

# JD.com (JD US)

## Expecting limited additional financial impact from pandemic spread in 4Q22

We expect limited incremental financial impact from pandemic spread on JD.com (JD) 4Q22 financial results. Pandemic prevention policy and “first-wave” impacts on fulfilment all happened in 4Q22, which tested JD logistics network’s robustness, but the positive driver on GMV is the frontloaded sales generated from the Spring Festival shopping festival, which was launched in end-Dec 2022 due to the early Spring Festival in 2023. Although a strong consumption recovery will still take time, JD’s margin expansion remains on track, driven by stringent cost control and streamlining of loss-making new business. Taking into account the near-term impact, we trim our DCF-based target price by 1% to US\$78.6, translating into 26.8x 2023E PE (non-GAAP). Maintain BUY.

- **Recovery in YoY revenue growth in sight.** The reacceleration of JD’s revenue growth will depend on the impact of macro environment on consumer sentiment, which we expect will take time due to following factors: 1) consumer demand from lower-tier cities will likely be adversely impacted from the pandemic infections during Spring festival; 2) business adjustment for general merchandise category is still ongoing and JD may see ongoing high base effect from Jingxi business in 1Q23; and 3) JD is enhancing its merchant support policy to support long-term business development, and recovery in advertising budget of merchants and brands could take time. For 4Q22, we forecast total revenue of RMB297.7bn, up 7.9% YoY (8.8% YoY in our previous forecast).
- **Stringent cost control could help margin expansion in the near term.** We forecast JD’s non-GAAP net income to reach around RMB5.6bn in 4Q22, translating into a non-GAAP net margin of 1.9%, indicating 0.6pp YoY expansion, aided by stringent cost control, which is unchanged compared to our previous forecast. Steady margin expansion trend could sustain in 1H23, in our view, as cost control will remain in place and investments for long-term business development will only take place when fulfilment operations return to normal conditions. Increase in revenue contribution from third-party platform business could aid margin expansion over the long run. We forecast JD’s non-GAAP net margin to expand to 2.5/2.7/3.3% in 2022/2023/2024E from 1.8% in 2021.
- **Lower-tier city expansion, omni-channel retail, and third-party business remain long-term revenue growth drivers.** JD remains committed to investing in lower-tier city expansion, omni-channel retail to drive its long-term revenue growth. The strategic move to enhance platform governance and incorporate more quality merchants could support platform business development over the long run.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	745,802	951,592	1,048,499	1,197,988	1,324,848
YoY growth (%)	29.3	27.6	10.2	14.3	10.6
Net profit (RMB mn)	49,405.2	(3,559.6)	10,768.4	24,877.9	36,738.2
Adjusted net profit (RMB mn)	16,827.6	17,207.1	26,134.1	32,407.4	44,096.3
Adj. NP (Consensus; RMBmn)			26,448.5	33,199.8	42,474.5
EPS (Adjusted) (RMB)	10.56	10.75	16.36	20.29	27.61
Consensus EPS (RMB)	10.56	10.75	16.35	18.19	23.99
P/E (x)	12.8	na	65.6	28.4	19.2
P/B (x)	3.1	3.8	3.1	2.7	2.3

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** US\$78.60  
 (Previous TP) US\$79.50  
**Up/Downside** 18.9%  
**Current Price** US\$66.10

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### Stock Data

Mkt Cap (US\$ mn)	105,575.1
Avg 3 mths t/o (US\$ mn)	50.6
52w High/Low (US\$)	78.29/36.66
Total Issued Shares (mn)	1597.2
Source: FactSet	

### Shareholding Structure

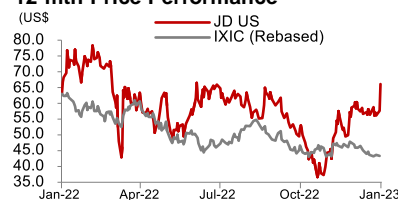
Richard Qiangdong Liu	13.8%
Max Smart Limited	13.3%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	11.7%	20.0%
3-mth	24.8%	33.0%
6-mth	2.1%	10.5%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Changes in forecast and valuation

Figure 1: JD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	1,048.5	1,198.0	1,324.8	1,051.0	1,206.0	1,334.3	-0.2%	-0.7%	-0.7%
Gross Profit	148.2	175.3	201.4	148.5	176.7	203.2	-0.2%	-0.8%	-0.8%
Operating Profit	19.9	31.3	45.8	19.9	31.7	46.4	-0.1%	-1.2%	-1.3%
Non-GAAP net profit	26.1	32.4	44.1	26.2	32.8	44.6	-0.1%	-1.1%	-1.2%
Gross Margin	14.1%	14.6%	15.2%	14.1%	14.6%	15.2%	0.0 ppt	0.0 ppt	0.0 ppt
Operating Margin	1.9%	2.6%	3.5%	1.9%	2.6%	3.5%	0.0 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	2.5%	2.7%	3.3%	2.5%	2.7%	3.3%	0.0 ppt	0.0 ppt	0.0 ppt

