

Feature Report  
**e-Commerce**

NOT RATED

Industry Research

**China e-Commerce – Fresh Start Bodes Well**

MAY 31, 2022

**e-Commerce Platforms Help Fighting Pandemic**

e-Commerce platforms contribute to the fighting of pandemic in China with its delivery workers delivering fresh foods and basic living necessities to residents in small districts under citywide closed-off management, such as those in Shanghai. Delivery workers are welcome and no more complains to them.

**Investments in Cold Chain Infrastructures Paying Off**

Investments in infrastructures needed for the fresh foods business, such as cold chain, warehousing, vehicle fleet, horde of delivery workers, are paying off and well positioned players with niche and tried and true business model are seeing bloom in business.

**Mixed-Ownership Reforms Eyed**

SAMR stops announcing administrative penalty decisions in April and May. With the value of e-Commerce platforms well demonstrated under citywide closed-off management, how to incorporate e-Commerce platforms into government’s master plan may be high on agenda and mixed-ownership reforms, in one way or the other, can be in the pipeline.

**Consumer Habits and KOLs Prowess Eyed in 6.18 Festival**

Across the board, clothing, electrical appliances and other segments are in deep trouble. Whether consumer habits will change and KOLs will lose their prowess in carrying goods should be of concern. The 6.18 Mid-Year Shopping Festival should provide some clues on the state of well-being of the broad e-Commerce industry.

H. C. Kwan  
 (852) 2159 – 4506  
 kwan.hc@hooraysec.com.hk

MAY 31, 2022	Closing Prices (HK\$)	Mkt Cap (HK\$ bn)
0700 HK Tencent 騰訊控股	362.40	3,483
9988 HK Alibaba – SW 阿里巴巴–SW	96.25	2,087
3690 HK Meituan – W 美團–W	187.00	1,156
9618 HK JD.com – SW 京東集團–SW	226.00	705

## Overview

e-Commerce steals the limelight in the battle against pandemic in China, only after the medics who are doing the sampling works, in the past few months. Shanghai is locked down for the good part of last two months and people are essentially fed by e-Commerce on foods, basic necessities while street shops were closed.

China e-Commerce industry has worked on tackling the fresh foods business in last few years and it is now delivering. As infrastructures, such as cold chain, warehousing, vehicle fleet, horde of delivery workers, and community volunteers as feeder for the last hundred meters, are in place, well positioned players with niche and tried and true business model are seeing bloom in business.

Being the only industry that can have its staffs/associates moving around in the Shanghai city, e-Commerce essentially running the show in resident's daily life and supplement the basic foodstuffs distributed by government bodies. Coca Cola is among the hottest items.

Yet for the e-Commerce industry as a whole, meteoritic fall in all other items such as cloths, electrical appliances should drag down market size and new round of shake down is in view, on both the sellers and buyers sides.

The 6.18 Mid-Year Shopping Festival should provide some clues on the state of well-being of the broader e-Commerce industry.

## SAMR Flexing Muscles in January

China e-Commerce industry did not have a good start in 2022. On January 5, State Administration for Market Regulation (SAMR) handed down administrative penalty decisions to practically all e-Commerce platform players and the actions shock the stock markets. Though the penalty sum, up to RMB500k for each case, is minimal, the direction is definitely in the direction of policy tightening.

SAMR becomes gentler towards e-Commerce players afterwards. For the months of February and March, only seven counts of administrative penalty decisions are reported. And there is none for the month of April and May.

Tencent's (騰訊) once under limelight for its investigation by SAMR but nothing materialized.

Perhaps the positive views toward these e-Commerce platforms in fighting the pandemic are helping.

## **e-Commerce Platforms Running the Show in Shanghai**

With citywide closed-off management in Shanghai, residents are restricted to move out of their houses and limited to local community neighbourhood. e-Commerce platforms are running the show and host bidding of fresh foods on regular hours of the day. This model makes effective use of limited number of delivery workers that can freely move around the city and by grouping purchases for centralize delivery to small districts under citywide closed-off management.

### **Delivery Workers Showing Ingenuity in Route Planning**

It works and daily necessities are getting delivered. Delivery workers finally gets an upper hand and no more complains for being late and they can earn a decent fee for their services. We are interested to see how the route optimization and schedule planner behind the e-Commerce platforms are running in time of significantly restricted traffic routes. So far no reports on this and only anecdotes from delivery workers perspective to show their ingenuity are available. We see the potential positive effects when pandemic is over and traffics resume normal, and help ease the works of delivery workers minimize complaints from customers.

