

China Retail & E-commerce

Weekly Updates

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General retail

NBS: Total retail sales of consumer goods drop by 7.5% yoy in April 2020

According to the National Bureau of Statistics (NBS), total retail sales of consumer goods reached 2,817.8 billion yuan in April 2020, down nominally by 7.5% yoy (9.1% yoy in real terms). Of which, retail sales of enterprises above a designated size amounted to 1,058.8 billion yuan, down 3.2% yoy. By type of consumption, catering sales amounted to 230.7 billion yuan, dropped by 31.1% yoy. Retail sales of commodities amounted to 2,587.1 billion yuan, down 4.6% yoy. In January – April 2020, online retail sales picked up and increased by 1.7% yoy to 3,069.8 billion yuan. Of which, online retail sales of physical goods increased by 8.6% yoy to 2,575.1 billion yuan, accounting for 24.1% of total retail sales¹.

Morgan Stanley: Consumption in China estimated to fully recover in 4Q20

According to the forecast by Morgan Stanley, if the epidemic does not recur in China, demand for physical goods in China will return to normal level by the end of 2Q20, while demand for services will recover by the end of 3Q20. Overall consumption is expected to fully recover in 4Q20. The government may further stimulate consumption by reducing or exempting personal income tax, subsidizing big-ticket consumption and issuing consumer vouchers. The scale of the stimulus plan is estimated to reach nearly US\$200 billion².

The Supreme People's Court responds to landlord-tenant disputes amid the COVID-19 crisis

On 19 May, the State Council Information Office held a press conference to respond to landlord-tenant disputes amid the COVID-19

crisis as lockdown squeezed restaurants and other services sectors out of business. The Adjudication Committee of the Supreme People's Court responded that, firstly, in general, it will not support the lessors' requests to terminate the lease agreements; and secondly, in general, it will back the requests to change payment terms and amounts in the lease agreements according to the parties' operation status³.

E-commerce

JD.com's total revenue reaches 146.2 billion yuan in 1Q20, up 20.7% yoy

On 15 May, JD.com announced its unaudited financial results for 1Q20. JD.com's total revenue reached 146.2 billion yuan in 1Q20, up 20.7% yoy; of which, revenue from the sales of general merchandise products amounted 52.5 billion yuan, up 38.2% yoy. Number of annual active customer accounts increased by 24.8% yoy to 387.4 million in the twelve months ended 31 March 2020. Number of mobile daily active users in March 2020 increased by 46% as compared to March 2019⁴.

JD.com reportedly heads to listing hearing in Hong Kong next week; to trade on HKEX on 18 June the earliest if successful

JD.com is reportedly seeking to pass the listing hearing for its Hong Kong secondary listing next week; if successful, the company will kickstart its IPO as early as June and begin to trade on the Hong Kong Stock Exchange (HKEX) on 18 June, according to media reports citing sources familiar with the matter on 19 May. It is also reported that JD.com looks to raise approximately US\$3 billion from the offering and will not introduce cornerstone investors to the transaction. The

company declined to comment on the news. In late April, Thomson Reuters IFR reported that JD.com had been planning its secondary listing in Hong Kong and had submitted related documents for the listing, with UBS and Bank of America confirmed as the primary underwriters⁵.

Tmall 618 Shopping Festival to join forces with local governments to hand out consumption vouchers and subsidies

On 19 May, Tmall announced that it will hold the nation's largest post-COVID-19 shopping festival – Tmall 618 Shopping Festival. During the festival, Tmall will join forces with local governments and brands to hand out a great deal of consumption vouchers and subsidies, with an estimated value of over 10 billion yuan. Currently, over 100,000 brands have signed up to participate in the shopping festival, doubling the number of participating brands in the previous year, while more than 10 million discounted products will be offered this year, same as the number offered in Tmall's 11.11 Global Shopping Festival last year⁶.

NetEase reportedly files for secondary listing in Hong Kong

Joining JD.com, NetEase reportedly has submitted its Hong Kong secondary listing application to the Hong Kong Stock Exchange (HKEX); with CICC, Credit Suisse and JPMorgan appointed to lead the transaction, the company plans to raise US\$1 billion to US\$2 billion and start trading on the HKEX one to two weeks upon the listing of JD.com in Hong Kong, which implies that NetEase will go public in Hong Kong by the end of June the earliest, according to people familiar with the matter. It is expected that following the moves by JD.com and NetEase, more renowned Chinese Internet companies including Baidu, Ctrip and others, will press ahead with plans for a secondary listing in Hong Kong⁷.

iiMedia: Market size of China's fresh food e-commerce to reach 263.84 billion yuan in 2020

Recently, iiMedia Consulting released the "Monitoring Report of China's Fresh Food E-commerce Platforms, 1Q20". The report showed that China's fresh food e-commerce sector has maintained steady growth; the size of the market reached 162 billion yuan in 2019 and is expected to grow to 263.84 billion yuan in 2020. In terms of number of monthly active users (MAU), Dmall ranked the top among all fresh food e-commerce platforms in March 2020 with 10.264 million MAU, followed by Freshippo of 8.927 million MAU and MissFresh of 7.357 million MAU. The report also highlighted that the epidemic has accelerated industry consolidation; supply chain capacity will become the key of success for fresh food e-commerce platforms; and "fresh food e-commerce + livestreaming" and cold-chain logistics will be the major industry development trends⁸.

