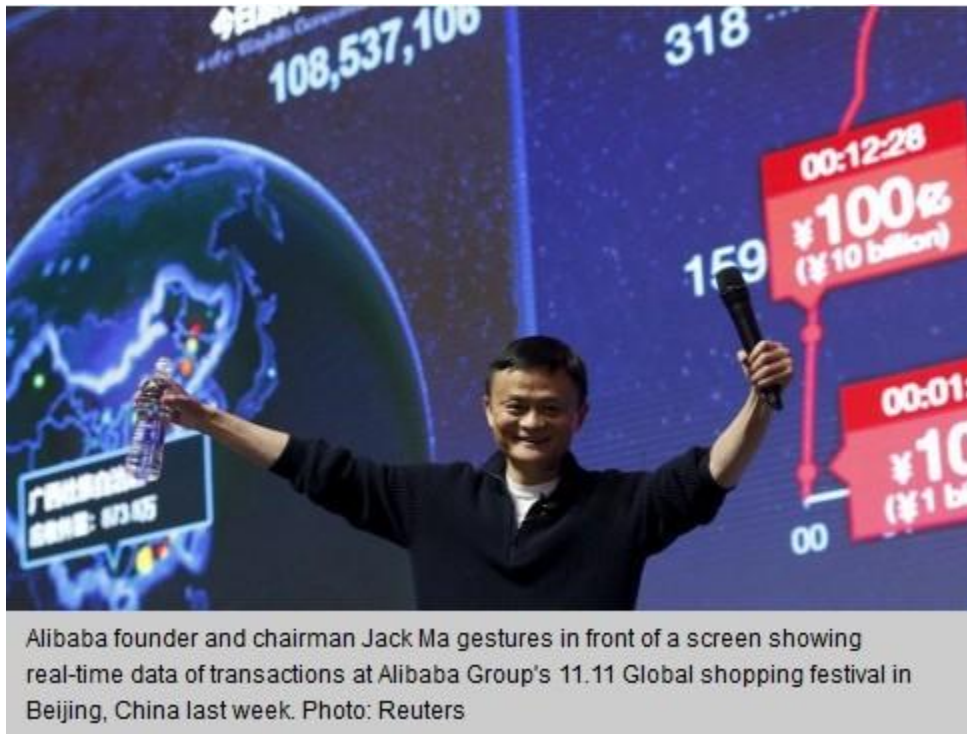


Alibaba's robust Singles Day sales not enough to spark China's retail market

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Alibaba blew away all expectations with a record-breaking 91 billion yuan (HK\$110.6 billion) in online sales on Singles' Day amid a bleak picture of China's economy.

But experts cautioned it does not necessarily mean a boom for China's retail market, and the nation's economic slowdown still remains as the biggest underlying worry for the sector in the longer term.

Alibaba recorded that the value of goods transacted on its online platforms on November 11 hit 91.2 billion yuan, surging 60 per cent from the same day last year.

But investors seemingly can't wait to dump the stock, as shares of the e-commerce giant retreated for three straight days in New York by up to 7 per cent, compared with a 3 per cent drop in the Dow Jones Industrial Average in the same period. Even Alibaba's rivals in the e-commerce sector suffered as well.

Alibaba closed at US\$75.85 in New York on Friday last week. This year, the stock has tumbled 27 per cent. Rival JD.com also dropped more than 5 per cent in the three-day period through

Friday. Online discount retailer Vipshop Holdings dived 27 per cent on Friday to its lowest level in 1-1/2 years as it cut its revenue guidance for the third quarter.

Appaloosa Management LP, a US-based hedge fund headed by billionaire investor David Tepper, has sold off its 1.36 million shares in Alibaba Group since June, a US regulatory filing showed on Friday.

Analysts said the Singles' Day sales might be a short-term stimulant for Alibaba and other e-commerce players, but it didn't pacify investors fretting about its prospect over the longer term.

"The Singles' Day sales numbers are very robust, and Chinese consumers' shopping power seems crazy," said Ronald Wan, chief executive officer at Partners Capital International, "but we need to carefully study whether consumers are just pulling from prior and future months to spend on that day, and if brick-and-mortar stores are suffering from more sluggish sales, with the consumer spending on the whole remaining relatively weak."

Actually, China's department store operators have reported a worrying decline in sales in the third quarter. Among the 26 listed Chinese department store operators that have reported third-quarter results as of last month, about 60 per cent posted a year-on-year retreat in profit, with several logging net losses while citing "weakening macro conditions", statistics from Wind Financial showed.

"The department store operators experienced a significant slowdown in sales, due to slowing consumer spending and economic growth and intensified competition from e-commerce players," said Zhao Haichun, a Shanghai-based analyst for Sinolink Securities.

It might be true that the weakness in brick-and-mortar stores is partially offset by the growth in the e-commerce sector, but analysts warn China's economic slowdown is still a grave concern for investors in the long run.

After Alibaba reported better-than-expected revenue growth in the third quarter, many investment banks have given the company a bullish rating. However, they also indicated that a major risk for the firm going ahead would be worsening macro conditions resulting in slowing retail growth in China.

In a recent research report, Deutsche Bank gave all three main e-commerce platforms -- Alibaba, JD.com, and Vipshop Holdings -- a positive rating separately, but viewed "a deepening and lengthening in consumption weakness in China" as the first of all material downside risks to the entire sector.

"Our bear case (for Alibaba stock) assumes further deterioration in macroeconomic conditions," said Deutsche Bank analysts Alan Hellawell III and Ross Sandler, adding the company's "failure to monitor fraudulent transactions on the platform" could result in a slowdown in user base growth and activity too.

UBS also put the “macroheadwinds” in China as the first among Alibaba’s key risks, with the interruption of information technology and systems and weakened brand images among the rest.

Actually, there have also been doubts about the eye-popping Singles’ Day sales numbers as some felt the number didn’t take into account the hefty return rate and some stores may have fabricated orders that day to inflate total sales numbers.

Alibaba hasn’t revealed its return rate for Singles’ Day in the past, but statistics from China Industry Research Network, a private market data research firm, said online consumers returned 25 per cent on average of orders they made on Singles Day in 2013.

Telecom equipment maker Huawei forwarded on November 11 a Weibo post from another account holder who posted screenshots of online transactions and suspected mobile phone maker Xiaomi had fabricated orders on Alibaba’s Tmall website. Shortly afterwards, Xiaomi also forwarded a Weibo post from another user who collected some screenshots and alleged Huawei had made fake orders for its mobile phones.

Partners Capital’s Wan said casting aside those disputes, the sales number is only for one day, and it remains to be seen whether the results signal a boom for consumer spending on the whole and brighter prospects for the online retailing sector.