Source: CMBIGM estimates

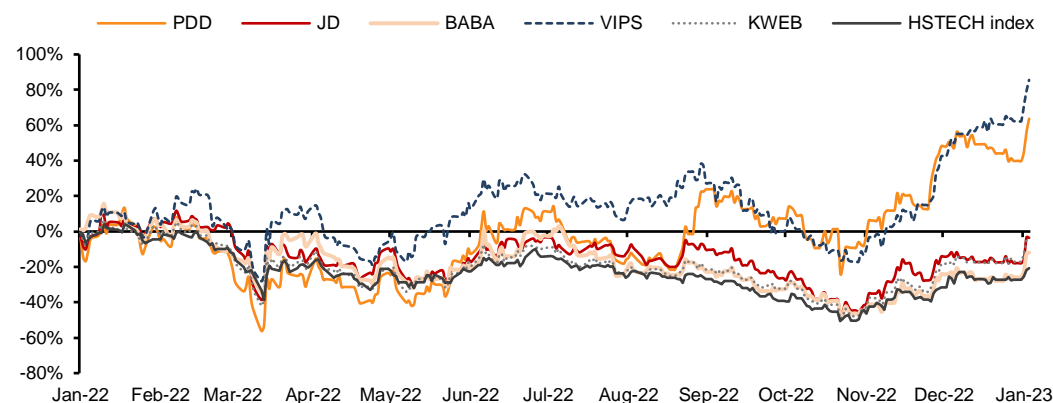
Figure 2: CMBIGM estimates vs Bloomberg consensus

RMB bn	Current			Consensus			Diff (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	1,048.5	1,198.0	1,324.8	1,048.5	1,204.9	1,372.4	0.0%	-0.6%	-3.5%
Gross Profit	148.2	175.3	201.4	147.3	173.5	201.1	0.6%	1.1%	0.2%
Non-GAAP net profit	26.1	32.4	44.1	26.4	33.2	42.5	-1.2%	-2.4%	3.8%
Gross Margin	14.1%	14.6%	15.2%	14.1%	14.4%	14.7%	0.1 ppt	0.2 ppt	0.6 ppt
Non-GAAP net margin	2.5%	2.7%	3.3%	2.5%	2.8%	3.1%	0.0 ppt	-0.1 ppt	0.2 ppt

Source: Bloomberg, CMBIGM estimates

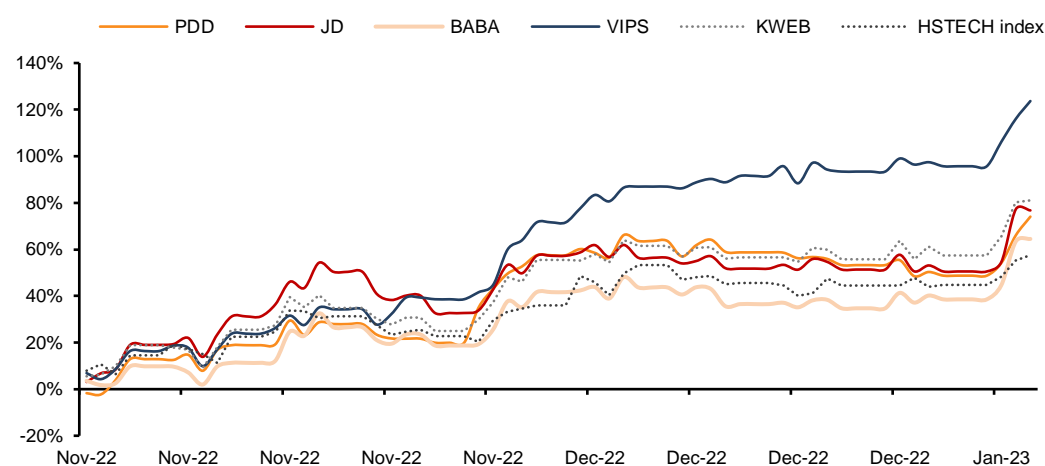
## DCF-based target price of US\$78.6

Our target price is US\$78.6, based on DCF valuation methodology. Our target price translates into 26.8x 2023E PE (non-GAAP). Our previous DCF-based target price of US\$79.5 also translates into 26.8x 2023E PE (non-GAAP).

