

# China / Hong Kong Industry Focus

## China Internet Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Jul 2022

### 2H22 outlook: Further regulatory easing in sight

- **More concrete signs of regulatory easing since the beginning of the year**
- **Expect gradual growth recovery in 3Q, with improving profitability thanks to stricter cost control**
- **Sub-segment preference: Food delivery > e-commerce > online games**
- **Top picks: [Meituan \(3690 HK\)](#), [Pinduoduo \(PDD US\)](#), and [NetEase \(9999 HK\)](#)**

**More concrete signs of regulatory easing.** China's internet sector witnessed positive regulatory developments in 1H22. This is consistent with our analysis earlier this year that the government has switched focus to stabilise economic growth in 2022. Currently, internet players under our coverage universe are trading at undemanding valuation, around -0.5x to -1.5x SD below average. Looking into 2H22, we expect the sector to re-rate alongside the diminishing regulatory concerns and improvements in fundamentals.

**Expect revenue growth to pick up in 3Q22.** The weak performance in 2Q22 caused by COVID disruptions should have been well expected by the market. Yet, we saw economic activities and retail sales bounce back quickly after the easing of COVID measures in May. We expect growth to recover in 3Q22 along with the resumption of economic activities. Moreover, e-commerce players will become more rational on investment in new initiatives (e.g. community group buying) amid the challenging macro environment, which is positive to overall profitability.

**Preference: Food delivery > e-commerce > online games.** We are more confident on food delivery and e-commerce recovery in 2H22 as these two segments are immediate beneficiaries of economic recovery and stimulus policies. Besides, they are the first two segments displayed the most significant rebound after COVID reopening in 2020. Online game growth is set to rebound in 2H22 as the regulatory overhang is removed after the resumption of game license approval in Apr 2022.

**Top picks: Meituan, Pinduoduo, NetEase.** We prefer stocks with robust growth and near-term catalysts due to the resumption of economic activities. We like Meituan most, backed by growing demand for "everything to home" and improved profitability. We favour Pinduoduo for its stronger-than-peer revenue growth, driven by fresh grocery products and lower tier city focus. NetEase is our top pick in the online games sector, backed by its strong game pipeline and huge potential for overseas expansion.

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#### Recommendation & valuation

Company	Currency	Price Local\$	Target Price Local\$	Recom	Mkt Cap US\$m
<a href="#">Alibaba# (9988 HK)</a>	HKD	107.80	157.00	BUY	298,010
<a href="#">Baidu (9888 HK)</a>	HKD	142.30	190.00	BUY	6,309
<a href="#">Bilibili (9626 HK)</a>	HKD	187.40	NA*	BUY	9,325
<a href="#">CMGE Tech (302 HK)</a>	HKD	2.09	4.20	BUY	737
<a href="#">JD.com (9618 HK)</a>	HKD	230.80	400.00	BUY	45,731
<a href="#">Kuaishou (1024 HK)</a>	HKD	80.45	116.00	BUY	43,990
<a href="#">Meituan (3690 HK)</a>	HKD	178.00	226.00	BUY	140,239
<a href="#">Netease (9999 HK)</a>	HKD	136.40	194.00	BUY	11,659
<a href="#">Pinduoduo (PDD US)</a>	USD	56.21	89.00	BUY	48,928
<a href="#">Tencent (700 HK)</a>	HKD	337.80	447.00	BUY	414,072
<a href="#">Tongcheng (780 HK)</a>	HKD	15.46	20.00	BUY	4,374

NA\*: Target price under review

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



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**China Internet Sector**

**Introduction**

China's internet sector experienced more positive regulatory developments in 1H22 after tightening of more than one-year, which includes the resumption of online game approval, etc. This is consistent with our research earlier this year that the government is switching focus to stabilise economic growth in the year 2022. Looking ahead, we expect Chinese regulators to continue to implement policies based on the direction they set last year, but shocks should be unlikely.

In 1Q22, internet companies generally registered slower revenue growth, vs. the momentum in 4Q21, due to the sluggish macro environment. Moreover, investments in new initiatives such as CGB (community group buying) and the related losses showed normalisation. In 2Q22, e-commerce, online advertising, and online travel suffered due to the COVID resurgence and city lockdowns during March to May. We expect the growth to gradually pick up in 3Q21 alongside the recovery in economic activities.

We expect e-commerce and food delivery segment to show most significant recovery in the near term. According to iResearch, in 2020, both segments recovered to pre-COVID level within 3 months after re-opening.

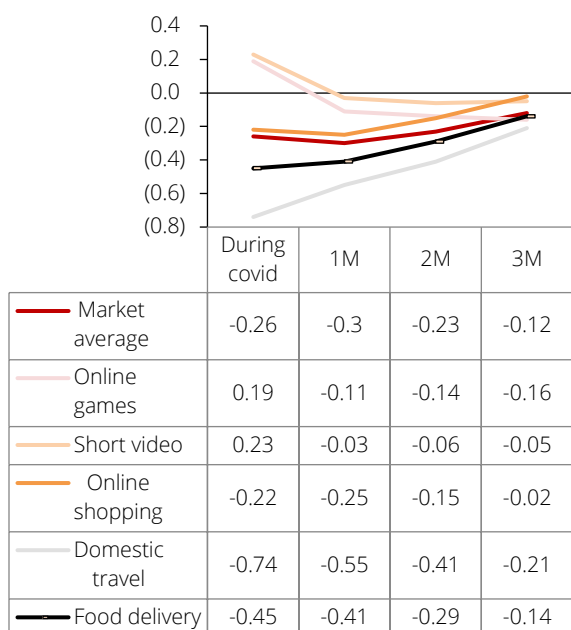
In this report, we will first summarise the regulatory updates in 1H22. We will then share the outlook for 2H22 and latest trends for the following individual sub-segments: (1) E-commerce, (2) food delivery, (3) online games, (4) online advertising, (5) short video, and (6) online travel. We will focus on growth drivers and provide the latest regulatory updates.

**Regulatory risks: More positive**

China's internet sector witnessed the strictest regulatory scrutiny in 2021, including antitrust and data protection regulations and the suspension of online game approval. Our study on the Chinese Government's annual Central Economic Work Conference concluded that the key focus in 2022 should be shifting from reform to stabilise economic growth. The theme played out well 1H22, and the sector is receiving more government support, e.g., resumption of game approval as well as resumption of Didi app downloads after conclusion of the cybersecurity law review.

In recent months, government officials delivered more supportive messages to internet sector, especially the platform economy. We believe that the regulatory storm is coming to an end, and investors will revert to fundamentals such as revenue and earnings outlook from 2022 onwards.

**Recovery trend after COVID outbreak in 2020**



Note: "0" means Consumer Spending Index at the 2019 level, while closer to "-1" reflects a higher degree of negative impact due to COVID  
Source: iResearch, DBS HK

### Key regulatory developments and enforcement timeline for internet sector

#### Timeline

**Apr 22:** The National Press and Publication Administration (NPPA) resumed the online game license approval process and approved the first batch of 45 online games after an eight-month suspension.

**May 22:** Vice Premier Liu He voiced support for the sustainable and healthy development of the platform economy (支持平台經濟民營經濟持續健康發展) at the CPPCC economic advisor meeting.

