

Hong Kong

ADD (no change)

Consensus ratings*: Buy 19 Hold 0 Sell 0

Current price: HK\$286.0
 Target price: HK\$379.0
 Previous target: HK\$379.0
 Up/downside: 32.5%
 CGI / Consensus: -9.4%

Reuters: 9618.HK
 Bloomberg: 9618 HK
 Market cap: US\$114,832m
 HK\$891,740m

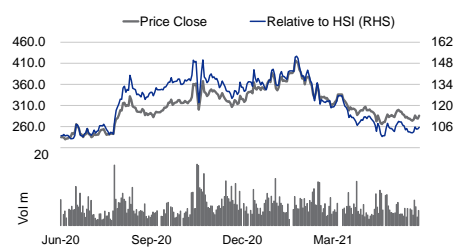
Average daily turnover: US\$168.7m
 HK\$1,310m

Current shares o/s: 3,112m
 Free float: 51.0%

*Source: Bloomberg

Key changes in this note

N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1	-11.5	24.3
Relative (%)	-2.3	-12.6	8.6

Major shareholders	% held
Tencent	21.3
Qiangdong Liu	20.0
Walmart	10.8

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JD.com Inc

New strategy updates

- JD hosted an Investor Day last night to talk about its future strategy.
- JD updated its Strategy 2.0, with three new strategic goals: 1) to empower the offline economy, 2) improve social well-being, and 3) promote a green economy.
- JD's core advantages lie in its over 8m SKUs, its nationwide logistics network, with only 31.2 days inventory, 500m customers, and the capability to deliver about 90% of its orders within two days. In 2021, JD expects to increase its customer base by over 100m, reaching 600m.
- JD will continue to invest in Jingxi Pinpin, and it is confident that it can reach a higher ROI than its peers' because of its logistics and supply chain advantages.
- Reiterate Add with an unchanged DCF-based TP of HK\$379.

From Strategy 1.0 to 2.0: from RaaS to TIE

In 2017, JD announced its retail as a service (RaaS) strategy, leveraging its retail business and infrastructure. Recently, JD underwent a structural separation, with the listing of JD Logistics (JDL) and JD Health, and the opening-up of its ecosystem, with a higher portion of its 3P business for retail and external customers for JDL. In the future, JD expects retail to be boundaryless, and it wants to use different retail models to fulfill different consumer needs. Along with its supply chain advantages, JD reversed its strategic positioning to be a technology and service enterprise with the supply chain at its core. The updated Strategy 2.0 is called TIE (technology, industry and ecosystem).

Leveraging its advantages to create an omni-channel ecosystem

JD will focus on building its omni-channel ecosystem to fulfill various needs under different consumption patterns. For example, its cooperation with Apple includes all channels: e.g. Apple opened an online flagship store in JD, and JD opened its platform to 1,200 offline stores with Apple certificates. Also, JD introduced its supply chain to TikTok, Kuaishou and Trip.com. In top-tier markets, JD will strengthen its one-stop shopping capability to provide its merchants with secure logistics and operation support, and to provide its customers with a more diversified product profile to improve consumer mindshare and shopping frequency. JD's GMV growth for FMCG products reached a CAGR of over 30% yoy from 2018 to 2020, while reducing losses. Management expects FMCG GMV to maintain a CAGR of over 30% yoy from 2021 to 2023. Its personal care products have reached breakeven. In the lower-tier markets, utilizing the Jingxi business group, JD will unlock its incremental growth. In the past three years, JD's user base in lower-tier cities increased by 70% vs. 42% for Tier 1 and 2 cities.

Synergies to support industry-leading ROI

JD will continue to invest in Jingxi Pinpin, and it is confident that it can achieve a higher ROI than its peers'. On one hand, the community group purchase model requires local short supply chains, which complements JD's current business. On the other hand, JD's capability in logistics, technology, B2B business and operating management support synergy between Pinpin and its other businesses. Also, JD's big SKU pool enables it to provide industry leading SKUs in the community group purchase business. To increase its ROI, JD is focusing on improving the customer experience, with further investment in the areas with a good customer experience. As of June 2021, Jinxi Pinpin has entered 20 provinces in China.

