

China / Hong Kong Company Update

JD.com Inc

Bloomberg: 9618 HK Equity | JD US Equity | Reuters: 9618.HK | JD.O

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Oct 2023

HK: BUY

Last Traded Price (16 Oct 2023):HK\$103.70(HSI : 17,640)
Price Target 12-mth: HK\$206 (98.6% upside) (Prev HK\$265)

US: BUY

Last Traded Price (16 Oct 2023):US\$27.05(NASDAQ : 13,407)
Price Target 12-mth: US\$52.00 (92.2% upside) (Prev US\$67.00)

Analysts

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What's New

- Expect JD Retail revenue growth to be flat y-o-y in 3Q23, revised down from our previous forecast of 3%
- Weaker consumption and strategic adjustment for FMCG segment are key reasons
- Cut FY23F/FY24F/FY25F non-GAAP earnings by 10%/12%/11% on slower JD Retail revenue growth
- Maintain BUY as we expect growth momentum to pick up in FY24 post-strategic adjustment; TPs lowered to US\$206/ US\$52

Marketplace expansion driving future growth outlook

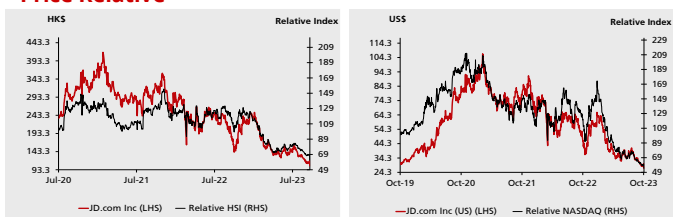
Investment Thesis

Second largest e-commerce player focusing on category expansion. JD.com is the second largest e-commerce player in China, with c.20% market share in terms of GMV. The company focuses on expanding into high-growth categories like groceries and healthcare to offset the near-term weak demand for electronics and home appliances. We believe JD.com will provide better merchant support and attract more traffic to fuel its marketplace business and new category expansion, which will re-accelerate the growth of JD Retail in the mid-long term. We expect revenue growth to improve in FY24 with CAGR of 6% p.a. in FY23-FY25F, following the low-single digit growth in FY23.

Strong fulfilment capability supports resilient growth. JD's self-developed fulfilment and logistics infrastructure (1,300 warehouses with GFA of 23m sqft) makes it stand out among its peers, as it can offer superior customer experience and supply chain solutions to merchants.

Earnings growth remains solid despite subsidy scheme. JD's core margin expansion outlook is backed by operating leverage from its scale expansion and narrowing losses from its non-retail businesses (e.g., JD Logistics, Dada, and new businesses). We expect adjusted earnings to grow by 15% p.a. from FY22-FY25F, while the upside to margin expansion depends on the marketplace business scale of JD Retail in the mid-long term. The impact of the subsidy scheme on the overall margin is limited in FY23F, as JD.com is cutting back on its loss-making businesses and reallocating investments strategically. This enables the company to sustain its positive earnings trajectory.

Price Relative



Forecasts and Valuation (HK Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	1,046,236	1,070,532	1,139,284	1,211,806
EBITDA	17,467	29,176	33,984	41,043
Pre-tax Profit	13,867	24,940	30,748	38,807
Net Profit	10,380	16,900	22,213	27,854
Core profit	28,220	32,300	37,613	43,254
Core Profit Gth (%)	64	15	16	15
EPS (RMB)	6.64	10.81	14.21	17.82
EPS (HK\$)	7.11	11.58	15.22	19.09
EPS Gth (%)	N/A	62.8	31.4	25.4
Diluted EPS (HK\$)	6.99	11.38	14.96	18.76
DPS (HK\$)	9.78	5.75	7.56	9.48
BV Per Share (HK\$)	145.20	155.88	168.36	182.76
PE (X)	14.6	9.0	6.8	5.4
P/Cash Flow (X)	2.6	3.3	3.3	3.9
P/Free CF (X)	4.3	6.0	6.1	8.4
EV/EBITDA (X)	0.9	0.1	0.0	0.0
Net Div Yield (%)	9.4	5.5	7.3	9.1
P/Book Value (X)	0.7	0.7	0.6	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	4.9	7.6	9.3	10.8

Core Earnings Rev (%): (10) (12) (11)
Consensus EPS (RMB) 10.33 12.02 15.66
Other Broker Recs: B:37 S:0 H:4
Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

We recommend BUY on JD.com with TPs of HK\$206/US\$52 (vs.

