

COMPANY UPDATE

JD.com (9618 HK)

Cautiously Optimistic; Still Expecting Better-Than-Peers Growth

We expect the recent COVID-19 lockdowns to drag JD's bottoming-out recovery in 2Q22. However, we still like JD due to its: a) better-than-peers top-line growth, b) unique 1P business model and solid logistics network, c) lower susceptibility to regulatory risk, and d) continued healthy margin expansion anchored by 3P segment growth. We forecast 17% revenue growth in 2022, and 1.5% net margin growth (-2% yoy net profit growth). Maintain BUY. Lower target price to HK\$320.00 (US\$82.00).

WHAT'S NEW

- Expect resilient growth despite challenging environment.** We forecast 1Q22 revenue to grow at 15% (at the lower boundary of the management's previously guided 15-20% yoy growth) as the intermittent lockdowns that started since mid-Mar 22 has put pressure on its fulfilment activities. JD.com (JD) stated that its offline stores are currently facing restrictions from operating. However, most of its offline stores are mostly located within the lower tier cities, thus the overall top-line impact should be limited. The main concern by the company currently is its fulfilment capabilities as consumers may need to wait longer than expected to receive their items, which put the items ordered at risk of being cancelled. On top of that, JD also mentioned it does not face a rider shortage despite the lockdowns. The management however mentioned risks such as the lack of warehouse sorting staff as other concerns in delaying its fulfilment capabilities. All in, we estimate 1Q22 revenue to come in at Rmb233b, representing 15% yoy growth, versus consensus' estimate of Rmb241b. We also trim 2Q22 revenue forecast by 5% to 13% yoy growth, reflecting the lockdown in several regions.
- Margin expectations.** The company expects margin pressure due to potential higher fulfilment expenses (ie higher shipping charges, rental cost), higher S&M spending in conjunction with the CNY Gala show and higher opex charges (due to the recent staff reorganisation which will result in one-off compensation) to weigh on overall margin. JD had guided that the layoff is mainly within the New Initiative segment (mostly from Jingxi PinPin as well as other experimental business units from JD Retail and JD Logistics). In terms of 1Q22 adjusted net margin, the company expects contraction of 1ppt yoy which should translate to approximately 1% adjusted net margin in 1Q22.
- Exposure to resilient product categories.** JD expects demand for 3C products to remain resilient despite supply constraint (due to chip shortage). Product categories such as apparels and beauty items are expected to face headwinds mainly due to seasonality (ie change of weather) as well as weaker consumer sentiment. According to the National Bureau of Statistics (NBS) during Jan 22 and Feb 22, China's retail sales of communication equipment and apparel achieved 4.8/4.8% yoy growth respectively.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	745,801.9	951,592.2	1,110,600.2	1,359,732.4	1,558,993.8
EBITDA	19,196.1	14,548.1	20,145.5	41,393.5	60,647.2
Operating profit	12,342.8	4,141.0	6,787.2	24,576.1	40,239.2
Net profit (rep./act.)	49,411.9	(3,543.6)	4,850.2	18,714.3	30,008.4
Net profit (adj.)	16,834.3	17,223.1	16,784.8	32,825.5	44,609.6
EPS (Fen)	525.3	553.7	532.7	1,028.8	1,376.5
PE (x)	33.3	31.6	32.8	17.0	12.7
P/B (x)	2.7	2.7	2.7	2.5	2.2
EV/EBITDA (x)	25.7	34.0	24.5	11.9	8.1
Dividend yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	6.6	(0.4)	0.4	1.4	1.9
Net debt/(cash) to equity (%)	(29.8)	(28.5)	(33.4)	(42.2)	(51.1)
Interest cover (x)	97.6	n.a.	34.0	42.9	266.1
ROE (%)	32.7	n.a.	2.4	8.7	12.6
Consensus net profit	-	-	19,933	29,428	39,191
UOBKH/Consensus (x)	-	-	0.84	1.12	1.14