**May 22:** The state council issued a notice on the healthy development of the platform economy (出台支持平台經濟規範健康發展具體措施), which entailed deferring payments for social security payments and extending debt payments for SMEs impacted by the pandemic.

**Apr- Jun 22:** Local governments including that of Shenzhen and Jiangxi announced the distribution of consumption vouchers totaling c.Rmb500m in value via digital platforms such as Meituan and JD.com to support consumption spending.

**Jun 22:** The Cyberspace Administration of China concluded a 11-month cybersecurity investigation into Didi, Full Truck Alliance (YMM US), and Kanzhun (BZ US), lifting the ban on new user registrations on these platforms

**Jul 22:** State Administration Market Regulation (SAMR) released a list of 28 deals that violated the antitrust rules. Tencent and Alibaba were fined due to failing to disclose past transactions. Yet, the policy implementation and penalties were based on the direction set by the regulator in 2021. The fine amount was minimal, and it was not a new development or further escalation of the antitrust regulation.

Source: Xinhua, DBS HK

### Comparison table of Central Economic Work Conference (2021 vs. 2020)

Subjects	2021 version	2020 version	Implications
Overview takeaways	<ul style="list-style-type: none"> <li>Call for launch of supportive policies to maintain stable growth (明年經濟工作要穩...各方面要積極推出有利於經濟穩定的政策)</li> </ul>	<ul style="list-style-type: none"> <li>Concentrate on promoting reform and innovation, given the high GDP growth base in 2020 (要用好寶貴時間窗口，集中精力推進改革創新)</li> </ul>	Shifting focus from structural adjustment to stable economic growth
Key observations	<ul style="list-style-type: none"> <li>Mentioned "stability" (穩) 25 times</li> <li>2022 GDP growth forecast: 5.5%</li> </ul>	<ul style="list-style-type: none"> <li>Mentioned "stability" (穩) 13 times</li> <li>2021 GDP growth forecast: 8%</li> </ul>	
Key messages about antitrust work and capital development	<ul style="list-style-type: none"> <li>Stimulation of the vitality of market entities was a major task for 2022 (激發市場主體活力...提振市場主體信心...加強反壟斷和反不正當競爭)</li> <li>Give full play to positive role of capital as a production factor, while supporting and guiding its healthy development (發揮資本作為生產要素的積極作用...支持和引導資本規範健康發展)</li> </ul>	<ul style="list-style-type: none"> <li>Stepping up antitrust work and preventing disorderly expansion of capital were listed as policy priorities for 2021 (強化反壟斷和防止資本無序擴張...)</li> <li>Resolutely oppose monopoly and calls were made for strengthening regulations on platform economies (堅決反對壟斷...完善平台企業壟斷認定、數據收集使用管理...法律規範)</li> </ul>	Softening wordings on antitrust
Key observations	<ul style="list-style-type: none"> <li>Mentioned "antitrust" (反壟斷) 1 time</li> </ul>	<ul style="list-style-type: none"> <li>Mentioned "antitrust" (反壟斷) 3 times</li> </ul>	

Source: Gov.cn, DBS HK

**E-commerce: Expect sequential recovery in 2H22**

E-commerce growth backend-loaded in 2H22. China's e-commerce growth slowed to 2% in 1H22, mainly due to (1) supply and logistics disruptions due to the COVID resurgence in March and (2) sluggish consumption demand.

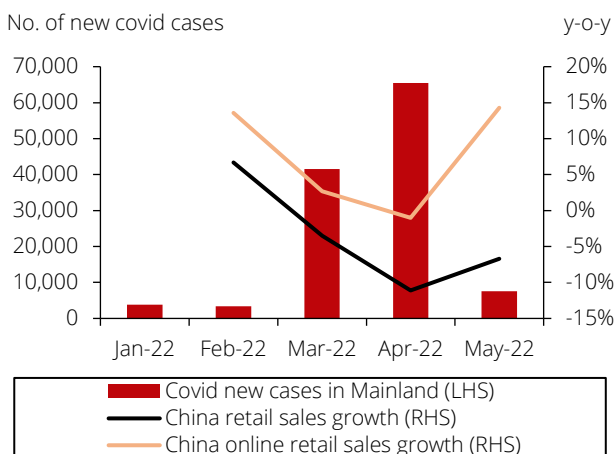
After the easing of COVID measures, online retail sales growth rebounded with a 14.3% increase in May (vs. a 1% decline in Apr). We believe e-commerce, as the key beneficiary of consumption recovery, will resume double-digit growth in 2H22. The two emerging trends are (1) increasing adoption in the food category and (2) live streaming. Performance during the 618 shopping festival indicates that discretionary spending will take a longer time to recover, i.e., towards the end of 2H22.

**China online retail sales vs. retail sales growth**



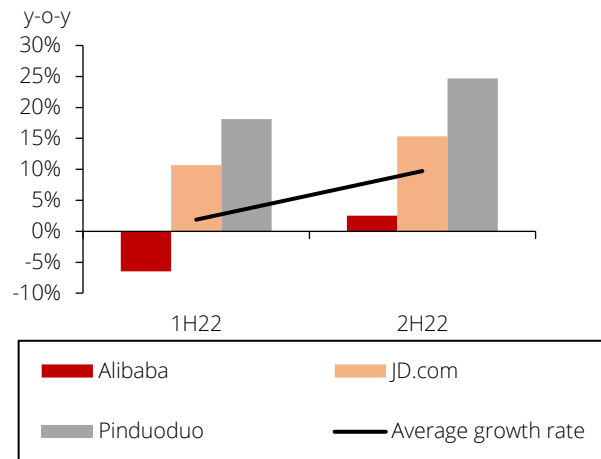
Source: NBS, DBS HK

**Retail sales rebounded after new COVID cases declined**



Source: NBS, NHC.Gov, DBS HK

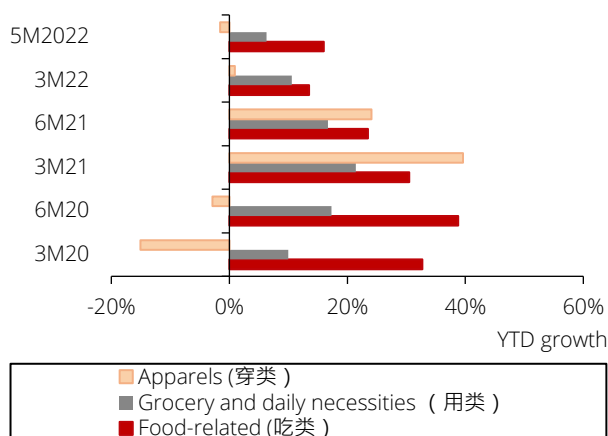
**GMV growth of e-commerce platforms (1H22 vs. 2H22)**



Source: Company, Bloomberg Finance L.P., DBS HK

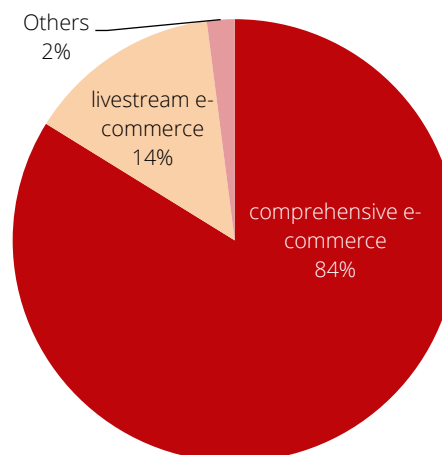
**Trend 1: Rising adoption of online fresh grocery.** In 5M22, online retail sales of the food-related category grew by 16%, ahead of the 5.6% growth in online retail sales. City lockdowns further shaped customer mindshare towards the purchase of fresh grocery online; and we expect the trend will continue in 2H22 and onwards. According to BCG's survey conducted in Apr 22, 45% of consumers will increase their spending on e-grocery platforms in the next 12 months. Currently, supermarket O2O, Distributed Mini Warehouse (DMW), and CGB are major models adopted by leading e-commerce platforms. In 1Q22, Meituan Maicai's and Dingdong Maicai's order volumes surged 120% and 50%, respectively. Pinduoduo, as one of the more comprehensive e-commerce platforms, has a supply chain advantage and wider SKU coverage on fresh grocery and agricultural products.