HK\$265/US\$67 previously). We derived our TPs based on (1) core retail business valuation: 8x PE on FY24F core profit (HK\$105) vs. 10x PE previously – the lower PE multiple is mainly due to moderate growth momentum for JD Retail; and (2) fair value of other investees (HK\$101). Potential share price catalysts include (a) stronger-than-expected recovery in the demand for electronics; (b) better-than-expected margin improvement, driven by marketplace expansion; and (c) lower-than-expected expenses from the subsidy scheme.

Key Risks

(1) Slowing macro economy and (2) irrational market competition in new segments (e.g., community group buying) and lower tier cities.

At A Glance

Issued Capital (m shrs)	3,136
Mkt Cap (HKm/US\$m)	326,771 / 41,763
Major Shareholders (%)	
Walmart Inc	5.2
Free Float (%)	94.8
3m Avg. Daily Val. (US\$m)	164.6
GICS Industry: Information Technology / Software & Services	

JD.com Inc

WHAT'S NEW

Weaker than expected 3Q23 performance

3Q23 outlook

We expect JD Retail revenue to be flat y-o-y in 3Q23 and 4Q23, respectively, vs. the previous expectation of mid-single-digit growth, and overall revenue to increase by 1% y-o-y in 3Q23. Overall consumption sentiment remains uncertain. There are also additional reasons for the sluggish 3Q performance, e.g., lower demand for air conditioners in 3Q23, due to high base from last year, as well as a shorter iPhone sales cycle this year. The strategic adjustment for the FMCG segment (of reducing loss-making SKUs) is dragging revenue growth, and management expects the transition to end by 1Q24. Note that the growth rate would have been double digit in 2Q23 if we were to exclude the strategy adjustment impact. Additionally, industry-level growth in JD's key focus categories has weakened in recent months due to soft macros. For example, home appliance-related categories recorded a 3% y-o-y decline in Aug 2023, lagging the 5% y-o-y growth in overall retail sales, according to National Bureau of Statistics. We expect JD Retail's operating margin to remain resilient, at 4.5% in 3Q23 (vs. 5.2% in 3Q22), and we expect the non-GAAP net margin to reach 3.6% in 3Q23.

Double 11 festival benefits merchants' growth, but limited revenue impact

JD has recently announced its Double 11 promotion plan, which will focus on low-price and value products. Its cross-store promotional campaign offers a discount of Rmb50 for every Rmb299 spent, which implies a discount of c.17%. Meanwhile, BABA's Taobao and Tmall offers at least 15% discount for specific products without the requirement of combining orders. We believe that "low-price" will be the key theme for e-commerce platforms this year amid the consumption downgrade. In addition, JD's Double 11 festival will offer more merchant support to drive increased merchant participation and user engagement, and thus

sales volume. However, it may not be directly translated into stronger revenue, given the increased subsidies and focus on the lower price categories.

Earnings revision and recommendation

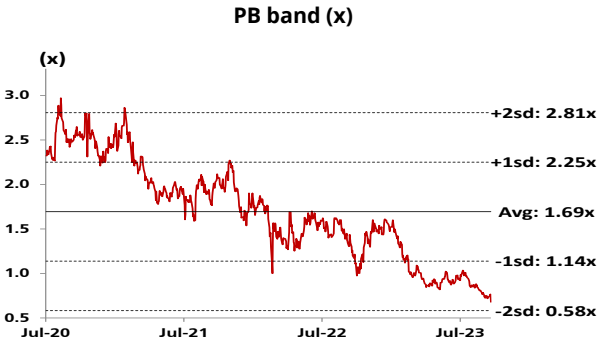
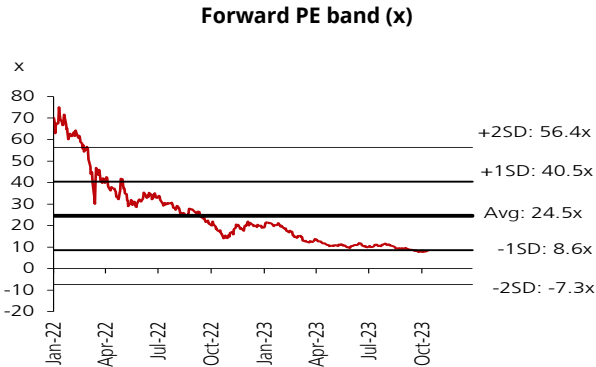
We revised down our non-GAAP earnings forecast by 10%, 12%, and 11% for FY23F, FY24F, and FY25F, respectively. We believe revenue growth will improve to 6% y-o-y in FY24 and then 6% y-o-y in FY25, from 2% y-o-y in FY23F, especially after the strategic adjustment for the FMCG segment. We expect non-GAAP net profit to grow by 15% y-o-y to Rmb32.3bn in FY23F and 16% y-o-y to Rmb37.6bn in FY24F, as well as 15% y-o-y to Rmb43.5bn in FY25F, translating into 3%, 3.3%, and 3.6% non-GAAP net margins for FY23F, FY24F, and FY25F, respectively. The stock is trading at 8x adjusted FY24 PE, at which the macro challenges should be partially priced in. We maintain BUY on JD.com with an SOTP valuation of HK\$206/US\$52, based on (1) core retail business valuation: 8x PE on FY24F core profit (HK\$105) vs. 10x PE previously – the lower PE multiple is mainly due to moderate growth momentum for JD Retail; and (2) fair value of other investees (HK\$101).

