# EM E-Commerce

## Mining for Growth Compounders and Re-Rating Stories

EM e-commerce stocks have been under strong pressure amid higher US interest rates, global macro volatility and regional policy activism, leading to rotation out of Growth stocks. Overall, we saw the EM industry de-rating by ~60% in EV/Sales over the past 6 months (vs. ~30% in DM e-commerce), indicating that the valuation bubble has been burst. We believe there are good opportunities in the space: EM stocks were over punished, fundamentals remain solid aligned with long-term growth opportunities and the early-cycle for many EM e-commerce stocks. In this report, we pulled together views of JPM's EM retail/internet analysts, combining the top down from major countries and bottom up analysis to compile the best EM ideas in terms of compounders and re-rating opportunities.

- **Favoring regions with lower e-commerce penetration.** Asia has enjoyed surging growth in past years, but now is more penetrated, and marginal growth harder to find. Thus, we turn to less penetrated geographies, specifically (1) ASEAN, which still boasts low e-commerce penetration at ~8%, with JPM forecasting the industry to grow at a ~25% CAGR between FY21-24E. And (2) LatAm, which has ~10% e-commerce penetration (Brazil and Mexico), while we expect Brazil (the major market in the region) to print sales growth at a ~26% 21-25E CAGR. Also (3) in Turkey, JPM expects the e-commerce market to print a strong 35% CAGR, while Poland also has good fundamentals.

- **Most attractive growth cases in EM.** We looked for growth cases in the EM space that offer fundamentally strong business model. In this bucket, we see **JD.com (JD US)** in China offering a '21-25E revenue/adjusted profit CAGR of 17%/33%, on market share gains and differentiated 1P platform. **Sea Ltd (SE US)** in ASEAN – and its e-commerce arm Shopee – which should print a 21E-24E revenue CAGR of ~60%, ahead of GMV given improving monetization. In CEEMEA, **Hepsiburada (HEPSI US)** should deliver a 3-year GMV CAGR (2021-2023) of 47% and see EBITDA turning positive in 2024. Lastly, LatAm's **MercadoLibre (MELI US)** is the regional leader and set to deliver 30%-32% of revenue growth in USD in '22E/'23E, while also offering tangible EPS amid an accelerated growth profile.

- **Attractive names to play valuation re-rating**. In this pocket, **Alibaba (BABA US)** is a leading player trading at historically low FWD P/E of ~11x vs. a 5y average of 21x. And, from a SOTP viewpoint, prices are reflecting Taobao/Tmall at 10x '22E P/E, leaving other quality assets (i.e. cloud, fintech and logistics, etc) on the table. Also, we have two strong growth cases that bring attractive valuation as well, which are (1) **Sea Ltd (SE US)** with shares trading at ~3x EV/sales, below average of ~7.5x despite the strong growth outlook ahead and (2) **MercadoLibre (MELI US)** trading at ~5x '22E EV/sales, implies a 35%/48% discount to the 10y/3y average, while the company is currently on a better footing vs the past. And, we see **Magazine Luiza (MGLU3 BZ)** in Brazil as a compelling re-rating case, trading at 1.2x EV/sales '22E, well below the 3y historical average of 2.6x, while the growth case ('20-25E GMV CAGR of 26%) continues to be solid.

**EM E-commerce**

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**See page 37 for analyst certification and important disclosures, including non-US analyst disclosures.**

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# EM E-Commerce: Top Countries / Stocks

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**Growth Compounder Ideas**

China – JD.com

ASEAN – Sea Ltd

CEEMEA – Hepsiburada

LatAm – MercadoLibre

**Potential re-rating cases**

China – Alibaba

ASEAN – Sea Ltd

LatAm – MercadoLibre and Magazine Luiza

## Most Attractive Stocks: Growth Compounders

- **China / JD.com** – Strong growth compounder, offering a ’21-25E revenue/adjusted profit CAGR of 17%/33%, supported by (1) further market share gain despite intense competition and (2) category expansion alongside more favorable category mix (low exposure to apparel).
- **ASEAN / Sea Ltd (e-commerce arm Shopee)** – We anticipate e-commerce printing a ’21E-24E revenue CAGR of ~60%, ahead of GMV given improving monetization while supporting e-commerce EBITDA breakeven by ’24E and consolidated net income breakeven by ’23E.
- **CEEMEA / Hepsiburada** – Hepsi is the second largest player with an expected GMV of US$1.8bn in 2021 and has ~2x its market share in the past 5y. We expect a ’21E-23E GMV CAGR of 47% and see EBITDA turning positive in 2024. Valuation multiples (23E EV/Sales) have de-rated by >40%, which we believe may represent a floor, trading at a deep discount of 79% to global peers. A reversal of investor sentiment will depend on normalization in Turkey’s rate outlook and how quickly confidence can be restored in management targets.
- **LatAm / MercadoLibre** – Presence in the main countries, poised to be the regional leader and set to deliver 30-32% revenue growth in USD in ’22E/’23E supported by (1) 27-28% growth in e-commerce given improved monetization and (2) wallet revenues growth at 76%/53% in ’22E/23E on higher usage.

## Most Attractive Stocks: Compelling Re-Rating Cases

- **Northern Asia / Alibaba** – It’s the largest ecommerce platform in China and globally, currently trading at historically low FWD P/E of ~11x vs. a 5y average of 21x, due to macro/regulation headwinds and more intense competition in core China. From a SOTP viewpoint, prices are reflecting Taobao/Tmall at 10x ’22E P/E, leaving other quality assets (i.e. cloud, fintech and logistics, etc) on the table.
- **ASEAN / Sea Ltd (e-commerce arm Shopee)** – On top of being a compelling growth case, valuation screen attractive, and shares are currently trading at ~3x EV/sales, below average of ~7.5x despite the strong growth outlook ahead.
- **LatAm / MercadoLibre** – MELI is currently trading at ~5x ’22E EV/sales (~40%/50% discount to the 10y/3y average) while the company is now in more solid ground. And, if EV/sales reverted to the 10-yr average of 8.6x, it would imply in 70% potential upside to current prices.
- **LatAm / Magazine Luiza** – MGLU is trading at 1.2x EV/sales ’22E, well below the 3y historical average of 2.4x. And, when we look at our Dec-22 price target, we see MGLU at 1.5x, below average but still offering a ~25% re-rating potential amid a still-solid growth (’20-25E GMV CAGR of 26%).

**Table 1: Most compelling growth and re-rating cases**

| Ticker | Name | Country | Sector | JPM Rating | Mcap (US$ mn) | Price ($) 3-Mar-22 | ADTV (US$ mn) | EV/Sales ‘22E |
|---|---|---|---|---|---|---|---|---|
| **Growth Compounders** | | | | | | | | |
| JD US | JD.com | China | Multi-category | OW | 91,497 | 58.7 | 761 | 0.4 |
| SE US | Sea Ltd | Singapore | Multi-category | N | 50,799 | 91.5 | 1,503 | 3.3 |
| HEPS US | Hepsiburada | Turkey | Multi-category | OW | 535 | 1.60 | 2.1 | 0.4 |
| MELI US | MercadoLibre | Argentina | Multi-category | OW | 46,122 | 914.8 | 802 | 4.9 |
| **Re-Rating Cases** | | | | | | | | |
| BABA US | Alibaba Group | China | Multi-category | OW | 264,314 | 97.5 | 2,627 | 1.3 |
| SE US | Sea Ltd | Singapore | Multi-category | N | 50,799 | 91.5 | 1,503 | 3.3 |
| MELI US | MercadoLibre | Argentina | Multi-category | OW | 46,122 | 914.8 | 802 | 4.9 |
| MGLU3 BZ | Magazine Luiza | Brazil | Multi-category | OW | 8,008 | 6.1 | 173 | 1.2 |

Note: OW=Overweight, N=Neutral, UW=Underweight, NC=Not covered by J.P. Morgan. Source: J.P. Morgan, Bloomberg Finance LP.

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## Most Attractive Growth Countries

E-commerce development level is completely heterogeneous across EM, making it hard to draw an overall industry picture in the context that penetration ranges from a low-single-digit level in LatAm to ~20%-30%s in Asia. Still, there is one constant, regardless of the development stage, it is a growth segment in all markets. And, COVID-19 accelerated digital adoption across the board, including non-traditional categories in the channel (grocery, apparel, general merchandise). In the charts below, we benchmark e-commerce penetration and growth across EM although understanding the data points may not be fully comparable due to the different products categories included in the retail basket.

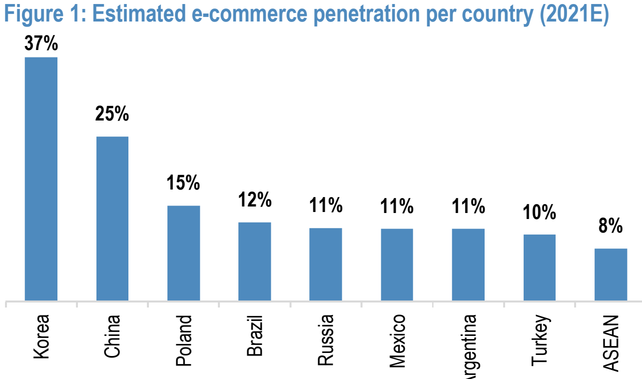
### E-commerce maturity level is materially higher in Asia but also slower growth

We see diverse growth trends in Asia, but there is a deceleration where the market is more developed**. In China**, e-commerce growth has decelerated meaningfully in recent quarters, to only 5% y/y in 4Q21, vs. over 20% before 2020, due to maturing online penetration in some categories and weak consumption environment. The expectation is for growth to re-accelerate to 10%+ into mid-2022 as consumption environment in China likely improves. **Similar trends are seen in Korea**, where JPM forecasts e-commerce market GMV growth to decelerate going forward compared to strong growth until 2021 (2016-2021 CAGR: 24% vs. 2021-2025E CAGR: 11%), alongside penetration reaching ~50% levels vs. high 30%s in 2021**.**

### While less developed countries should step up, printing solid growth

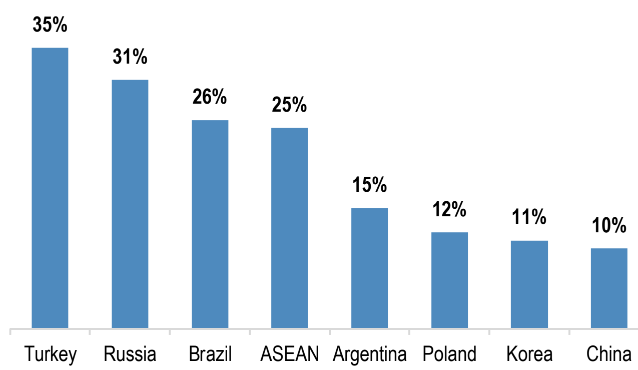
**The ASEAN region** still boasts low e-commerce penetration at ~8%, and JPM forecasts the industry to grow ~25% between FY21-24E driven by ongoing digital adoption as players continue to invest in logistics infrastructure and marketplaces. **Going to CEEMEA, in Poland**, online penetration lags more developed countries (14.5% in 2020), and Euromonitor expects the penetration can reach 18% by 2024E, implying 12% CAGR for 2020-24E. Meanwhile, **in Turkey**, the e-commerce market has expanded rapidly in the past 5 years, at a CAGR of 46.1%, reaching a penetration of 10.1% in 2020 from 3.1% in 2015. Overall, the JPM expects the e-commerce market to grow at a CAGR of 35% over the next years with penetration reaching over 20%. While, macro volatility is a pushback. Lastly, **in LatAm and specifically Brazil**, the country is the 6$^{th}$ most populous in the world and we estimate online penetration currently stands at ~12%, and it could reach levels of ~25% by 2025E, implying a 26% growth CAGR in upcoming years driven by continued investments from leading players.

Figure 1: Estimated e-commerce penetration per country (2021E)




Source: Euromonitor, J.P. Morgan estimates

Figure 2: Estimated 3-year e-commerce growth CAGR




Source: J.P. Morgan estimates

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# The Top Down on EM Value / Growth

## EM Recommends Value vs. Growth

While Growth stocks may present a tactical opportunity given how much they sold off, medium-term JPM global asset allocation team favors Value and commodity-linked segments in an environment where real rates continue to rise and given their valuation cheapness.

- **OWs in equities and commodities funded by a large UW in bonds,** focused on Energy, given our super cycle thesis and geo-political risk asymmetry (e.g. de-escalation in Ukraine would produce a modest drop in oil prices, while a disruption to oil flows could easily send prices over $120/bbl).
- **Favor value, cyclical and higher-beta market segments** given their still cheap valuations and light positioning, and since they are beneficiaries of rising bond yields and higher commodity prices.

## EM Growth vs. Value: the High Cyclical Bar to Beat

**The bar to beat remains high: EM Value remains appealing relative to Growth:**

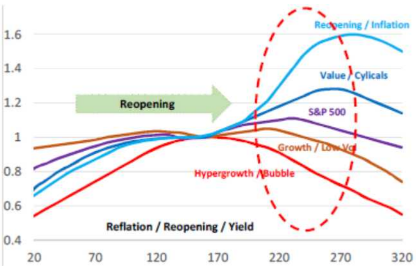
- MSCI EM Value index underperforming Growth by 8% since Dec 2019 (prior to the COVID outbreak - Figure 7); (2) MSCI Value trades at a massive discount to Growth on fwd P/E and P/BV—higher than historical averages (Figure 6).
- Rising US 10-year yield has been associated with positive returns for EM, largely driven by cyclicals: best performing sectors are Materials, Energy, Inf. Technology and Industrials, while Cons. Staples, Utilities and Healthcare lagged.
- The potential (not J.P. Morgan base case) emergence of a costlier Biden agenda for US equities, related to asymmetric antitrust regulation / taxation.

## Critical Pivot Points Ahead for Growth to Outperform

**Quality growth companies can outperform, as summarized below:**

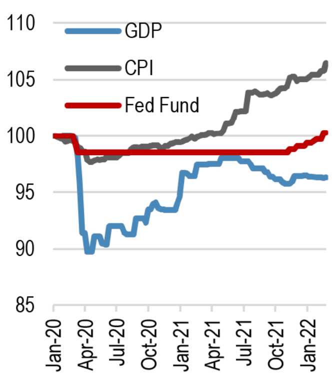
- Lower inflation (bond rally). J.P. Morgan forecasts US inflation to moderate to 3.5% (core PCE) by year-end but upward revisions to forecast remain.
- Offer protection against growth disappointment. J.P. Morgan forecasts US GDP to decelerate in 2H22 and downward revisions to forecasts remain as well.
- J.P. Morgan forecasts the 10-Year Treasury yield to reach 2.5% by 4Q22. Higher discount rates to disproportionally hit high duration assets (e.g., Growth stocks).