Online retail sales growth in China (by category)



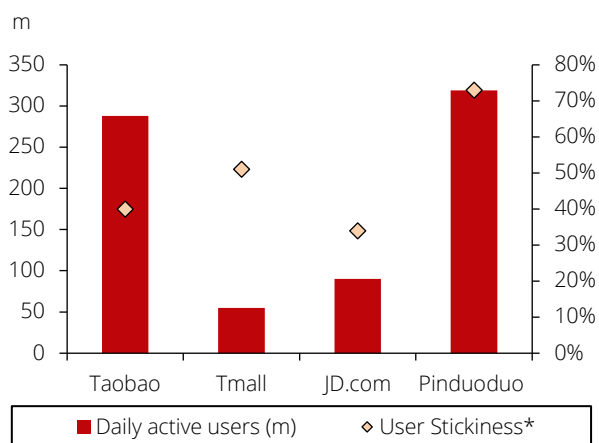
source: NBS, DBS HK

GMV breakdown of e-commerce models (2021)



Source: Syntun dada, DBS HK

E-commerce's DAU and User Stickiness (Jan 2022)



Note: User stickiness\* = Daily active users / Monthly active users

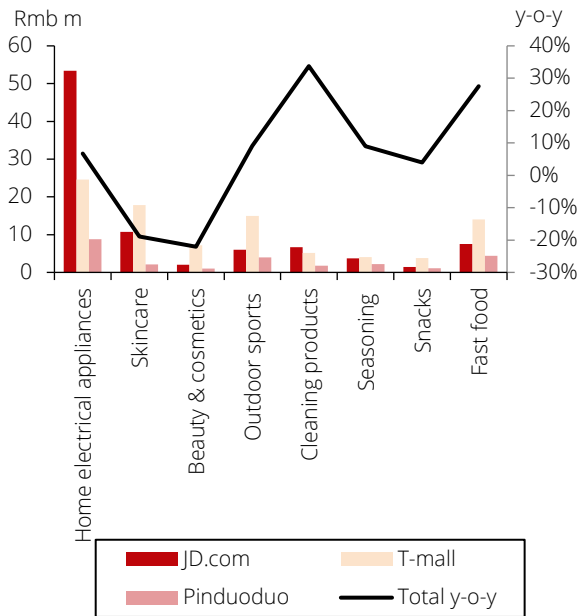
Source: Questmobile, Syntun dada, DBS HK

Trend 3: Staples and electronics outperformed during 618.

Fast food and cleaning products registered stronger growth during the 618 shopping festival this year, ahead of other categories. Home appliances growth remained resilient, while apparel, beauty, and cosmetics recorded negative growth. We expect discretionary spending to gradually recover towards 4Q22. Overall, 618 performance was slower but better than market expectations. In terms of GMV growth, Pinduoduo delivered 50% growth from a low base, higher than JD's 10%. Tmall has not disclosed its overall 618 GMV this year. As for livestream e-commerce, it showed a strong growth momentum during 618 but currently only focuses on limited categories like cosmetics and groceries. In 2021, livestream e-commerce GMV reached c.Rmb1,600bn, taking up 14% of the market share of online retail sales.

**Trend 2: Narrowing losses on CGB.** We notice that major players started to scale down related investments since 3Q21 and the losses on CGB continued to narrow in 1Q22. We expect to see less subsidies for user acquisition and more focus on operational efficiency in 2H22. In 1Q22, JD's JXPP scaled down its CGB business coverage from 10 provinces to 2 provinces. We believe major players will be more rational on CGB expansion so as to protect their earnings performance.

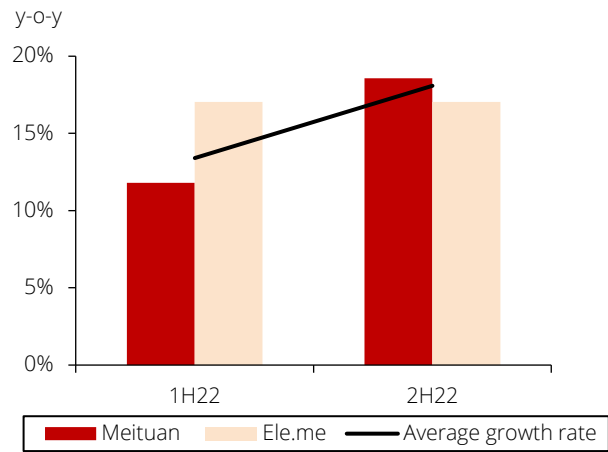
**Sales growth of different categories during 618**



Source: Syntun, DBS HK

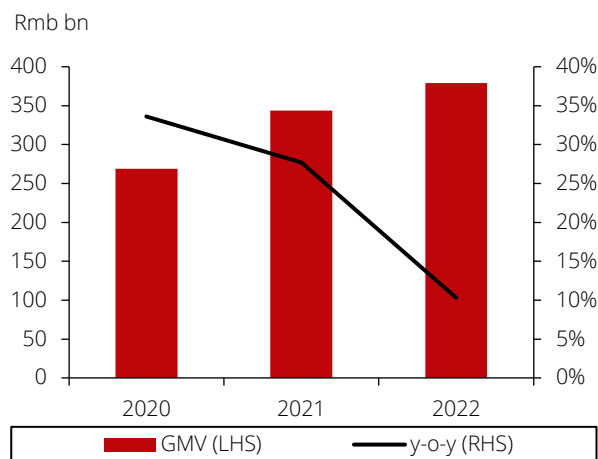
growth, supported by (1) diversification into more product categories (such as late night snacks and milk tea), (2) continuous expansion into lower tier cities, and (3) further expansion into on-demand delivery services.

