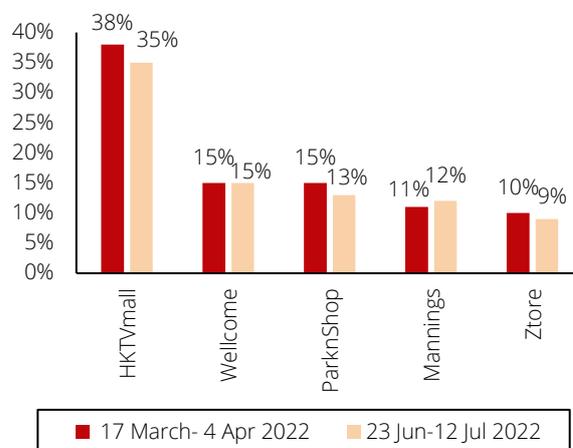
Finding #4: Younger generation favours online purchases. The younger the generation, the higher the proportion of consumers who buy at least half of their food-related groceries online. Millennials have the highest penetration (34%), followed by Gen X (32%), Gen Z (29%), and Baby Boomers (19%). This supports a continuous increase in penetration among the overall population.

Online vs. offline purchases of fresh groceries (by age)



Note: The percentages refer to consumers who tend to make most of their food-related grocery purchases via online or offline channels during the survey period (Jun-Jul 2022). Source: YouGov Survey, DBS HK

Online retailers with most purchases in HK (Mar vs. Jul 2022)



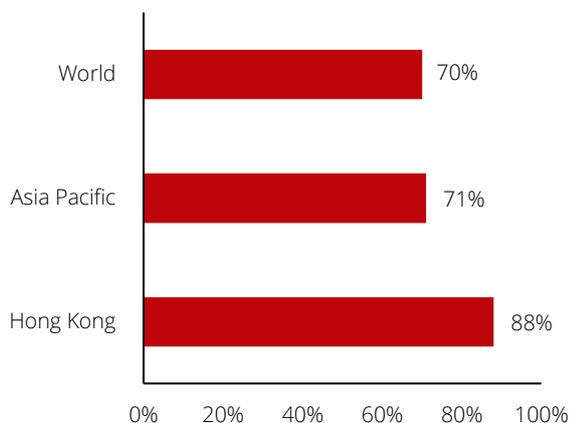
Note: The percentages refer to consumers who chose to order from certain online retailers during the survey period. Source: YouGov Survey, DBS HK

Finding #5: 57% of transactions are via mobile devices.

Mobile e-commerce has already become the primary shopping channel in HK, with 57% of transactions completed on mobile devices. This is supported by the (1) wide adoption of digital payments in Hong Kong and (2) high smartphone penetration rate of 88%, compared with Asia Pacific's 71%.

The younger generations are driving the upsurge in mobile transactions via social media channels, as they spend plenty of time browsing content on social media apps like Facebook and Instagram, which then direct them to websites to place orders.

HK's smartphone penetration rate (2021)

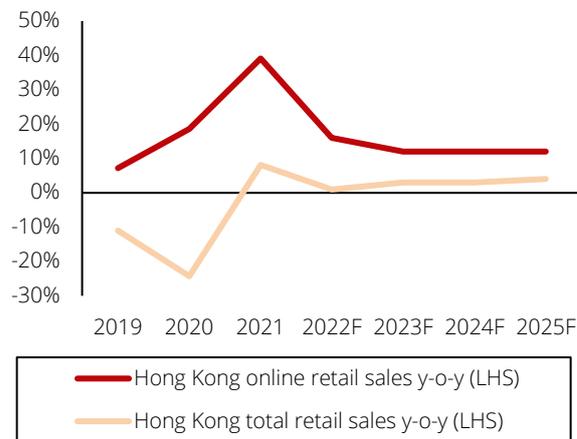


Source: PayPal, DBS HK

What are the key growth drivers in the post-pandemic era?

