

Hong Kong

ADD (no change)

Consensus ratings*: Buy 26 Hold 1 Sell 0

Current price: HK\$235.0
 Target price: HK\$339.0
 Previous target: HK\$327.0
 Up/downside: 44.3%
 CGI / Consensus: -0.7%

Reuters: 9618.HK
 Bloomberg: 9618 HK
 Market cap: US\$93,511m
 HK\$734,021m

Average daily turnover: US\$385.0m
 HK\$3,021m

Current shares o/s: 3,107m
 Free float: 51.0%

*Source: Bloomberg

Key changes in this note

- FY22F EPS increased by 9.6%.
- FY23F EPS increased by 3.7%.
- FY24F EPS increased by 2.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-6.3	9.1	-15.8
Relative (%)	-3.2	9.5	7

Major shareholders	% held
Tencent	21.3
Qiangdong Liu	20.0
Walmart	10.8

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JD.com Inc

2Q22 top line likely to be in line, with a better margin

- JD disclosed Jun 18 online shopping festival sales growth of about 10% yoy; we expect the sales growth rate to be 10% to low teens for June and July, recovering from flattish to low-single digits in 2Q22.
- With strict cost control measures and prudent investments in new businesses to offset margin pressure amid the Omicron pandemic, we expect 2Q22 non-GAAP NPM to be stable yoy. Management reiterated its flat or slightly improved non-GAAP net margin target for the year.
- Reiterate Add with a new DCF-based TP of HK\$339 since we expect JD to benefit from more 3P merchants joining its platform and to deliver better than industry average revenue growth to gain market share.

We expect 2Q22 sales to be in line with our expectations

We expect JD's sales growth in Apr to be in line with the online social retail sales growth disclosed by the National Bureau of Statistics (NBS) of about -1% yoy. In May, excluding the kick-off event in the Jun 18 online shopping festival at 8pm of May 31, the qoq recovery of JD's sales was minimal, but the kick-off event was a big driver of May sales, according to management. For the Jun 18 online shopping festival, JD disclosed its sales growth of about 10% yoy; we expect the growth rate to be about the same for the month. Management also mentioned that the growth momentum has continued MTD in Jul, with a growth rate of 10% to low-teens. We expect the sales growth in 2Q22 to be in line with our expectation at about 3% yoy. Management said during an update call that consumption coupons had some stimulus effect in certain cities, but not nationwide.

We expect stable 2Q22 OPM yoy

JD cooperated with the local governments in the lockdown areas to provide daily necessities to residences, which we expect to hurt its 2Q22 margins, as some inter-district logistics expenses were incurred, and special protection for employees was implemented. Management also expects the drop in sales contribution of 3P business and product mix changes to drag down margins. Management said electronics and FMCG products maintained solid growth in 2Q22, while apparel sales were negatively impacted by weak demand. However, in 2Q22, JD continued to implement strict cost control measures to focus on spending ROI, and to slow down and be more prudent in its investment in new businesses. JD will continue to focus on its core business and strategy in the next few quarters to ensure a stable margin and healthy cash flow. Management reiterated its flat or slightly improved non-GAAP net margin target for the year. We expect the loss of JD logistics to narrow and the investment in new businesses to slow down, as JD is restructuring its underperforming new businesses, such as Jingxi Pinpin.

JD extended its cooperation with Tencent

JD recently renewed its cooperation with Tencent for the next three years. Tencent will continue to provide JD with 1st and 2nd level entry points, and in return, JD will issue US\$220m in shares to Tencent.