Source: JD.com, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$215.40
Target Price	HK\$320.00
Upside	+48.6%
(Previous TP)	HK\$339.00

COMPANY DESCRIPTION

JD.com is the leading online direct sales player in China.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	9618 HK
Shares issued (m):	2,673.7
Market cap (HK\$m):	671,610.8
Market cap (US\$m):	85,676.7
3-mth avg daily t'over (US\$m):	349.2

Price Performance (%)

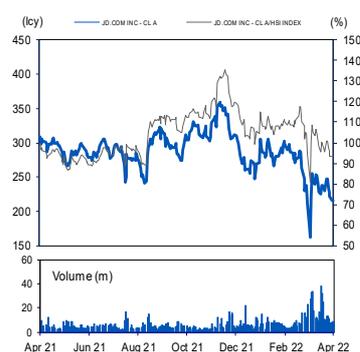
52-week high/low	HK\$359.20/HK\$161.90			
1mth	3mth	6mth	1yr	YTD
2.0	(21.7)	(30.9)	(31.8)	(21.4)

Major Shareholders

	%
Richard Liu	13.6
Walmart Inc.	9.5
Tiger Global Management	3.5

FY22 NAV/Share (RMB)	65.08
FY22 Net Cash/Share (RMB)	21.74

PRICE CHART



Source: Bloomberg

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- 3P segment.** Management expects 3P business growth will continue to outpace 1P growth. JD had introduced merchant support initiatives since 4Q21 in conjunction with the policy support towards SMEs recovering from the pandemic. Although JD expects the merchant support initiative to hurt its overall margin performance, the company expects the gradual increase in revenue contribution by 3P segment should offset the shortfall. We estimate 3P revenue growth of 32% (vs Baba's CMR revenue growth of 1.7%) to Rmb18.6b, accounting to 8% of total revenue in 1Q22 (vs 1Q21: 7%).

STOCK IMPACT

- Least expose to regulatory risk.** Despite the accommodating remarks by vice-president (on 15 Mar 22), there are still four new regulation-related news circulating to-date (two entertainment-related, one e-commerce- & local consumer service-related and one cybersecurity-related). At this juncture, we think JD is the least susceptible player to be subjected to regulatory risk due to it being less aggressive in terms of market share expansion.
- 2022 outlook.** For full-year 2022, management remains cautiously optimistic pending the easing of lockdown measures. The tone had actually turned softer compared to the management's previous guidance of FY22 top-line growth of 20% and stable JD retail margin for FY22 vs FY21: 3.1%. Management expects operating loss for the New Business segment to narrow sequentially in 2022. As the near-term visibility remains unclear, we forecast 2022 revenue growth of 17% to Rmb1,100.6b versus consensus' estimate of Rmb1,144.6b, with adjusted net margin estimate of 1.5%.

EARNINGS REVISION/RISK

- We lowered our 1Q22 revenue estimate by 4%, factoring in impact from the pandemic. We lowered 1Q22 adjusted net profit by 45% in view of the higher opex, representing 15.4% of total revenue (vs 1Q21: 13.6%).
- Risks:** Intensified competition in the fresh produce and FMCG segments from PDD, slowdown in macro environment, delisting from US market, regulations.

VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$320.00 (US\$82.00)**, implying 0.7x EV/sales. We like JD for its room for margin improvement on better operating efficiency in its own ecosystem as well as: a) above average top-line growth, b) being less susceptible to regulatory risk, and c) margin which should be supported by 3P segment growth. The company is trading at 0.38x EV/sales, 2.2SD below its historical mean at 0.63x.

SHARE PRICE CATALYST

- Strong new user growth, continued margin expansion with improved operating efficiency and further extension of logistics services to internal and external customers.