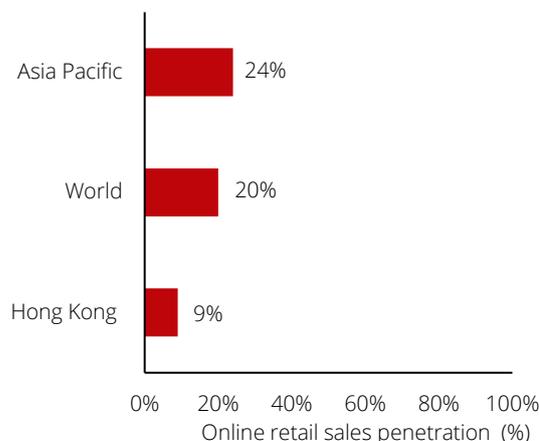
We estimate the Hong Kong e-commerce market to grow at a CAGR of 13% p.a. to reach c.HK\$47bn from 2021-2025. HKTVmall also targets a GMV of HK\$12-15bn in 2025, implying a four-year CAGR of 17%-23%.

HK's total and online retail sales growth (2019-2025)



Source: Frost and Sullivan, DBS HK

HK online retail sales penetration vs. other regions



Source: PPRO, DBS HK

HK online retail sales penetration rate (2019-2025)

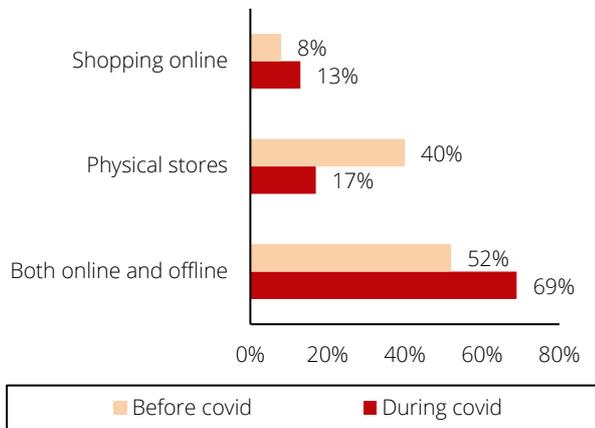


Source: HK Gov, Frost and Sullivan, DBS HK

Driver #1: The shift to e-commerce is a structural change in behaviour. The pandemic has driven more consumers to shift to online purchases amid social distancing measures. Around 69% of customers prefer a mixture of online and offline shopping during COVID, up from 52% before COVID.

Besides, consumers who only shop offline decreased to 17%, vs. 40% pre-pandemic, according to Rakuten Insight. Looking at leading listed e-commerce platforms in Hong Kong, HKTVMall's registered user number rose by 61% to 1.3m in 2021 from 800k in 2019, while Yoho's registered member number tripled to 775k during the same period. They accounted for 18% and 11% of Hong Kong's online population, respectively. Note that Alibaba's active annual user numbers accounted for 88% of total internet users in Mainland China. Compared with China, Hong Kong's e-commerce population still has ample room to grow.

Changes in HK consumers' preferred retail channels

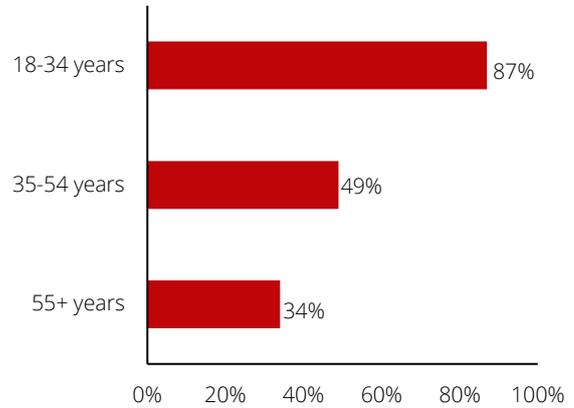


Note: The percentages refer to customers who prefer different channels for shopping.

Source: Rakuten Insight, DBS HK

Meanwhile, according to Adyen report, 47% of the respondents expect to shop online more than they did before the pandemic, higher than the global average of 36%. Moreover, this proportion is even higher among the younger generation, i.e., those aged between 18-34, with around 9 out of 10 continuing to shop more online after COVID.