Reiterate Add with a new DCF-based TP of HK\$339

We raised our FY22–24F non-GAAP EPS by 9.6%, 3.7% and 2.4%, respectively, as JD has strong ability to control spending and maintain stable margins. We reiterate our Add rating for JD and raised our DCF-based TP to HK\$339 (risk-free rate: 4.0%, beta: 1.24, WACC: 13.4%) since we expect it to benefit from more 3P merchants joining its platform and to deliver better than industry average revenue growth to gain market share. The key risks include 1) a weaker macro environment, which would affect domestic consumption, and 2) supply chain shortages, which would affect JD's topline growth.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	745,802	951,592	1,067,302	1,315,625	1,557,568
Operating EBITDA (Rmbm)	(15,153)	26,298	32,042	37,489	51,429
Net Profit (Rmbm)	49,405	(3,560)	(60)	17,847	28,634
Core EPS (Rmb)	5.41	5.39	5.26	8.07	11.08
Core EPS Growth	49.4%	(0.5%)	(2.4%)	53.6%	37.3%
FD Core P/E (x)	36.10	36.30	37.19	24.22	17.64
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	19.11	16.22	13.92	10.09
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	(62.4%)	(71.9%)	(70.1%)	(69.5%)	(68.4%)
P/BV (x)	3.24	2.99	2.95	2.69	2.39
ROE	12.5%	8.7%	8.1%	11.8%	14.6%
% Change In Core EPS Estimates			9.64%	3.73%	2.44%
CGI/consensus EPS (x)			(0.00)	0.63	0.73

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

2Q22 top line likely to be in line, with a better margin

Home appliances and 3C products outperformed

According to management, sales growth of home appliances was robust because of the release of backlog demand during the lockdown period in Jun, but the growth of mobile phone sales was unsatisfactory because of supply chain disruptions for iPhones and the delay in new model launches of Android phones. FMCG products enjoyed healthy growth during the pandemic lockdown period. However, demand for apparel and other fashion products was weak during the period, and it has not fully recovered yet. Management also mentioned that the performance of JD's third party (3P) merchants was weaker than its self-operated (1P) business because 3P merchants faced worse logistics issues during the lockdowns. In the 3P business, sales growth of home appliances, 3C and healthcare products was better than that of apparel and other fashion products. In the cities that launched consumption vouchers, such as Shenzhen, the consumption recovery was significant, according to JD, but the consumption vouchers have been launched in only a limited number of cities so far, not the nationwide market.

Figure 1: JD earnings revisions

Rmb m	FY22F			FY23F			FY24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales	1,067,302	1,067,302	0.0%	1,315,625	1,315,625	0.0%	1,557,568	1,557,568	0.0%
GP margin	13.8%	13.8%	0.0%	14.4%	14.4%	0.0%	14.8%	14.8%	0.0%
Operating margin (Non-GAAP)	1.4%	1.5%	0.1%	2.0%	2.1%	0.1%	2.5%	2.6%	0.1%
Net income (Loss) (GAAP)	7,620	-60	-100.8%	16,663	17,847	7.1%	27,513	28,634	4.1%
Net income (Loss) (Non-GAAP)	15,777	17,298	9.6%	26,380	27,364	3.7%	37,764	38,686	2.4%
EPS (Non-GAAP) (Rmb)	4.80	5.26	9.6%	7.78	8.07	3.7%	10.82	11.08	2.4%

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: Our forecasts versus consensus

Rmb m	CGI forecasts			BBG consensus			Diff.		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Sales	1,067,302	1,315,625	1,557,568	1,082,000	1,284,000	1,484,000	-1.4%	2.5%	5.0%
GP margin	13.8%	14.4%	14.8%	13.6%	14.0%	14.3%	0.2%	0.4%	0.5%
Operating margin (Non-GAAP)	1.5%	2.1%	2.6%	1.0%	1.6%	2.1%	0.5%	0.5%	0.5%
Net income (Loss) (GAAP)	(60)	17,847	28,634	4,970	16,656	24,620	-101.2%	7.1%	16.3%
Net income (Loss) (Non-GAAP)	17,298	27,364	38,686	18,512	27,710	36,925	-6.6%	-1.2%	4.8%

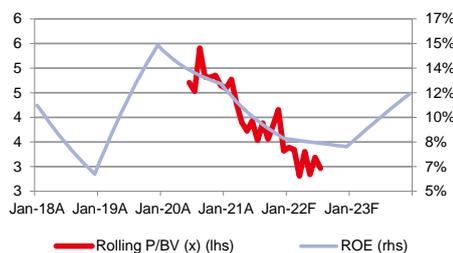
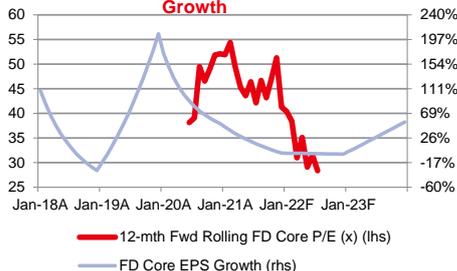
SOURCES: CGIS RESEARCH ESTIMATES, BLOOMBERG