Guangzhou sets up the first Live Commerce Research Institute in China

It is reported that the Live Commerce Research Institute of Guangzhou was recently set up in the Sun Yat-sen University. It was also listed as one of the key research bases of the humanities and social sciences disciplines. As the first research institute on live commerce in China, its missions include integrating the efforts of industry, academic and research sectors, setting up industrial standards, cultivating talents and providing policy advice. The institute has received support from live commerce players in Guangzhou and the Guangzhou Municipal Commerce Bureau. Representatives and experts from universities, live commerce platforms, mainstream media and the industry will also participate⁹.

Kuaishou and Douyin file cross complaints over IP infringement as competition in the short video sharing market intensifies

Recently, Kuaishou filed a legal complaint against its key competitor Douyin, accusing the latter of infringing its trademark and sought five million yuan in indemnity. In response, Douyin filed a counterclaim against Kuaishou also on IP infringement issues. Established in 2011, Kuaishou was transformed into a short video sharing platform in 2013. Although Douyin was set up a few years later, it has been catching up fast and already bypassed Kuaishou in terms of online traffic. Prior to the Spring Festival in 2020, Douyin and Kuaishou had accumulated 400 million and 300 million daily active users respectively. Both platforms recently invited top vloggers to host their livestreaming shows and successfully set new sales records. The three-hour show hosted by Luo Yonghao on Douyin sold 110 million yuan worth of goods while Dong Mingzhu took only 30 minutes to make 100 million yuan sales on Kuaishou. Their latest legal battles signify that the competition over the top spot in the short video sharing market will intensify¹⁰.

Logistics

SPB: Volume of express delivery parcels up 32.1% yoy nationally in April

According to the State Post Bureau (SPB), the volume of express delivery parcels reached 6.5 billion nationally in April, up 32.1% yoy; revenue of express delivery service amounted to 72.09 billion yuan, up 21.7% yoy. The figures showed that the growth in volume of express delivery parcels in a single month exceeded the pre-COVID-19 levels. By city, the volume of express delivery parcels of Yiwu topped among all cities with 1.917 billion

pieces in January – April 2020, followed by Guangzhou, Shenzhen, Shanghai and Beijing¹¹.

Department stores and shopping malls

Hong Kong department store brand Sincere to be acquired by Realord Group

On 15 May, the Sincere Company Limited, one of the oldest Hong Kong department store operators, received an offer from Shenzhen-based property developer Realord Group to acquire all of the issued Sincere shares. The initial offer price is set at HK\$0.3806 per share, representing a 8.74% premium of the last trading price of HK\$0.35 per share. Upon completion of the deal, Sincere's founder, the Ma family, will hand over the ownership to Realord. The listing of Sincere on the Hong Kong Stock Exchange will maintain. According to the announcement, Realord intends to diversify its business and tap into the department stores business in Hong Kong through this acquisition¹².

Rainbow Department Store to change company name to Rainbow Digital Commercial Co., Ltd

On 19 May, Rainbow Department Store Co., Ltd announced that it will change its company name to Rainbow Digital Commercial Co., Ltd. Rainbow explained that in the past few years, it has aggressively transformed into a commercial enterprise with fully digitalized and experiential retail formats, including shopping centers, department stores, supermarkets and convenience stores. Its multiple retail channels have been integrated into a consumption services platform. Under this new model, its core assets include not only brick-and-mortar stores but also data

from its digitalized physical stores. It asserted that the new company name will be a better reflection of its businesses and development direction¹³.

Supermarkets and hypermarkets

CR Vanguard LiFE supermarket opens in Shenzhen for the first time; aims to open 100 stores in Guangdong in 2020

On 15 May, CR Vanguard LiFE, a new supermarket brand under CR Vanguard, opened its first store in Shenzhen for the first time. Launched in January 2020 in Shanghai, CR Vanguard LiFE targets residents living within 5-10 minutes walking distance from the store. It offers meals and daily necessities, and has a high proportion of fresh food and other food offerings. CR Vanguard Life aimed to open 300 stores in China in 2020, of which 100 will be in Guangdong¹⁴.