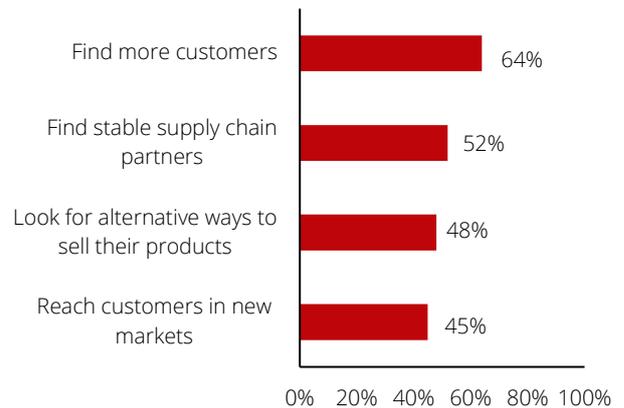
Percentage of HK people increasing online shopping after COVID (by age)



Source: Adyen, DBS HK

Driver #2: More retailers embracing omnichannel approach. 64% of retailers put "find more customers" as a top priority in growing their business, and 48% of retailers "look for alternative ways to sell products" during the pandemic.

Priorities for HK retailers to recapture growth



Note: The percentages refer to the HK retailers who chose certain factors as the priorities for recapturing growth.

Source: PayPal, DBS HK

The omnichannel approach is one of the favourable options that allow retailers to reach more customers and drive sales while also maintaining the in-store shopping experience for customers to improve loyalty to brands. For instance, 71% of consumers would be more loyal to a retailer that allows them to purchase an out-of-stock item in store and have it home delivered and 58% of customers want businesses to have both physical and online options. In Hong Kong, 5 of the top 10 leading retailers have adopted omnichannel solutions over the last two years, including ParknShop, Watsons, Dairy Farm, as well as the AEON Group.

Key factors affecting customers' loyalty to businesses



Note: The percentages refer to customers who believe they will become more loyal to retailers that offer certain features.

Source: Adyen, DBS HK

Besides, small retailers and merchants also joined e-commerce platforms as an alternative channel to get exposure to high-quality traffic and sell their products. Taking HKTVMall as an example, the number of its SKUs more than tripled to 176,000 in the last three years as more new merchants joined the platform. Its marketplace (3P) GMV has tripled from HK\$1.6bn in 2019 to HK\$4.4bn in 2021, contributing 68% of total GMV, and further increased by 44% in 1H22. This was mainly supported by the increasing number of merchants, which contributed to wider product availability and higher average spending. HKTVMall's average annual spending per user increased by 51% from 2019's HK\$3,375 to 2021's HK\$5,110. We believe more retailers or brands will adopt offline and online integration strategies to provide multiple channels to improve user experience, which will further drive the penetration of online retail sales growth.

Driver #3: Expansion of fast-growing product categories.

E-commerce platforms are riding on fast-growing product categories such as consumer electronics and beauty and personal care products. The market size of consumer electronics and home appliances in Hong Kong is forecasted to reach HK\$50bn in 2025, representing a five-year CAGR of 9.4%. The online channel is expected to take up c.31% of total sales in 2025, representing a five-year CAGR of 15.8%, according to Frost & Sullivan.

Besides, the online retail sales of beauty and personal care categories are expected to grow at a 13.7% CAGR, according to Euromonitor. In 1H22, HKTVMall's sales of beauty and health category and digital electronics category recorded 50%+ y-o-y growth respectively.

