

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

25 Jan 2024

HK: BUY

Last Traded Price (24 Jan 2024): HK\$90.40 (HSI: 15,900)

Price Target 12-mth: HK\$181 (100.2% upside)

US: BUY

Last Traded Price (24 Jan 2024): US\$23.60 (NASDAQ: 15,482)

Price Target 12-mth: US\$46.00 (94.9% upside)

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What's New

- Expect JD retail revenue to grow 1% y-o-y in 4Q23, in line with market expectations
- JD's GMV will resume high-single-digit growth in FY24 after the completion of business adjustment
- Expect non-GAAP earnings to grow 18%/13%/11% for FY23F/FY24F/FY25F, driven by ongoing category expansion
- Maintain BUY with unchanged TP at HK\$181/ US\$46

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 (Pre-)	64	18	13	12
EPS (RMB)	6.64	17.29	19.48	22.26
EPS (HK\$)	7.25	18.89	21.28	24.32
EPS Gth (%)	N/A	160.3	12.7	14.3
Diluted EPS (HK\$)	7.13	18.56	20.91	23.90
DPS (HK\$)	9.98	9.38	10.57	12.07
BV Per Share (HK\$)	148.07	162.47	178.05	195.15
PE (X)	12.5	4.8	4.2	3.7
P/Cash Flow (X)	2.2	2.3	2.4	2.8
P/Free CF (X)	3.7	3.6	3.9	5.2
EV/EBITDA (X)	0.0	nm	nm	nm
Net Div Yield (%)	11.0	10.4	11.7	13.4
P/Book Value (X)	0.6	0.6	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	4.9	12.1	12.4	12.9
Core Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB)		10.42	10.84	12.44
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

Marketplace expansion driving future growth

Investment Thesis

Second largest e-commerce player in China, focusing on category expansion. JD.com has a c.19% market share in terms of GMV in 2022. The company focuses on expanding into high-growth categories such as groceries and healthcare to offset 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. between FY23-FY25F.

Strong fulfilment capability to support 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. We expect non-GAAP net margin to improve to 3.1% in FY23, from 2.7% in FY22, as the impact from subsidies was offset by reducing loss-making business and strategic reallocation of investments. This enabled the company to sustain its positive earnings trajectory.

We recommend BUY on JD.com with unchanged TPs of HK\$181/US\$46

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). 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)	293,216 / 37,506
Major Shareholders (%)	
Walmart Inc	5.2
Free Float (%)	94.8
3m Avg. Daily Val. (US\$m)	139.4
GICS Industry: Information Technology / Software & Services	

JD.com Inc

WHAT'S NEW

Expect in-line JD retail revenue growth of 1% in 4Q23

4Q23 results preview

We expect JD retail revenue to grow 1% y-o-y in 4Q23, largely in line with market expectations. Total revenue is expected to increase by 2% y-o-y in 4Q23. The strategic adjustment for the FMCG segment (e.g. reducing loss-making SKUs) has impacted revenue growth, and the transition was completed in 4Q23. We expect GMV in FY24 will grow faster than overall retail sales which is currently expected to be high-single-digit.

We forecast JD Retail's operating margin to be 2.7% in 4Q23, a slightly decrease from 3% in 4Q22, due to increased merchant supports and user subsidies during the Double 11. Consequently, we expect non-GAAP net margin to narrow by 0.3ppt y-o-y to 2.3% in 4Q23, largely in line with market expectations.

JD will launch marketing campaigns to acquire users, and sponsor China's upcoming CCTV New Year's Gala, aiming at enhancing user engagement in lower-tier cities. JD will share marketing expenses with merchants and suppliers, hence the net impact on the operating margin should be limited.

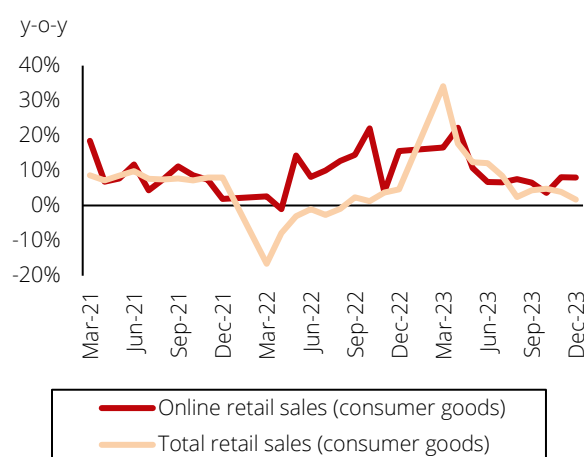
Overall retail sales remained sluggish at 7% y-o-y in Dec 2023 (vs. 10% in Nov 2023), according to NBS. Home appliance-related categories recorded 0.1% y-o-y decline in Dec 2023. However, communication equipment – including mobile phones – delivered 11% y-o-y growth in Dec 2023. Looking forward, we expect JD retail growth momentum will steadily pick up along with demand recovery in electronics-related products and continued category expansion.

Earnings revision and recommendation

We kept our non-GAAP earnings forecast unchanged for FY23/FY24/FY25, respectively. We expect revenue growth to improve to 6% y-o-y in FY24, from 3% in FY23, after the completion of strategic adjustment for the FMCG segment. We expect non-GAAP net profit to grow by 18% y-o-y to Rmb33.4bn in FY23 and

13% y-o-y to Rmb37.8bn in FY24, as well as 11% y-o-y to Rmb42.1bn in FY25, translating into 3.1%, 3.3%, and 3.6% non-GAAP net margins, respectively. The stock is trading at 8x adjusted FY24 PE, 2x SD below the historical average. We maintain BUY on JD.com with an SOTP valuation of HK\$181/US\$46, based on (1) core retail business valuation: 8x PE on FY24F core profit (HK\$106 and (2) fair value of other investees (HK\$75).

