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## Surging Singles' Day Sales Signal Growing Threat To China Retailers That Stay Offline

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HONG KONG (Standard & Poor's) Nov. 12, 2015--Standard & Poor's Ratings Services today said that record sales on Singles' Day--China's biggest online shopping day--highlight the increasing threat online retailing poses to the credit quality of brick-and-mortar retailers. While the competition from online operators is intense, the record sales also imply that consumer appetite in China remains robust.

This year's Singles' Day--held every November 11--smashed records, with online retail sales at Alibaba Group Holding Ltd. (A+/ Stable/--; cnAAA/--) alone reaching US\$14.3 billion, up more than 50% from US\$9.3 billion in the same day 2014, while JD.com (unrated) reported that it has received more orders than it did in the past five Singles' Day combined, without giving a monetary figure. We believe sales of Singles' Day in China will well exceed the sales posted on Black Friday this year again, which was US\$1.5 billion in sales in 2014, traditionally the biggest online spending day of the year in the U.S.

The shift from offline to online retailing continues apace, with online spending growing rapidly, albeit easing slightly, at 42.1% year on year for the first nine months of 2015. This compares with 14.2% growth for total retail sales of consumer goods and 9.2% growth in sales at department stores, over the same period, which is still well above Standard & Poor's estimated China GDP growth of 6.8% for 2015. Online retailing now accounts for about 12.0% of total retail sales in China, increasing from just 1.1% in 2008.

In our view, online retailing poses an increasing threat to pure offline retailers, most recently driven by rising mobile Internet penetration, which

has led to an increase in transactions completed on mobile devices. At the same time, improvements in back-end logistics and payments further support the online retailing sector. We see an increasing confluence of retailers adopting an omni-channel strategy--a marriage of online and offline services in which offline retailers move online and vice versa. We expect companies with more effective online strategies and platforms that support multiple channels to reap the benefits in the longer run.

For the department store operators we rate in China, online retailing remains limited and we expect sales growth to stay weak. Intensifying competition due to online shopping, alternative retail formats, and overseas purchases, will continue to squeeze the margins of these companies, in our view. That said, we believe Intime Retail (Group) Co. Ltd. (BB-/ Stable/--; cnBB+/--) is best positioned to benefit from online retailing given its more aggressive initiatives in this area and exclusive strategic cooperation with Alibaba. For the other companies, including Golden Eagle Retail Group Ltd. (BB+/Watch Neg/--; cnBBB/Watch Neg), Parkson Retail Group Ltd. (BB-/Stable/--; cnBB+/--), and Maoye International Holdings Ltd. (B/Negative/--; cnB+/--), we believe online retailing remains only at the early stages, and has not substantially lifted their competitiveness. Both Golden Eagle and Maoye have collaborated with Tencent Holdings Ltd. (A/Stable/--; cnAA+/--) through its WeChat social platform, while Parkson has launched an online shopping site.

In the next five years, we believe the Chinese consumer market will maintain good growth potential driven by healthy wage growth, urbanization, and an expanding service economy. Despite an expected slowdown in China's GDP growth, consumption spending remains resilient and serves as a key engine for growth, in our view. Consumption accounted for 58.4% of growth in GDP in the first three quarters of 2015, an increase of 9.3% year on year. This compares with 43.4% from fixed-asset investment and only 1.8% from net exports over the same period.

We have determined, based solely on the developments described herein, that no rating actions are currently warranted. Only a rating committee may determine a rating action and, as these developments were not viewed as material to the ratings, neither they nor this report were reviewed by a rating committee.

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