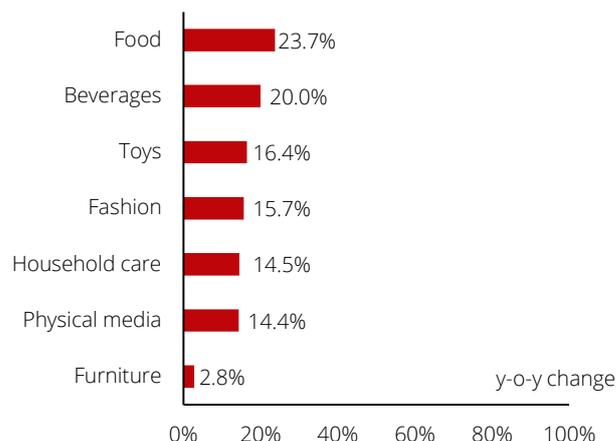
5 of the top 10 retailers in Hong Kong have online channels

| Rank | Global Brand Owner | Revenue(US\$m) | Online Channel |
|------|---------------------------------------|----------------|----------------|
| 1 | AS Watson Group | 4,439 | Yes |
| 2 | DFI Retail Group Holding Ltd | 3,518 | Yes |
| 3 | Seven & I Holdings Co Ltd | 1,960 | No |
| 4 | Chow Tai Fook Jewellery Group Ltd | 1,170 | No |
| 5 | Sun Hung Kai Properties Ltd | 857 | No |
| 6 | AEON Group | 753 | Yes |
| 7 | Hong Kong Television Network Ltd | 727 | Yes |
| 8 | Alimentation Couche-Tard Inc | 617 | No |
| 9 | Luk Fook Holdings (International) Ltd | 474 | No |
| 10 | Broadway Photo Supply Ltd | 459 | Yes |

Note: Revenue as of 2020

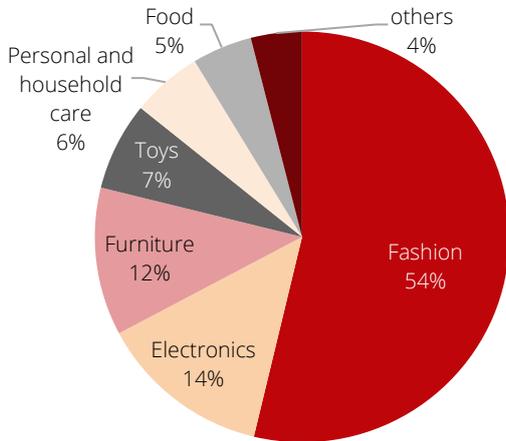
Source: Euromonitor, DBS HK

HK e-commerce growth by category (Feb 2022)



Source: Digital Asia 2022, DBS HK

HK market shares by e-commerce category (2021)

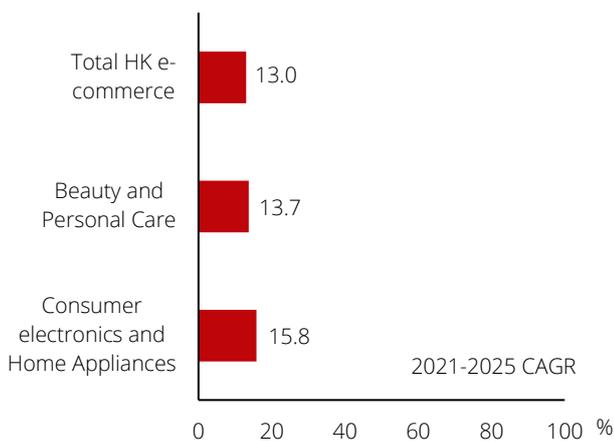


Source: Digital Asia 2022, DBS HK

Emerging e-commerce platforms in Hong Kong.

HKTv (1137 HK) is a leading listed pure e-commerce player in Hong Kong. We see an increasing number of emerging players in the market, including Ztore, which was acquired by TVB (511 HK) in 2021, and Yoho (2347 HK), which was listed on the HKEX in Jun 2022. We summarised their respective operating matrices in the table below.

HK e-commerce growth by product category



Source: Euromonitor, Frost& Sullivan, DBS HK

Driver #4: Cross-border e-commerce. Mainland China’s consumers have a strong appetite for products imported from Hong Kong. China’s inbound cross-border market size is expected to double from Rmb3.3tn in 2021 to Rmb6.8tn in 2025. Currently, 60% of Hong Kong goods exported in terms of value have been shipped to Mainland China, and among them c.70% are electronics products. Hong Kong’s cross-border e-commerce transactions only made up 3% of China’s cross-border transactions; we estimate it will represent a market size of c.HK\$240bn for Hong Kong e-commerce players in the next five years.