Convenience Stores

OurHours convenient store chain's operation to be further split as Fook takes over 106 stores in Chengdu

On 17 May, Fook, a Fujian-based convenience store chain, signed a strategic cooperation agreement with Chengdu Shanhaulantu to take over the operation and management rights of the 106 OurHours convenience stores in the city. Since February 2019, the operation rights of OurHours in different regions have been split among multiple parties. Shanhaulantu took over approximately 500 stores in Beijing, Tianjin, Chengdu and Langfang. The strategic cooperation between Chengdu Shanhaulantu and Fook suggested that the operation rights

of OurHours will be split further¹⁵.

Outlets

Urban outlet brand Shangpin to shrink from nine stores to four

Urban outlet brand Shangpin is reportedly closing five of its branches to a total of four stores only, and it may change its business model in the future. In the past, Shangpin was seen an example for the transformation of the department store sector because of its competitive prices, proximity to communities and convenience; yet it is increasingly being marginalized in recent years for multiple reasons – it is difficult to attract young consumers with its domestic second- and third-tier brands; the operation is old-fashioned; and the discounts are not significant and appealing. Founded in 2000 in Beijing, Shangpin is an urban outlet brand which sells via offline stores, online website, WeChat and third-party platforms¹⁶.

Apparel

Shandong Ruyi Group-owned Japanese apparel company Renown files for bankruptcy

Recently, Japan's Renown Inc, part of Chinese fashion empire Shandong Ruyi, filed for bankruptcy protection with the Tokyo District Court and has obtained approval. Founded in 1902, the century-old apparel maker was acquired by Shandong Ruyi in 2010. It currently owns more than 30 international brands. The company has seen its revenue nearly cut off as department stores and retailers have shut their doors amid the COVID-19 pandemic. Also, Renown said it was struggling to collect the 5.3 billion yen in

receivables from subsidiaries of Shandong Ruyi, which led to consecutive losses in the past two years and a rupture of capital chain. As of 15 May, the company maintained 13.9 billion yen in liabilities¹⁷.

Li Ning's Viva China to take over Bossini

On 14 May, Bossini International announced that Beijing-based investment firm Keystar, Bossini's former chairman Law Ka-sing and Li Ning-controlled sports talent agency Viva China have entered into a share purchase agreement. Under the deal, Keystar has agreed to acquire 1,093 million Bossini shares from Law Ka-sing for a total consideration of HK\$46.62 million, representing approximately 66.6% of the entire issued share capital of Bossini. Headquartered in Hong Kong, Bossini operates 39 stores in Hong Kong and Macau, as well as 180 stores in China¹⁸.

La Chapelle loses control over French brand Naf Naf SAS as debts mount

On 18 May, Shanghai La Chapelle Fashion Co., Ltd. issued an announcement stating that its wholly-owned subsidiary in France, Naf Naf SAS, was unable to repay debts in arrears of 24.106 million euro to its suppliers and local government. The French local court ruled that Naf Naf SAS will initiate rehabilitation proceedings. As a result, La Chapelle will lose control over Naf Naf SAS, and the latter will no longer be included in La Chapelle's consolidated financial statements. According to the announcement, Naf Naf SAS recorded significant losses in 2019. Although it has adopted a series of reformative measures, no significant results have been achieved. In 1Q20, due to the continued spread of the COVID-19 pandemic in France, Naf Naf SAS's operating conditions deteriorated even further¹⁹.

Cosmetics

CCAGM: Beauty products revive department store sales with double-digit sales growth

On 14 May, the China Commerce Association for General Merchandise (CCAGM) released the data of its seminar on operating strategies and development trends of cosmetics businesses in department stores. According to the CCAGM, in general, major department stores across the country delivered double-digit sales growth during the Labor Day holiday; Hangzhou Tower, Guangzhou Grandbuy Department Store and New World Daimaru Department Store all registered double-digit growth in cosmetics sales during the holiday, with the sales at Hangzhou Tower even surging 56% yoy. The CCAGM noted that young consumers, especially the post-90s and -95s generations, are the major growth driver for cosmetics sales. Fond of trying new things and the hottest items, the post-90s and -95s consumers are active on digital platforms, rely more on user reviews and are more concerned with their autonomy and privacy²⁰.

Luxury sector

Balenciaga, Chloé launch on Tmall

According to media report, Kering Group-owned luxury brand Balenciaga officially entered Tmall on 15 May, while Richemont Group's luxury brand Chloé also unveiled its Tmall flagship store on 18 May, offering the brand's entire range of handbags, ready-to-wear, footwear, accessories and other fashion items. Balenciaga stated that its partnership with Tmall marks a major step for its business strategies in China, which aim to enhance digital experience for Chinese consumers and to further adapt the

consumption scenes advocated by young shoppers²¹.

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