**Food delivery GTV growth (1H22 vs. 2H22)**



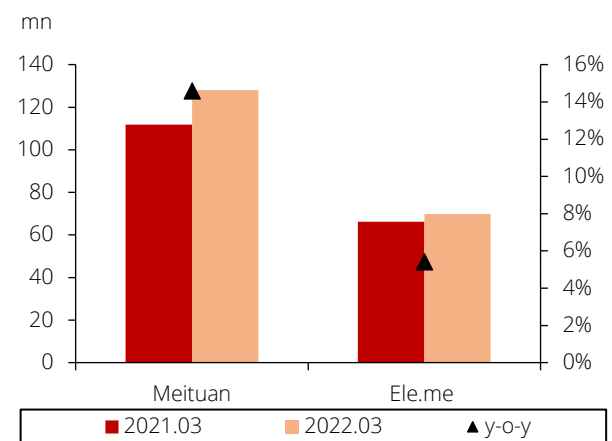
Source: Company, DBS HK

**JD 618 GMV growth**



Source: Company, DBS HK

**Food delivery players' monthly active user growth**



Source: QuestMobile, DBS HK

**Food delivery: Riding on "everything to home"**

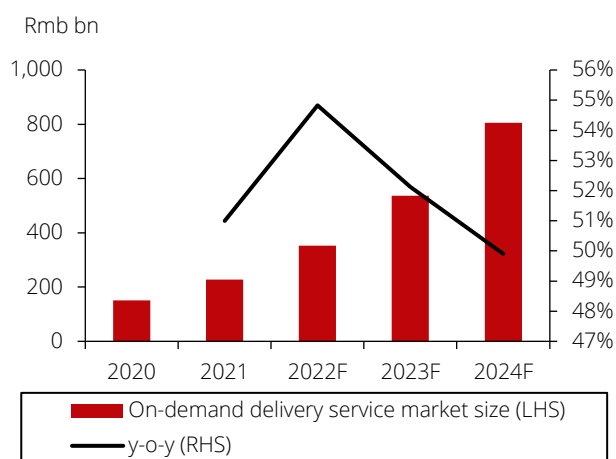
**Resilient growth despite COVID disruption.** The China food delivery market is estimated to register 9% growth in 1H22 (vs. 38% in 1H21). The growth was negatively impacted by COVID measures since late March. We expect c.16% growth in 2H22, along with the reopening of restaurants and easing of COVID measures. We are confident about longer term

**Duopoly landscape intact.** Meituan has the leading market share of c.70% in terms of GTV, while Ele.me took most of the rest in 2021. Meituan continues to gain market share in food delivery, supported by (1) a growing number of merchants, (2) its superior city-based operation, and (3) a stronger presence in lower tier cities, which represent 46% of the total food delivery user base. Meituan's MAU growth was 15% (vs. 5% of Ele.me) in 1Q22, with over 60% of new users of the Meituan app coming from tier 3 cities or below.

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**Expansion into on-demand delivery services.** In 1H22, the food delivery model rapidly evolved into non-food categories, such as grocery, flowers, as well as medical items. More customers rely on this convenient quick commerce model, with 67% of users increasing their order frequency on on-demand delivery services in the last 12 months and 58% of consumers using this kind of service more than five times a month, according to iResearch. The on-demand delivery services industry is expected to grow at a 52% three-year CAGR to reach Rmb805bn in 2024.

**On-demand delivery service market size**



source: Dada, Meituan, DBS HK

In 1Q22, the GTV of Meituan's Instashopping and JD's JDDJ (JD Daojia) surged 70% and 74%, respectively. Meituan's Instashopping takes up 35% of the market share in 2021, followed by JD's JDDJ, with 17%. In terms of order volume, Meituan is higher than JD, as it offers more diversified product categories and serves a larger number of merchants. However, in terms of basket size, JD has an advantage over Meituan, as 60% of its orders are from the supermarket and 3C categories.

**Similar margin but higher basket size.** The unit economics of the on-demand delivery model is similar to that of food delivery, and the rider network can be shared between these two models to reduce average unit cost. Moreover, the average order value for on-demand services is naturally higher than food delivery (c.Rmb50 per order) due to the focus on high-ticket items such as electronics and healthcare products. Meituan guides that Instashopping's profitability could reach that of the food delivery's level (c.6.4% profit margin in FY21) in the long term.

**Regulatory risks**

- NDRC published a notice in Mar 2022 to foster recovery in China's services industry. Food delivery platforms were told to lower service fees to merchants, in order to support the recovery of the catering sector. We expect the impact on the food delivery platform to be limited, as evidenced by the improving operating margin of food delivery segment. Besides, the platform could absorb the commission loss by cutting subsidies.

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## Major e-grocery business model and players

Business model	Target cities	Covered areas	Pricing strategy	Product variety (SKUs)	Avg basket size	Fulfilment cost (of revenue)	Delivery	Operating model	Key players
DMW (Distributed Mini Warehouse)	1, 2-tier cities	1km-3km	110%-115%	2,000-5,000	Rmb70-80	28%-40%	0.5-1h	Self-operated business, directly works with upstream suppliers and offers fulfillment as well as last-mile delivery for fresh groceries	Missfresh (每日優鮮), DingDongFresh (叮咚買菜), Meituan grocery (美團買菜)
CGB (Community Group Buying)	3 to 5 and lower tier cities	0.5km-1km	70%-85%	<2,000	Rmb10-20	8%-10%	next day	Platform provides supply chain logistics and sorts products; customer-end pick-up points are operated by group leaders	Meituan Select (美團優選), Duo Duo Grocery (多多買菜), Taocaicai (淘菜菜), Jingxi Pinpin (京喜拼拼)
On-demand delivery	1, 2-tier cities	1km-3km	100%	>5,000	Rmb50-100	15%-18%	0.5-1h	Platforms receive orders online and deliver orders from offline retailers to customers	Meituan Instashopping (美團閃購), JDDJ (京東到家), Ele.me (饿了么), Taoxianda (淘鮮達)

Source: iResearch, 36kr, DBS HK

## Major on-demand delivery players

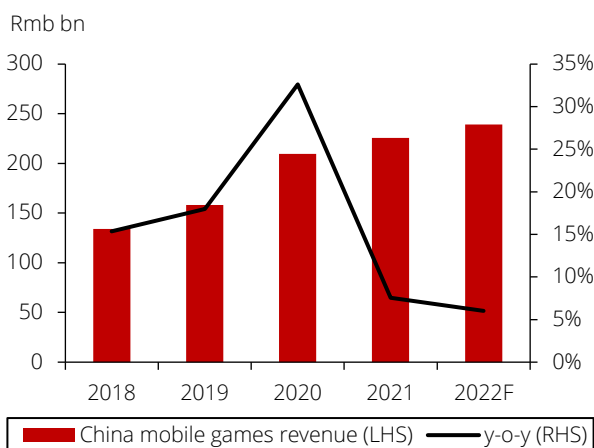
	2021 GMV (Rmb)	Basket size	Coverage areas	SKUs	Fulfilment cost	Key categories
Meituan Instashopping (美團閃購)	c.80bn	Low	>2,800 cities	High	Low	Supermarket grocery, healthcare products, flowers, fruits
JDDJ (京東到家)	c.40bn	High	>1,400 cities	Medium	High	Supermarket grocery, 3C products
Ele.me (饿了么)	c.30bn	Medium	>2,000 cities	Low	Medium	Supermarket grocery, fruits, healthcare products

Source: Company, 36kr, DBS HK

**Online games: Domestic resumes, overseas expansion still aggressive**

**Domestic market recovery supported by new “banhao” (game licenses).** The Chinese online game market grew by merely c.3% y-o-y in 1Q22 due to the lack of new games, according to CNG. We expect growth to gradually pick up to 8% in 2H22, after the resumption of game license approval in April and launch of new games in 3Q22. Looking ahead, China’s online game market is expected to grow at a mid to high single-digit percentage during 2022-2024F, mainly driven by higher average spending.