Hong Kong E-commerce Sector

Comparison table for major HK e-commerce players

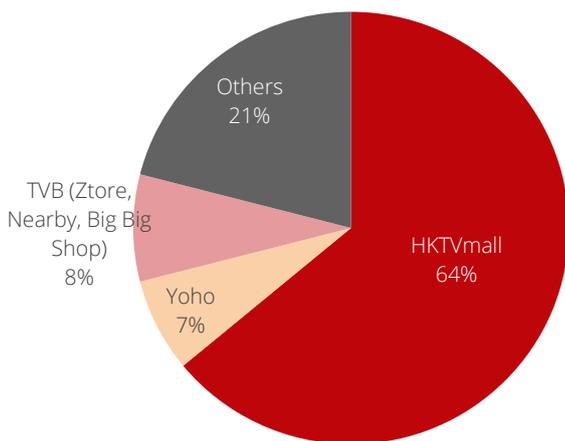
| HK e-commerce platform | HKTv | Yoho | TVB* |
|---|---|---|--|
| FY21 GMV (HK\$m) | 6,495 | 798 | 593 |
| Y-o-Y growth in GMV | 11% | 57% | N/A |
| GMV % of HK online retail sales | 22.7% | 2.8% | 2.1% |
| GMV % of HK non-store online retail value | 42.0% | 5.0% | 4.0% |
| GMV % of total HK retail sales | 1.8% | 0.2% | 0.2% |
| Operating model | 1P+3P (68%) | 1P | 1P+3P |
| GMV guidance | FY22 GMV at HK\$8bn, or implying 12% y-o-y growth in 2H22 | Expect 1P GMV to grow at 30%+ p.a. in the next two years | Expect to achieve GMV of HK\$10bn in FY22, or 73% y-o-y growth |
| Mid to long-term target | GMV of HK\$12-15bn in 2025, implying c.20% 4-year CAGR | GMV of HK\$9bn in the next five years, driven by expanding 1P business scale, 3P, and cross-border business | Sets breakeven point at HK\$150m per month (vs. HK\$85m per month in 1H22) |
| Number of users (k) | 1,287 | 775 | 342 |
| Major categories | Groceries, beauty and health, digital electronics | Home appliances, consumer electronics, beauty and health, electronics | Groceries, beauty and health, consumer electronics |
| SKUs | >100,000 | >23,000 | N/A |
| Basket size (HK\$) | 462 | 1,681 | c.800 |

Note*: TVB includes Z-store, Neigbuy, and Big big shop. Operating metrics for HKTv, TVB are based on FY21 financial data; FY3/22 for Yoho.

Source: Companies, HK Gov, DBS HK

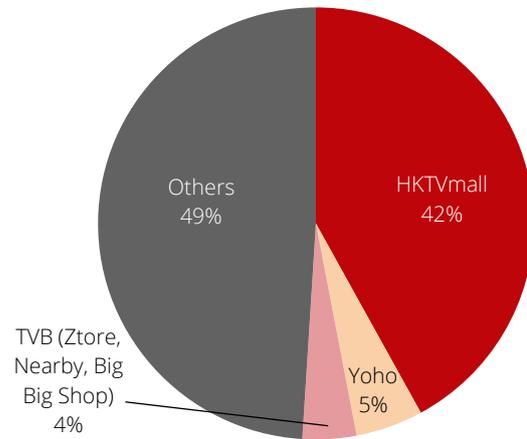
The value of HK non-store retail sales increased by 14% in 1H22, accounting for 42% of online retail sales in HK. Among this, three leading e-commerce players take up 79% of the cake in 1H22, up from 51% in 2021. We expect leading e-commerce players to continue to gain online market share in Hong Kong (vs. the combined GMV of China's top two e-commerce players have made up c.80% of the total value of online sales in 2021).