**Figure 3: Change of e-commerce stock price vs benchmark over the past year**

Source: Bloomberg, CMBIGM

Note: % change based on stock price at 31 December 2021 market close

**Figure 4: Change of e-commerce stock price vs benchmark over the past two months**

Source: Bloomberg, CMBIGM

Note: % change based on stock price at 31 October 2022 market close

**Figure 5: E-commerce comps table**

Companies	Ticker	Price (LC)	PE (x)			PS(x)			PEG (x)
			2022E	2023E	2024E	2022E	2023E	2024E	
Alibaba Group	BABA US	104.6	14.3	12.5	11.3	2.2	1.9	1.8	3.6
JD.com	JD US	65.9	27.7	24.1	18.8	0.7	0.6	0.5	0.5
Pinduoduo	PDD US	95.4	28.9	25.7	21.4	6.4	5.1	4.3	0.7
VIPShop	VIPS US	15.6	10.7	10.2	9.7	0.6	0.6	0.6	1.8
<b>Average</b>			<b>20.4</b>	<b>18.1</b>	<b>15.3</b>	<b>2.5</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>

Source: Bloomberg, CMBIGM estimates

Note: 1) data as at 5 January 2023 market close; 2) Alibaba is using FY23-25E (March year-end) data for comparison; 3) data based on non-GAAP measures

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	576,888	745,802	951,592	1,048,499	1,197,988	1,324,848
Cost of goods sold	(492,467)	(636,694)	(822,525)	(900,306)	(1,022,702)	(1,123,408)
Gross profit	84,421	109,108	129,067	148,192	175,287	201,439
Operating expenses	(75,426)	(96,766)	(124,926)	(128,261)	(143,998)	(155,670)
Selling expense	(22,234)	(27,156)	(38,743)	(39,319)	(43,727)	(47,032)
Admin expense	(5,490)	(6,409)	(11,562)	(11,009)	(12,219)	(13,248)
R&D expense	(14,619)	(16,149)	(16,332)	(16,776)	(17,970)	(19,210)
Others	(33,083)	(47,051)	(58,288)	(61,157)	(70,082)	(76,179)
Operating profit	8,995	12,343	4,141	19,932	31,288	45,770
Other gains/(losses)	5,375	32,556	(590)	(1,128)	0	0
Share of (losses)/profits of associates/JV	(1,738)	4,291	(4,918)	(2,308)	0	0
EBIT	12,632	49,191	(1,367)	16,496	31,288	45,770
Interest income	1,061	1,628	(1,213)	(1,819)	(1,520)	(1,176)
Pre-tax profit	13,693	50,819	(2,581)	14,677	29,768	44,594
Income tax	1,802	1,482	1,887	4,787	5,954	8,919
After tax profit	11,890	49,337	(4,467)	9,890	23,815	35,675
Minority interest	(297)	(75)	(924)	(886)	(1,063)	(1,063)
Discontinued operations	0	0	0	0	0	0
Others	(2)	(7)	(16)	(8)	0	0
Net profit	12,185	49,405	(3,560)	10,768	24,878	36,738
Adjusted net profit	10,750	16,828	17,207	26,134	32,407	44,096

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	139,095	234,801	299,672	329,349	365,110	410,395
Cash & equivalents	36,971	86,085	70,767	86,454	108,909	143,160
Restricted cash	2,941	4,434	5,926	5,926	5,926	5,926
Account receivables	6,191	7,112	11,900	17,236	19,693	21,778
Inventories	57,932	58,933	75,601	76,464	86,860	95,413
Prepayment	5,630	7,077	11,456	18,998	18,998	18,998
Other current assets	29,430	71,161	124,023	124,271	124,725	125,121
Non-current assets	120,629	187,487	196,835	208,629	221,280	233,891
PP&E	20,654	22,597	32,944	44,738	57,389	70,000
Right-of-use assets	8,644	15,484	19,987	19,987	19,987	19,987
Deferred income tax	81	533	1,111	1,111	1,111	1,111
Investment in JVs & assos	35,576	58,501	63,222	63,222	63,222	63,222
Intangibles	4,110	6,463	5,837	5,837	5,837	5,837
Goodwill	6,644	10,904	12,433	12,433	12,433	12,433
Other non-current assets	44,921	73,005	61,300	61,300	61,300	61,300
Total assets	259,724	422,288	496,507	537,978	586,390	644,286
Current liabilities	140,017	174,017	221,636	235,913	251,774	264,893
Short-term borrowings	0	0	4,368	4,368	4,368	4,368
Account payables	90,428	106,818	140,484	157,862	170,917	181,592
Tax payable	2,016	3,029	2,568	2,568	2,568	2,568
Other current liabilities	19,723	28,621	33,083	29,982	32,788	35,233
Lease liabilities	3,193	5,514	6,665	6,665	6,665	6,665
Accrued expenses	24,656	30,035	34,469	34,469	34,469	34,469
Non-current liabilities	19,082	26,652	28,087	38,128	39,327	40,975
Long-term borrowings	10,052	12,531	9,386	19,427	20,626	22,274
Deferred income	1,943	1,618	1,297	1,297	1,297	1,297
Other non-current liabilities	7,088	12,503	17,404	17,404	17,404	17,404
Total liabilities	159,099	200,669	249,723	274,041	291,101	305,868
Share capital	0	0	0	0	0	0
Capital surplus	90,676	153,357	208,912	215,288	221,762	228,152
Retained earnings	(11,913)	37,418	0	10,768	35,646	72,385
Other reserves	19,057	13,900	1,212	1,212	1,212	1,212
Total shareholders equity	97,820	204,677	210,124	227,268	258,620	301,749
Minority interest	2,804	16,943	36,661	36,661	36,661	36,661
Total equity and liabilities	259,724	422,288	496,507	537,970	586,382	644,278