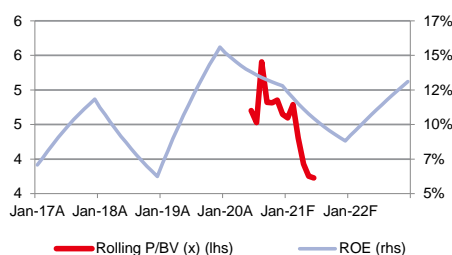
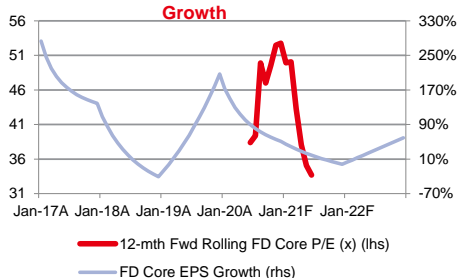
Reiterate Add with an unchanged DCF-based TP of HK\$379

We reiterate our Add rating for JD, since we believe its investment to strengthen its supply chain advantages will pay off, and it has great potential to improve its margins. Management expects the NPM of JD Retail to reach mid-to-high single digits in the medium term, along with the improving economy of scale, technology and 3p ecosystem.

Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (Rmbm)	576,888	745,802	952,586	1,196,600	1,466,965
Operating EBITDA (Rmbm)	12,553	(13,185)	16,999	33,960	47,305
Net Profit (Rmbm)	12,184	49,405	13,536	22,213	34,422
Core EPS (Rmb)	3.62	5.41	5.31	8.47	11.30
Core EPS Growth	201%	49%	(2%)	59%	33%
FD Core P/E (x)	64.62	42.83	43.62	27.36	20.51
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	53.28	NA	38.92	20.14	14.92
P/FCFE (x)	NA	102.0	NA	NA	NA
Net Gearing	(57.2%)	(62.4%)	(56.9%)	(51.3%)	(45.4%)
P/BV (x)	8.49	3.84	3.62	3.30	2.91
ROE	15.2%	12.5%	8.7%	12.8%	15.3%
CGI/consensus EPS (x)			0.72	0.78	0.89

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth


Profit & Loss

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	576,888	745,802	952,586	1,196,600	1,466,965
Gross Profit	89,414	116,158	146,845	189,738	238,053
Operating EBITDA	12,553	(13,185)	16,999	33,960	47,305
Depreciation And Amortisation	(4,992)	(7,050)	(8,180)	(9,256)	(10,280)
Operating EBIT	7,561	(20,235)	8,819	24,705	37,025
Financial Income/(Expense)	1,061	1,628	1,628	1,628	1,628
Pretax Income/(Loss) from Assoc.	(1,738)	4,291	3,000	3,000	3,000
Non-Operating Income/(Expense)	5,375	32,556	5,000	1,000	500
Profit Before Tax (pre-EI)	12,258	18,241	18,447	30,333	42,154
Exceptional Items					
Pre-tax Profit	12,258	18,241	18,447	30,333	42,154
Taxation	(1,802)	(1,482)	(1,496)	(2,461)	(3,817)
Exceptional Income - post-tax	1,434	32,578	(3,482)	(5,727)	(3,983)
Profit After Tax	11,890	49,337	13,468	22,145	34,354
Minority Interests	294	68	68	68	68
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	12,184	49,405	13,536	22,213	34,422
Recurring Net Profit	10,750	16,828	17,019	27,940	38,405
Fully Diluted Recurring Net Profit	10,750	16,828	17,019	27,940	38,405