E-commerce GMV of HK non-store online retail (1H22)



Source: Companies, HKGov, DBS HK

E-commerce GMV of HK non-store online retail (2021)



Source: Companies, HKGov, DBS HK

Website traffic of HK e-commerce platforms (2021)

| Rank | Market participant | Website Traffic (m) |
|------|--------------------|---------------------|
| 1 | HKTVMall | 39.8 |
| 2 | ParknShop | 34.0 |
| 3 | Yoho | 22.5 |
| 4 | Watsons | 10.6 |
| 5 | Zalora | 10.3 |

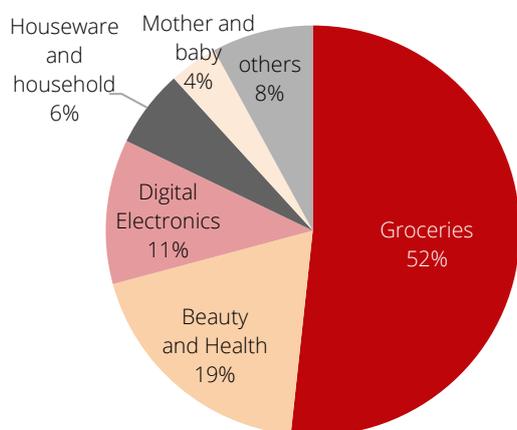
Source: Frost and Sullivan, DBS HK

Conclusion

We expect the Hong Kong e-commerce market to maintain decent double-digit growth post-pandemic in the next few years. The growth is supported by structural changes in behaviour during COVID, including (1) the increased habit of purchasing groceries online, (2) increase in online merchants and SKUs, and (3) further expansion into relatively underpenetrated and fast-growing product categories.

HKTV (1137 HK, BUY). We currently rate BUY on HKTV (1137 HK) with a TP of HK\$13.7. HKTV operates the largest local online retail platform, HKTVMall, with a market share of c.23% in Hong Kong online retail sales. Total GMV increased by 37% to HK\$4.1bn from 1,107k unique customers in 1H22. We believe the company has established advantages (business scale, traffic, fulfilment capabilities) to support further 3P business growth and category expansion. Its monetisation upside comes from advertising income and new technology solutions (e.g., automated retail store). We forecast the company's revenue and GMV to grow at a CAGR of 15% and 18% from 2021-2024, respectively. We revised up FY23 and FY24 earnings by 5% and 8%, respectively, to reflect higher operating efficiency driven by order density. The forecasted FY23 net margin is at 4.7%.

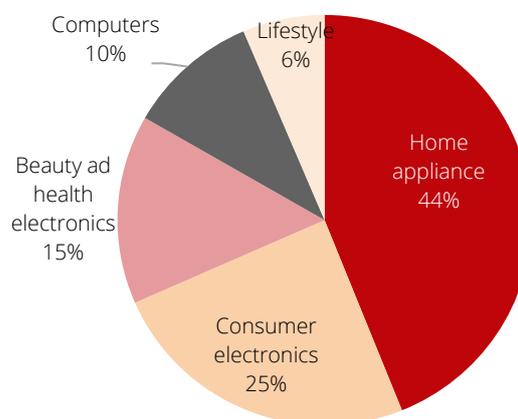
HKTVMall revenue breakdown by category (FY21)



Source: Company, DBS HK

Yoho (2347 HK, non-rated) is the third largest e-commerce platform in Hong Kong based on revenue, coming in after HKTV and ParknShop in 2021. It operates a vertical e-commerce platform with a primary focus on consumer electronics and home appliances in Hong Kong, and recorded a GMV of HK\$796m from 775k active customers in FY3/22. It reported adjusted net profit of HK\$26m with a net margin of 3.3% in FY3/22.

Yoho revenue breakdown by category (FY3/22)



Source: Company, DBS HK

TVB (511 HK, non-rated) acquired Ztore in 2021, the local e-commerce platform offering grocery products. Currently, it owns three e-commerce platforms including Ztore, Neigbuy, and Big big shop. These platforms achieved a GMV of HK\$509m from more than 342,000 users in 1H22. The company targeted to reach a GMV of HK\$1bn in 2H22. The projected breakeven GMV is around HK\$150m per month.

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