

# 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

18 Jan 2024

### HK: BUY

Last Traded Price ( 17 Jan 2024): HK\$87.75 (HSI: 15,277)  
Price Target 12-mth: HK\$181 (106.3% upside) (Prev HK\$214)

### US: BUY

Last Traded Price ( 17 Jan 2024): US\$22.42 (NASDAQ: 14,856)  
Price Target 12-mth: US\$46.00 (105.2% upside) (Prev US\$54.00)

#### Analyst

Tsz Wang Tam +852 36684195 tszwangtam@db.com  
Lilian Lv lilianlv@db.com  
Andy Yu +852 3668 4194 andyyuakh@db.com

### What's New

- Expect revenue to increase by 3%/6%/7% in FY23/FY24/FY25F driven by marketplace expansion and 3C demand recovery
- Cut non-GAAP net profit by 5%/7%/6% for FY23-25F due to higher traffic acquisition costs associated with marketing initiatives
- Expect FY23F/FY24F/FY25F non-GAAP earnings to grow by 18%/13%/12%
- Maintain BUY with lower TPs of HK\$181/US\$46; we expect revenue growth momentum to pick up in FY24 post-business adjustment

### Marketplace expansion driving future growth

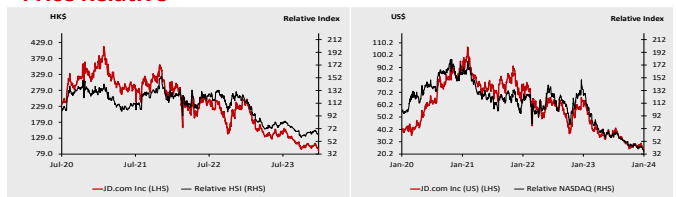
#### Investment Thesis

Second largest e-commerce player in China, focusing on category expansion. JD.com has c.19% market share in terms of GMV in 2022. 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- to long-term. We expect revenue growth to improve in FY24 with a CAGR of 6% p.a. in FY23-FY25F.

**Strong fulfilment capability supports resilient growth.** JD's self-developed fulfilment and logistics infrastructure (1,300 warehouses with a GFA of 23m sq. ft.) makes it stand out among its peers with its ability to offer a 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 12% p.a. from FY23-FY25F, while the upside to margin expansion depends on the marketplace business scale of JD Retail in the mid- to long-term. The impact of the subsidy scheme on overall margin is limited in FY23F, as JD.com cut back on its loss-making businesses and strategically reallocated investments. This enabled 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	1,081,287	1,144,129	1,217,943
EBITDA	17,467	39,849	43,416	49,210
Pre-tax Profit	13,867	35,113	39,680	45,474
Net Profit	10,380	27,024	30,449	34,795
Core profit	28,220	33,424	37,849	42,195
Core Profit Gth (%)	64	18	13	12
EPS (RMB)	6.64	17.29	19.48	22.26
EPS (HK\$)	7.22	18.79	21.18	24.20
EPS Gth (%)	N/A	160.3	12.7	14.3
Diluted EPS (HK\$)	7.09	18.47	20.81	23.78
DPS (HK\$)	9.93	9.33	10.51	12.01
BV Per Share (HK\$)	147.34	161.66	177.17	194.18
PE (X)	12.2	4.7	4.1	3.6
P/Cash Flow (X)	2.2	2.3	2.4	2.8
P/Free CF (X)	3.6	3.5	3.8	5.1
EV/EBITDA (X)	nm	nm	nm	nm
Net Div Yield (%)	11.3	10.6	12.0	13.7
P/Book Value (X)	0.6	0.5	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	4.9	12.1	12.4	12.9
Core Earnings Rev (%)		(5)	(7)	(6)
Consensus EPS (RMB)		10.37	10.83	12.46
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\$181/US\$46 (vs. HK\$214/US\$54 previously). We derived our TPs based on (1) core retail business valuation: 8x PE on FY24F core profit (HK\$106); and (2) fair value of other investees (HK\$75) (vs. HK\$101 previously, mainly due to the decrease in market value). Potential share price catalysts include (a) stronger-than-expected recovery in the demand for electronics and home appliances; (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