Figure 3: JD DCF valuation

DCF computation (Rmb m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
EBIT (non-GAAP)	15,846	28,152	40,672	44,739	49,213	54,135	59,548	65,503	72,053	79,259	85,599	92,447	99,843
Taxes	107	-1,882	-3,081	303	334	367	404	444	489	538	581	627	677
NOPAT	15,954	26,270	37,592	45,043	49,547	54,502	59,952	65,947	72,542	79,796	86,180	93,074	100,520
NOPAT growth	48.5%	64.7%	43.1%	19.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	8.0%	8.0%	8.0%
D&A	9,946	11,438	12,857	13,243	13,640	14,049	14,471	14,905	15,352	15,813	16,287	16,776	17,279
Funds from operation	25,899	37,707	50,449	58,286	63,187	68,551	74,423	80,852	87,894	95,609	102,467	109,850	117,799
Change in net working Capital	27,754	34,003	41,682	42,933	44,221	45,547	46,914	48,321	49,771	51,264	52,802	54,386	56,017
Cash flow from operation	53,653	71,710	92,131	101,218	107,408	114,098	121,336	129,173	137,665	146,873	155,269	164,236	173,816
Capex	-15,031	-14,890	-14,940	-15,388	-15,850	-16,325	-16,815	-17,320	-17,839	-18,374	-18,926	-19,493	-20,078
Free cash flow from operation	38,622	56,820	77,191	85,830	91,558	97,773	104,521	111,854	119,826	128,498	136,343	144,742	153,738
FCF growth	170.9%	47.1%	35.9%	11.2%	6.7%	6.8%	6.9%	7.0%	7.1%	7.2%	6.1%	6.2%	6.2%
Terminal free cash flow	1,519,096	WACC Assumptions											
Total discounted free cash flow	546,329	Cost of equity											13%
Present value of terminal free cash flow	302,943	Risk free rate											4%
		Market Risk Premium											8%
		Beta											1.24
		Cost of debt											6%
		Kd (after tax)											5%
		Target Equity / (Debt + Equity)											100%
		WACC											13.4%
		Terminal growth											3%
Total present value of forecasted free cash flows	849,272												
Less: Net Debt	-51,486												
Equity Value	900,758												
No. of shares (millions)	3,201												
Per share Equity Value (Rmb)	281.4												
Exchange rate	0.8												
Target price (US\$)	339.00												

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE

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


Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	745,802	951,592	1,067,302	1,315,625	1,557,568
Gross Profit	114,190	130,457	156,998	200,421	243,174
Operating EBITDA	(15,153)	26,298	32,042	37,489	51,429
Depreciation And Amortisation	(5,081)	(1,390)	(9,946)	(11,438)	(12,857)
Operating EBIT	(20,235)	24,908	22,096	26,052	38,572
Financial Income/(Expense)	1,628	(1,213)	(1,213)	(1,213)	(1,213)
Pretax Income/(Loss) from Assoc.	4,291	(4,918)	(4,000)	3,000	3,000
Non-Operating Income/(Expense)	32,556	(590)	(600)	500	500
Profit Before Tax (pre-EI)	18,241	18,186	16,283	28,338	40,859
Exceptional Items					
Pre-tax Profit	18,241	18,186	16,283	28,338	40,859
Taxation	(1,482)	(1,887)	107	(1,882)	(3,081)
Exceptional Income - post-tax	32,578	(20,767)	(17,357)	(9,517)	(10,052)
Profit After Tax	49,337	(4,467)	(967)	16,939	27,726
Minority Interests	68	908	908	908	908
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	49,405	(3,560)	(60)	17,847	28,634
Recurring Net Profit	16,828	17,207	17,298	27,364	38,686
Fully Diluted Recurring Net Profit	16,828	17,207	17,298	27,364	38,686