**Figure 3: Our illustrated view on market and factor dynamics depending on reopening trends and bond yields**



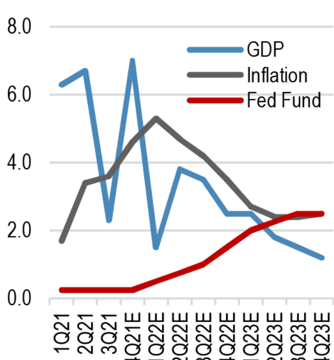

Note: Based on the historical relationship between market and factor volatility, we have illustrated our view on the market, sectors and themes based on reflation and reopening. On the horizontal axis we show bond yields as a proxy measure of reflation/reopening and on the vertical axis the performance of various equity market segments. Source: J.P. Morgan Quantitative and Derivatives Strategy

**Figure 4: JPM US Forecast Revision Index**



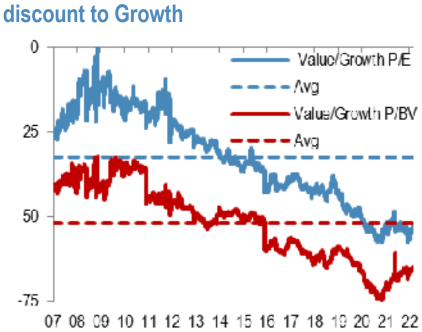

Source: J.P. Morgan Economic Research

**Figure 5: JPM US – Macro Forecast**



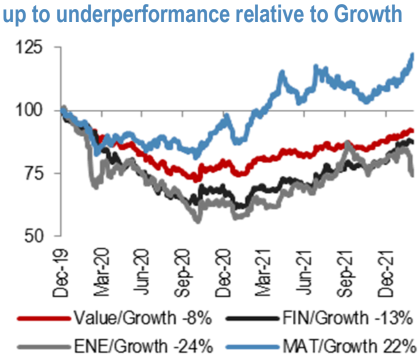

Note: Inflation % change over year ago. GDP % change SAAR and Fed Fund %. Source: J.P. Morgan Economic Research

**Figure 6: EM Value attractive vs. historical discount to Growth**




Source: Bloomberg Finance LP, J.P. Morgan

**Figure 7: Room for MSCI EM Value to catch up to underperformance relative to Growth**




Source: Bloomberg Finance LP, J.P. Morgan

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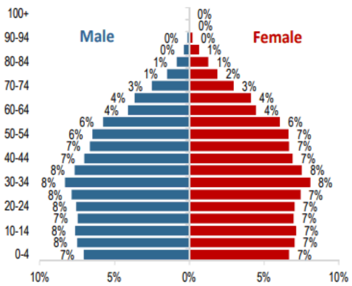
## The Bull Secular Case Remains Despite Cyclical Headwinds

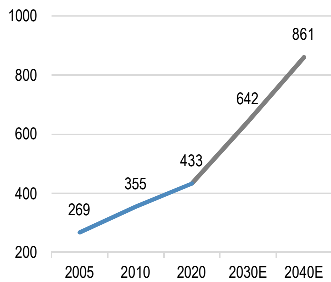
Even though the stocks of global e-commerce companies have suffered due to discussions around the timing and magnitude of upcoming Fed rate hikes, the core business model and value proposition remains strong.

Figure 8: EM population pyramid




Source: US Census

Figure 9: EM per capita GDP - to grow at CAGR of 3.3% (2020-40)




Source: IMF World Economic Outlook.

- **Favorable demographic structure.** Economic active population in the emerging markets will likely continue to grow (CAGR of 0.3% over 2020-40). As the population increases, the overall consumption expenditure of the economies will also grow and is expected to continue boosting the demand for e-commerce.

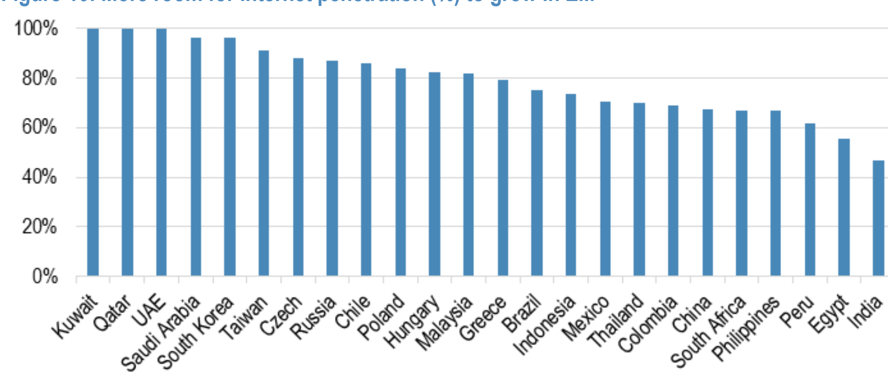
- **Rising incomes in emerging markets.** Emerging markets' GDP is poised to grow in the coming years, which should translate into higher per capita income (see Figure 9). The rising aspirations of the middle-class, which continues to improve their standards of living, would lead to an increase in the value of consumption, thereby expanding the total addressable market for e-commerce.

- **Increasing technology adoption.** There is a considerable % of population that is not connected to the Internet ecosystem (see Figure 10). As the economies advance, the reach of mobile phones will expand beyond the Tier 2-3 cities and working population age groups. While the technology continues to evolve and use cases increase, internet would be more widespread, facilitating e-commerce in other untapped areas, providing a huge market opportunity.

- **Structural change in habits, enforced by COVID-19.** Covid-19 has accelerated digital adoption, driving consumer focus to convenience, faster adoption of digital payments, habit formation (planned and impulsive shopping) and wider adoption of non-standard categories (grocery, apparel, general merchandise). This included acknowledgement of better selection, availability and assortment online vs. offline. This behavioral change is expected to be sticky, that can rationalize customer acquisition costs, increase platform loyalty and improve unit economics.

- **New trends will continue to support the growth.** Social commerce has seen increased traction as they provide better customer experience for online content, while live streaming for ecommerce and virtual gifting provide potential avenues for growth. Further use of technology like the internet of things and Metaverse will improve the customer engagement and retention, helping the e-commerce companies to gain a larger share of consumers' spending.

Figure 10: More room for Internet penetration (%) to grow in EM




Source: CIA World Factbook, CEIC Data.

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## Comp Table

# E-Commerce

Prices as of: 8-Mar-22

| Company | Rating | Country | Current Price | Mkt Cap USD bn | ADTV USD mn | EV/Sales 22E | EV/Sales 23E | EV/EBITDA 22E | EV/EBITDA 23E | Rev CAGR 21-23E | EBITDA CAGR 21-23E | Last 12M Perf. in USD | Analyst |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **China** | | | | | | | | | | | | | |
| Alibaba | OW | China | 97.5 | 264.3 | 2,627.3 | 1.3 | 1.1 | 6.8 | 5.5 | 11% | 15% | -57% | Yao |
| JD.com | OW | China | 58.7 | 91.5 | 760.6 | 0.4 | 0.3 | 20.3 | 12.9 | 19% | 50% | -31% | Chang |
| Pinduoduo | OW | China | 40.0 | 50.2 | 444.3 | 1.8 | 1.4 | 26.9 | 10.1 | 32% | 144% | -71% | Chang |
| Coupang Inc | N | South Korea | 20.5 | 36.1 | 228.7 | 1.5 | 1.2 | N/A | N/A | 22% | N/A | -41% | Yang |
| **ASEAN** | | | | | | | | | | | | | |
| Sea Ltd | N | Singapore | 91.5 | 50.8 | 1,503.3 | 3.3 | 2.4 | N/A | N/A | 32% | N/A | -56% | Sharma |
| Bukalapak | OW | Indonesia | 288.0 | 2.1 | 10.3 | 2.0 | 1.4 | N/A | N/A | 78% | N/A | -66% | Wibowo |
| **CEEMEA** | | | | | | | | | | | | | |
| Ozon Holdings PLC | OW | Russia | 11.6 | 2.5 | 38.3 | 1.0 | 0.7 | N/A | N/A | 61% | N/A | -77% | Jouronova |
| Allegro.eu SA | NR | Poland | 26.2 | 6.0 | 32.5 | 4.3 | 3.3 | 13.1 | 11.2 | 23% | 10% | -64% | Jouronova |
| Naspers Ltd | OW | South Africa | 170,919.0 | 48.9 | 98.2 | 7.8 | 6.3 | N/A | 199.8 | 28% | N/A | -50% | Kennedy-Good |
| Hepsiburada | OW | Turkey | 1.6 | 0.5 | 2.1 | 0.4 | 0.3 | N/A | N/A | 44% | N/A | -86% | Kilickiran |
| **LatAm** | | | | | | | | | | | | | |
| MercadoLibre | OW | Argentina | 914.8 | 46.1 | 801.5 | 4.9 | 3.7 | 53.0 | 32.0 | 35% | 29% | -33% | Santos |
| Magazine Luiza | OW | Brazil | 6.1 | 8.0 | 162.4 | 1.2 | 1.0 | 25.9 | 21.5 | 20% | 34% | -70% | JGiordano |
| Americanas SA | N | Brazil | 26.9 | 4.7 | 42.7 | 1.2 | 1.1 | 10.1 | 8.1 | 31% | 29% | -54% | JGiordano |
| Via | N | Brazil | 3.4 | 1.1 | 40.7 | 0.6 | 0.5 | 9.9 | 6.7 | 15% | 25% | -67% | JGiordano |
| ***Emerging Markets - Median*** | | | | | | ***1.4*** | ***1.2*** | ***16.7*** | ***11.2*** | ***29%*** | ***29%*** | ***-61%*** | |
| **DM E-Commerce** | | | | | | | | | | | | | |
| Amazon.com Inc | OW | United States | 2,720.3 | 1,384.2 | 11,432.6 | 2.6 | 2.2 | 17.3 | 13.5 | 15% | 25% | -8% | Anmuth |
| eBay Inc | N | United States | 53.3 | 31.3 | 439.6 | 3.1 | 2.9 | 8.8 | 8.2 | 2% | 5% | 0% | Anmuth |
| Best Buy Co Inc | N | United States | 101.1 | 24.3 | 337.0 | 0.5 | 0.5 | 7.2 | 6.4 | 0% | 0% | -5% | Horvers |
| momo.com Inc | OW | Taiwan | 891.0 | 5.7 | 26.0 | 1.4 | 1.1 | 25.4 | 20.1 | 28% | 32% | 32% | Lin |
| AO World | N | Britain | 86.2 | 0.5 | 2.5 | 0.3 | 0.3 | 24.3 | 15.5 | 1% | 7% | -71% | Spain |
| ***Developed Markets - Median*** | | | | | | ***1.4*** | ***1.1*** | ***17.3*** | ***13.5*** | ***2%*** | ***7%*** | ***-5%*** | |
| ***Global - Median*** | | | | | | ***1.4*** | ***1.1*** | ***17.3*** | ***12.0*** | ***23%*** | ***25%*** | ***-56%*** | |

Source: Bloomberg Finance L.P., company reports, and J.P. Morgan estimates. (1) J.P. Morgan ratings: OW = Overweight; N = Neutral; UW = Underweight; NR = Not Rated by J.P.Morgan; NC = Not Covered. NA = Data Not Available.

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# NORTH EM ASIA

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# China

## Sizing the Growth Opportunity

China is the largest ecommerce market in the world, with US$2b online retail sales in 2021, thanks to 1.4b population and one of the highest online retail sales penetration among all countries (c25%). Alibaba has been the leading player for more than 10 years, but its market share has been eroded to 50%+, especially in the recent years, due to the competition from emerging players. E-commerce sales growth in China has decelerated meaningfully in recent quarters, to only 5% YoY in 4Q21, vs. over 20% before 2020, due to maturing online penetration for certain categories and weak macro consumption environment. We expect the growth to re-accelerate to 10%+ into mid-2022 after the macro consumption environment in China improves.

## Strengths & Opportunities

We believe the online retail sales penetration in China will still go up, driven especially by categories with low online penetration (fresh foods, grocery, drugs, etc.). The online penetration of more mature categories (apparel, electronics, home appliances, etc.) can increase too, with the online penetration into the lower-tier cities just picked up in recent years, and urbanization/growing income will drive more online consumption, especially for the younger generation.

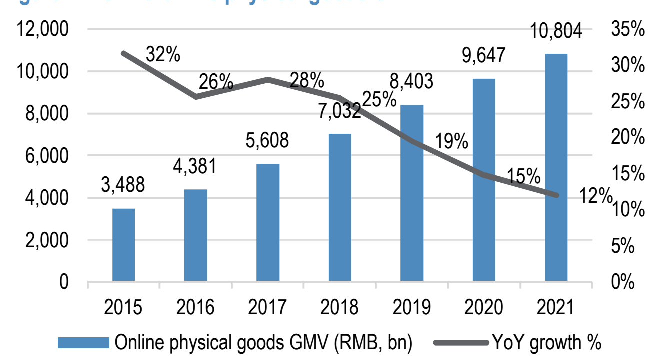
We also see opportunities from market share shift, as emerging players may grow much faster than the industry, by grabbing shares from Alibaba through different value proposition, such as value-for-money, content-driven consumption, etc.

## Weaknesses & Threats

The biggest issue for China ecommerce space now is the uncertainties from regulations. Since late 2020, Chinese authorities have aggressively rolled out a series of new regulations on cyber-security, personal information protection, online operations, etc., as well a strong push for enterprises to share more social responsibility, which may affect the growth and monetization of ecommerce companies. The execution details are not all clear at the moment.

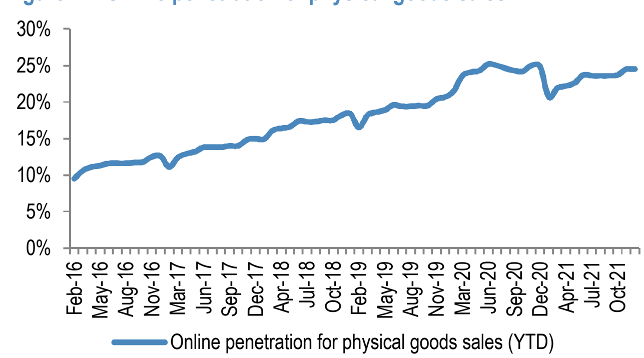
Due to the regulatory pressure, which affects the room for expansion, the competition in China ecommerce space has intensified too, leading to pressure on margins.

Figure 11: China online physical goods GMV




Source: NBS

Figure 12: Online penetration of physical goods sales




Source: NBS

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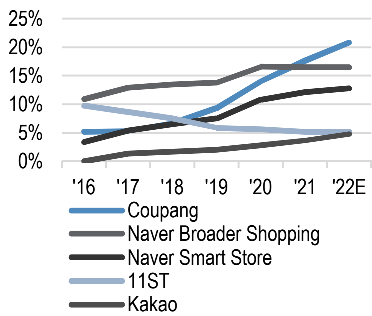
# Korea

## Sizing the Growth Opportunity

In Korea, we believe leading ecommerce platforms (i.e. Coupang) are well-positioned to enjoy structural market share gains driven by economies of scale and virtuous cycle (strong market share gain ➔ economies of scale and margin/cash flow improvement ➔ reinvestment into ecosystem expansion and customer rewards ➔ more consumer spending and more sellers' products).

Figure 13: Korea E-commerce GMV Share Trend




Source: J.P. Morgan estimates (for Coupang and Naver), Local Press Reports (ZDNet, etc for the others).

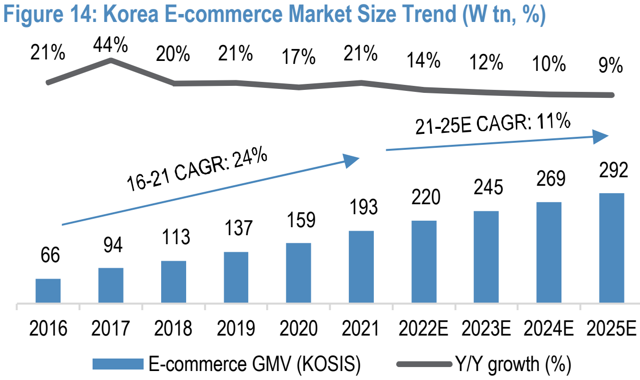
## Strengths & Opportunities

We expect domestic e-commerce market penetration to sequentially rise from 37% in 2021 to 50% in 2025E at a decelerating growth pace. We believe the increase will largely be driven by strong GMV growth profile of (1) food & beverages; and (2) travel/ticket. We attribute food/grocery related categories' growth to relatively low category penetration (25% in 2021) and rapidly improving product & service quality (i.e. faster delivery) on intensifying competition. We believe travel/ticket related categories' growth to gradually ramp up amidst expectation for normalizing daily lives post COVID-19.

