

JD.com (JD US)

Driving for quality growth remains key theme

JD Retail (JDR) will likely deliver better than our previously expected GMV and revenue growth for 2Q23E, aided by improvement of third-party business operating environment, and better than expected 618 shopping festival results. In addition, JD remains committed in driving for quality revenue and earnings growth. In our view, JD will remain cautious in investing heavily to drive for new user acquisition until it finished enhancement of supply chain capabilities, which likely speaks to better-than-expected earnings growth in the near term, while the company still needs to grow user base in order to drive for steady platform business development over the long-run. We lifted our DCF-based target price by 1% to US\$63.4 to factor in potential better-than-expected JDR revenue and earnings growth, which translates into 20.3x 2023E non-GAAP PE. Maintain BUY.

- **JDR: business transition on track.** Revenue growth of JDR in 2Q23 is likely better than our previous expectation, driven by: 1) better than expected GMV growth for first-party business, aided by a better than expected 618 sales promotion, and a hot summer which propels better than expected sales for air conditioner and refrigerator; 2) better than expected revenue growth from third-party business, aided by improvement in third-party business operating environment. We forecast JDR revenue growth of 2% YoY in 2Q23E (previous forecast: -1% YoY) on the back of 7% YoY growth in GMV, and our full-year revenue growth forecast for JDR in 2023 has been lifted to 2% YoY (previous forecast: 1%).
- **2Q23 preview: non-GAAP net income likely to beat consensus estimates.** For 2Q23E, we estimate JD has inked revenue of RMB280.8bn, up 4.9% YoY, 0.8% ahead of Bloomberg consensus estimates. As the move to enhance supply chain and product supply is not costly, we forecast JD have recorded non-GAAP net income of RMB8.2bn, 8% better than consensus, and translates into net margin of 2.9%, inline with our previous forecast and is 0.2pp better than consensus.
- **User base expansion remains vital for long-term development.** JD's near-term earnings visibility remains high given that the move to enhance supply chain and product supply is not costly, while the company still needs to grow user base in order to drive for steady platform business growth and margin expansion over the long run, in our view. We lifted non-GAAP net income forecast by 4.9% for 2023E to RMB34.4bn, translating into 3.1% non-GAAP net margin (previous forecast: 3.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	951,592	1,046,236	1,094,263	1,205,481	1,307,405
YoY growth (%)	27.6	9.9	4.6	10.2	8.5
Net profit (RMB mn)	(3,559.6)	10,380.0	23,472.5	30,879.9	36,646.3
Adjusted net profit (RMB mn)	17,207.1	28,220.0	34,358.4	38,881.9	45,158.5
EPS (Adjusted) (RMB)	10.75	17.74	21.60	24.45	28.39
Consensus EPS (RMB)	na	na	19.99	23.57	27.61
P/E (x)	na	59.3	17.8	13.6	11.4
P/B (x)	3.8	2.9	1.8	1.5	1.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$63.40
(Previous TP US\$62.80)
Up/Downside 69.5%
Current Price US\$37.41

China Internet

Saiyi HE, CFA
(852) 3916 1739
hesaiyi@cmbi.com.hk

Ye TAO
franktao@cmbi.com.hk

Wentao LU, CFA
luwentao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	59,500.6
Avg 3 mths t/o (US\$ mn)	367.0
52w High/Low (US\$)	66.10/32.10
Total Issued Shares (mn)	1590.5

Source: FactSet

Shareholding Structure

Richard Qiangdong Liu	13.8%
Max Smart Limited	13.3%

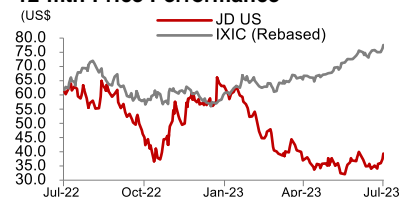
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.5%	-4.0%
3-mth	-0.1%	-12.7%
6-mth	-41.2%	-53.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecast update and valuation

