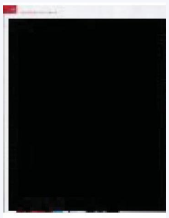
AUTHOR: JOTHAM LIM SECTION: PERSONAL WEALTH PAGE: PW4,PW5 PRINTED SIZE: 1376.00cm²
REGION: KL MARKET: Malaysia PHOTO: Full Color ASR: MYR 23,874.00 ITEM ID: MY0040905671



31 AUG, 2020

Adding e-commerce stocks to your cart

The Edge, Malaysia

Adding e-commerce stocks to your cart

BY **JOTHAM LIM**

E-commerce stocks have been on a rally since mid-March, when millions of people were confined to their homes as a result of the coronavirus pandemic. The MSCI World Internet & Direct Marketing Retail Index, which tracks most of the large e-commerce players, has registered a return of 93.27% since its low on March 12 (as at Aug 21) — triple the 32.93% return of the MSCI All Country World Index.

Despite the rally, investment experts say e-commerce stocks are expected to continue their outperformance as more people shop online for the foreseeable future.

Prashant Bhayani, Asia chief investment officer at BNP Paribas Wealth Management, says the overall penetration rate of the e-commerce industry is less than 15% globally. This means there is ample room for growth in the coming years.

"The Covid-19 crisis has dramatically accelerated the demand for online groceries and other essentials, as well as e-commerce as a whole. The crisis has attracted an older age group to make their purchases online and has broadened the categories of e-commerce spending for households in general," says Bhayani.

"In the long term, better and faster computer and mobile phone connectivity, integrated smart warehouses for just-in-time delivery and economies of scale will help deliver lower product prices and increase the penetration rate of e-commerce. Furthermore, we live in an era in which many working people, including millennials, value their free time pursuing outdoor sports and social activities. Therefore, they can reduce the time spent on shopping to just a few clicks.

"Finally, online deliveries are speeding up from less than a week to same-day deliveries, increasing e-commerce's market potential and competitiveness versus physical retailers."

Munirah Khairuddin, CEO of Principal Asset Management Bhd (PAM), opines that the e-commerce industry has more growth opportunities than the traditional sector, which gives it a more safe-haven appeal under the current market circumstances. "Even prior to the Covid-19 outbreak, the sales volumes of physical retail outlets were going down and e-commerce platforms were seeing healthy inflows of visitors and shoppers.

"If you are a long-term shareholder, you want to invest in companies that have a long-term upward trajectory with clear intent. For that purpose, e-commerce stocks are close to a safe haven because e-commerce is the future, and there has been a structural shift in the economy towards this sector.

"So, while investing in e-commerce stocks is a growth strategy, to a certain extent, it is also a safe-haven asset. I am not talking about safe-haven assets such as government bonds, but safe haven in the way of building an investment portfolio that is future-ready."

Lim Suet Ling, CEO of UOB Asset Management (M) Bhd, says the market has pivoted towards e-commerce so much that even bricks-and-mortar stores have invested heavily in online channels in recent years. Retail companies such as Walmart and Target have embraced this change and have witnessed a huge surge in the number of people who shop on their online platforms in recent months.

"The Covid-19 pandemic has accelerated the adoption of the online shopping trend. E-commerce as a percentage of total retail sales has been growing for many years, but the pandemic has brought forward several years of growth. Lockdown orders around the world have meant that consumers are unable or unwilling to visit crowded shopping areas," says Lim.