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	(15,153)	26,298	32,042	37,489	51,429
Cash Flow from Invt. & Assoc.					
Change In Working Capital	18,678	19,518	27,754	34,003	41,682
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	40,145	(2,301)	(11,352)	3,079	1,849
Net Interest (Paid)/Received	(1,125)	(1,213)	(1,213)	(1,213)	(1,213)
Tax Paid					
Cashflow From Operations	42,544	42,301	47,231	73,357	93,747
Capex	(10,919)	(14,430)	(11,738)	(11,762)	(11,968)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(46,891)	(59,818)	(56,167)	(71,252)	(91,102)
Cash Flow From Investing	(57,811)	(74,248)	(67,905)	(83,014)	(103,071)
Debt Raised/(repaid)	4,792	(2,124)	437	480	528
Proceeds From Issue Of Shares	31,342	0	0	0	0
Shares Repurchased	(312)	(5,246)	0	0	0
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	35,250	26,873	(166)	(149)	(134)
Cash Flow From Financing	71,072	19,503	271	331	394
Total Cash Generated	55,805	(12,444)	(20,403)	(9,326)	(8,930)
Free Cashflow To Equity	(10,474)	(34,071)	(20,237)	(9,177)	(8,795)
Free Cashflow To Firm	(14,141)	(30,734)	(19,461)	(8,444)	(8,110)

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet					
(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	151,245	191,256	193,767	211,936	236,001
Total Debtors	16,526	22,069	22,135	22,293	22,548
Inventories	58,933	75,601	83,161	91,478	100,625
Total Other Current Assets	8,098	10,745	11,324	11,957	12,648
Total Current Assets	234,801	299,672	310,388	337,664	371,822
Fixed Assets	22,597	32,944	34,655	34,404	32,290
Total Investments	97,586	82,311	111,942	152,242	207,048
Intangible Assets	28,492	32,598	34,557	36,321	37,897
Total Other Non-Current Assets	38,811	48,983	52,886	57,421	62,750
Total Non-current Assets	187,487	196,835	234,040	280,387	339,986
Short-term Debt	3,260	4,368	4,804	5,285	5,813
Current Portion of Long-Term Debt					
Total Creditors	127,816	169,590	200,799	238,224	283,226
Other Current Liabilities	42,940	47,678	54,586	62,537	71,689
Total Current Liabilities	174,017	221,636	260,190	306,046	360,729
Total Long-term Debt	9,595	9,386	9,386	9,386	9,386
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	17,057	18,701	18,701	18,701	18,701
Total Non-current Liabilities	26,652	28,087	28,087	28,087	28,087
Total Provisions	0	0	0	0	0
Total Liabilities	200,669	249,723	288,277	334,133	388,816
Shareholders' Equity	187,543	208,912	218,277	246,045	285,118
Minority Interests	34,076	37,872	37,872	37,872	37,872
Total Equity	221,619	246,784	256,149	283,917	322,991

Key Ratios					
	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	29.3%	27.6%	12.2%	23.3%	18.4%
Operating EBITDA Growth	(221%)	N/A	22%	17%	37%
Operating EBITDA Margin	(2.03%)	2.76%	3.00%	2.85%	3.30%
Net Cash Per Share (Rmb)	45.80	57.12	56.11	59.84	65.03
BVPS (Rmb)	62.06	67.23	68.20	74.63	83.97
Gross Interest Cover	(17.98)	20.53	18.21	21.47	31.79
Effective Tax Rate	8.1%	10.4%	0.0%	6.6%	7.5%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	3.26	3.65	3.97	3.06	2.46
Inventory Days	33.86	29.90	31.83	28.58	26.75
Accounts Payables Days	57.15	54.96	60.84	57.60	56.85
ROIC (%)	1123%	923%	390%	(156%)	(82%)
ROCE (%)	(10.2%)	10.1%	8.3%	9.2%	12.1%
Return On Average Assets	4.44%	3.81%	3.38%	4.76%	5.86%

Key Drivers					
	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total GMV growth (%)	25.3%	21.5%	15.4%	24.2%	18.8%
Active customer accounts growth (%)	30.4%	20.7%	12.0%	15.0%	10.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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643 companies under coverage for quarter ended on 30 Jun 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

JD.com Inc (9618 HK)

RECOMMENDATION FRAMEWORK

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#11