Figure 1: JD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	1,094.3	1,205.5	1,307.4	1,088.2	1,209.0	1,315.2	0.6%	-0.3%	-0.6%
Gross Profit	161.4	181.3	198.3	160.2	181.3	200.5	0.7%	0.0%	-1.1%
Non-GAAP net profit	34.4	38.9	45.2	32.7	38.6	45.9	4.9%	0.8%	-1.6%
Gross Margin	14.7%	15.0%	15.2%	14.7%	15.0%	15.2%	0.0 ppt	0.0 ppt	-0.1 ppt
Non-GAAP net margin	3.1%	3.2%	3.5%	3.0%	3.2%	3.5%	0.1 ppt	0.0 ppt	0.0 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	1,094.3	1,205.5	1,307.4	1,090.9	1,196.4	1,310.4	0.3%	0.8%	-0.2%
Gross Profit	161.4	181.3	198.3	158.6	177.2	196.4	1.8%	2.3%	0.9%
Non-GAAP net profit	34.4	38.9	45.2	31.9	37.7	44.4	7.7%	3.1%	1.6%
Gross Margin	14.7%	15.0%	15.2%	14.5%	14.8%	15.0%	0.2 ppt	0.2 ppt	0.2 ppt
Non-GAAP net margin	3.1%	3.2%	3.5%	2.9%	3.2%	3.4%	0.2 ppt	0.1 ppt	0.1 ppt

Source: Bloomberg, CMBIGM estimates

DCF based target price of US\$63.4

Our target price is US\$63.4, based on DCF valuation methodology (WACC of 11.8% and terminal growth of 2.0%; both unchanged). Our target price translates into 20.3x 2023E PE (non-GAAP). Our previous DCF-based target price of US\$62.8 translates into 21.1x 2023E PE (non-GAAP).

Figure 3: JD: DCF valuation (WACC of 11.8% and terminal growth of 2.0%)

(RMBbn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	1,094	1,205	1,307	1,391	1,459	1,514	1,558	1,592
NPV of FCF	254							
Discounted terminal value	321							
Total equity valuation	658							
No. of shares (diluted, mn)	1,591							
Valuation per share (USD)	59.7							
TP per share (USD)	63.4							

Note: our target price is based on weighted average of 6 month target price in 2023E and 6 month target price in 2024E

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	745,802	951,592	1,046,236	1,094,263	1,205,481	1,307,405
Cost of goods sold	(636,694)	(822,525)	(899,163)	(932,895)	(1,024,190)	(1,109,142)
Gross profit	109,108	129,067	147,073	161,367	181,291	198,263
Operating expenses	(96,766)	(124,926)	(127,350)	(128,213)	(140,439)	(150,482)
Selling expense	(27,156)	(38,743)	(37,772)	(37,752)	(42,674)	(45,759)
Admin expense	(6,409)	(11,562)	(11,053)	(10,943)	(12,055)	(13,074)
R&D expense	(16,149)	(16,332)	(16,893)	(16,523)	(17,600)	(18,434)
Others	(47,051)	(58,288)	(61,632)	(62,995)	(68,110)	(73,215)
Operating profit	12,343	4,141	19,723	33,154	40,852	47,781
Other gains/(losses)	32,556	(590)	(1,555)	0	0	0
Share of (losses)/profits of associates/JV	4,291	(4,918)	(2,195)	(821)	0	0
EBIT	49,191	(1,367)	15,973	32,333	40,852	47,781
Interest income	1,628	(1,213)	(2,106)	(2,505)	(2,688)	(2,409)
Pre-tax profit	50,819	(2,581)	13,867	29,828	38,164	45,372
Income tax	1,482	1,887	4,176	6,704	7,633	9,074
After tax profit	49,337	(4,467)	9,691	23,124	30,531	36,298
Minority interest	(75)	(924)	(697)	(349)	(349)	(349)
Discontinued operations	0	0	0	0	0	0
Others	(7)	(16)	(8)	0	0	0
Net profit	49,405	(3,560)	10,380	23,472	30,880	36,646
Adjusted net profit	16,828	17,207	28,220	34,358	38,882	45,158