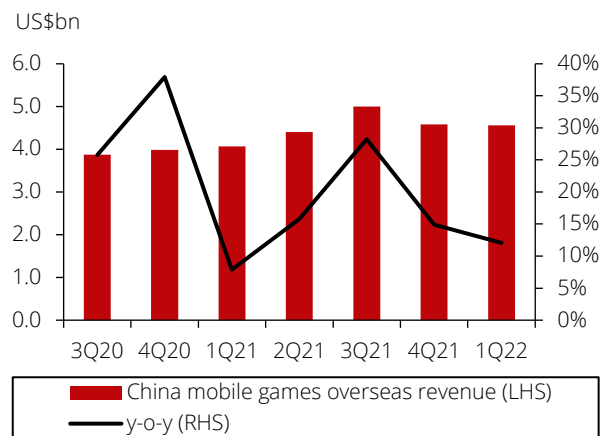
**China mobile games’ revenue growth**



Source: CNG, DBS HK

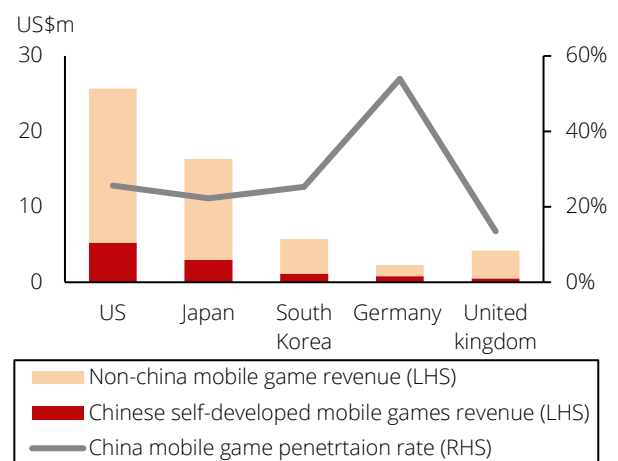
**Focus on overseas market expansion.** In the absence of banhao in the past few months, Chinese developers shifted focus to overseas markets, which has now become a more prominent growth driver. Currently, Chinese games only contribute less than 25% in key overseas markets, like the US, Japan, South Korea, etc. There is still ample room to deepen penetration. In 1Q22, China self-developed games’ overseas revenue increased by 12%, and we expect the momentum to continue in 2H22.

**China mobile games revenue from overseas**



Source: CNG, DBS HK

**China mobile game penetration rate overseas (2021)**



Source: Zoonews, DBS HK

**Expect Tencent and NetEase to receive new banhao in 2H22.** The regulator released three batches of new game licenses in April, Jun and Jul, after eight months of suspension. Tencent and NetEase have not received any new game approval, triggering investor concerns.

Based on our observations, however, the recent batches focused on casual game genres from smaller developers, and we expect more hardcore games (e.g., MMORPG) to be approved going forward. This pattern is similar to what was seen in the previous round of game license suspension and resumption in 2019. We are confident that leading game developers will receive new banhao in 2H22.

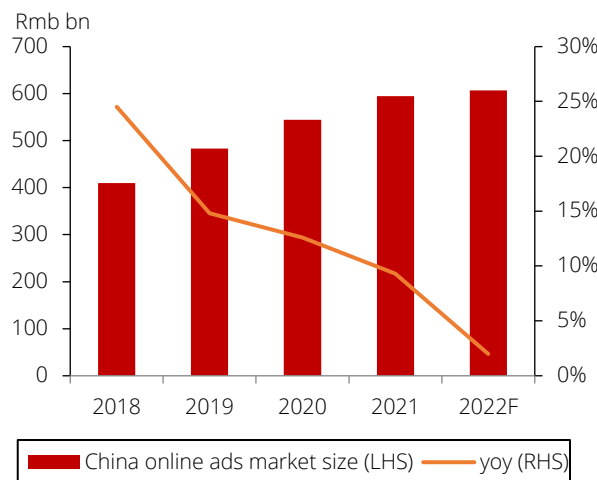
**Regulatory risks**

- The regulatory overhang is removed after the resumption of game license approval in April. This also suggests that the online game industry has largely met the compliance requirement in relation to the protection of minors and game content. We expect a sector valuation recovery, supported by more new games to launch in 2H22.

**Online advertising: Taking time to recover**

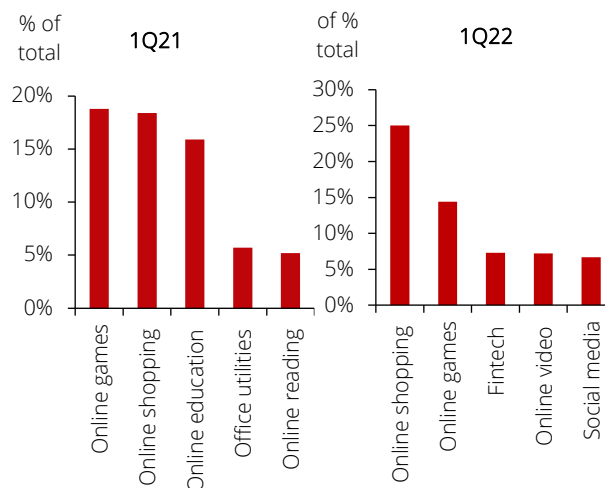
**COVID resurgence slowing down recovery pace.** In 2021, China's online advertising market growth deteriorated due to regulatory impacts on vertical sectors (like games, education, etc). In 1H22, the sector suffered further from the COVID resurgence and witnessed a y-o-y decline. Online shopping and online games are still key contributors to online ad income, but are now more cautious on marketing spending. We only expect a single-digit growth rate in 2H22.

**China online advertising market size**



Source: iResearch, DBS HK

**Online ad budgets by sector (1Q21 vs. 1Q22)**



Source: Questmobile, DBS HK

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In terms of ad formats, short video ad growth remained resilient in 1Q22, outperforming the market. User time spent on short video platforms increased during the COVID resurgence. Douyin's ad revenue took up 28% of online advertising revenue in 2021 (vs. 21% in 2020).

**Regulatory risks**

- No further development after the announcement of the Personal Information Protection Law (PIPL) last year. The law allows users to withdraw consent for the collection of their private data. This may, in turn, reduce ad ROI, and therefore ad revenue. Our channel check suggests that the opt-out percentage remains limited.

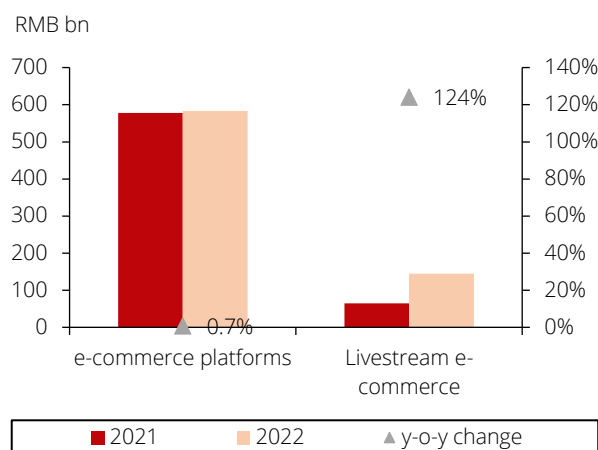
**Short video: Taking market share from e-commerce**

**User time spent on the rise.** Short video accounted for 26% of total mobile user time spent in China at the end of 2021, rising from 21% at the end of 2020, further eating into the market of other mobile services such as instant messaging and long form video.