## Weaknesses & Threats

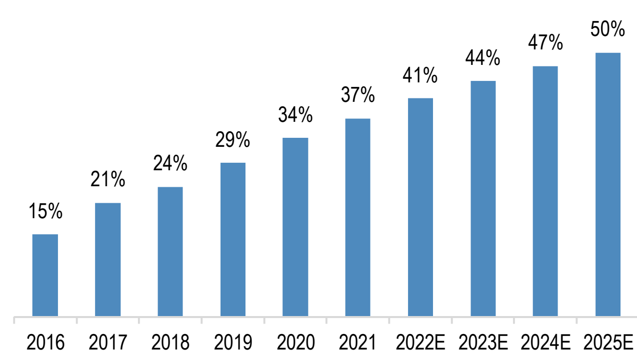
- **Quite significant deceleration of e-commerce market GMV growth.** We forecast e-commerce market GMV growth to decelerate going forward compared to strong growth until 2021 (2016~2021 CAGR: 24% vs. 2021~2025E CAGR: 11%) due to: (1) expectations for gradually normalizing lifestyle with the rising vaccination and reducing lethality of COVID-19; and (2) a high base effect going forwards on increasing domestic ecommerce penetration (37% in 2021).
- **Persistent margin pressure on intensifying competition.** We believe the margin profile of 1P logistics driven players will likely see extended margin pressure in 2022 due to aggressive capacity expansion plans and increasing logistics related labor cost burden amidst fierce competition.
- **Our incrementally subdued expectation of industry consolidation.** We lower our expectations in this regard, due mainly to: (1) Naver's lackluster market share trend on subdued ecommerce growth and marketing strategy; and (2) positive strategic developments, M&As and IPO plans in second-tier ecommerce platforms and retailers, which should incrementally enhance LT growth visibility, in our view.

Figure 14: Korea E-commerce Market Size Trend (W tn, %)




Source: KOSIS, J.P. Morgan estimates.

Figure 15: Korea E-commerce Penetration Trend (%)




Source: KOSIS, J.P. Morgan estimates.

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# Alibaba

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## Investment Thesis (OW; Dec-22 PT US$180/HK$175)

Alibaba is the largest ecommerce platform in China (over 50% market share) and globally in terms of GMV. It has established a sizable ecommerce ecosystem which comprises retail marketplaces, wholesale marketplaces and local consumption platform, serving 1.24bn consumers globally. In addition, the company and its investees offer infrastructure services such as cloud computing, logistics and payment services, etc. to various stakeholders. We expect Alibaba's China commerce business to enter into a multi-year transition stage with low profit growth, high investment intensity, increasing value proposition to consumer and increasing touchpoints to consumer wallet. From a group perspective, we think some of the early investments (e.g. cloud, fintech, logistic, etc.) will start to bear fruit and should more meaningfully drive the share price in the next few years.

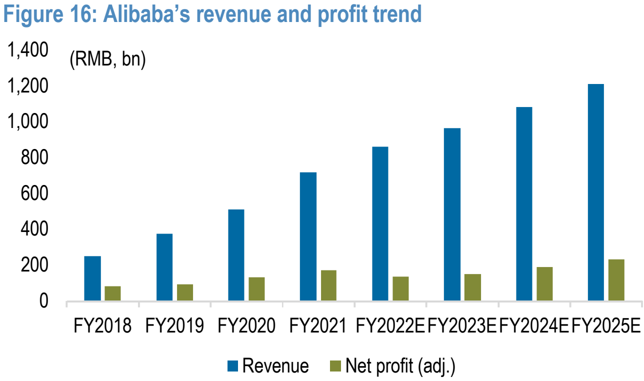
## Growth Outlook: China retail under pressure; international commerce and cloud will be more

We are turning more cautious on Alibaba's customer management revenue (CMR) growth due to macro slowdown and intensified industry competition. The company has strategically stepped up investment in China commerce area to further drive user penetration (e.g. consumers in lower tier cities) and category expansion (e.g. grocery, home furnishing, etc.). We believe it will take several years before these new initiatives start to make meaningful revenue/profit contribution, while margins will be under more pressure in the short term. On the other hand, some of earlier invested projects such as International retail and cloud have grown up to a sizable businesses and will increasingly become both topline and stock price driver. We forecast total revenue/net profit to grow at 14%/8% CAGR during FY21-25E. We expect to see a V-shaped recovery on the earnings (bottom out in FY22E and rebound onward), driven by both investment rationalization and macro recovery.

## Valuation

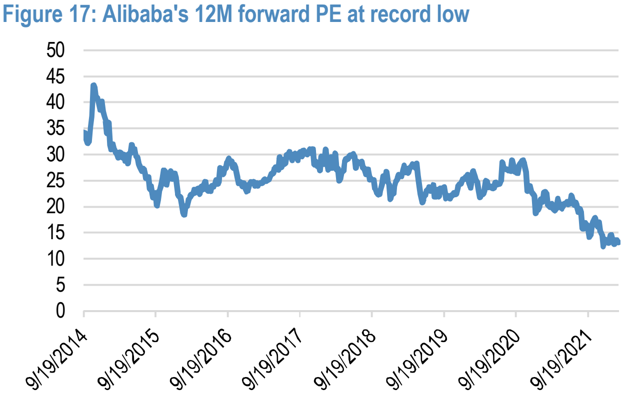
Alibaba now trades at historical low valuation in terms of one-year forward P/E (13x now), due to macro/regulation headwinds as well as more intense competition in core China retail business. From a SOTP perspective, the company only trades at approximately 10x Taobao/Tmall CY2022 earnings, without giving any valuation on other quality assets it owns such as cloud, fintech and logistics, etc.

Figure 16: Alibaba's revenue and profit trend




Source: Company data and J.P Morgan estimates

Figure 17: Alibaba's 12M forward PE at record low




Source: Bloomberg Finance L.P.

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# JD.com

## Investment Thesis (OW; Dec-22 PT US$100/HK$380)

JD is the No.2 ecommerce platform in China in terms of GMV (over 20% market share), but the largest online retailer (vs. most of Alibaba's GMV is through marketplace model). JD has focused on the heavier direct retail model with in-house fulfillment capacity since early stage, which gives it advantage on product quality and fulfillment efficiency against most peers. Such a differentiation should allow it to continue to gain market share despite more intense competition, offering investors with better visibility for JD's growth. With growing economy of scale and more exposure to higher-margin marketplace model, JD should be able to further improve its margins too, leading to better bottom-line growth than the top-line growth.

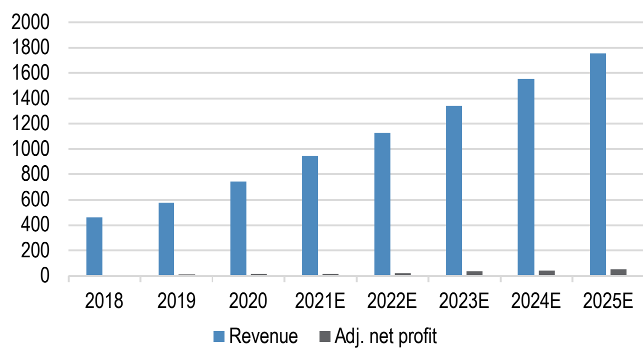
## Growth Outlook: Expect resilient growth on further market share gain despite macro headwinds

We project JD to deliver resilient revenue growth (19% in 2022E vs. 27% in 2021E) despite the weak macro consumption environment in China since 2H21, thanks to still lower user base (less than 600m vs. Alibaba/Pinduoduo's 800m plus) which drove market share gain, and more favorable category mix (low exposure to apparel). We forecast JD's 2021-25E revenue/adjusted profit CAGR to stay at 17%/33% on further market share gain and category expansion.

## Valuation

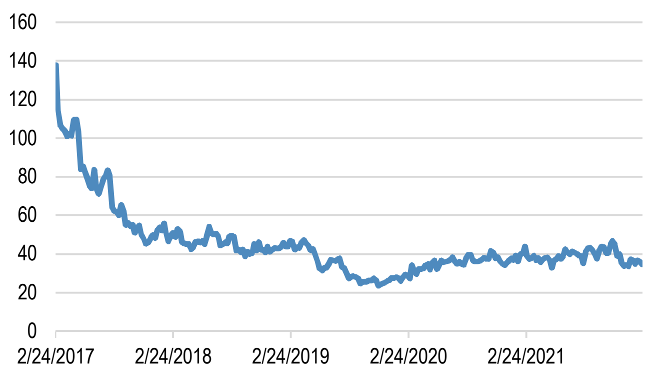
JD's 12M forward PE is at a clear premium against Alibaba now (35x vs. 13x), reflecting the divergence of their growth in recent quarters. Unlike most China Internet peers' valuation deteriorating to record low, JD's current forward PE is at 50% premium to its historical trough (23x) when the market thought its business model can't compete with Alibaba's, as its growth outlook now is considered the most reliable among peers. We value JD on SOTP valuation, as most of its key subsidiaries are still loss-making so their value can't be captured by simple PE. By extracting listed subsidiaries' market value (with 30% holding company discount), its core business trades at 17x 2022 PE, which should see room for re-rating if China Internet sector's risks (regulatory and macro) start to ease.

**Figure 18: JD's revenue and adjusted profit (RMB b)**




Source: J.P. Morgan estimates, Company data.

**Figure 19: JD's 12M forward PE (x)**




Source: Bloomberg Finance L.P.

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# Pinduoduo

## Investment Thesis (OW; Jun-22 PT US$105)

Pinduoduo (PDD) is the third largest ecommerce platform in China in terms of GMV (c15% market share), but it enjoys the No.1 annual active buyer base (close to 900m). PDD emerged in just five years, by aggressively penetrating into the lower-tier cities ahead of competitors, offering users value-for-money products at extremely cheap prices. We believe its days of ultra-fast growth are over given the limited room to grow users, but it can still deliver a decent 20%+ revenue growth in the coming years in our view, through upgrading its product offering (more branded products etc.) to drive up the spending per user (just over RMB 2,000, vs. Alibaba's RMB 10,000). The market is still cautious to price in the future growth and margin improvement given the lack of visibility, leaving room for upside if the company delivers.

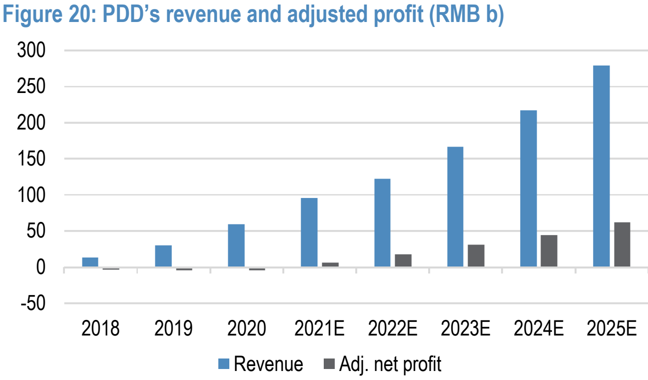
## Growth Outlook: Needs more evidence to believe in sustainable growth

PDD’s revenue growth in recent quarters has been distorted by the volatility of merchandise sales, so we focus on the online marketing service revenue, whose YoY growth decelerated to 44% in 3Q21, vs. 79% in 2020/64% in 2Q21. We forecast the online marketing revenue growth to stay resilient at 30% in 2022, and 2021-25E CAGR at 24%, supporting the total revenue CAGR to reach 30% in 2021-25E. As its aggressive investments on new businesses should ease in the long-run, we forecast its adjusted profit to increase ten-fold during 2021-25E.

## Valuation

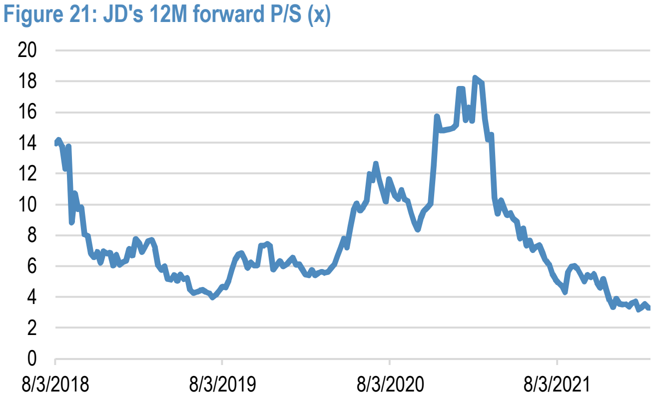
PDD was a typical fast-growing company without profit, and many investors tended to value it on revenue multiple. Its forward P/S has de-rated to 3x from 19x in one year, due to the global valuation de-rating of the fast-growing stocks and investors’ concerns about growth deceleration. With slower growth expected, we believe the market will value PDD on earnings going forward, as it has become consistently profitable since 2Q21. On a normalized net margin of 30% for its core revenue (ex. new businesses), its current share price suggests 14x 2022E P/E, an attractive level if it can sustain 20%-30% growth, in our view.

Figure 20: PDD’s revenue and adjusted profit (RMB b)




Source: J.P. Morgan estimates, Company data.

Figure 21: JD's 12M forward P/S (x)




Source: Bloomberg Finance L.P.

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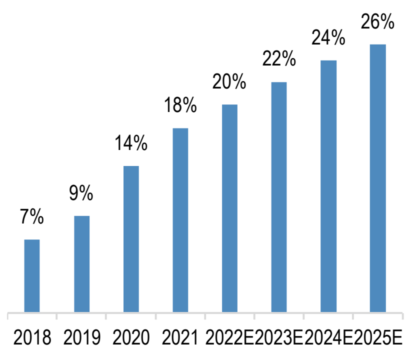
# Coupang

## Investment Thesis (N; Dec-22 PT $25)

We expect CPNG to continue to outperform market growth and believe it is well positioned to solidify market dominance in fast delivery while peers are still at preparation stage. In the LT, we believe CPNG will enjoy structural market share gain driven by economies of scale and virtuous cycle. Also, we expect the company's recent initiatives (i.e., preparation for 3PL fulfillment service and improvements on commission scheme for Eats) to result in margin improvement in 2022 and onward. Yet, we expect further share price rebound to be limited given the still sizable negative adj. EBITDA outlook in 2022 and depressed global ecommerce peer valuation multiples.

**Figure 22: CPNG E-commerce M/S Estimates**




Source: KOSIS, Company data, J.P. Morgan estimates.

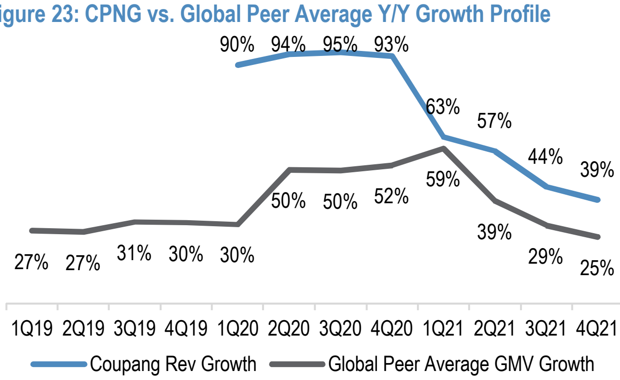
## Growth Outlook: Ongoing margin pressure for ST but LT M/S gain momentum intact

We believe CPNG will likely see continuing margin pressure in ST due mainly to: (1) intensifying competition in domestic e-commerce market; and (2) subdued operating leverage on cost burden from business diversification (Eats/Fresh). Despite ongoing disruptive competition for faster delivery, we believe CPNG is well positioned to strengthen its market presence thanks to its nationwide 1P logistic capabilities (mega fulfillment centers in major cities). Also, CPNG's potential development in 3PL fulfillment service remains a major long term driver of margin improvement via 3P e-commerce share gains and additional ad monetization. We expect the company's e-commerce GMV share to increase sequentially from 18% in 2021 to 22% in 2023E.