Cash Flow

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	12,553	(13,185)	16,999	33,960	47,305
Cash Flow from Invt. & Assoc.					
Change In Working Capital	7,766	6,389	21,717	26,529	32,422
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	4,462	73,796	9,081	2,091	2,207
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
Cashflow From Operations	24,781	66,999	47,797	62,580	81,935
Capex	(7,919)	(9,653)	(9,547)	(9,900)	(10,484)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(17,430)	(53,540)	(52,346)	(66,774)	(86,993)
Cash Flow From Investing	(25,349)	(63,193)	(61,893)	(76,674)	(97,478)
Debt Raised/(repaid)	(166)	3,260	326	359	394
Proceeds From Issue Of Shares	0	43,541	0	0	0
Shares Repurchased	(131)	0	0	0	0
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	2,869	0	(184)	(166)	(149)
Cash Flow From Financing	2,572	46,801	142	193	245
Total Cash Generated	2,004	50,607	(13,954)	(13,902)	(15,298)
Free Cashflow To Equity	(734)	7,066	(13,770)	(13,736)	(15,149)
Free Cashflow To Firm	(568)	3,806	(14,096)	(14,095)	(15,543)

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	64,515	151,245	149,436	150,108	152,299
Total Debtors	11,916	16,526	16,773	17,094	17,494
Inventories	57,932	58,933	64,826	71,308	78,439
Total Other Current Assets	4,731	8,098	8,308	8,532	8,773
Total Current Assets	139,095	234,801	239,342	247,043	257,007
Fixed Assets	20,654	22,597	23,057	22,109	19,823
Total Investments	56,993	97,586	133,693	181,823	247,279
Intangible Assets	21,645	28,492	31,121	33,700	36,230
Total Other Non-Current Assets	21,337	38,811	42,728	47,434	53,147
Total Non-current Assets	120,629	187,487	230,600	285,066	356,479
Short-term Debt	0	3,260	3,586	3,944	4,339
Current Portion of Long-Term Debt					
Total Creditors	106,507	127,816	151,207	179,221	212,865
Other Current Liabilities	33,510	42,940	49,162	56,327	64,582
Total Current Liabilities	140,017	174,017	203,955	239,493	281,786
Total Long-term Debt	6,912	9,595	9,595	9,595	9,595
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	12,170	17,057	17,057	17,057	17,057
Total Non-current Liabilities	19,082	26,652	26,652	26,652	26,652
Total Provisions	0	0	0	0	0
Total Liabilities	159,099	200,669	230,607	266,145	308,438
Shareholders' Equity	81,856	187,543	205,259	231,888	270,972
Minority Interests	18,768	34,076	34,076	34,076	34,076
Total Equity	100,624	221,619	239,335	265,964	305,048

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	24.9%	29.3%	27.7%	25.6%	22.6%
Operating EBITDA Growth	44%	(205%)	N/A	100%	39%
Operating EBITDA Margin	2.18%	(1.77%)	1.78%	2.84%	3.22%
Net Cash Per Share (Rmb)	19.78	45.80	43.78	42.60	41.90
BVPS (Rmb)	28.10	62.06	65.95	72.33	82.06
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	14.7%	8.1%	8.1%	8.1%	9.1%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	5.47	3.26	2.66	2.01	1.56
Inventory Days	38.17	33.97	28.03	24.68	22.24
Accounts Payables Days	63.80	57.33	52.26	48.51	46.11
ROIC (%)	125%	1123%	327%	(182%)	(105%)
ROCE (%)	8.8%	(10.9%)	4.3%	9.9%	12.9%
Return On Average Assets	4.01%	4.44%	3.43%	5.24%	6.41%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total GMV growth (%)	24.4%	25.3%	21.5%	27.4%	24.2%
Active customer accounts growth (%)	18.6%	30.4%	18.0%	18.0%	15.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Description:	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Mar 2021		
613 companies under coverage for quarter ended on 31 Mar 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	1.1%
Hold	19.6%	0.2%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)

JD.com Inc (9618 HK)

— Price Close



RECOMMENDATION FRAMEWORK

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Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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