China online retail sales vs. retail sales growth



Source: NBS, DBS HK

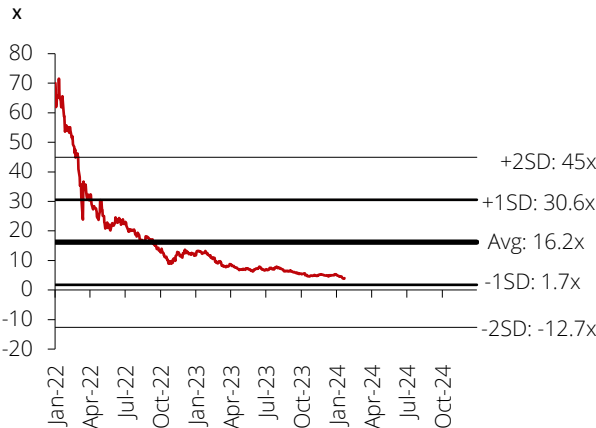
Company Background

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.

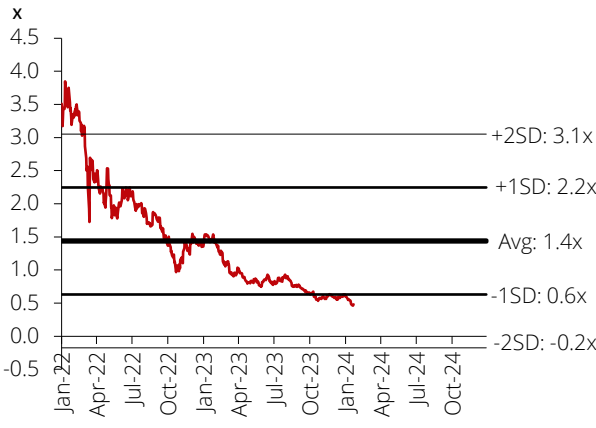
JD.com Inc

Historical PE and PB band

Forward PE band (x)



PB band (x)



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
Revenues (RMB m)					
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
Total	951,592	1,046,236	1,081,287	1,144,129	1,217,943

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)
Gross Profit	129,067	147,073	161,112	173,908	187,563
Other Opng (Exp)/Inc	(125,693)	(128,729)	(132,998)	(140,728)	(148,589)
Operating Profit	3,374	18,344	28,113	33,180	38,974
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
Pre-tax Profit	(2,581)	13,867	35,113	39,680	45,474
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)
Net Profit	(3,560)	10,380	27,024	30,449	34,795
Net Profit before Except.	(3,560)	10,380	27,024	30,449	34,795
EBITDA	652	17,467	39,849	43,416	49,210
Growth					
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
Margins & Ratio					
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
Total Assets	496,507	595,250	645,177	700,992	763,793
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
Total Cap. & Liab.	496,506	595,250	645,178	700,992	763,794
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

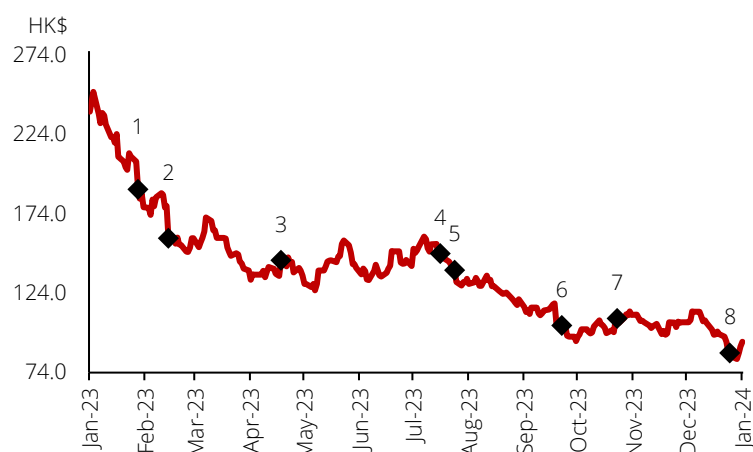
Cash Flow Statement (RMB m)

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
Net Operating CF	42,301	57,819	56,051	53,494	45,439
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)	(13,512)	(15,224)	(17,397)
Net Financing CF	19,619	1,180	(13,512)	(15,224)	(17,397)
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	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
8	18-Jan-24	HK\$87.75	HK\$181.00	BUY

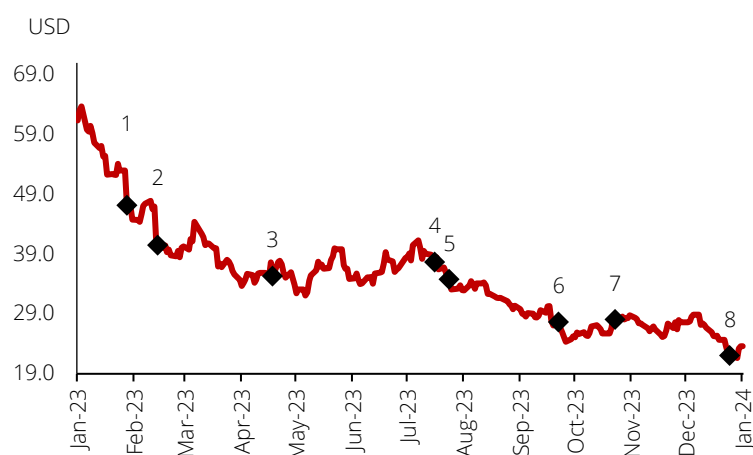
Source: DBS HK

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-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
8	18-Jan-24	US\$22.42	US\$46.00	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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