## Valuation

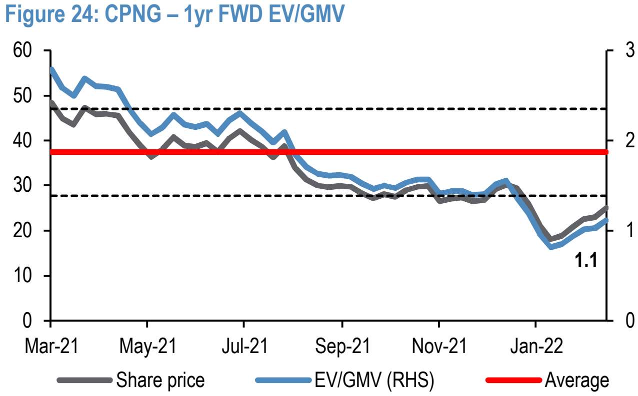
We point out 1yr FWD EV/GMV has substantially come down to 1.1x (more than 50% correction since IPO), which we believe provides limited further downside risk given the company's superior growth profile relative to global peers. Yet, we expect the share price to be range bound in the near term due mainly to lack of catalysts and faster than expected deceleration of domestic ecommerce market growth. Our PT ($25) implies 0.94x 2023E EV/GMV (a 100% premium to global peer average 0.47x).

**Figure 23: CPNG vs. Global Peer Average Y/Y Growth Profile**




Source: Company data, J.P. Morgan estimates.

**Figure 24: CPNG – 1yr FWD EV/GMV**




Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. Priced as of 4 March 2022.

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# ASEAN

# ASEAN

## Sizing the Growth Opportunity

ASEAN has >600m people with total retail market size of $600-700bn and still relatively low e-commerce penetration in many countries. The growth in ecommerce is being driven by improving infrastructure, rising digital adoption and relatively poor physical retail infrastructure. Hence, while we anticipate some moderation in industry GMV growth, we see a long-runway of growth. In our view, COVID-19 has led to digitalization of merchants and changes in consumer habits which should underpin ecommerce GMV growth. Growth in online groceries could be a key growth driver for ASEAN ecommerce industry.

## Strengths & Opportunities

We estimate ecommerce industry to grow at a CAGR of ~25% between FY21-24E driven by rising ecommerce adoption, growth in online groceries and rising consumer sentiment. The ongoing investments in logistics infrastructure by 3PLs and marketplaces also supports the growth of ecommerce.

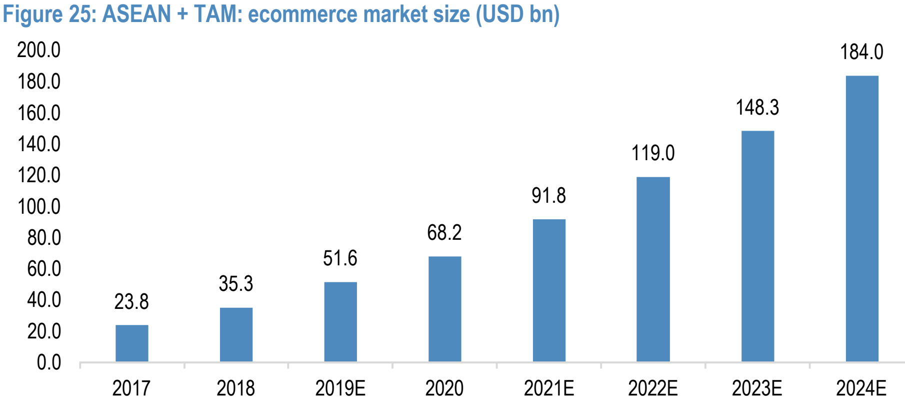
ASEAN industry leader Shopee's efforts to improve monetization and shipping subsidies can support improving profitability for the industry which has so far been loss making, in our view.

We also find that overall internet economy is growing in ASEAN with private players raising >$40bn in funding between 2016 and 2020. Overall improvement in ecommerce ecosystem supports ecommerce growth, in our view.

## Weaknesses & Threats

In our view, ASEAN ecommerce industry faces threats from new entrants like Tik Tok and resurgence in traditional players like Lazada. Prolonged macro-weakness can result can impact retail sales. Reopening of economies can moderate ecommerce GMV growth but that impact is likely to be transitory, in our view. Underdeveloped infrastructure outside the Tier1 cities can keep ecommerce penetration lower than more countries with more developed ecommerce industries.

Figure 25: ASEAN + TAM: ecommerce market size (USD bn)




Source: Data Insight, J.P. Morgan estimates

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# Sea Ltd

## Investment Thesis (N; Dec-22 PT $105)

Sea Ltd offers a global gaming franchise, an increasingly global ecommerce franchise, and a regional fintech franchise. SE's gaming cash flows give it a structural competitive advantage in growing its ecommerce and fintech businesses. While we anticipate post COVID-19 growth moderation in e-commerce GMV (FY21-24 CAGR of 45%), we anticipate rapid growth in revenues (FY21-24E CAGR: ~60%) with improving monetization. Moreover, in contrast to widespread concerns on Shopee's ability to generate profits, we believe Shopee's ecommerce monetization and unit economics are improving in ASEAN. However, we anticipate elevated costs and subdued ecommerce EBITDA in FY22/23 due to SE's various growth initiatives. Fintech has a long-runway for growth and we see aggressive growth for SE's fintech revenues (FY21-24E CAGR: ~90%) supported by the largest internet platform in ASEAN. New major game launches would also be positive catalysts, but are difficult to predict.

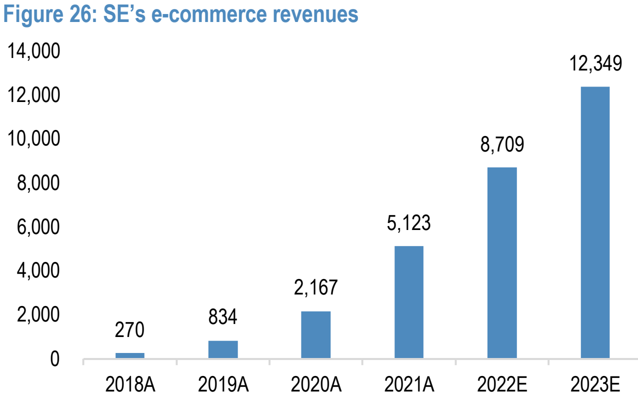
## Growth Outlook: Revenues could more than double between FY21-24E

We see strong growth in revenues driven by healthy growth in ecommerce GMV, rising monetization and aggressive growth in fintech revenues. We see e-commerce monetization and unit economics improving in ASEAN which could support ecommerce break-even in FY24. Maturing of Free Fire, SE's hit game, without a new hit game is a key downside risks to expectations.

## Sentiment is fragile for SE amidst post-COVID growth moderation, company-specific developments

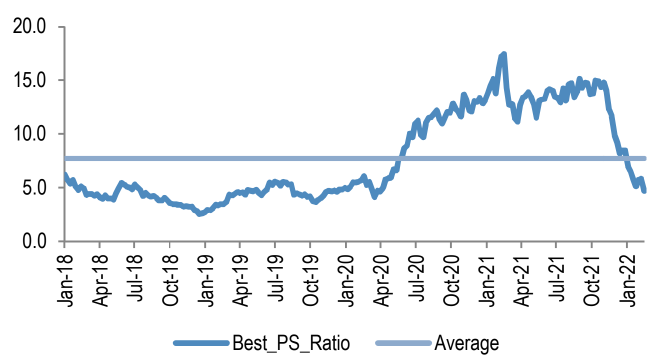
While SE's share price appreciated >30x for beginning of 2019 to peak in Nov-21, the sentiment has recently become fragile. SE's share price is currently reflecting 1) derating of high-growth, loss-making companies, 2) questions on ability to generate profits in ecommerce amidst a rising interest rate environment, 3) slowdown of ecommerce/gaming post-COVID, 4) legal & regulatory risks, and 5) Tencent overhang. Market sentiment has also turned, with investors seeking near-term profits over long-term growth opportunity. Hence, we are now valuing SE's ecommerce franchise in ASEAN + Taiwan which is likely to break-even in FY23.

**Figure 26: SE's e-commerce revenues**




Source: Company reports, J.P. Morgan estimates

**Figure 27: P/S chart**




Source: J.P. Morgan estimates.

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# Bukalapak

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## Investment Thesis (OW; Dec-22 PT Rp1000)

BUKA is Indonesia's leading O2O player and among the top 3 E-Commerce marketplaces focusing on Tier 2/Tier 3 cities; Emtek (EMTK IJ), Ant Financial, GIC, Microsoft are key shareholders. We are bullish for three reasons: (1) strong growth profile with 65% 2020-23E revenue CAGR, fueled by the O2O Mitra business and improving monetization and take rate (2.3% in 2023E vs. 1.6% in 2020), with an expectation of reaching EBITDA positive by 2023E; (2) BUKA is part of the Grab x Emtek ecosystem, so we see potential for new collaborations within groceries, logistics and financial services; and (3) MSCI index inclusion by 1H22, given BUKA is already among the 10-largest stocks and the only tech proxy in the LQ45 index.

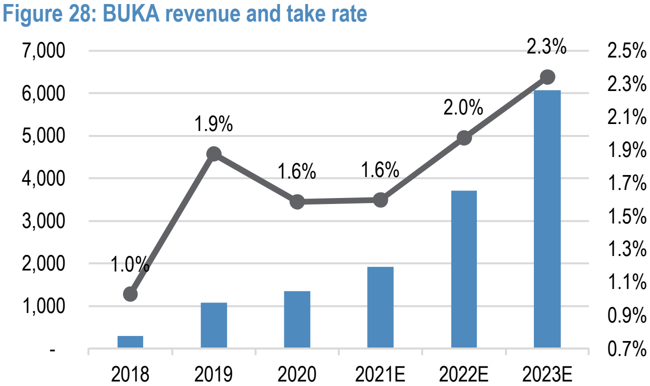
## New initiatives to deliver growth and higher take rates

BUKA is developing new initiatives within its Marketplace and Mitra (O2O) segments. Under its Marketplace business, BUKA will expand into specialty platforms (i.e. groceries, refurbished electronics, etc) rather than being an all-around marketplace. Also, BUKA has started to develop a Storefront business model (like Shopify), which enables and simplifies online merchant transactions (incl. payments, logistics) through informal channels like social media (Instagram/WhatsApp). BUKA is also expanding its Mitra business into new verticals from previously only retail kiosks, such as local "eateries", through supplying grocery and fresh products which naturally inherit higher take rates. Bukalapak has formed a JV with TransMart (one of the largest offline groceries in Indonesia).

## All eyes on share lockup expiry

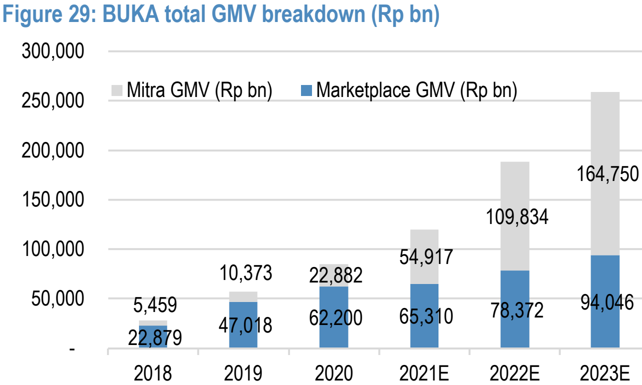
BUKA share price is down ~60% since IPO on 6 Aug 2021, however topics of discussion have significantly shifted from initially concerns on low take-rates (<2%) to the upcoming share lockup expiry on 28 Mar 2022; BUKA now trades at an undemanding 4x/2x 2022E/23E EV/S. Nonetheless, share lockup expiry remains a key overhang in the near-term as the remaining 90% portion of early investors' shares will be unlocked and available for sale on 28 Mar 2022, while we believe key fundamentals (improving take rate trajectory and growth levers) remain intact.

**Figure 28: BUKA revenue and take rate**




Source: Company data, J.P. Morgan estimates.

**Figure 29: BUKA total GMV breakdown (Rp bn)**




Source: Company data, J.P. Morgan estimates.

# CEEMEA

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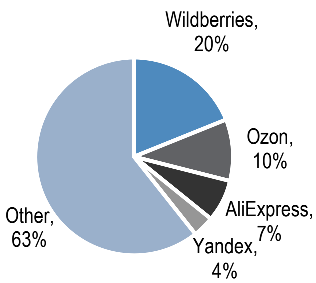
# Russia

## Sizing the Growth Opportunity

Russia is the 9th most populous country in the world with $510 bn retail market and still relatively low e-commerce penetration (JPMe 11% in 2021). Until the COVID-19 related pandemic, the main market driver was the growing customer adoption of e-commerce amidst growing internet penetration, as well as improving customer service. The shift in population age structure towards a tech-savvy younger audience also provided a natural boost to e-commerce. There are five pure e-commerce players in Russia with strong ambitions to grab the market share and as investments in the space remain high, we expect e-commerce penetration to grow to 20% by 2024E, propelling a 31% CAGR of the market in 2021-24E.

**Figure 30: Top e-commerce players in Russia, 2021E**




Source: J.P. Morgan estimates

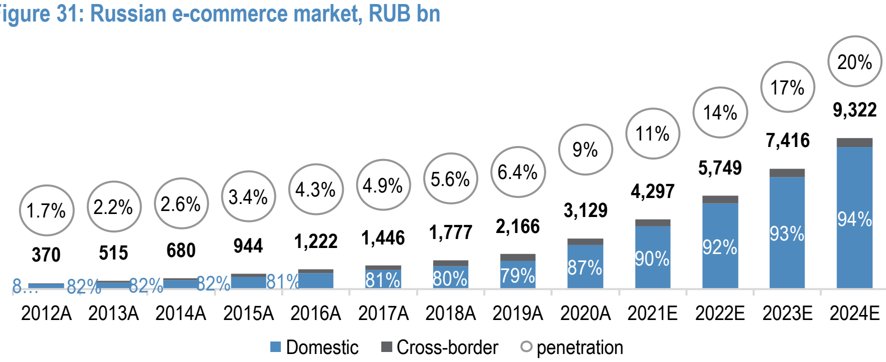
## Strengths & Opportunities

**Russia offers an attractive TAM with ample room for growth.** We estimate that online penetration in the country reached 11% in 2021 and could grow to 20% by 2024E, given the ambitious plans of the largest e-commerce players to invest into logistics infrastructure. This is well below 20-30% online penetration levels recorded in the other markets such as the UK, the US, China. **Tech-savvy population that is actively embracing the top-notch digital solutions.** Russia is the 9th most populous country in the world, with decent level of internet penetration (85%), which is moderately behind more developed nations, e.g. the US (90%). Customer experience provided in the adjacent markets like digital banking or e-grocery is on par with best-in-class global examples, underscoring strong potential for the e-commerce penetration to grow as long as the customer experience is improving. We also see **low risk of international competitors tapping into the Russian market.**

## Weaknesses & Threats

Russian e-commerce space is **one of the most competitive markets globally**. The fragmentation is high with top-3 players representing only one third of the market. All largest players are well funded seem to be ready to invest into logistics capabilities and customer acquisition to grab market share. There are several **omnichannel specialists within most e-commerce categories**, which are ready to sacrifice profitability and protect their market shares, which is exacerbating the competitive pressure in the country. **Logistics have been historically underdeveloped** with limited reliable capacity offered by third party players, forcing e-commerce players invest into own capabilities.

