

Hong Kong

ADD (no change)

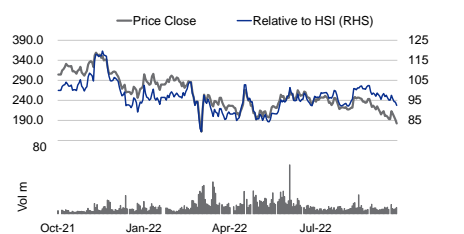
Consensus ratings*: Buy 27 Hold 1 Sell 0

Current price:	HK\$182.4
Target price:	HK\$345.0
Previous target:	HK\$345.0
Up/downside:	89.1%
CGI / Consensus:	3.3%
Reuters:	9618.HK
Bloomberg:	9618 HK
Market cap:	US\$72,577m
	HK\$569,726m
Average daily turnover:	US\$194.9m
	HK\$1,530m
Current shares o/s:	3,107m
Free float:	51.0%

*Source: Bloomberg

Key changes in this note

➤ NA.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-25.1	-22.4	-41.5
Relative (%)	-12	-2.1	-8

Major shareholders	% held
Tencent	21.3
Qiangdong Liu	20.0
Walmart	10.8

Analyst

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JD.com Inc

3Q22F results expected to be in line

- We had a conference call with JD to discuss its 3Q22F results outlook.
- JD maintains both top- and bottom-line guidance for 3Q22F: i.e. c.10% yoy top-line growth and NPM improvement by 0.6ppt yoy, in line with our expectations.
- We expect the company to continue to improve its NPM in 4Q22F because of effective cost-saving strategies and streamlining its loss-making investments.
- JD will focus on improving user frequency and ARPU, rather than increasing MAU, per management.
- Management remains conservative about 4Q22F top-line growth, given the weak operating environment and Covid resurgence under strict pandemic control policy.

c.10% top-line growth expected in 3Q22F

China's national retail sales grew by 2.7% and 5.4% yoy in Jul and Aug 2022, respectively, while online retail sales grew by 10.1% and 12.8% yoy, respectively, indicating the online channel is taking market share from the offline channel amid the weak consumption environment. We now expect JD's top-line growth to be c.10% in 3Q22F, including the consolidation of Deppon Holdco. The new business adjustments for Jingxi Pinpin slightly affected JD's 3Q22F top-line growth. Management expects sales of JD Retail to grow by 6–10% in 3Q22F. JD Retail recorded high-single-digit sales growth for Jul, and sales growth in Aug and Sep was better than that in Jul. Sales growth in Sep was driven partly by the launch of new mobile phone series. Overall category sales growth momentum in 3Q22F was similar to that in 2Q22, with sales growth of home appliances and FMCG products better than that of other categories. But the sales growth of home appliances in 3Q22F was slightly lower than management expectations, dragged down by Covid distortions. The growth of discretionary categories, such as apparel and footwear, continued to be weak. GMV growth of 3P business in 3Q22 was slightly ahead of that of 1P business, and management expects the trend to continue in 4Q22F under the stable operating environment.

Non-GAAP net profit margin expected to be in line

We expect JD's 3Q22F non-GAAP net profit margin to expand by 0.6ppt yoy, driven by effective cost-saving strategies. JD is continuing to focus on improving the quality of its core business rather than user growth. It has added over 200 million new users in the past two years and will focus on retaining these users. It had a net addition of about 10 million new users in 2Q22 and more than 10 million in 3Q22. It had over 30 million PLUS members as at mid-Jul, and management expects the growth in the number of PLUS members in 3Q22F to continue at the same rate.

Management remains conservative on the 4Q22F outlook

Management expects top-line growth in 4Q22F to be similar to that in 3Q22F, given the current weak macro situation and Covid resurgence. Management expects sales momentum for the upcoming 11/11 online festival to be similar to that for this year's 6/18 festival (i.e. c.10% yoy revenue growth). The overall concerns relate mainly to the macro situation and the Covid impact.