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	13,693	50,819	(2,581)	14,677	29,768	44,594
Depreciation & amortization	5,828	6,068	6,232	4,982	5,319	5,937
Tax paid	(1,802)	(1,482)	(1,887)	(4,787)	(5,954)	(8,919)
Change in working capital	7,343	18,678	18,948	288	2,555	2,085
Others	(280)	(31,539)	21,588	7,261	7,537	7,453
<b>Net cash from operations</b>	<b>24,781</b>	<b>42,544</b>	<b>42,301</b>	<b>22,421</b>	<b>39,226</b>	<b>51,151</b>
<b>Investing</b>						
Capital expenditure	3,013	(9,340)	(19,057)	(16,776)	(17,970)	(18,548)
Acquisition of subsidiaries/ investments	(35,781)	(78,807)	(181,916)	0	0	0
Net proceeds from disposal of short-term investments	6,634	35,379	126,934	0	0	0
Others	784	(5,042)	(209)	0	0	0
<b>Net cash from investing</b>	<b>(25,349)</b>	<b>(57,811)</b>	<b>(74,248)</b>	<b>(16,776)</b>	<b>(17,970)</b>	<b>(18,548)</b>
<b>Financing</b>						
Net borrowings	(4,057)	4,784	(2,975)	10,041	1,198	1,648
Proceeds from share issues	6,630	66,288	22,478	0	0	0
Others	0	0	0	0	0	0
<b>Net cash from financing</b>	<b>2,572</b>	<b>71,072</b>	<b>19,503</b>	<b>10,041</b>	<b>1,198</b>	<b>1,648</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	37,502	39,912	90,519	76,693	92,380	114,834
Exchange difference	406	(5,198)	(1,382)	0	0	0
<b>Cash at the end of the year</b>	<b>39,912</b>	<b>90,519</b>	<b>76,693</b>	<b>92,380</b>	<b>114,834</b>	<b>149,085</b>
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Revenue	24.9%	29.3%	27.6%	10.2%	14.3%	10.6%
Gross profit	28.0%	29.2%	18.3%	14.8%	18.3%	14.9%
Operating profit	na	37.2%	(66.5%)	381.3%	57.0%	46.3%
EBIT	na	289.4%	na	na	89.7%	46.3%
Net profit	na	305.5%	na	na	131.0%	47.7%
Adj. net profit	210.7%	56.5%	2.3%	51.9%	24.0%	36.1%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Gross profit margin	14.6%	14.6%	13.6%	14.1%	14.6%	15.2%
Operating margin	1.6%	1.7%	0.4%	1.9%	2.6%	3.5%
Adj. net profit margin	1.9%	2.3%	1.8%	2.5%	2.7%	3.3%
Return on equity (ROE)	14.0%	32.7%	(1.7%)	4.9%	10.2%	13.1%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.3)	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)
Current ratio (x)	1.0	1.3	1.4	1.4	1.5	1.5
Receivable turnover days	5.5	3.3	3.6	5.1	5.6	5.7
Inventory turnover days	(37.8)	(33.5)	(29.9)	(30.8)	(29.1)	(29.6)
Payable turnover days	(63.2)	(56.5)	(54.9)	(60.5)	(58.7)	(57.3)
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
P/E	24.2	12.8	na	65.6	28.4	19.2
P/E (diluted)	24.7	13.1	na	67.4	29.2	19.8
P/B	3.0	3.1	3.8	3.1	2.7	2.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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