**Focus on commercialisation.** Commercialisation will continuously support the revenue growth of short video platforms. Regulatory tightening and changes in the macro environment have further driven the strategy shift to the commercialisation of short video platforms. Meanwhile, short video platforms have found better commercial opportunities to monetise their traffic. Now, short videos are even taking market share from e-commerce.

**Livestream e-commerce.** During the 618 shopping festival, GMV from livestream e-commerce (such as Douyin and Kuaishou) grew 124.1% y-o-y to Rmb144.5bn. On the other hand, GMV from online shopping platforms (such as Tmall and JD) only grew by 0.7% y-o-y to Rmb582.6bn, according to Syntun. Despite the general weakness in online advertising, the increasing commercialisation, improving cost structure, and efficiency will drive the fundamental optimisation of short video platforms.

**618 GMV growth for online shopping platforms**



Source: Syntun dada, DBS HK

**Regulatory risks**

- The core assets of the ad model of short video are data and algorithm. Regulations on the protection of personal information, algorithm policies, and ad content could affect the recommendation of advertisements, which in turn may affect the ad monetisation model.
- However, the anti-monopoly law has given short video platforms opportunities to expand into livestream e-commerce and local life service businesses.

**Online travel: Domestic growth continues despite COVID uncertainty**

**COVID resurgence clouding domestic travel outlook.** The online travel sector suffered due to COVID and city lockdowns in the past two years. Domestic short-haul trips have been gaining importance and supporting recovery. However, the COVID resurgence in March 2022 disrupted the growth, and the short-term outlook remains cloudy.

**Favour domestic players with exposure in lower tier cities.**

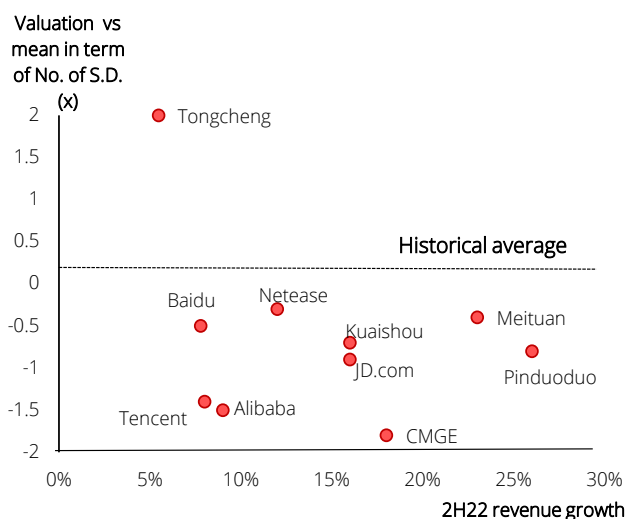
We like domestic players such as Tongcheng, which saw 90% of its revenue coming from domestic travel even before COVID. The growth driver is lower tier city penetration, given that online travel penetration in lower tier cities is only 25%-30%, while tier 1-2-city penetration is as high as 40%-45%. We expect the growth rate of Tongcheng to recover faster than the sector. We do not see major regulatory risks for this segment.

China Internet Sector

Conclusion and stock recommendations

The food delivery and e-commerce segments are immediate beneficiaries of economic recovery and stimulus policy in 2H22. Thus, we like Meituan (3690 HK). From e-commerce players, we like Pinduoduo, due to its stronger-than-peer revenue growth driven by fresh grocery products and lower tier city focus. NetEase is our top pick in the online game sector, backed by its strong game pipeline and huge potential for overseas expansion. Overall, internet players under our coverage universe are trading at undemanding valuation, around -0.5x to -1.5x SD below average. We expect the sector to re-rate alongside the diminishing regulatory concerns and improvements in fundamentals.

Valuation vs. 2H22 revenue growth



Note: Pinduoduo, Meituan, and Kuaishou are based on P/S valuation methodology, while other companies use P/E; Historical average refers to 5-year average, and stocks with limited listing history use 2-year average.

Source: Bloomberg Finance L.P., DBS HK

**Meituan (3690 HK, BUY).** We expect slow growth in 2Q22 caused by the COVID resurgence. Yet, the revenue growth momentum will pick up to 20% in 3Q22 alongside the recovery of economic activities. We forecast revenue growth of 19% and 31% for FY22F and FY23F, respectively. We expect profitability to improve in 2H22 on the back of cost control and narrower losses from new businesses (such as CGB). Maintain BUY with TP of HK\$226 based on SOTP valuation: Food delivery: 5x FY22F price-to-sales (P/S); (2) in-store, hotel, and travel: 25x FY22F earnings; and (3) new initiatives and others: 5x FY22F P/S.

**Pinduoduo (PDD US, BUY).** We expect to see steady earnings growth in 2H22, backed by an improved margin and lower marketing expenses. We revised down our revenue by 3% and 6% for FY22 and FY23, respectively, with a more conservative take rate assumption. We forecast revenue growth of 20% and 28% for FY22F and FY23F, respectively. Maintain BUY with a revised TP of US\$89, based on 5x FY23F P/S, largely in line with leading players' historical average.

**NetEase (9999 HK BUY).** Robust game pipeline and accelerating overseas expansion support a 13% revenue CAGR, outpacing the industry. We forecast non-IFRS net profit growth of 3% and 17% for FY22F and FY23F, respectively. NetEase is relatively resilient to the macro slowdown and its only regulatory concern is removed after game license approval commenced in Apr 2022. Maintain BUY with TP of HK\$194/US\$124 based on the SOTP methodology: (1) Online games: 25x PE on FY22F Non-GAAP net profit (HK\$184), (2) cloud music: Based on market value (HK\$4), (3) Youdao: Based on market value (HK\$1), and (4) innovative businesses: 1x P/S on FY22F revenue (HK\$5).

**JD (9618 HK, BUY).** We expect JD to deliver robust GMV growth and increase its ad revenue by expanding its 3P marketplace business. We forecast non-GAAP net profit growth of 10% and 65% for FY22F and FY23F, respectively. Maintain BUY with TP of HK\$400/US\$103 based on SOTP methodology: (1) A 25x PE on FY23F core profit (HK\$293), (2) JD Logistics: Based on market value (HK\$26), (3) JD Health: Based on market value (HK\$31), (4) JD Digits: Valuation as per last financing round (HK\$48), and (5) Dada: Based on market value (HK\$2).

**Alibaba (9988 HK, BUY).** We expect a narrower operating loss for new businesses (e.g., Taobao Deals and Taocaicai) in 2H22 and overall business to pick up alongside the macroeconomic recovery. We forecast non-GAAP net profit growth of -3% and 18% for FY3/23F and FY3/24F, respectively. The valuation is attractive at 16x FY3/22F P/E, far below the historical average of 28x. Reiterate BUY with TP of HK\$157/US\$161 based on SOTP methodology: (1) Core commerce: 15x P/E FY3/23F core commerce earnings (HK\$122), given slower growth amid weak macro environment and intensifying competition; (2) cloud: 5x price-to-sales on FY3/23F (HK\$24); and (3) digital media and entertainment: (HK\$9).