VALUATION

2022E	Revenue (Rmb)	EBITDA	EV/EBITDA	To JD (HK\$)	JD stake	To JD (10% discount)	HK\$/share
JD Retail	1,110,600	28,542	16x	561,989	Majority	505,790	158
JD Logistics				111,987	81%	81,638	26
JD Cloud and digital				243,385	37%	81,047	28
JD Health	58,015		3x (PS)	214,181	67%	129,151	40
Key Investments						49,434	15
Net cash				164,289		164,289	51
SOTP value				1,295,831		1,011,350	320

Source: JD.com, UOB Kay Hian

12-MONTH FORWARD EV/SALES BAND



Source: JD.com, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	951,592	1,110,600	1,359,732	1,558,994
EBITDA	14,548	20,146	41,394	60,647
Deprec. & amort.	10,407	13,358	16,817	20,408
EBIT	4,141	6,787	24,576	40,239
Total other non-operating income	(7,546)	0	0	0
Net interest income/(expense)	824	(592)	(965)	(228)
Pre-tax profit	(2,581)	6,195	23,611	40,011
Tax	(1,887)	(1,345)	(4,897)	(10,003)
Minorities	924	0	0	0
Net profit	(3,544)	4,850	18,714	30,008
Net profit (adj.)	17,223	16,785	32,826	44,610

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	15,030	33,655	53,140	66,413
Pre-tax profit	(2,581)	6,195	23,611	40,011
Tax	(1,887)	(1,345)	(4,897)	(10,003)
Deprec. & amort.	10,407	13,358	16,817	20,408
Associates	1	2	3	4
Working capital changes	9,091	15,446	17,608	15,997
Other operating cashflows	(1)	(2)	(3)	(4)
Investing	(19,032)	(22,212)	(27,195)	(31,180)
Capex (growth)	(19,032)	(22,212)	(27,195)	(31,180)
Capex (maintenance)	0	0	1	2
Investments	0	0	0	0
Proceeds from sale of assets	0	0	1	2
Others	0	0	(2)	(4)
Financing	(25,034)	(3,200)	(3,200)	(3,200)
Dividend payments	0	0	1	2
Issue of shares	0	0	0	0
Proceeds from borrowings	(25,034)	(3,200)	(3,200)	(3,200)
Loan repayment	0	0	1	2
Others/interest paid	0	0	(2)	(4)
Net cash inflow (outflow)	(29,036)	8,243	22,745	32,033
Beginning cash & cash equivalent	86,085	57,049	65,292	88,037
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	57,049	65,292	88,037	120,070

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	31,221	40,075	50,452	61,224
Other LT assets	164,890	164,890	164,890	164,890
Cash/ST investment	57,049	65,292	88,037	120,070
Other current assets	173,233	191,555	220,625	244,064
Total assets	426,394	461,812	524,004	590,248
ST debt	0	0	0	0
Other current liabilities	207,624	241,392	288,070	327,505
LT debt	0	(3,200)	(6,400)	(9,600)
Other LT liabilities	1,618	1,618	1,618	1,618
Shareholders' equity	200,209	205,059	223,774	253,782
Minority interest	16,943	16,943	16,943	16,943
Total liabilities & equity	426,394	461,812	524,004	590,248

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	1.5	1.8	3.0	3.9
Pre-tax margin	(0.3)	0.6	1.7	2.6
Net margin	(0.4)	0.4	1.4	1.9
ROA	n.a.	1.1	3.8	5.4
ROE	n.a.	2.4	8.7	12.6
Growth				
Turnover	27.6	16.7	22.4	14.7
EBITDA	(24.2)	38.5	105.5	46.5
Pre-tax profit	(105.1)	n.a.	281.1	69.5
Net profit	(107.2)	n.a.	285.8	60.3
Net profit (adj.)	2.3	(2.5)	95.6	35.9
EPS	5.4	(3.8)	93.1	33.8
Leverage				
Debt to total capital	0.0	(1.5)	(2.7)	(3.7)
Debt to equity	0.0	(1.6)	(2.9)	(3.8)
Net debt/(cash) to equity	(28.5)	(33.4)	(42.2)	(51.1)
Interest cover (x)	n.a.	34.0	42.9	266.1

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