As in our previous report, we are interested to see if there are improvements in the relationship between e-Commerce platforms and their delivery workers. This will help continued development of China e-Commerce market in the long run.

SAMR and other government departments had issued the guidelines to safeguard the rights of take-out food delivery workers last year. Now it is right time to see how the guideline is put into practice, when delivery workers are on better standing among various stakeholders.

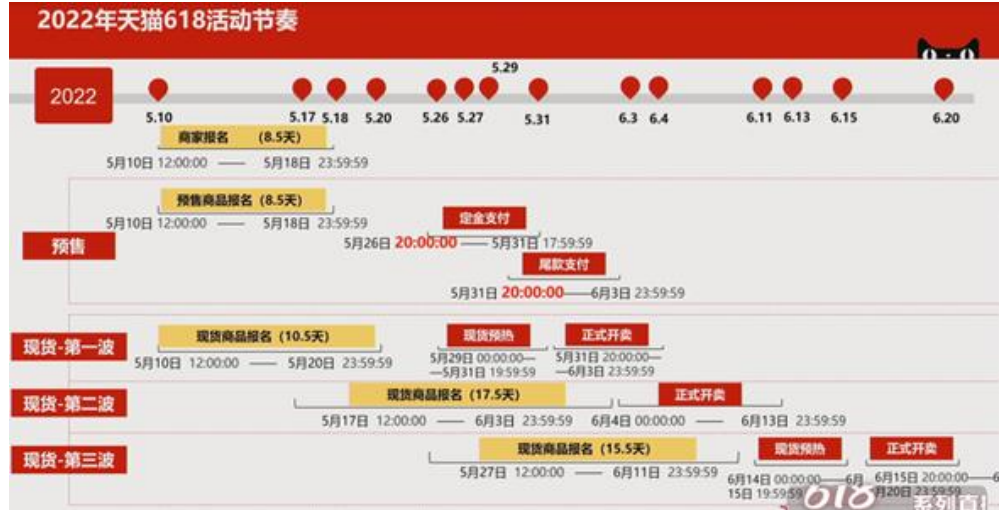
Yet the other side of the coin is that aside from foods and daily necessities, shops selling other goods, such as clothes and electrical appliances, are in deep trouble. How many of them can remain in business after the citywide closed-off management is over will be a big question mark.

The 6.18 Mid-Year Shopping Festival just weeks away can shed some light.

## **6.18 Mid-Year Shopping Festival Amid Pandemic**

With the pandemic abating in major cities according to media, economy should be on way to resumption to normal. Shop operators are promoting their business for the 6.18 Mid-Year Shopping Festival.

**Exhibit 1: Tmall 6.18 Mid-Year Shopping Festival**



Source: [shuangshiyijie.com](http://shuangshiyijie.com)

JD.com (京東) has been reporting faster growth rate than that of its key rival Alibaba (阿里巴巴) in recent campaigns, see if it can maintain its momentum amid citywide closed-off management.

Another key issue to the campaign is whether delivery can be business as usual. During citywide closed-off management, delivery can only be made to the front gate of small district, which is the basic unit for citywide closed-off management, and community volunteer will do the feeder works on the last hundred meters. This is not an issue for small items but troublesome for, say washing machines. We have to reassess the impact on the development of e-Commerce industry as a whole.

**Motives Driving e-Commerce Sales Revisited**

Though China is famous for building big cities, good intra-city public transportation networks, concentrated build up areas, and integrated complexes with entertainment facilities, shopping malls and residential units, convenience is a key motive to promote shopping online. This is boosted by the internet celebrities and KOLs who are well integrated into the e-Commerce platforms.

**KOLs Fading Away**

With citywide closed-off management, shopping online turns out to be the only way. And again, sharing has been a key binder in Chinese e-Commerce platforms. Buyers in neighbourhood form groups to buy particular goods in volume and share with their fellows within the small district. Yet in this time, the role of internet celebrities and KOLs are minimal. There are news

reports that several top KOLs are having dispute with their partners. Anyway, the government measures in tightening grip of KOLs are taking toll.