Company Background

JD is the second largest e-commerce platform in China, with over 579m annual active customers. Direct sales (1P) and third-party marketplace (3P) accounted for c.50% and 50% of FY22 GMV, respectively.

JD.com Inc

Historical PE and PB band



Source: Thomson Reuters, DBS HK

JD.com Inc

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
GMV (Rmb bn)	3,299.6	3,484.4	3,713.5	3,939.2	4,138.6
Annual active users (m)	569.7	574.2	602.9	627.0	645.8

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Net product revenue	815,655	865,062	846,112	887,905	932,833
Net services revenue	135,937	181,174	224,420	251,379	278,974
Total	951,592	1,046,236	1,070,532	1,139,284	1,211,806

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	951,592	1,046,236	1,070,532	1,139,284	1,211,806
Cost of Goods Sold	(822,525)	(899,163)	(909,952)	(966,113)	(1,023,976)
Gross Profit	129,067	147,073	160,580	173,171	187,830
Other Opng (Exp)/Inc	(125,693)	(128,729)	(131,140)	(138,423)	(146,023)
Operating Profit	3,374	18,344	29,440	34,748	41,807
Other Non Opg (Exp)/Inc	(4,036)	(5,918)	(5,500)	(6,000)	(6,000)
Associates & JV Inc	(4,918)	(2,195)	(2,000)	(2,000)	(2,000)
Net Interest (Exp)/Inc	3,000	3,636	3,000	4,000	5,000
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(2,581)	13,867	24,940	30,748	38,807
Tax	(1,887)	(4,176)	(8,729)	(9,224)	(11,642)
Minority Interest	924	697	697	697	697
Preference Dividend	(16)	(8)	(8)	(8)	(8)
Net Profit	(3,560)	10,380	16,900	22,213	27,854
Net Profit before Except.	(3,560)	10,380	16,900	22,213	27,854
EBITDA	652	17,467	29,176	33,984	41,043
Growth					
Revenue Gth (%)	27.6	9.9	2.3	6.4	6.4
EBITDA Gth (%)	(98.8)	2,580.2	67.0	16.5	20.8
Opg Profit Gth (%)	(68.5)	443.7	60.5	18.0	20.3
Net Profit Gth (%)	N/A	N/A	62.8	31.4	25.4
Margins & Ratio					
Gross Margins (%)	13.6	14.1	15.0	15.2	15.5
Opg Profit Margin (%)	0.4	1.8	2.8	3.1	3.5
Net Profit Margin (%)	(0.4)	1.0	1.6	1.9	2.3
ROAE (%)	(1.8)	4.9	7.6	9.3	10.8
ROA (%)	(0.8)	1.9	2.7	3.3	3.9
ROCE (%)	1.3	4.2	5.7	6.9	7.9
Div Payout Ratio (%)	N/A	138.5	50.0	50.0	50.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