**Figure 31: Russian e-commerce market, RUB bn**




Source: Data Insight, J.P. Morgan estimates

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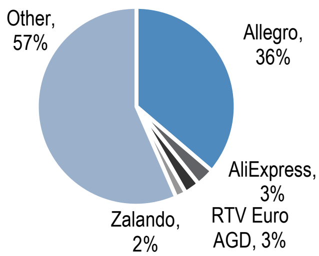
# Poland

## Sizing the Growth Opportunity

Poland is the 5th most populous country in the EU with $150 bn retail market and e-commerce penetration of 14.5% in 2020. Euromonitor expects the penetration can grow to 18% by 2024E, which implies 12% CAGR of the market in 2020-24E. Notably, Poland has one of the lowest urbanization levels among European countries (c60%), which bodes well for the e-commerce market in our view. Unlike Russia and Brazil, where e-commerce markets are highly fragmented, the Polish e-commerce market is dominated by a marketplace Allegro with c40% market share (2020). The competition in space has accelerated in 2021 with two international players, Amazon and Shopee, entering the market.

**Figure 32: Top e-commerce players in Poland, 2019**




Source: OC&C.

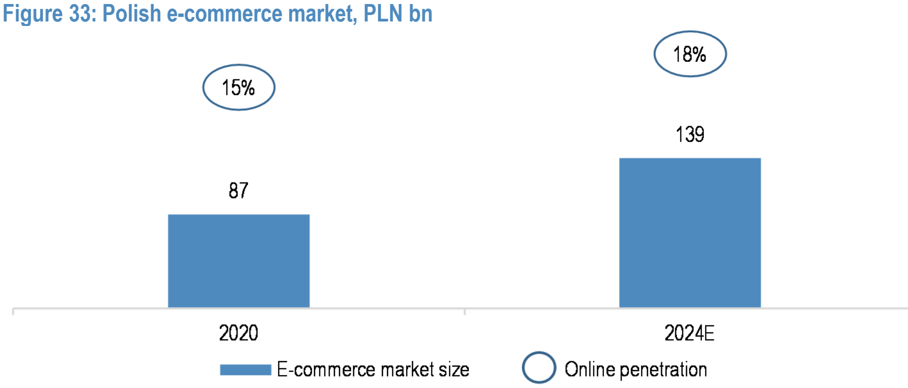
## Strengths & Opportunities

**Poland is one of the strongest and most resilient economies in the CEE region** with fairly stable currency and GDP per capita about 3x smaller than France, Germany and UK. In 2020-21 e-commerce market growth accelerated as the **COVID-19 pandemics forced consumers to change shopping habits and embrace e-commerce services** – a shift that seems to be at least partially sustainable around the globe and Poland is no exception. With **online penetration still lagging more developed countries** (14.5% in 2020) we see room for growing penetration in the country in the medium term. **Third-party logistics capabilities are well developed in Poland**, allowing e-commerce players to save costs and utilize existing infrastructure. Yet, the share of next day delivery on the market is still well below 50%, underscoring strong potential to improve the online shopping experience in the country.

## Weaknesses & Threats

While the **competition** in the Polish e-commerce space has been historically relatively benign, it has **heated in 2021 with the entrance of two international players Amazon and Shopee**. There is limited data on the market share grab after the first several months of operations of Amazon and Shopee, although the competitive activity has visibly increased with Amazon launching its flagship Prime subscription and Shopee heavily subsidizing free delivery of orders. Another threat for the incumbents on the Polish e-commerce market is a well-developed logistics infrastructure, which **lowers entry barriers for the new players.**

**Figure 33: Polish e-commerce market, PLN bn**




Source: Euromonitor, J.P. Morgan estimates

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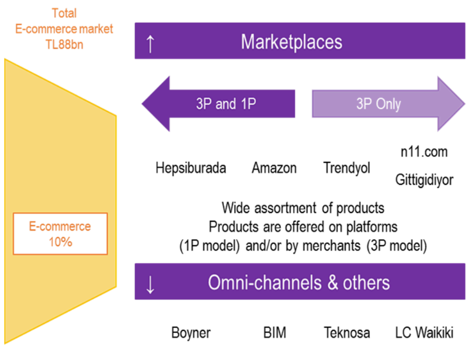
# Turkey

## Sizing the Growth Opportunity

Turkey is the 13th largest economy globally with US$717bn GDP that has been expanding at a CAGR of 5.2% in real terms in the past 10 years. It is a consumer-driven economy like the US, where consumption contributes 60% to GDP, and the consumer is young and not highly leveraged. Retail is one of Turkey's largest sectors, with a total market size of US$120bn, and is projected to achieve a CAGR of 15.7% over the next five years. The e-commerce market has expanded rapidly in the past 5 years, at a CAGR of 46.1%, more than tripling its share of retail from 3.1% in 2015 to 10.1% in 2020. This suggests a heavily underpenetrated market structure, well comparable with Russia but much lower than Poland, and far below the developed countries range of 20-35%. We expect the e-commerce market to expand at a CAGR of 35% over the next five years with penetration reaching over 20%. Well-established and cost-efficient logistics infrastructure along with high internet penetration, a young and tech-savvy population and strong consumer trust in online payments should support future growth.

Figure 34: Competitive landscape




Source: Arthur D. Little, Company data

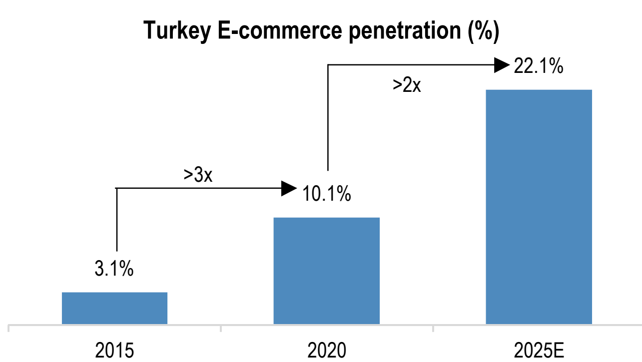
## Strengths & Opportunities

- A fast growing consumption-driven economy. After growing 11% in 2021, JPM macro team expects Turkey's GDP growth as 3.2% and sees sustainable GDP growth >4%.
- Heavily underpenetrated market, having potential to double its penetration to 20% over the next five years.
- A large addressable market. As of end-2020, there were 330,000 B2C retail companies in Turkey, but only 1/3 were active in e-commerce, suggesting large merchant potential for e-commerce platforms.
- A populous country with favorable demographics and infrastructure to drive growth in ecommerce market that includes supportive payment ecosystem, tech savy young population, rapidly growing internet penetration/smartphone penetration and >80% credit card penetration.

## Weaknesses & Threats

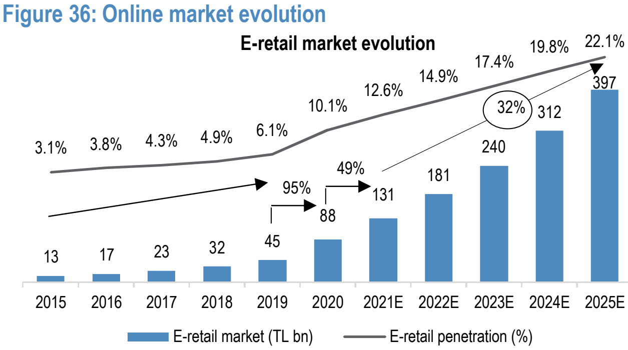
It is a highly competitive market and we see risk of it becoming more so, as Alibaba backed Trendyol, Getir and Amazon among others rush to acquire more customers in this heavily under penetrated market. Yet, we believe the Turkish e-commerce market is big enough to accommodate 3 players as it consolidates, however stiff competition may continue to pressure margins.

Figure 35: E-Commerce penetration is low at 10% in 2020…




Source: Arthur D. Little (Turkey E-Commerce Penetration).

Figure 36: Online market evolution




Source: Arthur D. Little

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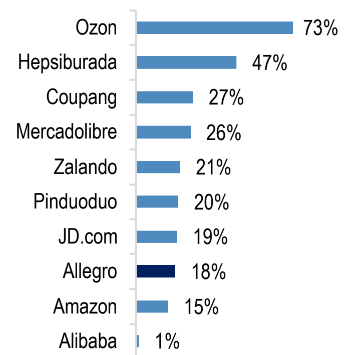
# Ozon

## Investment Thesis (OW; end-23 PT $40/GDR)

Ozon screens as one of the most mis-priced stocks in EM e-commerce and should remain volatile given the geopolitical risk and reduced growth/earnings visibility. Competition in Russian online retailing is fierce and the market worries about path to profitability: Ozon's cash burn in 2021 came in two times larger than we forecast at the start of the year, EBITDA/GMV came down to -9% on our estimates. Indeed 2021 was a challenging year for Ozon's economics: (1) the company added record number of warehousing capacity in 2021, meaning a substantial uptick in fixed costs; (2) AOV declined 25% y/y on the back of growing order frequency which is a strong sign of increasing user engagement with the platform but put a short-term drag on unit economics; (3) take rates in Russian e-commerce went down on the back of tactical investments from Yandex at the start of the year. We expect Ozon to be more rational in its investment approach in 2022 given cost of growth has gone up substantially and forecast operating leverage effect to start positively impacting profitability.

Figure 37: GMV CAGR in 2021-24E




Source: J.P. Morgan estimates

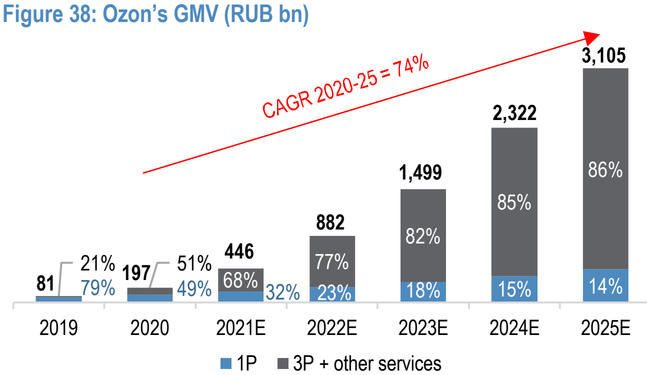
## Growth Outlook: Visibility is low given geopolitics

Ozon's management guided for GMV growth of "80% y/y or greater" in 2022 which would be the strongest rate among global listed e-commerce players. Given less favorable capital markets conditions we expect Ozon to adopt a more rational approach to investment and put greater emphasis on unit economics as the Russian economy is at risk of plunging into deep recession on the back of recent geopolitical events.

## The stock will likely remain volatile

Earnings visibility for Ozon is very low given the rapidly changing macro landscape in Russia and there is likely downside to current consensus expectations for growth. Competition also remains a drag on Ozon's investment case in the medium-term and cost of equity in the country will likely stay elevated, meaning that Ozon is likely to continue trading at a discount to EM peers.

Figure 38: Ozon's GMV (RUB bn)




Source: Company reports, J.P. Morgan estimates

Table 2: EV/GMV valuation multiples for e-commerce players

| | 2021E | 2022E | 2023E | GMV CAGR 2021-24E |
|---|---|---|---|---|
| **Allegro** | 0.6 | 0.5 | 0.4 | 18% |
| Ozon | 0.4 | 0.2 | 0.2 | 73% |
| Alibaba | 0.1 | 0.1 | 0.1 | 1% |
| Amazon | 1.3 | 1.1 | 1.0 | 15% |
| JD.com | 0.1 | 0.1 | 0.1 | 19% |
| Zalando | 0.3 | 0.5 | 0.5 | 21% |
| MercadoLibre | 1.0 | 0.8 | 0.6 | 26% |
| Coupang | 0.9 | 0.7 | 0.5 | 27% |
| Pinduoduo | 0.1 | 0.0 | 0.0 | 20% |
| Hepsiburada | 0.2 | 0.1 | 0.1 | 47% |
| **Median** | **0.4** | **0.4** | **0.3** | **20%** |

Source: J.P. Morgan estimates.

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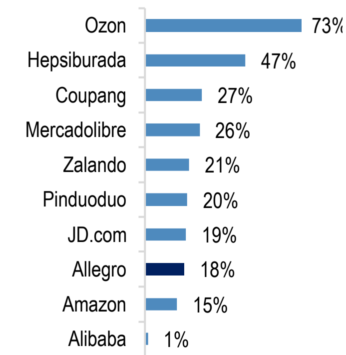
# Allegro

## Investment Thesis (Not Rated)

We see Allegro as one of the most successful e-commerce businesses in EM: it is the leader in Polish e-commerce with JPMe 40% market share and is the go-to platform for 35% of Polish consumers. The company strives to deliver superior customer and merchant experience and is in constant innovation mode to add more services and ways of making online shopping easier and lower cost. Allegro is a 99% 3P platform which makes its P&L structure very different from the 1P+3P marketplaces: Allegro is profitable and earned a 4.9% EBITDA margin over GMV in 2021. Notwithstanding the fundamentals Allegro de-rated >50% over the last 12 months along with other companies in the EM e-commerce universe, pressured by concerns around competition (Amazon and Shopee entry) and expectations of higher capex to fund investments in fulfillment. The market does not seem to price in Allegro's international ambitions whilst we believe that Allegro could double the TAM by replicating its successful business model outside of Poland.

**Figure 39: GMV CAGR in 2021-24E**




Source: J.P. Morgan estimates

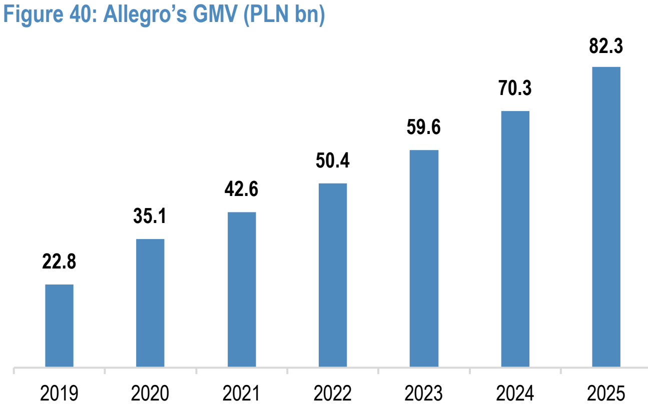
## Moderate growth in the home market, but international ambition is large

We see Allegro can grow its GMV at a moderate 18% CAGR in 2021-24E (before acquisitions), which reflects the growing online penetration in its home market, Poland. In late 2021, the marketplace announced that it has agreed to acquire 100% in a CEE-focused e-commerce operator Mall Group and last mile delivery provider WE|DO. According to the company, a combination of Allegro and Mall would create a leading region-wide e-commerce platform and double Allegro's TAM.

## Valuation

Allegro trades at a 34% premium to the median EV/GMV in 2023E which we believe is a function of its higher margin and higher return 3P business model. The company is profitable with EBITDA/GMV of 4.9% and ROIC of 28% in 2021.

**Figure 40: Allegro's GMV (PLN bn)**




Source: Company reports, J.P. Morgan estimates

**Table 3: EV/GMV valuation multiples for e-commerce players**

| | 2021E | 2022E | 2023E | GMV CAGR 2021-24E |
|---|---|---|---|---|
| **Allegro** | 0.6 | 0.5 | 0.4 | 18% |
| Ozon | 0.4 | 0.2 | 0.2 | 73% |
| Alibaba | 0.1 | 0.1 | 0.1 | 1% |
| Amazon | 1.3 | 1.1 | 1.0 | 15% |
| JD.com | 0.1 | 0.1 | 0.1 | 19% |
| Zalando | 0.3 | 0.5 | 0.5 | 21% |
| MercadoLibre | 1.0 | 0.8 | 0.6 | 26% |
| Coupang | 0.9 | 0.7 | 0.5 | 27% |
| Pinduoduo | 0.1 | 0.0 | 0.0 | 20% |
| Hepsiburada | 0.2 | 0.1 | 0.1 | 47% |
| **Median** | **0.4** | **0.4** | **0.3** | **20%** |

Source: J.P. Morgan estimates.