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**Tencent (700 HK, BUY).** Receiving new game licenses will be a key share price catalyst in 2H22. Fundamentally speaking, weak online ad demand might take time to recover amid the slow macro environment. We forecast non-IFRS net profit growth of -4% and 27% for FY22F and FY23F, respectively. Maintain BUY with TP of HK\$447 based on SOTP methodology: (1) 25x FY22F earnings (HK\$371) and (2) fair value of listed investee companies (HK\$76).

**Baidu (9888 HK, BUY).** The online marketing business is sluggish due to macro weaknesses and is expected to pick up in 2H22 along with economic recovery. We forecast revenue growth of -3% and 30% for FY22F and FY23F, respectively. Maintain BUY with TP of HK\$190/US\$195 based on the SOTP methodology: (1) Baidu core: 12x on FY22F non-GAAP net profit (HK\$95), (2) cloud: 5x FY22F price-to-sales (HK\$52), (3) autonomous driving: (HK\$34), and (4) market value of major listed investees (HK\$9).

**Tongcheng (780 HK, BUY).** Tongcheng's near-term outlook and profitability highly depend on domestic travel restrictions. We forecast non-IFRS net profit growth of 14% and 57% for FY22F and FY23F, respectively. Maintain BUY with TP of HK\$20 based on 18x FY23F adjusted EPS.

**CMGE (302 HK, BUY).** CMGE should benefit from the resumption of game license approval and several heavyweight games that scheduled to launch in 2H22 have already received banhao. We forecast revenue growth of 9% and 35% for FY22F and FY23F, respectively. Maintain BUY with a TP of HK\$4.2, based on 9x FY22F P/E, largely in line with the historical average.

**Kuaishou (1024 HK, BUY).** We are forecasting revenue growth of 26% for FY22F and 24% for FY23F. Maintain BUY with TP of HK\$116 based on SOTP valuation methodology: (1) 4x/1x FY22F P/S for the community & online marketing services/live streaming segments and (2) 0.15x FY22F P/GMV for the e-commerce business.

## Peer table

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE	PE	P/S	P/S	EV/EBITDA		ROE	ROE
						22F	23F	22F	23F	22F	23F	22F	23F
						x	x			x	x	%	%
<b>China internet platform</b>													
Alibaba Group*#	9988 HK	HKD	107.80	298,010	Mar	20.1	16.9	2.1	1.8	9.4	7.9	9.8	10.4
Alibaba Group*#	BABA US	USD	109.21	294,867	Mar	20.0	16.8	2.1	1.8	9.4	7.8	9.8	10.4
Baidu 'A' *	BIDU US	USD	143.48	49,939	Dec	32.4	21.0	2.6	2.2	14.2	9.2	4.7	6.6
Baidu 'A'*	9888 HK	HKD	142.30	6,309	Dec	32.7	21.2	2.7	2.3	14.4	9.3	4.7	6.6
Bilibili *	BILI US	USD	24.25	9,472	Dec	n.a.	n.a.	2.3	1.6	(92.0)	512.6	(76.5)	(45.9)
Bilibili 'Z'*	9626 HK	HKD	187.4	9,325	Dec	n.a.	n.a.	2.2	1.6	(12.4)	73.1	(76.5)	(45.9)
CMGE Technology*	302 HK	HKD	2.09	737	Dec	4.6	3.5	0.9	0.7	2.2	1.3	14.5	16.4
JD.com*	9618 HK	HKD	230.80	45,731	Dec	79.0	18.9	0.6	0.5	21.2	6.4	1.9	7.3
JD.com*	JD US	USD	60.16	93,573	Dec	161.6	38.7	0.6	0.5	62.3	22.3	1.9	7.3
Kuaishou Technology*	1024 HK	HKD	80.5	43,990	Dec	n.a.	n.a.	2.9	2.3	(29.8)	156.8	(45.6)	(26.8)
Meituan*	3690 HK	HKD	178.00	140,239	Dec	n.a.	94.0	4.4	3.4	(724.4)	40.2	(9.5)	7.7
Netease*	9999 HK	HKD	136.40	11,659	Dec	22.3	18.6	4.1	3.6	12.7	10.3	16.9	17.2
Netease	NTES US	USD	86.49	58,033	Dec	18.8	16.4	4.0	3.5	17.9	15.9	18.0	18.5
Pinduoduo*	PDD US	USD	56.21	48,928	Dec	42.2	22.0	4.2	3.3	23.7	10.9	13.5	20.7
Tencent Holdings*	700 HK	HKD	337.80	414,072	Dec	19.6	16.0	4.7	4.1	12.9	10.6	16.0	16.5
Tongcheng-Elong*	780 HK	HKD	15.46	4,374	Dec	47.9	20.3	3.5	2.6	28.6	10.6	3.8	8.2
Trip Com Group	TCOM US	USD	24.59	15,781	Dec	82.9	20.5	5.7	3.6	65.3	17.4	0.4	4.2
Weibo Adr 1:1	WB US	USD	20.3	4,946	Dec	8.3	7.1	2.3	2.1	5.1	4.2	11.6	13.6
<b>Average</b>						<b>37.6</b>	<b>21.6</b>	<b>2.8</b>	<b>2.3</b>	<b>(50.7)</b>	<b>26.6</b>	<b>1.0</b>	<b>6.8</b>

# FY22: FY23; FY23: FY24

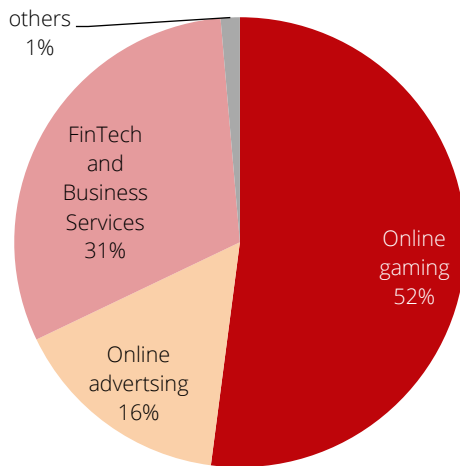
Source: Thomson Reuters, \*DBS HK

## Share performance table

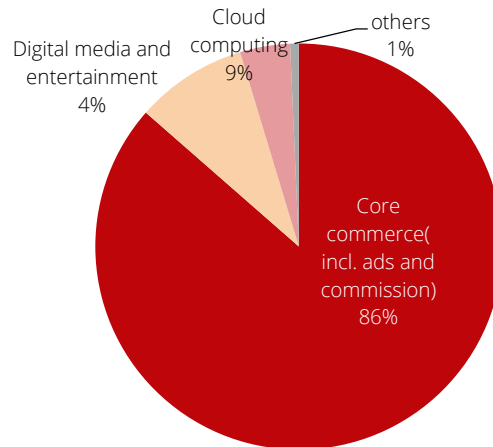
Share price performance (%)	1-mth	3-mth	6-mth	12-mth	YTD
Alibaba Group (BABA US)	(0.6)	9.5	(20.5)	(46.9)	(8.1)
Baidu (BIDU US)	0.4	9.5	(10.0)	(20.5)	(3.6)
Bilibili (9626 HK)	(7.1)	(2.8)	(41.8)	(77.3)	(47.7)
CMGE Tech (320 HK)	(16.9)	(7.8)	(36.6)	(47.3)	(36.6)
JD.com (JD US)	(2.2)	6.5	(21.3)	(17.8)	(14.1)
Kuaishou (1024 HK)	(7.0)	32.6	(6.1)	(46.2)	11.7
Meituan (3690 HK)	(11.5)	15.7	(21.6)	(37.6)	(21.0)
Netease (NTES US)	(18.1)	(6.2)	(18.4)	(20.6)	(15.0)
Pinduoduo (PDD US)	(6.2)	35.5	(6.9)	(49.1)	(3.6)
Tencent (700 HK)	(14.8)	(7.8)	(27.6)	(34.9)	(23.8)
Tongcheng (780 HK)	0.3	14.3	5.9	(18.5)	7.1
<b>HSI Index</b>	<b>(4.4)</b>	<b>(2.2)</b>	<b>(14.6)</b>	<b>(24.2)</b>	<b>(10.9)</b>
<b>HSTECH Index</b>	<b>(6.3)</b>	<b>6.5</b>	<b>(23.3)</b>	<b>(39.8)</b>	<b>(20.2)</b>