In our view, KOLs will remain a key pillar in supporting e-Commerce industry in China. Herd effect and peer group pressure are good catalyst.

### **Idle Fish to Take Turn**

After the shopping spree, returning and reselling in 11.11 Global Shopping Festival can amount to one-third of purchase for some shoppers by some news reportings. It is hard to verify these stories yet we can check with second hand goods portals.

Alibaba's Idle Fish (閒魚) and zhuanzhuan.com (轉轉), are targeting the resell market, both used and newly bought goods. In this regard, Alibaba completes its business cycle in promoting sales from merchants to shoppers via Tmall and Taobao, and then sales from first tier shoppers to second tier, and so on. In its website, the phrase “淘寶已買到寶貝一鍵轉賣，剁手回血分分鐘” summarize its positioning well.

In the aftermath of citywide closed-off management, how this fanfare goes and the potential changes in buying habits will be closely monitored. Both as a health check now and prognosis for future.

## **Government Policy to Rectify Poor Practices**

China Government debuted the common prosperity initiative, key e-Commerce players are chipping in billions to show their supports. After the initial enthusiasm, few major follow up actions are reported. On the contrary, there are voices against compulsory donations. Apparently, e-Commerce players are not being targeted and faring better nowadays.

SAMR is slowing down its actions against e-Commerce players in recent months and shifting its focus to curb abusive exercise of administrative power in various cities.

### **Amazon Style Crackdown on Malpractices Needed**

It is good time to rectify the various poor practices. Amazon style crackdown on malpractices will be better than the fine of billions which only benefits government coffer yet does little to help protect customers and delivery workers who are stakeholders in the e-Commerce value chain.

By imposing tight deadlines on delivery, e-Commerce players are in effect eliminating those physically less capable from the job and pushing those capable ones to their physically limits.

### **SAMR Guiding Opinions on Safeguard Delivery Workers Eyed**

SAMR and other government departments has issued the Guiding Opinions on the Implementation of the Responsibility of Online Catering Platforms to Effectively Safeguard the Rights and Interests of Take-out Food Delivery Workers (關於落實網絡餐飲平台責任切實維護外賣送餐員權益的指導意見) in July 2021. The guideline covers all aspects of the operation in order distribution, route optimization, order flow, and work intensity. Yet there is no follow up reporting on its implementation and effect. It may be good time now to put this guideline into effect when the industry is in good shape and delivery workers are on more equal footing with other stakeholders.

### **Doing Good While Shopping**

Other than well publicized announcements to support common prosperity initiative, e-Commerce players continue in supporting vulnerable populations and launch "Goods for Good" campaign on purchases with their friends and family. Alibaba will make a donation for every successful social media share, together similar actions by merchants. The donations will provide support to three major beneficiary groups: elderly citizens living in solitude, "left-behind children" in remote areas and low-income workers.

Similar campaigns are ongoing.

---

#### **Exhibit 2: Countrywide Helping Day for Handicapped**



Source: [shuangshiyijie.com](http://shuangshiyijie.com)

## **e-Commerce Industry Reached Plateau**

We have the view that China's e-Commerce industry have reached a plateau: a high base platform with diminishing growth prospect in 2021. The key pillars supporting and distinguishing China's e-Commerce from western counterparts, including carrying goods by internet celebrities and KOLs, payment solutions for easy red pocket style business promotions, bundled buying in big sales campaign, in house credit assessment integrated with fintech solutions, are under attacks. Poor industry practices are permeating across the whole value chain and Chinese government is tightening policy measures in regulating the industry.

The pandemic and Chinese government policy of handling it is pushing the e-Commerce industry into forefront of economy at the expenses of street shops and all other economic sectors. Yet the only bright spot of growth in the e-Commerce platform is fresh foods and this is definitely not able to sustain the growth of the whole industry.

The pandemic boosts this segment for the time being and helps accelerate recouping the heavy investments in infrastructures, such as cold chain, warehousing, vehicle fleet. More investments are likely to continue to pour in by venture capitals on innovative business models. Integration and cooperation with street shops will be a key issue after the pandemic and citywide closed-off management is over as delivery workers no longer with the upper hand. We are skeptical on the thru train delivery mode in that direct shipment of fresh goods from central warehouses to household without going thru interim storage points near the final destination.