Maintain Add with a DCF-based TP of HK\$345

We maintain Add rating, since we believe JD still has large room to develop its omni channel and intra-city retail business and improve its margins. A positive catalyst would be stronger margins driven by better category mix. key risks include 1) weaker revenue growth due to the sluggish economy, and 2) margin pressure due to severe competition from other e-com or social media platforms. Our TP is derived from DCF valuation with 13.4% WACC and a 3% terminal growth rate.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	745,802	951,592	1,067,302	1,282,076	1,479,920
Operating EBITDA (Rmbm)	-15,153	26,298	35,244	36,772	49,699
Net Profit (Rmbm)	49,405	-3,560	4,904	18,293	28,169
Core EPS (Rmb)	5.41	5.39	6.77	8.21	10.95
Core EPS Growth	49.4%	(0.5%)	25.6%	21.3%	33.4%
FD Core P/E (x)	29.89	30.06	23.93	19.73	14.79
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	14.91	11.38	10.86	7.91
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	(62.4%)	(71.9%)	(70.7%)	(70.1%)	(68.8%)
P/BV (x)	2.68	2.48	2.39	2.18	1.95
ROE	12.5%	8.7%	10.3%	11.7%	14.1%
CGI/consensus EPS (x)			0.24	0.63	0.73

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

3Q22F results expected to be in line

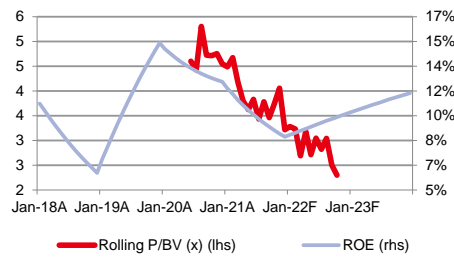
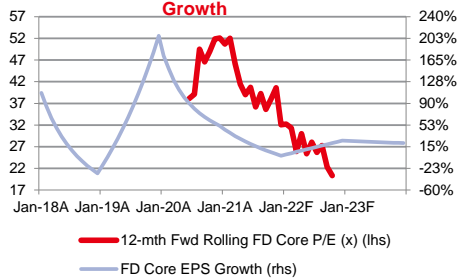
Continuing to streamline underperforming new businesses

The company will continue to make adjustments to Jingxi Pinpin and some other underperforming businesses. Jingxi Pinpin currently covers only two cities compared to 20 areas in 2021. Macro headwinds have created challenges in the overall operating environment, so the company has adopted cost-saving strategies and will prioritize profitability and cash flow. The adjustments for Jingxi Pinpin will have a limited impact on the company's top line. The instant-delivery business is the fastest-growing segment now, and its penetration is still low. Currently, the instant-delivery business accounts for low- to mid-single-digits of JD's revenue. JD aims to convert more users in higher-tier cities to use this service.