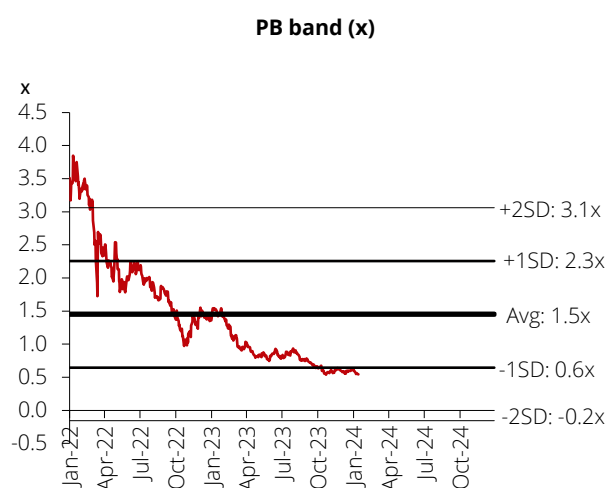
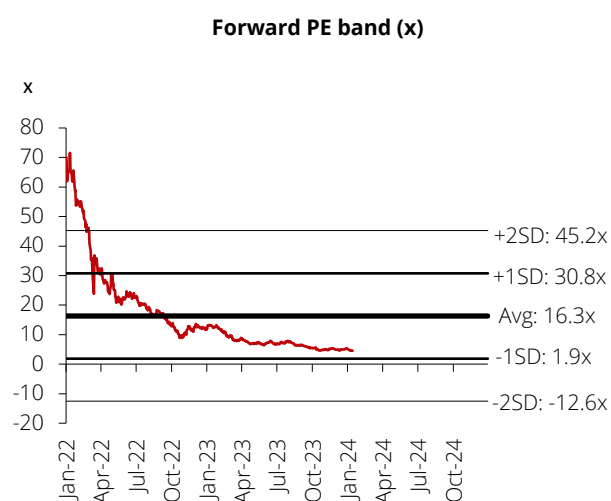
Issued Capital (m shrs)	3,136
Mkt Cap (HKm/US\$m)	292,902 / 37,426
Major Shareholders (%)	
Walmart Inc	5.2
Free Float (%)	94.8
3m Avg. Daily Val. (US\$m)	139.65
GICS Industry: Information Technology / Software & Services	

## JD.com Inc

### Company Background

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

### 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	3,678.1	3,976.8	4,178.0
Annual active users (m)	569.7	574.2	597.2	633.0	652.0