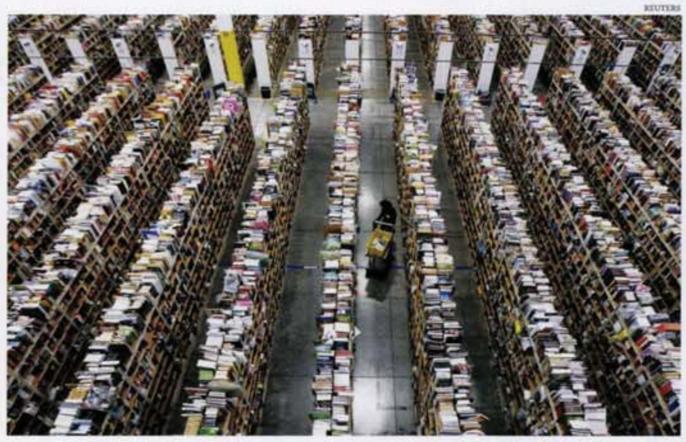
"As consumers learn about the convenience of online shopping, this learnt behaviour is likely to persist over time. The shift has been most pronounced in groceries, essential goods and categories related to the home such as home décor and office equipment. While many consumers have become comfortable with shopping online for apparel over the past several years, for things like online grocery shopping, Covid-19 could be a game changer."

She points out that according to data provided by Bank of America, online spending on credit cards was up 90% year on year for the week ended July 11. The same credit card data shows that online spending as a percentage of total spending had increased from 13% pre-Covid-19 to 19% over the past few months.

THE E-COMMERCE RALLY

Munirah says the double-digit returns of e-commerce stocks can be attributed to the various quantitative easing measures implemented by central banks globally. "At such low

REUTERS



Amazon's distribution centre in Phoenix, Arizona ... Amazon is leading in several product categories in the US market, but there are still battles for dominance in other categories and geographies

BLOOMBERG

Performance of selected e-commerce stocks (as at Aug 26)

NAME	BOURSE	PRICE	PRICE GAIN/LOSS (YTD) (%)	PER (TIMES)	MARKET CAPITALISATION
Sea Ltd	New York Stock Exchange	US$154.13	283.22	NA	HK$75.18 billion
Shopify Inc	New York Stock Exchange	US$1,037.19	160.88	NA	US$124.37 billion
MercadoLibre Inc	Nasdaq	US$1,244.00	114.01	NA	US$60.85 billion
Amazon.com Inc	Nasdaq	US$3,346.49	81.1	128.66	US$1.68 trillion
eBay Inc	Nasdaq	US$58.05	60.76	20.37	US$40.63 billion
Tencent Holdings Ltd	Hong Kong Stock Exchange	HK$552.00	46.96	44.83	HK$5.29 trillion
Alibaba Group Holding Ltd	Hong Kong Stock Exchange	HK$279.40	34.75	45.13	HK$6.04 trillion

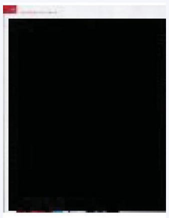
"E-commerce as a percentage of total retail sales has been growing for many years, but the pandemic has brought forward several years of growth.
> Lim"

"If you are a long-term shareholder, you want to invest in companies that have a long-term upward trajectory with clear intent. For that purpose, e-commerce stocks are close to a safe haven because e-commerce is the future, and there has been a structural shift in the economy towards this sector.
> Munirah"

"In the long term, better and faster computer and mobile phone connectivity, integrated smart warehouses for just-in-time delivery and economies of scale will help deliver lower product prices and increase the penetration rate of e-commerce.
> Bhayani"

SAM FONG/THE EDGE

AUTHOR: JOTHAM LIM SECTION: PERSONAL WEALTH PAGE: PW4,PW5 PRINTED SIZE: 1376.00cm² REGION: KL MARKET: Malaysia PHOTO: Full Color ASR: MYR 23,874.00 ITEM ID: MY0040905671



31 AUG, 2020

Adding e-commerce stocks to your cart

The Edge, Malaysia

interest rates and with quantitative easing [policies being implemented] globally, money has to find a home somewhere. Thus, smart money is finding itself invested in companies like e-commerce stocks, pushing up prices. So, when we evaluate companies, we need to make sure that the price-earnings ratios (PERs) are sustainable."

Another metric that investors should pay attention to is the company's balance sheet and cash flow strength, as well as how much the company is investing in its own future, she says. "In the e-commerce industry, there is a gestation period during the initial stage of the company, where it needs to spend quite a lot to get the business up and running. There will be a turning point, when the company has established an ecosystem and collected so much data that it can be more self-sustaining.

"The digital economy is such that up-and-coming companies need to continually reinvest in themselves, which brings us back to the balance sheet. How much are these companies able to invest in their own technology and R&D?"

Munirah points out that while the valuations of these e-commerce counters have become frothy, any share price correction is an opportunity to collect more shares. "We feel that e-commerce stocks are actually meant for the long term, so you cannot not have these in your portfolio. It is a blue-chip sector in the US. So, if an investor does not have exposure to these stocks, they will be missing out," she adds.

As the US-China trade war is still going on, Munirah highlights that it is strategically advantageous to have positions in both markets. "The level of technology spend in the US is high and these Western e-commerce counters will only grow stronger and better. These companies — Facebook, Netflix, Spotify — have already become part of our daily lives, so you need to have these [in your portfolio].

"But China is also a growth story and is investing heavily in its technological development. Only about 20% of total retail sales in China is made online, so imagine the vast potential still in the country right now. So, forget about the East versus West argument. To me, you have to be strategically present in both markets."

Bhayani does not see the US-China trade war as a zero-sum game and thinks that e-commerce counters in both countries have room to grow because the industry is very fragmented. "The first-mover advantage and economies of scale have benefited internet giants in both the US and China. China's economy and e-commerce companies' penetration rate could grow faster, given that it comes from a less mature base and is more leveraged towards Asia's growth," he says.

"For example, Asia-Pacific was the fastest growing region for e-commerce [sales growth] in 2019. Malaysia had the fifth fastest growth rate of any country. However, the other global trend of nearshoring the supply chain and sensitive technologies could change the nature of growth for the region. For example, India is keen on fostering its own e-commerce and internet companies.

"However, the early movers in the US and China continue to expand and already have a foothold in parts of Asia. This can take place in the form of local partnerships, thus reducing the local government's concerns about company ownership."

SHORT-TERM HEADWINDS

Despite the optimistic outlook for the e-commerce industry, Bhayani points out several factors that may hinder its growth. These include the quality of the supply chain, public road infrastructure, competition with physical retailers and penetration of broadband and mobile networks.

"Not all products will benefit from the growing penetration of e-commerce. Large bulky items — such as furniture and automobiles — still rely on in-person viewing, which requires greater logistics and shipping costs as well as longer delivery times, impacting the value proposition offered by e-commerce. However, consumer tastes are changing rapidly and even online purchases of automobiles are growing from a low base," he says.

UOB's Lim highlights that the sector may face some potential near-term headwinds due to the elevated valuations and intense competition between e-commerce players. "It is not so much whether the industry continues to grow, but who the ultimate leaders in each category are. For example, Amazon is leading in several [product] categories in the US market, but there are still battles for dominance in other categories and geographies," she says.

Lim cites Alibaba Group Holding Ltd as an example of a business that has outperformed the broader market but has lagged behind its e-commerce peers because of competition from other players in China. However, she notes that there are parts of the business that are highly valuable, such as its fintech arm, Ant Financial Services Group.

In Malaysia, there are no pure-play e-commerce players listed on the local bourse. Apart from investing directly in such counters via stock trading platforms, retail investors can gain exposure to the global e-commerce market through locally accessible unit trust funds and exchange-traded funds. These vehicles offer exposure to global technology and consumer discretionary funds, among others.

Investors can also invest in sectors and businesses that have benefited from the growing e-commerce industry, says Munirah, citing as an example her firm's global real estate investment trust (REIT) fund, which has rebounded 6% since April. She attributes this to REITs that offer exposure to logistics and warehousing, which benefits the e-commerce sector.

"Even banking stocks — if they can demonstrate that they are future-ready and are working on their digital platforms and improving the customer experience — can benefit as well because they are the enablers of the e-commerce industry," she adds. ■