Under pandemic and citywide closed-off management, voluntary workers at small district front gate are doing this job. Yet the distance and volume involved for perishable fresh goods, such as vegetables, versus the currently successful model on milk tea are not of the same magnitude. Just as in the internet broadband connection, the last mile makes the difference.



## Conclusion: RE-Fresh Again for Growth

The pandemic and citywide closed-off management in major cities, such as Shanghai, in the past few months put China e-Commerce industry on the limelight for good. The investments in infrastructures, such as cold chain, warehousing, vehicle fleet, horde of delivery workers pay off handsomely, at least in earning reputations, in supplying fresh foods and basic necessities to residents while street shops were closed. The bloom can be expected to continue in future.

The good effects in fighting pandemic may help e-Commerce industry to escape government scrutiny for the time being. We can expect fewer administrative penalties in near future. Yet it is the right time for various government ministries to put guidelines released before and new measures into effect to help rectify poor practices prevailing in the China e-Commerce industry to create a healthy environment and protect the rights of all stakeholders.

With the value of e-Commerce platforms well demonstrated in sustaining the daily lives of resident under citywide closed-off management, how to incorporate e-Commerce platforms into government's master plan may be high on agenda. We keep an eye in the directions of mixed-ownership reform, in one way or the other. Ant Group has been moving and formed JV with state-owned Zhejiang Tourism Investment Group, each with a 35% stake in the new entity. Whether Tencent will make similar moves or try some other new schemes should be keenly watched.

Yet the downside for e-Commerce industry as a whole is that other segments, such as clothing and electrical appliances, are in deep trouble. Whether the small online shops can remain in business can be a big question mark. In the similar vein, whether consumer habits and practices in e-Commerce platform will change drastically should be of concern. If the trend is going towards more on basic items, and internet celebrities and KOLs lose their prowess in carrying goods, growth in e-Commerce industry will slowdown. The good start in fresh foods may not be able to keep e-Commerce industry afloat. Let's see how the 6.18 Mid-Year Shopping Festival goes and it should provide some clues on the state of well-being of the broad e-Commerce industry.



**ANALYST CERTIFICATION**

THE RESEARCH ANALYST, H. C. KWAN, WHO IS PRIMARILY RESPONSIBLE FOR THE CONTENT OF THIS RESEARCH REPORT, IN WHOLE OR IN PART, CERTIFIES THAT WITH RESPECT TO THE SECURITIES OR ISSUER THAT THE ANALYST COVERED IN THIS REPORT: (1) ALL OF THE VIEWS EXPRESSED ACCURATELY REFLECT HIS OR HER PERSONAL VIEWS ABOUT THE SUBJECT SECURITIES OR ISSUER; AND (2) NO PART OF HIS OR HER COMPENSATION WAS, IS, OR WILL BE, DIRECTLY OR INDIRECTLY, RELATED TO THE SPECIFIC VIEWS EXPRESSED BY THAT ANALYST IN THIS REPORT.

BESIDES, THE ANALYST CONFIRMS THAT NEITHER THE ANALYST NOR HIS/HER ASSOCIATES (AS DEFINED IN THE CODE OF CONDUCT ISSUED BY THE HONG KONG SECURITIES AND FUTURES COMMISSION) (1) HAVE DEALT IN OR TRADED IN THE SECURITIES COVERED IN THIS RESEARCH REPORT WITHIN 30 CALENDAR DAYS PRIOR TO THE DATE OF ISSUE OF THIS REPORT; (2) WILL DEALT IN OR TRADED IN THE SECURITIES COVERED IN THIS RESEARCH REPORT 3 BUSINESS DAYS AFTER THE DATE OF ISSUE OF THIS REPORT; (3) SERVE AS AN OFFICER OF ANY OF THE HONG KONG LISTED COMPANIES COVERED IN THIS REPORT; AND (4) HAVE ANY FINANCIAL INTERESTS IN THE HONG KONG LISTED COMPANIES COVERED IN THIS REPORT.