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	234,801	299,672	351,074	377,588	420,011	472,320
Cash & equivalents	86,085	70,767	78,861	100,250	132,108	174,622
Restricted cash	4,434	5,926	6,254	6,254	6,254	6,254
Account receivables	7,112	11,900	20,576	23,984	26,422	28,655
Inventories	58,933	75,601	77,949	79,655	87,451	94,704
Prepayment	7,077	11,456	15,156	15,156	15,156	15,156
Other current assets	71,161	124,023	152,278	152,288	152,621	152,929
Non-current assets	187,487	196,835	244,176	244,952	256,044	266,098
PP&E	22,597	32,944	55,080	55,856	66,948	77,002
Right-of-use assets	15,484	19,987	22,267	22,267	22,267	22,267
Deferred income tax	533	1,111	1,536	1,536	1,536	1,536
Investment in JVs & assos	58,501	63,222	57,641	57,641	57,641	57,641
Intangibles	6,463	5,837	9,139	9,139	9,139	9,139
Goodwill	10,904	12,433	23,123	23,123	23,123	23,123
Other non-current assets	73,005	61,300	75,390	75,390	75,390	75,390
Total assets	422,288	496,507	595,250	622,539	676,055	738,418
Current liabilities	174,017	221,636	266,561	261,977	274,544	289,315
Short-term borrowings	0	4,368	12,146	12,146	12,146	12,146
Account payables	106,818	140,484	160,607	155,909	165,554	177,615
Tax payable	3,029	2,568	5,926	5,926	5,926	5,926
Other current liabilities	28,621	33,083	37,624	37,738	40,660	43,370
Lease liabilities	5,514	6,665	7,688	7,688	7,688	7,688
Accrued expenses	30,035	34,469	42,570	42,570	42,570	42,570
Non-current liabilities	26,652	28,087	54,566	65,572	67,047	68,762
Long-term borrowings	12,531	9,386	10,224	21,230	22,705	24,420
Deferred income	1,618	1,297	1,107	1,107	1,107	1,107
Other non-current liabilities	12,503	17,404	43,235	43,235	43,235	43,235
Total liabilities	200,669	249,723	321,127	327,548	341,591	358,077
Share capital	0	0	0	0	0	0
Capital surplus	153,357	208,912	213,366	210,802	219,395	228,627
Retained earnings	37,418	0	0	23,472	54,352	90,999
Other reserves	13,900	1,212	590	590	590	590
Total shareholders equity	204,677	210,124	213,956	234,865	274,338	320,216
Minority interest	16,943	36,661	60,167	60,167	60,167	60,167
Total equity and liabilities	422,288	496,507	595,250	622,580	676,096	738,460

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	50,819	(2,581)	13,867	29,828	38,164	45,372
Depreciation & amortization	6,068	6,232	7,236	5,262	5,784	6,289
Tax paid	(1,482)	(1,887)	(4,176)	(6,704)	(7,633)	(9,074)
Change in working capital	18,678	18,948	22,119	(9,709)	2,002	4,974
Others	(31,539)	21,588	18,773	8,120	8,942	9,580
Net cash from operations	42,544	42,301	57,819	26,797	47,260	57,141
Investing						
Capital expenditure	(9,340)	(19,057)	(38,165)	(16,414)	(16,877)	(16,343)
Acquisition of subsidiaries/ investments	(78,807)	(181,916)	(184,792)	0	0	0
Net proceeds from disposal of short-term investments	35,379	126,934	171,853	0	0	0
Others	(5,042)	(209)	(2,922)	0	0	0
Net cash from investing	(57,811)	(74,248)	(54,026)	(16,414)	(16,877)	(16,343)
Financing						
Net borrowings	4,784	(2,975)	7,027	11,006	1,475	1,715
Proceeds from share issues	66,288	22,478	(5,847)	0	0	0
Others	0	0	0	0	0	0
Net cash from financing	71,072	19,503	1,180	11,006	1,475	1,715
Net change in cash						
Cash at the beginning of the year	39,912	90,519	76,693	85,115	106,504	138,362
Exchange difference	(5,198)	(1,382)	3,449	0	0	0
Cash at the end of the year	90,519	76,693	85,115	106,504	138,362	180,876
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	29.3%	27.6%	9.9%	4.6%	10.2%	8.5%
Gross profit	29.2%	18.3%	14.0%	9.7%	12.3%	9.4%
Operating profit	37.2%	(66.5%)	376.3%	68.1%	23.2%	17.0%
EBIT	289.4%	na	na	102.4%	26.3%	17.0%
Net profit	305.5%	na	na	126.1%	31.6%	18.7%
Adj. net profit	56.5%	2.3%	64.0%	21.8%	13.2%	16.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	14.6%	13.6%	14.1%	14.7%	15.0%	15.2%
Operating margin	1.7%	0.4%	1.9%	3.0%	3.4%	3.7%
Adj. net profit margin	2.3%	1.8%	2.7%	3.1%	3.2%	3.5%
Return on equity (ROE)	32.7%	(1.7%)	4.9%	10.5%	12.1%	12.3%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Current ratio (x)	1.3	1.4	1.3	1.4	1.5	1.6
Receivable turnover days	3.3	3.6	5.7	7.4	7.6	7.7
Inventory turnover days	(33.5)	(29.9)	(31.2)	(30.8)	(29.8)	(30.0)
Payable turnover days	(56.5)	(54.9)	(61.1)	(61.9)	(57.3)	(56.5)
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	12.8	na	59.3	17.8	13.6	11.4
P/E (diluted)	13.1	na	60.4	18.2	13.8	11.6
P/B	3.1	3.8	2.9	1.8	1.5	1.3

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.