Source: Thomson Reuters, \*DBS HK

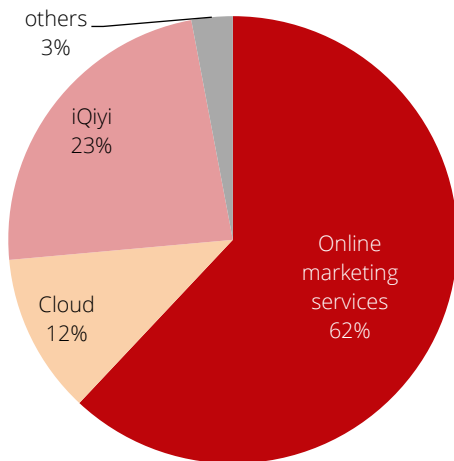
Revenue mix - Tencent (FY21)



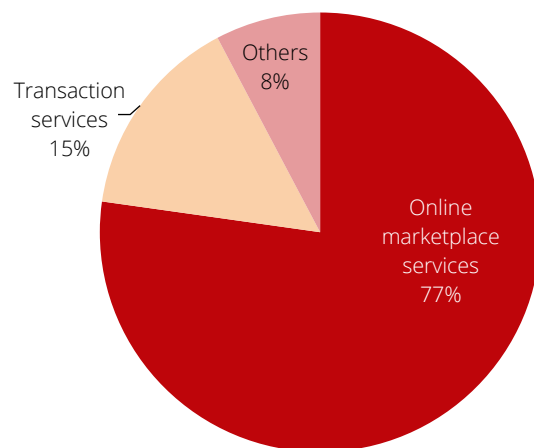
Revenue mix - Alibaba (FY3/22)



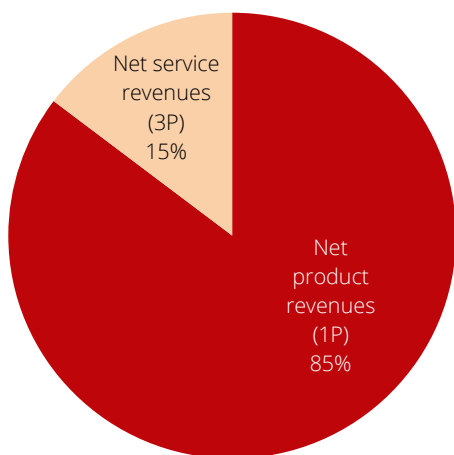
Revenue mix - Baidu (FY21)



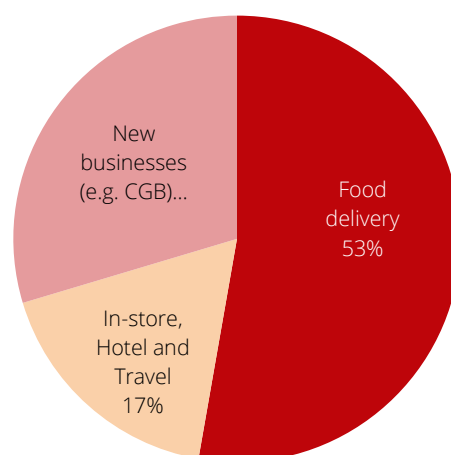
Revenue mix - Pinduoduo (FY21)



Revenue mix - JD (FY21)

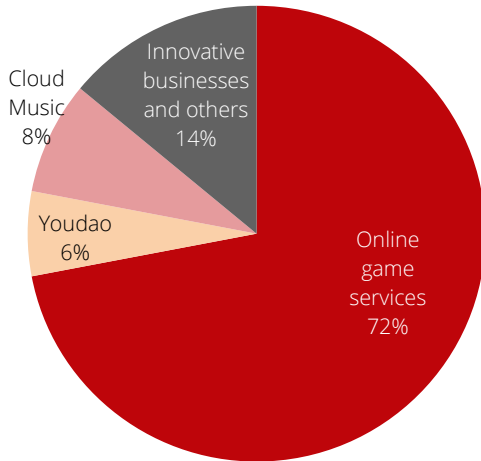


Revenue mix - Meituan (FY21)

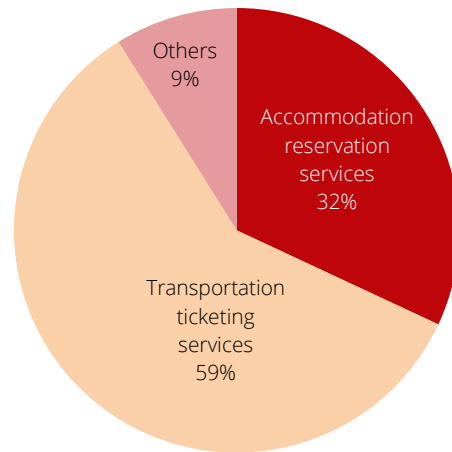


Source: Company, DBS HK

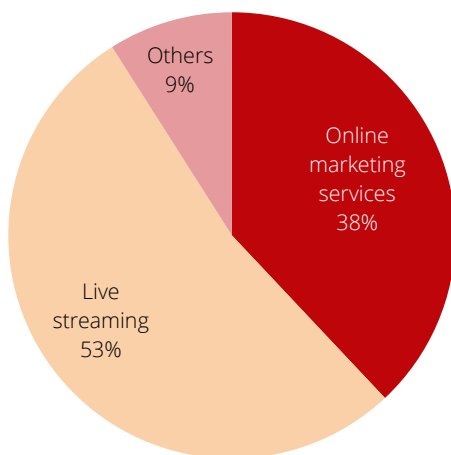
Revenue mix - NetEase (FY21)



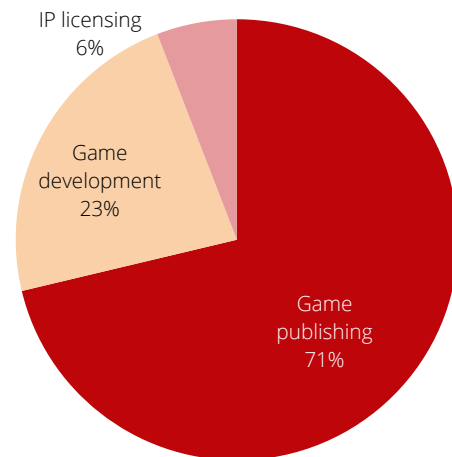
Revenue mix - Tongcheng (FY21)



Revenue mix - Kuaishou (FY21)



Revenue mix - CMGE (FY21)



Source: Company, DBS HK

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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