**RECOMMENDATION DEFINITIONS**

BUY: SHARE PRICE EXPECTED TO APPRECIATE 20% OR MORE IN THE NEXT 12-MONTH  
 HOLD: SHARE PRICE EXPECTED TO APPRECIATE BETWEEN 5% AND 20% IN THE NEXT 12-MONTH  
 SELL: SHARE PRICE EXPECTED TO APPRECIATE LESS THAN 5% IN THE NEXT 12-MONTH  
 NOT RATED: NO SPECIFIC SHARE PRICE ESTIMATIONS ARE MADE

**DISCLOSURES OF RELEVANT BUSINESS RELATIONSHIP**

HOORAY SECURITIES LIMITED (THE "HOORAYSEC") AND ITS AFFILIATE HOORAY CAPITAL LIMITED (TOGETHER THE "HOORAY GROUP") ARE LICENSED CORPORATIONS UNDER THE SECURITIES AND FUTURES ORDINANCE (THE "SFO"), MAY, UNDER CIRCUMSTANCES PERMITTED BY LAW, PARTICIPATE IN THE OFFERINGS OF SECURITIES MENTIONED IN THIS REPORT.

HOORAY GROUP MAY, TO THE EXTENT PERMITTED BY LAW, OWN OR HAVE A POSITION IN THE SECURITIES OF (OR OPTIONS, WARRANTS OR RIGHTS WITH RESPECT TO, OR INTEREST IN, THE SHARES OR OTHER SECURITIES OF) THE COMPANY MENTIONED IN THIS REPORT. HOORAY GROUP MAY ADD TO OR DISPOSE OF ANY SUCH SECURITIES OR MAKE A MARKET OR ACT AS A PRINCIPAL IN ANY TRANSACTION IN SUCH SHARES OR OTHER SECURITIES. HOORAY GROUP MAY FROM TIME TO TIME PROVIDE INVESTMENT BANKING, UNDERWRITING OR OTHER SERVICE TO, OR SOLICIT INVESTMENT BANKING, UNDERWRITING, OR OTHER BUSINESS FROM THE COMPANY.

HOORAY GROUP HAS NO MORE THAN 1% FINANCIAL INTERESTS IN THE COMPANY AS AT MAY 31, 2022.

HOORAY GROUP DOES NOT ACT AS A MARKET MAKER FOR THE COMPANY ON MAY 31, 2022.

NO EXECUTIVE STAFF OF HOORAY GROUP SERVES AS AN OFFICER OF THE COMPANY AS AT MAY 31, 2022.

HOORAY GROUP ACTS NO INVESTMENT BANKING ROLES FOR THE COMPANY WITHIN THE PAST 12 MONTHS.

**DISCLAIMER**

THIS DOCUMENT MAY NOT BE DISTRIBUTED TO THE PRESS OR OTHER MEDIA, AND MAY NOT BE REPRODUCED IN ANY FORM, AND MAY NOT BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR PROVIDED OR TRANSMITTED TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATIONS UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED), INCLUDING ANY BRANCH OR AGENCY OF A NON-U.S. PERSON(S) LOCATED IN THE UNITED STATES. FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF UNITED STATES SECURITIES LAWS. THIS REPORT MAY NOT BE SENT INTO CANADA OR TO ANY CANADIAN PERSON. THIS REPORT MAY NOT BE SENT INTO JAPAN. THIS REPORT MAY NOT BE DISTRIBUTED OR PASSED TO ANY PERSON OTHER THAN A PERSON WHOSE ORDINARY BUSINESS IS TO BUY OR SELL SHARES OR DEBENTURES, WHETHER AS PRINCIPAL OR AS AGENT. THE DISTRIBUTION OF THIS REPORT IN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW, AND PERSONS INTO WHOSE POSSESSION THIS REPORT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTIONS. BY ACCEPTING THIS REPORT, THE RECIPIENT AGREES TO BE BOUND BY THE FOREGOING LIMITATIONS.