JD.com Inc

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	73,077	122,356	135,620	148,884	162,148
Invt in Associates & JVs	63,222	57,641	60,641	63,641	66,641
Other LT Assets	60,536	64,179	64,179	64,179	64,179
Cash & ST Invt	191,256	226,210	238,187	246,839	245,910
Inventory	75,601	77,949	80,287	82,696	85,177
Debtors	11,900	20,576	34,979	59,465	101,090
Other Current Assets	20,914	26,339	26,222	26,108	25,998
Total Assets	496,507	595,250	640,116	691,812	751,143
ST Debt	0	0	0	0	0
Creditors	174,953	203,177	227,752	255,635	287,329
Other Current Liab	46,683	63,384	68,678	74,837	82,001
LT Debt	9,386	30,233	30,233	30,233	30,233
Other LT Liabilities	18,701	24,333	24,333	24,333	24,333
Shareholder's Equity	210,123	213,956	229,650	248,001	269,172
Minority Interests	36,661	60,167	59,470	58,773	58,076
Total Cap. & Liab.	496,506	595,250	640,116	691,812	751,143
Non-Cash Wkg. Capital	(113,220)	(141,697)	(154,941)	(162,203)	(157,064)
Net Cash/(Debt)	181,870	195,977	207,954	216,606	215,677
Debtors Turn (avg days)	3.6	5.7	9.5	15.1	24.2
Creditors Turn (avg days)	69.7	77.4	87.1	92.0	97.5
Inventory Turn (avg days)	30.1	31.4	32.0	31.0	30.1
Asset Turnover (x)	2.1	1.9	1.7	1.7	1.7
Current Ratio (x)	1.4	1.3	1.3	1.3	1.2
Quick Ratio (x)	0.9	0.9	0.9	0.9	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	237.4	75.8	67.8	67.8	67.8
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	(2,581)	13,867	24,940	30,748	38,807
Dep. & Amort.	6,232	7,236	7,236	7,236	7,236
Tax Paid	(1,887)	(4,176)	(8,729)	(9,224)	(11,642)
Assoc. & JV Inc/(loss)	4,918	2,195	2,000	2,000	2,000
(Pft)/ Loss on disposal of FAs	(889)	2,586	0	0	0
Chg in Wkg.Cap.	19,518	22,229	13,244	7,263	(5,139)
Other Operating CF	16,989	13,882	7,236	7,236	7,236
Net Operating CF	42,301	57,819	45,926	45,258	38,498
Capital Exp.(net)	(22,278)	(22,913)	(20,500)	(20,500)	(20,500)
Other Invt.(net)	(43,566)	(11,457)	0	0	0
Invt in Assoc. & JV	(11,576)	(4,501)	(5,000)	(5,000)	(5,000)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	3,172	(15,155)	0	0	0
Net Investing CF	(74,248)	(54,026)	(25,500)	(25,500)	(25,500)
Div Paid	0	0	0	0	0
Chg in Gross Debt	(2,124)	11,839	0	0	0
Capital Issues	(5,184)	(780)	0	0	0
Other Financing CF	26,927	(9,879)	(8,450)	(11,106)	(13,927)
Net Financing CF	19,619	1,180	(8,450)	(11,106)	(13,927)
Currency Adjustments	(1,498)	3,490	0	0	0
Chg in Cash	(13,826)	8,463	11,977	8,652	(929)
Opg CFPS (RMB)	14.66	22.77	20.91	24.31	27.92
Free CFPS (RMB)	12.89	22.34	16.27	15.84	11.52

Source: Company, DBS HK

JD.com Inc

HK Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	21-Nov-22	HK\$218.00	HK\$474.00	BUY
2	21-Feb-23	HK\$210.60	HK\$381.00	BUY
3	10-Mar-23	HK\$179.30	HK\$257.00	BUY
4	12-May-23	HK\$135.00	HK\$266.00	BUY
5	9-Aug-23	HK\$148.40	HK\$234.00	BUY
6	17-Aug-23	HK\$140.60	HK\$265.00	BUY

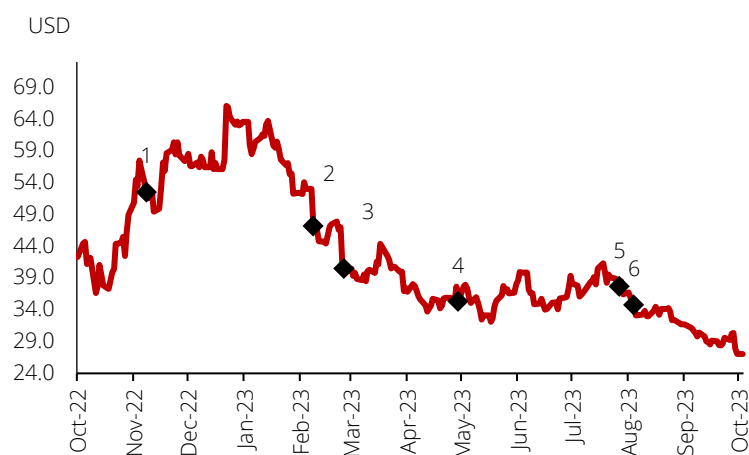
Source: DBS HK

Analyst: Tsz Wang Tam

Lilian Lv

Andy Yu

US Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	21-Nov-22	US\$56.07	US\$122.00	BUY
2	21-Feb-23	US\$53.02	US\$98.00	BUY
3	10-Mar-23	US\$41.68	US\$66.00	BUY
4	12-May-23	US\$37.63	US\$68.00	BUY
5	9-Aug-23	US\$38.05	US\$59.00	BUY
6	17-Aug-23	US\$34.88	US\$67.00	BUY

Source: DBS HK

Analyst: Tsz Wang Tam

Lilian Lv

Andy Yu

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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