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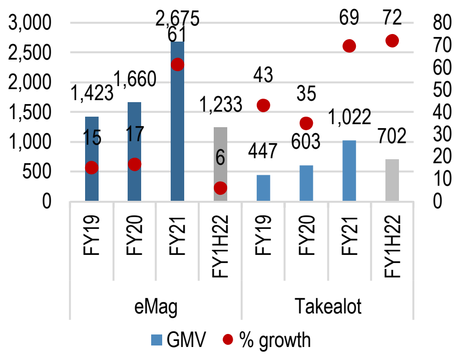
# Prosus & Naspers

## Investment Thesis (NPN – OW; Jun-23 PT R3,270; PRX – OW; Jun-23 PT EUR87)

Naspers is a global internet and entertainment group and one of the largest technology investors in the world. Naspers has economic ownership of 41.1% of Prosus' underlying investments and operating assets, once the Prosus cross holding is accounted for. Naspers and Prosus have entered into a shareholder agreement which guarantees the underlying economic rights attributable to Naspers at 41.1% of the group's investments and operating assets. Tencent is central to the investment case, and is rated OW (Dec-22 PT HKD570) by J.P. Morgan. In addition, returns may be impacted by Naspers' holding company structure and resultant discount and unlisted assets (owned via Prosus).

**Figure 41: eMag & Takealot GMV revenue growth**

$m (LHS), % (RHS)

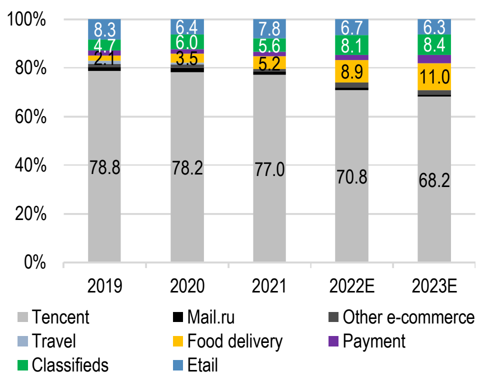



Source: Company data

## Growth outlook is solid but e-tail only 1.1% of valuation

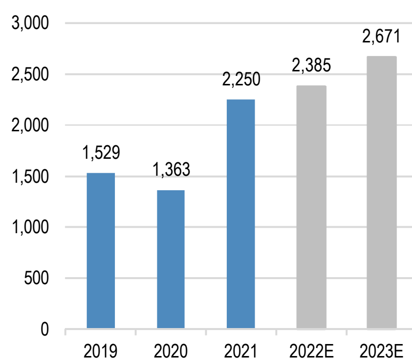
**E-tail contributes 6.7% to FY22e group economic (proportional) revenues, which includes Prosus' share of listed and unlisted portfolio of revenue.** This constitutes 25% of 1H22 e-commerce revenues (excluding Tencent, VK/mail.ru, Trip), but is low margin (1H22: 1.0%) and lower rating than other investment pillars. Prosus has five distinct investment pillars outside of its listed holdings (Tencent, Trip, mail.ru), which include Food Delivery (incl. 27.5% stake in Delivery Hero), Online Classifieds, Payments, Edtech and E-tail. Management's clear focus is to continue to invest heavily to scale Food Delivery, Online Classifieds (auto transactional vertical), Payments and Edtech, while E-tail (eMag, Takealot) is unlikely to attract growth capital to expand beyond existing geographic regions.

**Figure 42: Prosus economic revenue split**



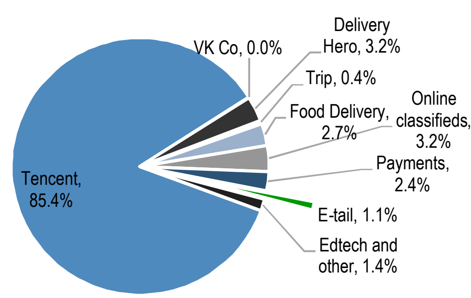

Source: J.P. Morgan estimates, Company data

**Figure 43: Prosus e-tail revenues**




Source: J.P. Morgan estimates, Company data

**Figure 44: E-tail contribution to JPM SOTP only 0.9%**




Source: J.P. Morgan estimates, Company data

- In addition, to the existing e-tail exposure, Tencent has announced it will unbundle its JD.com investment to shareholders. We expect Prosus to receive c. 131m JD.com shares, which are valued at c. $4.1bn currently. This equates to 2.0% of the value we ascribe to Tencent. However, vs PRX's current mkt cap (EUR70bn), the JD.com stake PRX will receive is 5.5% of PRX market cap, significantly boosting Prosus' direct exposure to Chinese e-tail. We understand that they cannot sell the shares before 1 May.

- The current Prosus/Naspers de-rating is largely a function of slowing Chinese consumer demand (related to advertising spend weakness) given its impact on Tencent's outlook (85% of SOTP) and continued uncertainty regarding the resumption of new game approvals by the Chinese regulator, both of which place risk to near term revenue and earnings outlook to the downside. This, together with the significant de-rating in Food Delivery (6% of SOTP including

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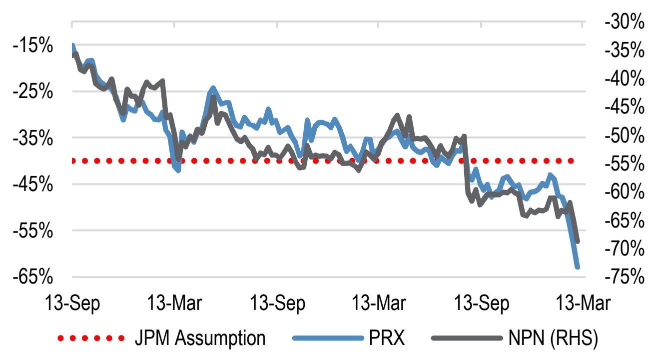
Delivery Hero stake), Online Classifieds (3% of SOTP) and Payment (2% of SOTP) asset prices, which are also lapping tough pandemic driven comparatives, results in downside risk to Prosus' ecommerce portfolio revenue outlook.

## Valuation: Discount widening as, e-commerce value unrealized

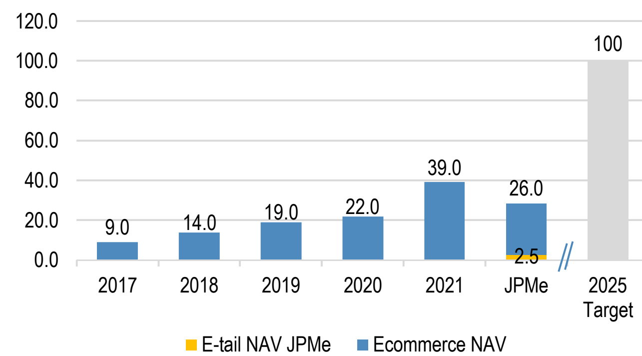
We believe that Naspers' return may be impacted by the holding company discount which has reached record lows of -55%/-68% at PRX/NPN respectively (Figure 45). We believe that this level of discount does not capture the value of the unlisted portfolio which includes 1) a significant Online Classifieds portfolio mainly trading under the OLX brand and Avito (Russia), 2) Food Delivery, including iFood Brazil (FY21 revs $736m, +133% yoy), and Swiggy (listed competitor Zomato – Mcap $8.1bn – covered by Ankur Rudra, CFA), 3) Payments portfolio including PayU India, 4) Rising investments in Edtech and 5) a smaller etail (FY21 revs $2.3bn, +65% yoy) portfolio. Prosus management have indicated they aim to drive the valuation of the aforementioned pillars to reach $100bn in net asset value by 2025 (Figure 46), by growing the existing businesses and through corporate action. We see scope for e-commerce value realization medium term, but ultimately Tencent and the direction of the discount remain central to unlocking value in the medium term.

Figure 45: PRX and NPN discount to listed and unlisted SOTP




Source: J.P. Morgan estimates, Bloomberg Finance L.P.

Figure 46: Net Asset Value of Ecommerce ($bn)




Source: Company data

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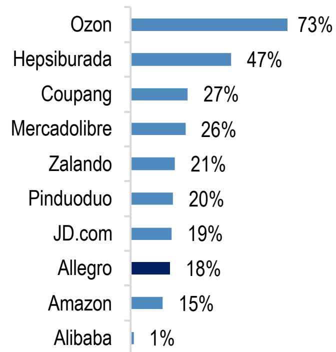
# Hepsiburada

## Investment Thesis (OW; Dec-22 PT $7.15)

Online retail in Turkey is a fast growing and underpenetrated market but also is very competitive with well-funded players racing to capture the top two positioning. Hepsi is the second largest player with an expected GMV of US$1.8bn in 2021 and has nearly doubled its market share in the past five years. We believe Hepsi can defend its market share under stiff competition and in a volatile economy and expect gradual normalization in margins in 2H22 as Hepsi's initiatives including HepsiPay, BNPL have started to pay off. We have recently observed peers allocating more cash resources to Food Delivery where Hepsi does not compete, which also encourages us to think optimistically that the worst is over for profitability. Although investors may need a couple of quarters to build up confidence in sustainable growth trends in Turkey and management targets, we believe the shares have reached a floor and any positive surprise on GMV or margins should help performance, in our view.

**Figure 47: GMV CAGR in 2021-24E**




Source: J.P. Morgan estimates

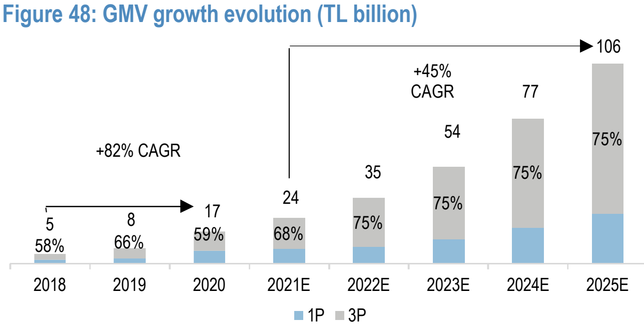
## Growth Outlook: Competition challenge

After spending more than planned in Q3, management's focus has gradually shifted to profitability: the company aims to reduce discounts to customers and optimize marketing expenses. In the meantime, initiatives including HepsiPay, BNPL have started to pay off. We expect a 3-year GMV CAGR (2021-2023) of 47% and see EBITDA turning positive in 2024, which should help Hepsi become self-sufficient to fund future growth by then. Path to profitability depends on key strengths including: 1) extensive local expertise in SME-focused economy, 2) hybrid model that has a strong 1P offering at affordable prices, 3) the best customer value proposition, and 4) verticals and initiatives that pioneer the sector such as HepsiPay, BNPL that targets unbanked young population. Company has enough cash resources to fund the growth over the next 18 months but further cash need depends on the growth outlook and how competition will rationalize.

## Valuation

Hepsi shares are down by 87% since IPO and valuation multiples (23E EV/Sales) have de-rated by >40%, which we believe may represent a floor, trading at a deep discount of 79% to global peers. A reversal of investor sentiment will depend on normalization in Turkey's rate outlook and how quickly confidence can be restored in management targets.

**Figure 48: GMV growth evolution (TL billion)**




Source: Company reports, J.P. Morgan estimates

**Table 4: EV/GMV valuation multiples for e-commerce players**

| | 2022E | 2023E | 2024E | GMV CAGR 2021-24E |
|---|---|---|---|---|
| **Hepsiburada** | **0.2** | **0.1** | **0.1** | **47%** |
| Allegro | 0.6 | 0.5 | 0.4 | 18% |
| Ozon | 0.4 | 0.2 | 0.2 | 73% |
| Alibaba | 0.1 | 0.1 | 0.1 | 1% |
| Amazon | 1.3 | 1.1 | 1.0 | 15% |
| JD.com | 0.1 | 0.1 | 0.1 | 19% |
| Zalando | 0.3 | 0.5 | 0.5 | 21% |
| MercadoLibre | 1.0 | 0.8 | 0.6 | 26% |
| Coupang | 0.9 | 0.7 | 0.5 | 27% |
| Pinduoduo | 0.1 | 0.0 | 0.0 | 20% |
| **Median** | **0.4** | **0.4** | **0.3** | **20%** |

Source: J.P. Morgan estimates.

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# LATAM

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# Brazil

## Sizing the Growth Opportunity

Brazil is the 6th most populous country in the world, with no dominant e-commerce player, high market fragmentation but also highly competitive, and with attractive demographics that should provide ample space for future growth. E-commerce accounts for ~12% of retail sales and could reach close to ~20% within 3 years, still below the levels seen in developed markets in the mid 20%s. Thus, we see this market still at its early stages of development, with well-capitalized players looking to gain market share and LT growth drivers that should sustain mid-to-long terms growth for the industry.

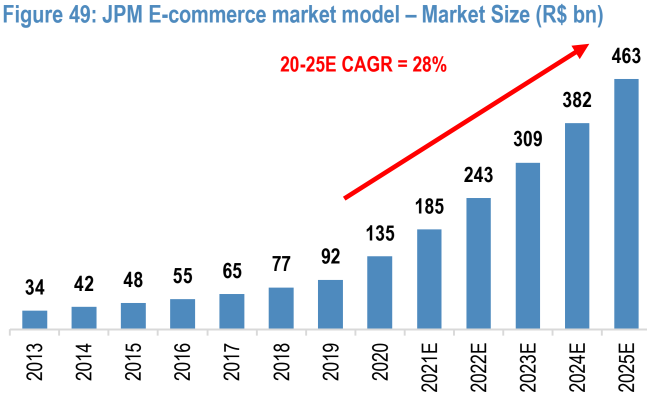
## Strengths & Opportunities

- **Still-low online penetration:** according to our estimates, Brazil e-commerce penetration in '20 reached ~10%, which is still below more developed markets such as the UK (25%) and China (25%). Thus, there is still significant space to grow for leading online players.
- **Attractive demographics and room for further digital adoption:** Brazil is the 6th most populous country in the world, with (1) internet penetration of ~73%, in-line with other LatAm countries still to catch-up to the US at ~90% and (2) ~50% of the population is under 35 years favoring the adoption of digital, while (3) data reports that only 18% of internet users engage in e-commerce.

## Weaknesses & Threats

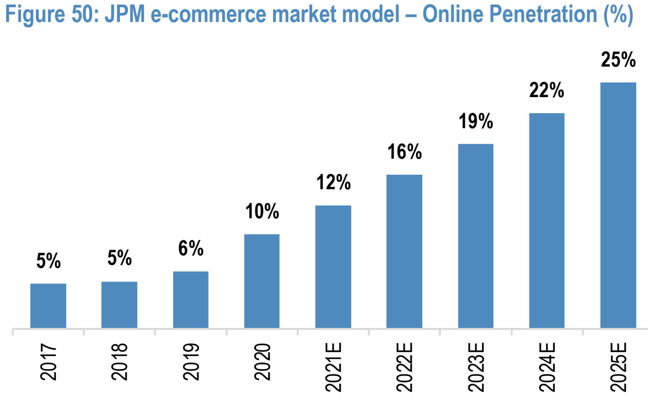
Overall, the Brazilian e-commerce space is a competitive market that (1) boasts high fragmentation and does not have an undisputed market share leader; (2) competing pure-online and omnichannel players are well capitalized, sometimes leveraging on the profitability of their stores to fund accelerated online growth; and (3) the sheer size of the market (~R$185bn estimated for '21E– US$34bn) and its fragmentation has attracted multiple international players such as Amazon (OW-rated by Doug Anmuth), Sea's Shopee (OW-rated by Ranjan Sharma), Shein (not-listed) and others, overall boosting the competitive environment in the country.