Figure 1: China retail sales growth

yoy	2021-1	2021-2	2021-3	2021-4	2021-5	2021-6	2021-7	2021-8	2021-9	2021-10	2021-11	2021-12	2022-01	2022-02	2022-03	2022-04	2022-05	2022-06	2022-07	2022-08
National retail sales	33.8%	33.8%	34.2%	17.7%	12.4%	12.1%	8.5%	2.5%	4.4%	4.9%	3.9%	1.7%	6.7%	6.7%	-3.5%	-11.1%	-6.7%	3.1%	2.7%	5.4%
Retail sales: excl. auto	30.4%	30.4%	32.5%	17.9%	13.2%	13.1%	9.7%	3.6%	6.4%	6.7%	5.4%	3.0%	7.0%	7.0%	-3.0%	-8.4%	-5.6%	1.8%	1.9%	4.3%
Company above certain size	43.9%	43.9%	38.6%	18.5%	12.7%	13.2%	8.5%	0.5%	2.8%	4.6%	4.2%	1.6%	9.1%	9.1%	-1.4%	-14.0%	-6.5%	8.1%	6.8%	9.3%
Urban	34.9%	34.9%	34.0%	17.6%	12.3%	12.0%	8.4%	2.3%	4.2%	4.8%	3.7%	1.5%	6.7%	6.7%	-3.6%	-11.3%	-6.7%	3.1%	2.7%	5.5%
Rural	26.7%	26.7%	34.9%	17.8%	13.2%	12.5%	8.8%	3.4%	5.4%	5.6%	4.8%	2.8%	7.1%	7.1%	-3.3%	-9.8%	-6.3%	2.7%	2.6%	5.0%
Catering	68.9%	68.9%	91.6%	46.4%	26.6%	20.2%	14.3%	-4.5%	3.1%	2.0%	-2.7%	-2.2%	8.9%	8.9%	-16.4%	-22.7%	-21.1%	-4.0%	-1.5%	8.4%
Company above certain size	61.8%	61.8%	115.2%	60.3%	40.8%	28.6%	20.7%	-4.2%	5.5%	4.0%	-0.3%	-0.1%	10.1%	10.1%	-15.6%	-24.0%	-20.8%	-2.2%	-1.2%	12.9%
Retail sales: goods	30.7%	30.7%	29.9%	15.1%	10.9%	11.2%	7.8%	3.3%	4.5%	5.2%	4.8%	2.3%	6.5%	6.5%	-2.1%	-9.7%	-5.0%	3.9%	3.2%	5.1%
Company above certain size	42.9%	42.9%	35.6%	16.4%	11.1%	12.3%	7.7%	0.8%	2.7%	4.7%	4.5%	1.7%	9.1%	9.1%	-0.4%	-13.3%	-5.3%	8.8%	7.5%	9.1%
Food	10.9%	10.9%	8.3%	6.5%	10.6%	15.6%	11.3%	9.5%	9.2%	9.9%	14.8%	11.3%	7.9%	7.9%	12.5%	10.0%	12.3%	9.0%	6.2%	8.1%
Beverage	36.9%	36.9%	33.3%	22.3%	19.0%	29.1%	20.8%	11.8%	10.1%	8.8%	15.5%	12.6%	11.4%	11.4%	12.6%	6.0%	7.7%	1.9%	3.0%	5.8%
Tobacco & alcohol	43.9%	43.9%	47.4%	26.2%	15.6%	18.2%	15.1%	14.4%	16.0%	14.3%	13.3%	7.0%	13.6%	13.6%	7.2%	-7.0%	3.8%	5.1%	7.7%	8.0%
Clothes & textile	47.6%	47.6%	69.1%	31.2%	12.3%	12.8%	7.5%	-6.0%	-4.8%	-3.3%	-0.5%	-2.3%	4.8%	4.8%	-12.7%	-22.8%	-16.2%	1.2%	0.8%	5.1%
Cosmetics	40.7%	40.7%	42.5%	17.8%	14.6%	13.5%	2.8%	0.0%	3.9%	7.2%	8.2%	2.5%	7.0%	7.0%	-6.3%	-22.3%	-11.0%	8.1%	0.7%	-6.4%
Gold & jewellery	98.7%	98.7%	83.2%	48.3%	31.5%	26.0%	14.3%	7.4%	20.1%	12.6%	5.7%	-0.2%	19.5%	19.5%	-17.9%	-26.7%	-15.5%	8.1%	22.1%	7.2%
Household products	34.6%	34.6%	30.7%	17.2%	13.0%	14.0%	13.1%	-0.2%	0.5%	3.5%	8.6%	18.8%	10.7%	10.7%	-0.8%	-10.2%	-6.7%	4.3%	0.7%	3.6%
Home appliances	43.2%	43.2%	38.9%	6.1%	3.1%	8.9%	8.2%	-5.0%	6.6%	9.5%	6.6%	-6.0%	12.7%	12.7%	-4.3%	-8.1%	-10.6%	3.2%	7.1%	3.4%
Medicine	16.9%	16.9%	11.5%	8.0%	7.3%	8.5%	8.6%	10.2%	8.6%	5.6%	9.3%	9.4%	7.5%	7.5%	11.9%	7.9%	10.8%	11.9%	7.8%	9.1%
Office stationary	38.3%	38.3%	22.2%	6.7%	13.1%	25.9%	14.8%	20.4%	22.6%	11.5%	18.1%	7.4%	11.1%	11.1%	9.8%	-4.8%	-3.3%	8.9%	11.5%	6.2%
Furniture	58.7%	58.7%	42.8%	21.7%	12.6%	13.4%	11.0%	6.7%	3.4%	2.4%	6.1%	-3.1%	-6.0%	-6.0%	-8.8%	-14.0%	-12.2%	-6.6%	-6.3%	-8.1%
Telecommunication	53.1%	53.1%	23.5%	14.2%	8.8%	15.9%	0.1%	-14.9%	22.8%	34.8%	0.3%	0.3%	4.8%	4.8%	3.1%	-21.8%	-7.7%	6.6%	4.9%	-4.6%
Oil and gas	21.9%	21.9%	26.4%	18.3%	20.3%	21.9%	22.7%	13.1%	17.3%	29.3%	25.9%	16.6%	25.6%	25.6%	10.5%	4.7%	8.3%	14.7%	14.2%	17.1%
Auto	77.6%	77.6%	48.7%	16.1%	6.3%	4.5%	-1.8%	-7.4%	-11.8%	-11.5%	-9.0%	-7.4%	3.9%	3.9%	-7.5%	-31.6%	-16.0%	13.9%	9.7%	15.9%
Construction material	52.8%	52.8%	43.9%	30.8%	20.3%	19.1%	11.6%	13.5%	13.3%	12.0%	14.1%	7.5%	6.2%	6.2%	0.4%	-11.7%	-7.8%	-4.9%	-7.8%	-9.1%
Online retail sales: goods	28.3%	28.3%	18.5%	6.8%	7.7%	11.7%	4.4%	7.6%	11.2%	8.7%	7.4%	1.9%	13.6%	13.6%	2.7%	-1.0%	14.3%	8.2%	10.1%	12.8%