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Revenues (RMB m)</b>					
Net product revenue	815,655	865,062	863,709	896,361	941,717
Net services revenue	135,937	181,174	217,578	247,768	276,226
<b>Total</b>	<b>951,592</b>	<b>1,046,236</b>	<b>1,081,287</b>	<b>1,144,129</b>	<b>1,217,943</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	951,592	1,046,236	1,081,287	1,144,129	1,217,943
Cost of Goods Sold	(822,525)	(899,163)	(920,175)	(970,221)	(1,030,380)
<b>Gross Profit</b>	<b>129,067</b>	<b>147,073</b>	<b>161,112</b>	<b>173,908</b>	<b>187,563</b>
Other Opg (Exp)/Inc	(125,693)	(128,729)	(132,998)	(140,728)	(148,589)
<b>Operating Profit</b>	<b>3,374</b>	<b>18,344</b>	<b>28,113</b>	<b>33,180</b>	<b>38,974</b>
Other Non Opg (Exp)/Inc	(4,036)	(5,918)	6,500	5,000	5,000
Associates & JV Inc	(4,918)	(2,195)	(2,000)	(2,000)	(2,000)
Net Interest (Exp)/Inc	3,000	3,636	2,500	3,500	3,500
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>(2,581)</b>	<b>13,867</b>	<b>35,113</b>	<b>39,680</b>	<b>45,474</b>
Tax	(1,887)	(4,176)	(8,778)	(9,920)	(11,369)
Minority Interest	924	697	697	697	697
Preference Dividend	(16)	(8)	(8)	(8)	(8)
<b>Net Profit</b>	<b>(3,560)</b>	<b>10,380</b>	<b>27,024</b>	<b>30,449</b>	<b>34,795</b>
Net Profit before Except.	(3,560)	10,380	27,024	30,449	34,795
EBITDA	652	17,467	39,849	43,416	49,210
<b>Growth</b>					
Revenue Gth (%)	27.6	9.9	3.4	5.8	6.5
EBITDA Gth (%)	(98.8)	2,580.2	128.1	8.9	13.3
Opg Profit Gth (%)	(68.5)	443.7	53.3	18.0	17.5
Net Profit Gth (%)	N/A	N/A	160.3	12.7	14.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	13.6	14.1	14.9	15.2	15.4
Opg Profit Margin (%)	0.4	1.8	2.6	2.9	3.2
Net Profit Margin (%)	(0.4)	1.0	2.5	2.7	2.9
ROAE (%)	(1.8)	4.9	12.1	12.4	12.9
ROA (%)	(0.8)	1.9	4.4	4.5	4.8
ROCE (%)	1.3	4.2	6.2	6.9	7.6
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	243,249	256,019	258,560
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
<b>Total Assets</b>	<b>496,507</b>	<b>595,250</b>	<b>645,177</b>	<b>700,992</b>	<b>763,793</b>
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	234,712	257,181	281,822
Minority Interests	36,661	60,167	59,470	58,773	58,076
<b>Total Cap. &amp; Liab.</b>	<b>496,506</b>	<b>595,250</b>	<b>645,178</b>	<b>700,992</b>	<b>763,794</b>
Non-Cash Wkg. Capital	(113,220)	(141,697)	(154,941)	(162,203)	(157,064)
Net Cash/(Debt)	181,870	195,977	213,016	225,786	228,327
Debtors Turn (avg days)	3.6	5.7	9.4	15.1	24.1
Creditors Turn (avg days)	69.7	77.4	86.1	91.6	96.8
Inventory Turn (avg days)	30.1	31.4	31.6	30.9	29.9
Asset Turnover (x)	2.1	1.9	1.7	1.7	1.7
Current Ratio (x)	1.4	1.3	1.3	1.3	1.3
Quick Ratio (x)	0.9	0.9	0.9	1.0	1.0
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

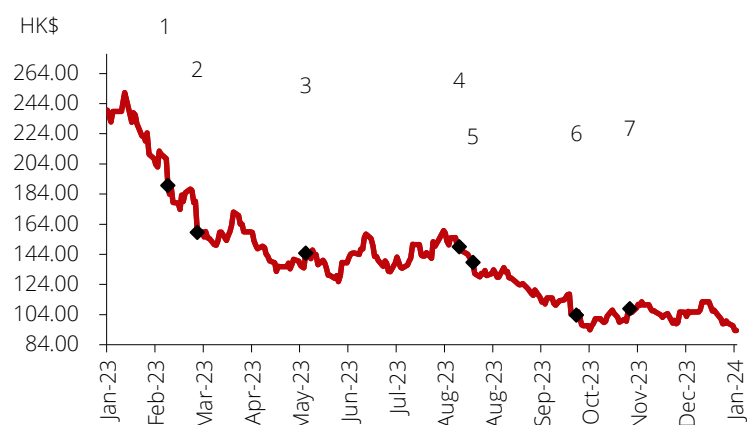
### Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	(2,581)	13,867	35,113	39,680	45,474
Dep. & Amort.	6,232	7,236	7,236	7,236	7,236
Tax Paid	(1,887)	(4,176)	(8,778)	(9,920)	(11,369)
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
<b>Net Operating CF</b>	<b>42,301</b>	<b>57,819</b>	<b>56,051</b>	<b>53,494</b>	<b>45,439</b>
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
<b>Net Investing CF</b>	<b>(74,248)</b>	<b>(54,026)</b>	<b>(25,500)</b>	<b>(25,500)</b>	<b>(25,500)</b>
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)	(13,512)	(15,224)	(17,397)
<b>Net Financing CF</b>	<b>19,619</b>	<b>1,180</b>	<b>(13,512)</b>	<b>(15,224)</b>	<b>(17,397)</b>
Currency Adjustments	(1,498)	3,490	0	0	0
Chg in Cash	(13,826)	8,463	17,039	12,770	2,541
Opg CFPS (RMB)	14.66	22.77	27.39	29.58	32.36
Free CFPS (RMB)	12.89	22.34	22.75	21.11	15.96