Figure 49: JPM E-commerce market model – Market Size (R$ bn)




Source: e-bit, Company Reports, J.P. Morgan estimates

Figure 50: JPM e-commerce market model – Online Penetration (%)




Source: e-bit, Company Reports, J.P. Morgan estimates

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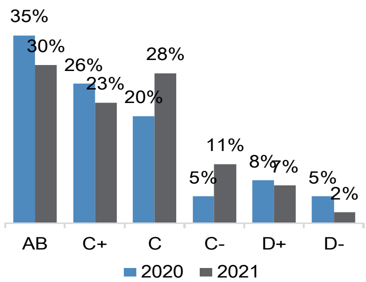
# Mexico

## Sizing the Growth Opportunity

Mexico e-commerce penetration reached 11% in 2021 and comes from mid-single digits in 2019 and reaching similar levels vs Brazil but still half in size at US$20bn. However these penetration levels are still below other emerging economies in Europe and Asia. Demographics (28 yrs avg age) and still low banking penetration (23%) remain two key long term backdrops calling for continued expansion of the market.

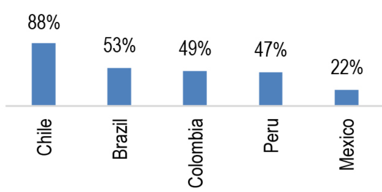
Figure 51: C and C- gained significant share vs. last year

Socioeconomic level breakdown of Mexico's online shoppers '20 vs. '21




Source: AMVO, J.P. Morgan

Figure 52: Mexico among the lowest Banking Penetration across LatAm (% of GDP)




Source: : J.P. Morgan estimates, Bloomberg Finance L.P., Central Bank of Brazil, Superintendencia de Bancos e Instituciones Financieras (Chile),Superintendencia Financiera de Colombia, CNBV (Mexico), Banco Central de la Republica Argentina, and Superintendencia de Banca, Seguros, Y AFP (Peru).

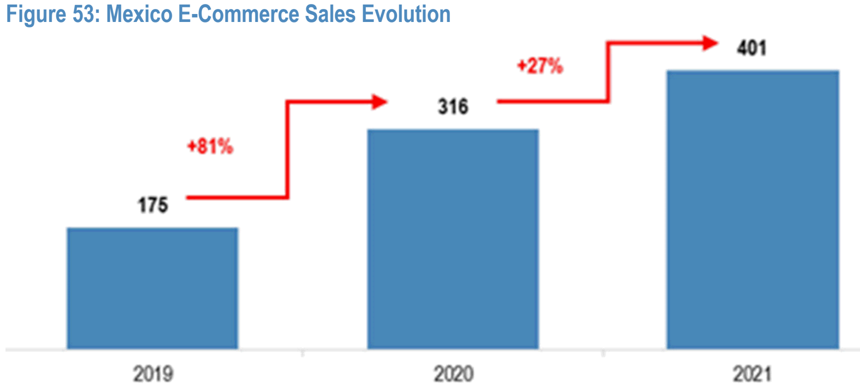
## Strengths & Opportunities

- **Low online penetration on top of the lowest banking penetrations in LatAm.** Mexico's online penetration at 11% in 2021 likely ended slightly above the LatAm avg following two years of strong growth of +81% and +27% in 20/21. Interestingly this has been achieved despite still low banking penetration at 23% which remains half of Brazil, Colombia and Peru and 1/4 of Chile.
- **Ample room to increase adoption.** 2021 already saw strong gains of online usage observed in the socioeconomic segment C, D+ and D-; with segment C reaching similar levels to the highest income segment AB and C+. Additionally Mexico City alone concentrates 30% of online shoppers nationally which is almost twice the second largest region.
- **There is room for additional competition** with top 4 players holding +50-55%% of the market with pure online players MELI and AMZN holding at least 35% of the market while Walmex and Liverpool another 20%. However, the former two are likely much more concentrated in large cities like Mexico and Monterrey while the other two have a broader footprint across the country and leveraging on physical locations and click and collect.

## Weaknesses & Threats

Overall, Mexico e-commerce is a competitive market that (1) does not have a sole undisputed market share leader; (2) competing pure-online and omnichannel players are well capitalized, sometimes leveraging on the profitability of their stores to fund accelerated online growth; and (3) the growth potential and size of the market (~Ps400bn for '21E– US$20bn) and still high fragmentation has prompted strong investments from key players as well as new entrants, including "digital informality".

Figure 53: Mexico E-Commerce Sales Evolution




Source: AMVO, J.P. Morgan

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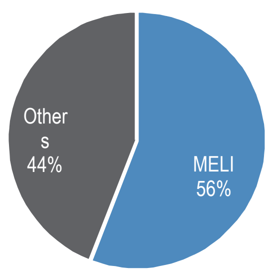
# Argentina

## Sizing the Growth Opportunity

The Argentinean e-commerce market is the third largest in LatAm, following Brazil and Mexico, with estimated GMV of $12bn in 2021, or 11% penetration of retail sales, which is close to LatAm peers, but still well below developed markets at 20%s. MercadoLibre has been for a long time the clear leader in the country, with more than 50% share in 2021.

Figure 54: MELI has 50%+ share




Source: eMarketer, company reports, J.P. Morgan estimates.

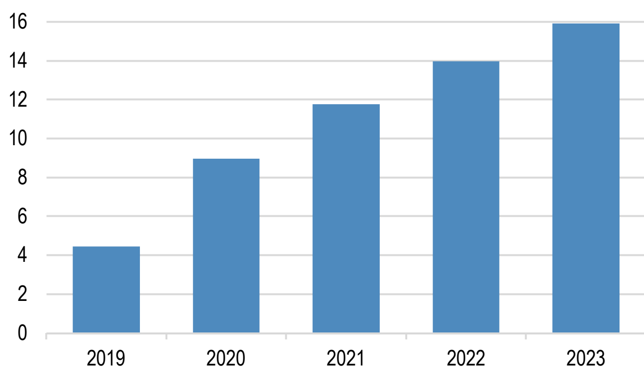
## Strengths & Opportunities

- **Low competitive intensity.** Competitive intensity is lower in Argentina, especially when compared to Brazil and Mexico in LatAm, without being the focus of any major global e-commerce player.
- **Potential for higher e-commerce penetration.** E-commerce penetration is low at 11%, versus 20%+ for more developed economies.
- **High inflation likely favors e-commerce adoption,** which allows for fast and easy price comparison between different alternatives.
- **Population concentration around Greater Buenos Aires,** roughly a third of the country, reducing logistical challenges.

## Weaknesses & Threats

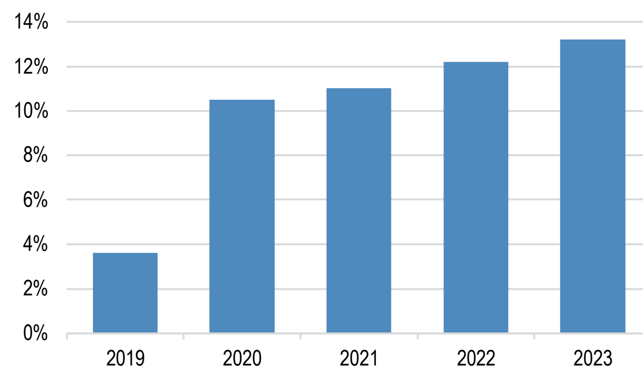
- **High inflation** reduces the purchasing power of the population, impacting negatively e-commerce.
- **Capital controls** can limit the availability of imported goods to be sold in e-commerce platforms, as well as the capacity of e-commerce platforms to send resources abroad.
- **Competitive threats.** Recently, Shopee has announced its entry into the Argentinean market. Other players might do the same, increasing competition level in the market.

Figure 55: Argentina GMV, US$bn




Source: eMarketer and J.P. Morgan estimates.

Figure 56: Argentina e-commerce penetration




Source: eMarketer and J.P. Morgan estimates.

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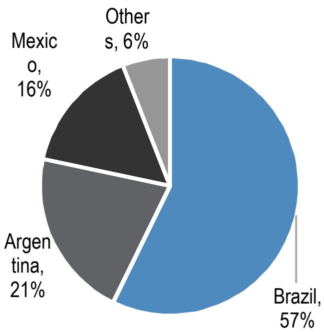
# MercadoLibre

## Investment Thesis (OW; Dec-22 PT $1,500)

We believe MercadoLibre is very well positioned to be a reginal leader in both e-commerce and fintech in LatAm, a region with a population of ~640m, as the company is the only player with a solid presence in the main countries, including e-commerce leadership in Brazil, Mexico and Argentina. Logistics is a key differentiator, with managed logistics reaching 86% of items shipped, and 50% of shipments being delivered in the same day or next. Moreover, MELI has 32m unique fintech users which it is starting to monetize with credit, asset management, insurance sale and QR code payments. Both e-Commerce and Fintech businesses are supported by a robust loyalty plan.

Figure 57: Revenue breakdown, 3Q21




Source: Company reports.

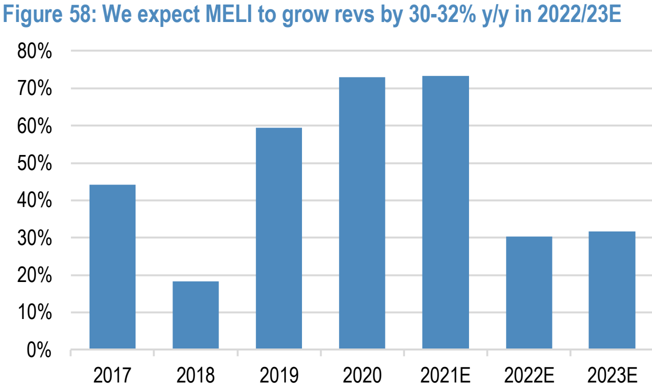
## Growth Outlook: Solid, despite some pressure on payments

We expect MELI to deliver 30-32% growth in USD during 2022E and 2023E, supported by 27-28% growth in e-commerce, its largest business, slightly ahead of GMV growth of 25% as MELI improves take rates via logistics monetization, increased advertising sales and adjustments in its take rate. Wallet revenues should continue to grow at a fast pace, with revs up 76% in 2022E and 53% in 2023E, mostly on higher usage of financial products by account holders, in special credit. Payments ex-wallet should see revenues growing 25% y/y, below TPV growth of 33% due to lower take rates, as prepayment revenues represent the spread earned by MELI and suffer with rising yields, especially in Brazil.

## Valuation at a 10yr low

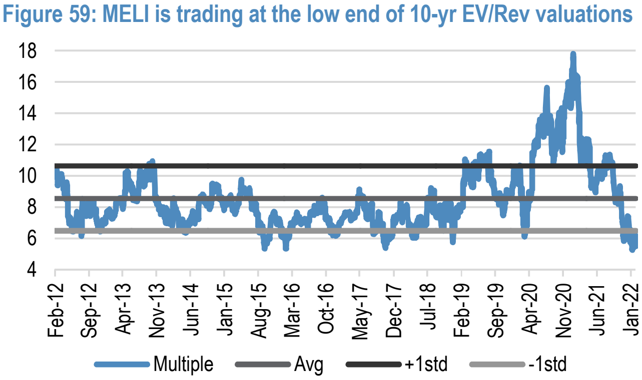
We believe the main multiple to value MELI is EV/Revs, as it combines both e-commerce and fintech, and takes into consideration the monetization angle which is lost on EV/GMV valuations. MELI is trading at ~5x EV/Revs '22E, at a 40% discount to the 10-year average of 8.6x, below one standard deviation down (6.5x), and 50% below the 3-year average of 10.6x. While higher global yields do impact the fair value of MELI negatively, the company is now on more solid ground, with a consolidated fintech business covering all its marketplace plus off-platform TPV which is ~2x the on-platform, a leading logistics infrastructure, as well as leadership in the Brazilian market, secured in 2017. If EV/Revs reverted to the 10-yr average of 8.6x, it would imply 55% potential upside to current prices.

Figure 58: We expect MELI to grow revs by 30-32% y/y in 2022/23E




Source: Company reports and J.P. Morgan estimates

Figure 59: MELI is trading at the low end of 10-yr EV/Rev valuations




Source: Bloomberg Finance L.P. consensus and J.P. Morgan calculations.

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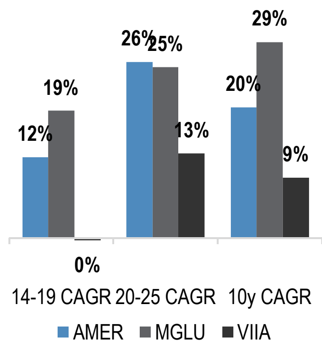
# Magazine Luiza

## Investment Thesis (OW; Dec-22 PT R$9.00)

Online retail is still very underpenetrated in Brazil and, in this context, best-prepared players like MGLU should capture the robust sector growth in upcoming years before we see a major industry consolidation. And, in MGLU we see a good combination of execution and corporate culture to "re-invent" the business from a bricks&mortar operation to an omnichannel and digital platform. And, its consumer-centric strategy along with the strong focus on digitalizing and automating processes should continue to drive market share gains and FCF generation.

**Figure 60: Total GMV growth CAGR**




Source: Company reports and J.P. Morgan estimates.

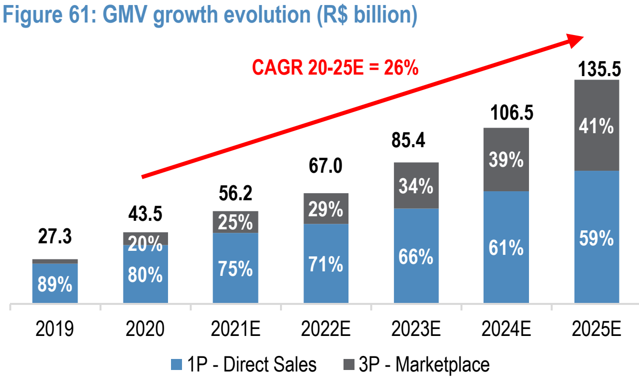
## Growth Outlook: Painful ST but LT story still intact

The ST should continue to be challenging for MGLU as (1) the tough macro scenario in Brazil has been pressuring MGLU's core categories and (2) hard comp basis from '21. And, while GMV growth should be subdued this year at ~20% y/y with EBITDA growing ~18%, we expect a '20A-25E GMV CAGR of 26% and EBITDA at 22% driven by the acceleration of 3P. Thus, we remain bullish on MGLU after the correction over past months and believe the solid mid-term outlook for the company remains broadly intact, as it's supported by an assertive strategy focused on logistic differentiation and traffic-driving capabilities with content, while creating a service ecosystem to digitally enable various retail formats. Thinking ST, we flag that trends should be volatile, and further downward revisions to estimates could come if macro remains challenging for longer.

## Valuation well below historical avg. provides a cushion

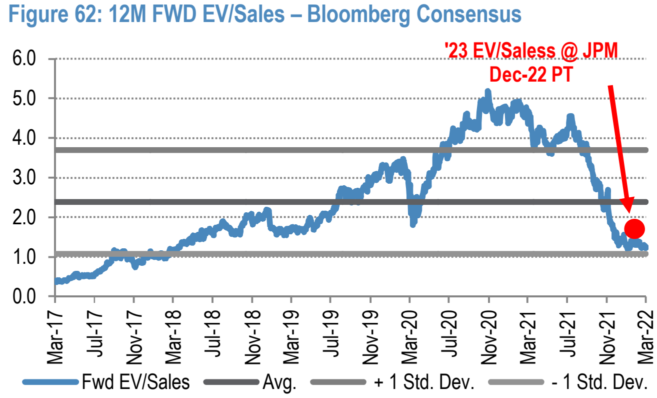
We see MGLU trading at 1.2x EV/Sales, well below the 3y historical average of 2.4x. Overall, we believe current valuations provide a relevant cushion if macro headwinds turn out to be stronger than expected, thus yielding a risk asymmetry to the upside, in our view. Additionally, when we look at our December-22 price target, we see MGLU commanding at 1.5x target multiple, still below the historical average.