SOURCES: CGIS RESEARCH, NATIONAL BUREAU OF STATISTICS

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	1,282,076	1,479,920
Gross Profit	114,190	130,457	156,998	192,394	227,100
Operating EBITDA	-15,153	26,298	35,244	36,772	49,699
Depreciation And Amortisation	-5,081	-1,390	-9,946	-11,438	-12,857
Operating EBIT	-20,235	24,908	25,298	25,334	36,842
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	500	500	500
Profit Before Tax (pre-EI)	18,241	18,186	20,585	27,621	39,129
Exceptional Items					
Pre-tax Profit	18,241	18,186	20,585	27,621	39,129
Taxation	-1,482	-1,887	-323	-1,810	-2,908
Exceptional Income - post-tax	32,578	-20,767	-17,357	-9,517	-10,052
Profit After Tax	49,337	-4,467	2,904	16,293	26,169
Minority Interests	68	908	2,000	2,000	2,000
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	49,405	-3,560	4,904	18,293	28,169
Recurring Net Profit	16,828	17,207	22,262	27,810	38,221
Fully Diluted Recurring Net Profit	16,828	17,207	22,262	27,810	38,221

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	-15,153	26,298	35,244	36,772	49,699
Cash Flow from Inv. & 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	-9,590	4,243	3,114
Net Interest (Paid)/Received	-1,125	-1,213	-1,213	-1,213	-1,213
Tax Paid					
Cashflow From Operations	42,544	42,301	52,195	73,804	93,282
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	-15,439	-8,880	-9,394
Free Cashflow To Equity	-10,474	-34,071	-15,273	-8,730	-9,260
Free Cashflow To Firm	-14,141	-30,734	-14,497	-7,997	-8,575

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	151,245	191,256	198,731	217,347	240,947
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	315,352	343,074	376,768
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	223,241	251,455	290,064
Minority Interests	34,076	37,872	37,872	37,872	37,872
Total Equity	221,619	246,784	261,113	289,327	327,936

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	29.3%	27.6%	12.2%	20.1%	15.4%
Operating EBITDA Growth	(221%)	N/A	34%	4%	35%
Operating EBITDA Margin	(2.03%)	2.76%	3.30%	2.87%	3.36%
Net Cash Per Share (Rmb)	45.80	57.12	57.66	61.48	66.48
BVPS (Rmb)	62.06	67.23	69.75	76.28	85.42
Gross Interest Cover	-17.98	20.53	20.85	20.88	30.36
Effective Tax Rate	8.1%	10.4%	1.6%	6.6%	7.4%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	3.26	3.65	3.97	3.14	2.59
Inventory Days	33.86	29.90	31.83	29.25	28.06
Accounts Payables Days	57.15	54.96	60.84	58.95	59.64
ROIC (%)	1123%	923%	446%	(152%)	(79%)
ROCE (%)	(10.2%)	10.1%	9.4%	8.7%	11.4%
Return On Average Assets	4.44%	3.81%	4.11%	4.61%	5.59%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total GMV growth (%)	25.3%	21.5%	15.4%	20.8%	15.5%
Active customer accounts growth (%)	30.4%	20.7%	12.0%	15.0%	10.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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	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)

— Price Close



RECOMMENDATION FRAMEWORK

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Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
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