Source: Company, DBS HK

**JD.com Inc**

**HK Share - Target Price & Ratings 12-mth History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	21-Feb-23	HK\$210.60	HK\$381.00	Buy
2:	10-Mar-23	HK\$179.30	HK\$257.00	Buy
3:	12-May-23	HK\$135.00	HK\$266.00	Buy
4:	9-Aug-23	HK\$148.40	HK\$234.00	Buy
5:	17-Aug-23	HK\$140.60	HK\$265.00	Buy
6:	16-Oct-23	HK\$103.70	HK\$206.00	Buy
7:	16-Nov-23	HK\$105.90	HK\$214.00	Buy

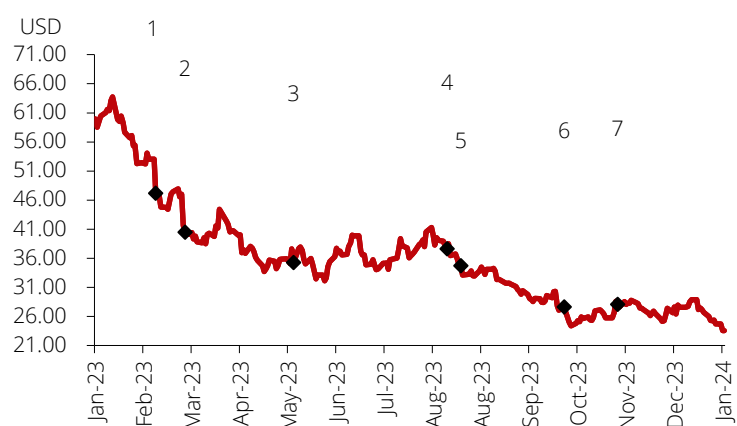
Source: DBS HK

Analyst: Tsz Wang Tam

Lilian Lv

Andy Yu

**US Share - Target Price & Ratings 12-mth History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	21-Feb-23	US\$53.02	US\$98.00	Buy
2:	10-Mar-23	US\$41.68	US\$66.00	Buy
3:	12-May-23	US\$37.63	US\$68.00	Buy
4:	9-Aug-23	US\$38.05	US\$59.00	Buy
5:	17-Aug-23	US\$34.88	US\$67.00	Buy
6:	16-Oct-23	US\$27.05	US\$52.00	Buy
7:	16-Nov-23	US\$28.59	US\$54.00	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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**DBS Bank (Hong Kong) Limited**

13<sup>th</sup> Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

**DBS Regional Research Offices**

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**HONG KONG**

**DBS Bank (Hong Kong) Ltd**

**Contact: Dennis Lam**

13th Floor One Island East,  
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: [dbsvhk@dbs.com](mailto:dbsvhk@dbs.com)

**SINGAPORE**

**DBS Bank Ltd**

**Contact: Andy Sim**

12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982

Tel: 65 6878 8888

e-mail: [groupresearch@dbs.com](mailto:groupresearch@dbs.com)

Company Regn. No. 196800306E

**INDONESIA**

**PT DBS Vickers Sekuritas (Indonesia)**

**Contact: Maynard Priajaya Arif**

DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: [indonesiaresearch@dbs.com](mailto:indonesiaresearch@dbs.com)

**THAILAND**

**DBS Vickers Securities (Thailand) Co Ltd**

**Contact: Chanpen Sirithanarattanakul**

989 Siam Pivat Tower Building,  
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: [research@th.dbs.com](mailto:research@th.dbs.com)

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand