

Internet/e-Commerce

Red Sea shipping disruption is a seemingly manageable eCommerce headwind

Industry Overview

Red Sea disruptions are a manageable margin risk

While the direct impact to eCommerce companies in our coverage is somewhat limited given low Europe exposure, margin pressure is possible on higher global freight costs and the resetting of ocean freight contracts in April-May. Red Sea disruptions have already led to higher Global ocean freight costs, including a 100% YoY increase in January for China to US West Coast spot rates (though still over 64% below peak COVID levels, see Exhibit 1). Ocean shipping costs could continue to increase and potentially be exacerbated by further disruptions including a planned, three-month 40% reduction in Panama transit starting Feb. 1. However, Head of BofA Asia-Pacific Transportation Research, Nathan Gee, believes disruptions may have peaked and expects a gradual decline in container rates from 2Q to 4Q'24 (see [Shipping & supply chain high frequency tracker](#), published 1/29/24).

Scale and supply chain offset risk for Amazon & Wayfair

Amazon noted shipping disruptions are immaterial to 1Q'24 outlook, with impact likely limited given relatively low Europe exposure (we est. 14-17% of total rev.) and a highly sophisticated global supply chain that should help mitigate higher costs, in our view. Amazon guided to 1Q margin improvement, and for 2024, we estimate total net shipping costs (including ocean freight) of 8.0% of revenue, down 20bps YoY, driven by improving costs-to-serve per unit and lower fuel costs. For context, shipping expense did increase 220bps from 6.5% to 8.7% from 2019-21 when the spot rate for China to US containers were up nearly six-fold at the peak (and Amazon was investing heavily in fulfillment infrastructure), so further rate increases would be worth watching. For Wayfair, several home furnishings competitors including Williams-Sonoma and IKEA have called out possible shipping delays due to Red Sea disruptions. However, Wayfair's Europe exposure is low at 12%E of revenue and the company's global and diversified supply chain (approx. 20k vendors with 40mn products) could help mitigate high sourcing from Asia (China was 50% as of 2020).

See minimal impact for eBay, Etsy, CHWY and SEAT

For eBay, we estimate approx. 30% Europe exposure, but with 90% of GMV attributable to non-new, non-seasonal products, we see more limited risk from shipping disruptions. eCommerce companies with the lowest exposure to shipping disruptions include Vivid Seats (no exposure), Etsy (90% of US sellers source domestically) and Chewy (consumables and pet health are 89% of revs). A small potential benefit to US eCommerce could be higher shipping costs for eCommerce competitors including Temu, Shein and TikTok, but we estimate these companies represent less than 3% of US eCommerce GMV and most freight does not travel through the region.

A modest negative for Online advertising sector

Higher product costs for Online and Offline retailers (a pass through from higher shipping costs) could moderately reduce product demand, potentially impacting ad spend. A bigger risk is that retailers who cannot pass through shipping costs will look to offset higher COGS with lower ad spend, but with retail at roughly 30%E of total ad spend, we think exposure for Alphabet & Meta is very modest, at less than 2%.

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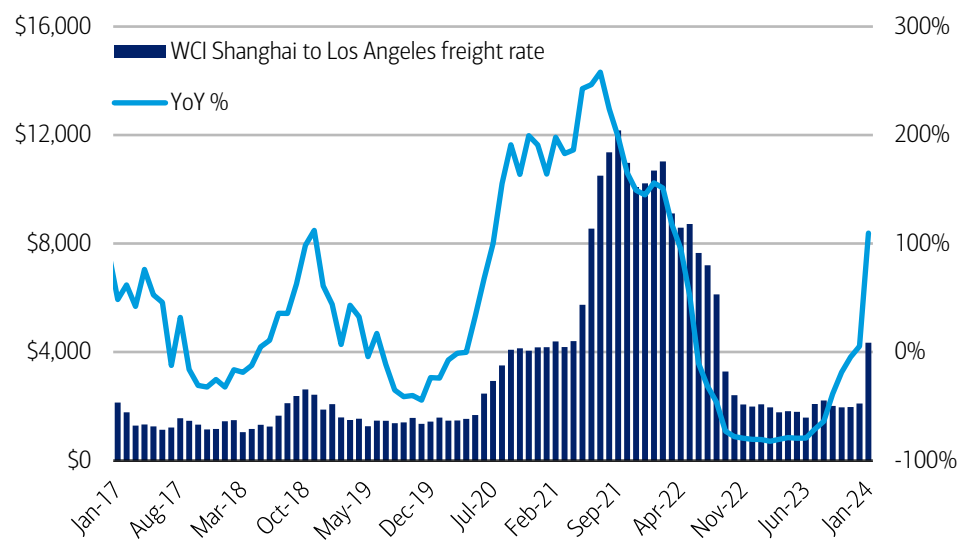
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GMV – Gross Merchandise Value

Exhibit 1: Ocean freight costs, China to West Coast

Freight rates have doubled but are still well below peak COVID levels



Source: Bloomberg

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