THIS REPORT HAS BEEN PREPARED BY HOORAY GROUP SOLELY FOR INFORMATION PURPOSES. IT HAS BEEN PRODUCED INDEPENDENTLY OF THE COMPANY, AND THE FORWARD-LOOKING STATEMENTS, OPINIONS, AND EXPECTATIONS CONTAINED HEREIN ARE ENTIRELY THOSE OF HOORAY GROUP AND ARE GIVEN AS PART OF ITS NORMAL RESEARCH ACTIVITIES AND NOT IN CONNECTION WITH ANY OFFERING OF SECURITIES OR AS AN AGENT OF THE COMPANY, ITS SHAREHOLDERS OR ANY OTHER PERSONS. THE READER IS CAUTIONED THAT ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE SET FORTH IN ANY FORWARD-LOOKING STATEMENTS HEREIN. WHILE ALL REASONABLE CARE HAS BEEN TAKEN TO ENSURE THAT THE FACTS STATED HEREIN ARE ACCURATE AND THAT THE FORWARD-LOOKING STATEMENTS, OPINIONS AND EXPECTATION CONTAINED HEREIN ARE BASED ON FAIR AND REASONABLE ASSUMPTIONS, NONE OF HOORAY GROUP, ITS ASSOCIATES INCLUDING HOORAYSEC, AND THE COMPANY HAS INDEPENDENTLY VERIFIED ANY OF THE INFORMATION HEREIN. IF THE COMPANY SHOULD AT ANY TIME COMMENCE AN OFFERING OF SECURITIES, ANY DECISION TO INVEST IN ANY SUCH OFFER TO SUBSCRIBE FOR OR ACQUIRE SECURITIES OF THE COMPANY MUST BE BASED WHOLLY ON THE INFORMATION CONTAINED IN THE FINAL OFFERING MEMORANDUM ISSUED OR TO BE ISSUED BY THE COMPANY IN CONNECTION WITH ANY SUCH OFFER AND NOT ON THE CONTENTS HEREOF. THIS REPORT SHALL NOT BE CONSTRUED AS AN OFFER (OR SOLICITATION OF AN OFFER) TO BUY OR SELL THE SECURITIES/INSTRUMENTS MENTIONED. THE SECURITIES OR INSTRUMENTS MENTIONED MAY NOT BE SUITABLE FOR ALL INVESTORS, THE RECIPIENT OF THIS REPORT SHOULD UNDERSTAND AND TAKE INTO ACCOUNT THEIR INVESTMENT OBJECTIVES, INVESTMENT EXPERIENCES, FINANCIAL SITUATION AND ALL RELATED RISKS, AND WHERE NECESSARY CONSULT THEIR OWN INDEPENDENT FINANCIAL ADVISERS PRIOR TO ANY INVESTMENT DECISION.

HOORAY GROUP DOES NOT REPRESENT THIS IS ACCURATE OR COMPLETE AND WE MAY NOT UPDATE THIS. ACCORDINGLY, NONE OF THE COMPANY, ANY UNDERWRITER OF SECURITIES OF THE COMPANY, OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS OR EMPLOYEES, SHALL IN ANY WAY BE RESPONSIBLE FOR THE CONTENTS HEREOF, OR SHALL BE LIABLE FOR ANY LOSS ARISING FROM USE OF THIS REPORT OR OTHERWISE ARISING IN CONNECTION THEREWITH. BY ACCEPTING THIS REPORT, THE RECIPIENT AGREES TO BE BOUND BY THE FOREGOING LIMITATIONS.

© 2022 HOORAY SECURITIES LIMITED ALL RIGHTS RESERVED

NO PART OF THIS MATERIAL MAY BE REPRODUCED OR REDISTRIBUTED WITHOUT THE PRIOR WRITTEN CONSENT OF HOORAY SECURITIES LIMITED.

---

OPINIONS AND INFORMATION PRESENTED IN THIS DOCUMENT HAVE BEEN OBTAINED OR DERIVED FROM SOURCES BELIEVED BY HOORAY SECURITIES LTD. (HOORAYSEC) AS RELIABLE, BUT HOORAYSEC MAKES NO REPRESENTATION AS TO THEIR ACCURACY OR COMPLETENESS. HOORAYSEC ACCEPTS NO LIABILITY FOR LOSS ARISING FROM THE USE OF THIS DOCUMENT WHERE PERMITTED BY LAW AND/OR REGULATION.

## Contact

H. C. Kwan – Head of Research	kwan.hc@hooraysec.com.hk	(852) 2159 – 4506
Research Department	research@hooraysec.com.hk	(852) 2159 – 4500
Hooray Securities Limited 1/F Guangdong Investment Tower 148 Connaught Road Central Hong Kong		
Main :		(852) 2159 – 4500
Customer Services :		(852) 2159 – 4515
Dealing Hotline :		(852) 2159 – 4511
Facsimile :		(852) 2110 – 4044