**Figure 61: GMV growth evolution (R$ billion)**




Source: Company reports, J.P. Morgan estimates

**Figure 62: 12M FWD EV/Sales – Bloomberg Consensus**




Source: Bloomberg Finance L.P.

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# Americanas SA

## Investment Thesis (N; Dec-22 PT R$32.00)

Despite the still uncertain consumer scenario in Brazil, the long-term drivers for the e-commerce market remain, and Americanas is well positioned to exploit them, in our view. After years of disappointments, significant cash burn, capital injections, and strategy detours, AMER seems to be on track to deliver the long-expected growth and positive FCF. Post the painful transition of most categories from 1P to 3P to allow for higher focus on traffic-driving products and leaner working capital, the company should continue to print improvements to cash generation and GMV growth. Also, now that online and b&m platforms are combined, there is room for growth acceleration as omnichannel capabilities are strengthened. However, we see the bulk of such improvements already priced in, while the visibility on LT profitability for the combined entity remains blurry. We thus remain on the sidelines and rate AMER as Neutral.

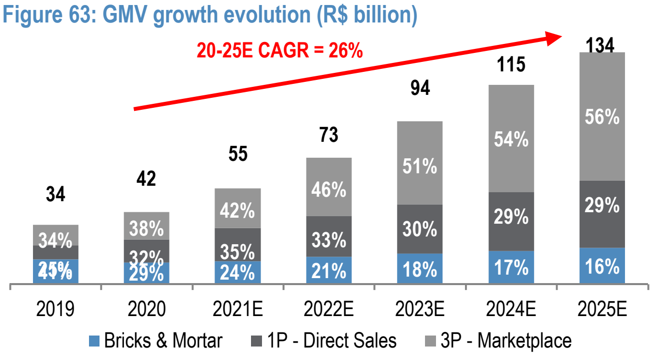
## Growth Outlook: A relatively better ST but concerns on MT execution

When comparing vs. other Brazilian online retailers, Americanas should print comparatively healthier growth trends this year on the back of (1) softer comp base and (2) more resilient sales at the stores, which are less affected by the tougher macro in Brazil when comparing to peers. Still, thinking MT we have some doubts around online execution, while the company has been acquiring different business (food retail, partnerships for convenience stores through a franchise model, etc.) that could hurt focus on the core business. Thus, we expect GMV to climb ~32% in '22E and print a '21E-25E GMV/adj.EBITDA CAGR of~25%/28%. Thus, in this high-rates environment, we see the stock fairly priced at current price levels.

## Valuation: Limited re-rating room

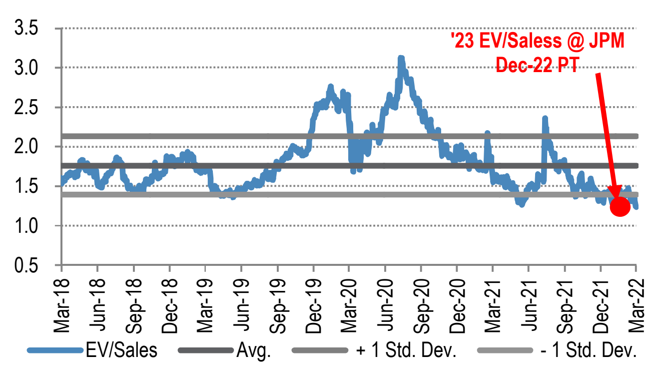
We see AMER trading at 1.2x EV/Sales, which is close to 1 STD below the historical average of 1.7x. And, when we look at our December-22 price target, we see AMER trading at 1.1x target multiple, below historical average and offering limited re-rating from current levels.

**Figure 63: GMV growth evolution (R$ billion)**




Source: Company reports, J.P. Morgan estimates

**Figure 64: 12M FWD EV/Sales**




Source: Bloomberg Finance L.P.

# Via

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## Investment Thesis (N)

Online retail is still very underpenetrated in Brazil and, in this context, we see plenty of growth to be captured. Yet, for Via we see a higher focus on preserving profitability vs. accelerating GMV growth, especially on the 3P platform. This, in our view, should gradually drive investors to change the way they look at the company, valuing it as a solid niched omnichannel operation vs. a potential winner in the broader online segment in Brazil previously. As a result, the scenario where VIIA narrows the valuation gap vs. MGLU on an EV/GMV basis becomes less likely. Also, its main competitors (MELI, MGLU and AMER) are significantly better capitalized, making GMV acceleration less likely even in a scenario where the company chooses to invest in growth.

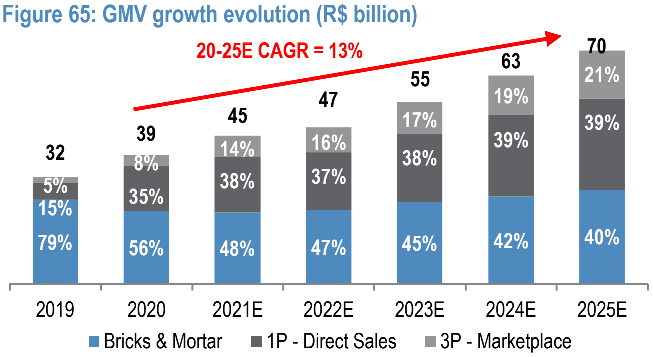
## Growth Outlook: Painful ST with blurred MT outlook

The ST should be challenging for Via on the back of tough macro in Brazil pressuring its categories on top of challenging comp basis. And, while the company continues to accelerate its marketplace strategy by sellers to the platform, b&m should suffer, while online growth is likely to be lackluster. Thus, we see VIIA printing GMV growth of 5% in '22E and a timid 13% '20A-25E CAGR, well below peers. Additionally, Via holds the most leveraged capital structure within peers, should continue to have noise coming from labor lawsuits, while being a distant #4 online player which are key things that prevent us from having a more constructive LT view. Thinking ST, we flag that trends should be volatile, and further downward revisions to estimates could come if macro remains challenging for longer given the company's high leverage.

## Valuation below avg. but with limited triggers

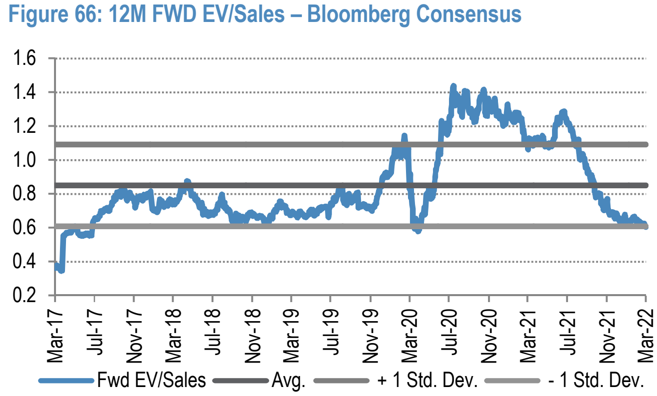
We see VIIA trading at 0.6x EV/Sales, one standard deviation below the 5y average. And, we see these valuation as fair considering the lack of triggers, leveraged balance sheet amid an environment of high interest rates in Brazil, and likely weak results -underperforming peers- in upcoming quarters.

Figure 65: GMV growth evolution (R$ billion)




Source: Company reports, J.P. Morgan estimates

Figure 66: 12M FWD EV/Sales – Bloomberg Consensus




Source: Bloomberg Finance L.P.

## Additional Basket Methodology

In order to keep the basket relevant to the investment theme, J.P. Morgan reserves the right to review the following at any time:

**Basket methodology.** This is to ensure the rules of the basket remain relevant following any structural changes to the theme. This may include ensuring that the sector exposure of the basket remains broadly consistent with the investment theme.

**Basket change implementation.** J.P. Morgan will consider extending the implementation of changes to the basket composition from one trading session to any period up to five trading sessions in the event that a material increase in the liquidity or capacity of the basket is required to minimize market impact.

Corporate actions may affect the JPEFECOM basket. The composition of a custom basket is typically adjusted in the following manner:

**Cash Merger.** The divisor is adjusted, and we remove the merging company from the basket on the day of merger and redistribute gains into remaining companies according to recalculated market cap weights of surviving constituents in the basket.

**Stock Merger.** If the acquirer is a member of the basket, then the weight allocated to the acquired will transfer to the surviving entity on the close of the last day it trades. If the acquirer is not a part of the basket, then proceeds (losses) from the acquired company will be redistributed to the surviving basket constituents based on the recalculated weighting on the close of its last trading day.

**Spinoffs.** The spinoff company and parent will be included in the basket, and both the spinoff and parent company weights will be readjusted according to new market capitalizations after the spinoff date.

**Tender Offers and Share Buybacks.** The company remains in the basket and its weight is adjusted according to the impact the tender/buyback has on the stock's market value.

**Delisting/Insolvency/Bankruptcy.** The company is removed from the basket as of the close of the last trading day, and the proceeds (losses) will be redistributed into remaining companies according to re-calculated weights of remaining companies in the basket. If a stock trades on "pink sheets" it will not be included in the basket.

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**Coverage Universe: Giordano, Joseph**: Alpargatas (ALPA4.SA), Americanas SA (AMER3.SA), Arezzo&Co (ARZZ3.SA), Assaí (ASAI3.SA), Assaí ADR (ASAI), Blau Farmaceutica (BLAU3.SA), CBD (PCAR3.SA), CBD ADR (CBD), CVC Corp (CVCB3.SA), Carrefour Brasil (CRFB3.SA), Cencosud (CENCOSUD.SN), FEMSA (FMX), FEMSA Local (FEMSAUBD.MX), Falabella (FALABELLA.SN), Fleury (FLRY3.SA), Genomma Lab (LABB.MX), Grupo Exito (IMI.CN), Grupo Soma (SOMA3.SA), Hapvida (HAPV3.SA), Hermes Pardini (PARD3.SA), Hypera (HYPE3.SA), InRetail (INRETC1.LM), Kimberly Clark Mexico (KIMBERA.MX), Kora Saúde (KRSA3.SA), Liverpool (LIVEPOLC1.MX), Lojas Renner (LREN3.SA), Magazine Luiza (MGLU3.SA), Mater Dei (MATD3.SA), Natura&Co (NTCO3.SA), Natura&Co - ADR (NTCO), OdontoPrev (ODPV3.SA), Oncoclinicas (ONCO3.SA), Ourofino Saúde Animal (OFSA3.SA), Pague Menos (PGMN3.SA), Petz (PETZ3.SA), Qualicorp (QUAL3.SA), RD (RADL3.SA), Rede D'Or São Luiz (RDOR3.SA), Via (VIIA3.SA), Vivara (VIVA3.SA), Wal-Mart de Mexico (WALMEX.MX)

**Santos, Marcelo**: Afya (AFYA), America Movil (AMX), Anima (ANIM3.SA), Arco (ARCE), Boa Vista (BOAS3.SA), Cogna (COGN3.SA), Enjoei (ENJU3.SA), Entel (ENTEL.SN), GetNinjas (NINJ3.SA), Locaweb (LWSA3.SA), Megacable (MEGACPO.MX), MercadoLibre, Inc. (MELI), Millicom (TIGOsdb.ST), Mosaico (MOSI3.SA), Oi (OIBR3.SA), Ser Educacional (SEER3.SA), Sonda (SONDA.SN), TIM SA (TIMS3.SA), Telecom Argentina (TEO), Telefonica Brasil (VIVT3.SA), Telesites (SITESB1.MX), Televisa (TV), Totvs (TOTS3.SA), Vasta (VSTA), Westwing (WEST3.SA), YDUQS (YDUQ3.SA)

**Jouronova, Elena V**: Allegro (ALEP.WA), CCC S.A. (CCCP.WA), Cian (CIAN), Detsky Mir (DSKY.MM), Dino (DNP.WA), EMC (GEMCDR.MM), Fix Price (FIXPq.L), LPP (LPPP.WA), M.Video (MVID.MM), MD Medical (MDMGq.L), Magnit (MGNT.MM), Magnit GDR (MGNTq.L), Ozon (OZON), Pepco Group (PCOP.WA), X5 (PJPq.L)

**Kennedy-Good, Jonathan D**: Airtel Africa (AAF.L), Etisalat (ETISALAT.AD), Helios Towers (HTWS.L), MTN Group Limited (MTNJ.J), MultiChoice Group Limited (MCGJ.J), Naspers Ltd (NPNJn.J), Prosus (PRX SJ) (PRXJn.J), STC (7010.SE), Telkom SA Ltd (TKGJ.J), Turk Telekom (TTKOM.IS), Turkcell (TCELL.IS), Vodacom Group (VODJ.J)

**Kilickiran, Hanzade**: Anadolu Efes (AEFES.IS), Arcelik (ARCLK.IS), BIM (BIMAS.IS), Coca-Cola Icecek (CCOLA.IS), Ford Otosan (FROTO.IS), Hepsiburada (HEPS), Koc Holding (KCHOL.IS), MLPCare (MPARK.IS), Migros Ticaret (MGROS.IS), Sabanci Holding (SAHOL.IS), Sok Marketler (SOKM.IS), Tofas Fabrika (TOASO.IS), Turkish Airlines (THYAO.IS), Ülker (ULKER.IS)

**Chang, Andre**: Baozun Inc. (BZUN), Dada Nexus Limited (DADA), Dingdong (DDL), JD.com, Inc. (JD), MissFresh (MF), Pinduoduo Inc. (PDD), Vipshop (VIPS)

**Yao, Alex**: Alibaba Group Holding Limited (9988.HK), Alibaba Group Holding Limited (BABA) (BABA), Alibaba Health (0241) (0241.HK), Alibaba Pictures (1060.HK), Autohome Inc (ATHM), Baidu.com (9888.HK), Baidu.com (BIDU) (BIDU), Bilibili (9626.HK), Bilibili (BILI) (BILI), JD.Com, Inc. (9618) (9618.HK), KE Holdings (BEKE), Kingsoft Cloud (KC), Kuaishou Technology (1024.HK), Maoyan Entertainment (1896.HK), Meituan (3690) (3690.HK), NetEase (9999.HK), NetEase (NTES) (NTES), OneConnect Financial Technology (OCFT), Ping An Healthcare and Technology (1833) (1833.HK), Tencent (0700) (0700.HK), Tencent Music Entertainment (TME), Trip.com Group Ltd (TCOM), Weibo Corporation (WB), Zhejiang Huace Film & TV Co. Ltd - A (300133.SZ), Zhihu Inc. (ZH), iQiyi (IQ)

**Yang, Stanley**: CJ ENM Co Ltd (035760.KQ), CJ Logistics (000120.KS), Coupang (CPNG), KT Corp. (030200.KS), Kakao (035720.KS), Kakao Pay (377300.KS), Krafton (259960.KS), LG Uplus (032640.KS), NCSOFT (036570.KS), Naver (035420.KS), Netmarble (251270.KS), Pearl Abyss (263750.KQ), SK Telecom (017670.KS)

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| | **Overweight** (buy) | **Neutral** (hold) | **Underweight** (sell) |
|---|---|---|---|
| J.P. Morgan Global Equity Research Coverage* | 52% | 37% | 11% |
| IB clients** | 53% | 46% | 34% |
| JPMS Equity Research Coverage* | 51% | 37% | 12% |
| IB clients** | 74% | 68% | 50% |

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