

JD.com (JD US)

Driving user growth and user experience improvement

We expect JD.com (JD) to deliver in-line-with-consensus revenue growth with better-than-expected earnings in 4Q23, aided by better-than-expected cost control. For 2024, we expect user experience improvement and GMV share gain, as well as new user acquisition in an efficient way to remain priorities of JD. To account for the additional investment for the Spring Festival Gala, as well as earnings impact from potential moves to drive user and GMV growth in 2024E, we cut our DCF-based target price to US\$52.0 (was US\$57.5). Although JD's business transformation still takes time to bear fruit, the current valuation of 7.8/7.5x 2023/2024E non-GAAP PE is not demanding versus 12% non-GAAP earnings CAGR over 2022-2025E, in our view. Maintain BUY.

■ **JD Retail: remains committed to driving user growth.** We estimate JD Retail (JDR) posted revenue of RMB259.2bn in 4Q23, flat YoY and was in line with Bloomberg consensus. However, driven by likely stringent-than-expected cost control, we estimate JDR recorded non-GAAP operating profit of RMB6.8bn, 1% better than Bloomberg consensus, translating into 2.6% non-GAAP OPM (4Q22: 3.0%). For 2024, we expect driving user experience improvement and GMV share gain, as well as new user acquisition in an efficient way to remain priorities of JD. Factoring in the additional investment that JD has made to serve as the exclusive interactive cooperation platform for the upcoming CCTV's Spring Festival Gala, as well as the gradual wearing off of business adjustment impact, we forecast JDR to achieve revenue growth of 7.7% YoY in 2024E, and to record a non-GAAP OPM of 3.6% (2023E: 3.8%).

■ **4Q23 results preview: expect inline revenue growth with better-than-expected earnings.** For 4Q23E, we estimate JD logged revenue of RMB299.5bn, up 1.4% YoY, in line with Bloomberg consensus estimates. We forecast JD to have recorded non-GAAP net income of RMB7.4bn, 1% better than Bloomberg consensus estimates, due to better-than-expected operating efficiency improvement. Our non-GAAP net income forecast implies a non-GAAP net margin of 2.5% in 4Q23E (4Q22: 2.6%).

■ **Revise revenue and earnings forecast.** We maintain our 2023E revenue and non-GAAP net income unchanged, while we cut 2024E non-GAAP net income forecast by 7% to factor in the additional investment for the Spring Festival Gala. Our forecast translates into 2024E non-GAAP net margin of 3.1% (2023E: 3.2%). Although JD's business transformation still takes time to bear fruit, the current valuation of 7.8/7.5x 2023/2024E non-GAAP PE is not demanding versus 12% non-GAAP earnings CAGR over 2022-2025E, in our view.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	951,592	1,046,236	1,078,078	1,154,193	1,222,047
YoY growth (%)	27.6	9.9	3.0	7.1	5.9
Net profit (RMB mn)	(3,559.6)	10,380.0	18,784.3	22,949.1	27,898.4
Adjusted net profit (RMB mn)	17,207.1	28,220.0	34,196.8	35,313.1	39,261.0
EPS (Adjusted) (RMB)	10.75	17.74	21.50	22.20	24.68
Consensus EPS (RMB)	na	na	20.75	21.75	25.02
P/E (x)	na	59.3	13.9	11.3	9.3
P/B (x)	3.8	2.9	1.1	1.0	0.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$52.00
 (Previous TP) US\$57.50
Up/Downside 123.9%
Current Price US\$23.22

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Stock Data

Mkt Cap (US\$ mn)	36,931.4
Avg 3 mths t/o (US\$ mn)	339.7
52w High/Low (US\$)	63.74/21.66
Total Issued Shares (mn)	1590.5
Source: FactSet	

Shareholding Structure

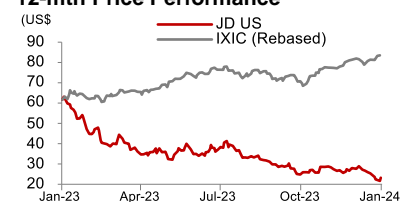
Richard Qiangdong Liu	13.8%
Max Smart Limited	13.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-15.8%	-18.2%
3-mth	-8.0%	-21.7%
6-mth	-39.5%	-44.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Revision in financial forecast and target price

Figure 1: JD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	1,078.1	1,154.2	1,222.0	1,078.1	1,163.2	1,237.4	0.0%	-0.8%	-1.2%
Gross profit	160.5	172.8	185.3	160.5	176.9	191.8	0.0%	-2.3%	-3.4%
Non-GAAP net profit	34.2	35.3	39.3	34.2	37.9	43.6	0.0%	-6.7%	-10.0%
Gross margin	14.9%	15.0%	15.2%	14.9%	15.2%	15.5%	0.0 ppt	-0.2 ppt	-0.3 ppt
Non-GAAP net margin	3.2%	3.1%	3.2%	3.2%	3.3%	3.5%	0.0 ppt	-0.2 ppt	-0.3 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	1,078.1	1,154.2	1,222.0	1,078.9	1,153.4	1,230.3	-0.1%	0.1%	-0.7%
Gross profit	160.5	172.8	185.3	159.9	173.2	187.2	0.4%	-0.2%	-1.0%
Non-GAAP net profit	34.2	35.3	39.3	33.4	36.5	41.4	2.4%	-3.2%	-5.2%
Gross margin	14.9%	15.0%	15.2%	14.8%	15.0%	15.2%	0.1 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	3.2%	3.1%	3.2%	3.1%	3.2%	3.4%	0.1 ppt	-0.1 ppt	-0.2 ppt

Source: Bloomberg, CMBIGM estimates

DCF-based target price of US\$52.0

Our target price is US\$52.0, based on DCF valuation methodology (WACC of 11.8% and terminal growth of 1.5%; both unchanged). Our target price translates into 16.9x 2024E PE (non-GAAP).

Figure 3: JD: DCF valuation (WACC of 11.8% and terminal growth of 1.5%)

(RMBbn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	1,154	1,222	1,280	1,329	1,369	1,403	1,430
NPV of FCF	213	209					
Discounted terminal value	277	310					
Total equity valuation	591	650					
No. of shares (diluted, mn)	1,591	1,591					
Valuation per share (USD)	51.6	56.8					
TP per share (USD)	52.0						

Note: our target price is based on the weighted average of 11-month target price in 2024E and 1-month target price in 2025E

Source: Bloomberg, 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	1,078,078	1,154,193	1,222,047
Cost of goods sold	(636,694)	(822,525)	(899,163)	(917,561)	(981,398)	(1,036,708)
Gross profit	109,108	129,067	147,073	160,517	172,795	185,339
Operating expenses	(96,766)	(124,926)	(127,350)	(131,485)	(138,965)	(145,912)
Selling expense	(27,156)	(38,743)	(37,772)	(40,428)	(42,705)	(44,605)
Admin expense	(6,409)	(11,562)	(11,053)	(10,781)	(11,542)	(12,220)
R&D expense	(16,149)	(16,332)	(16,893)	(16,279)	(16,851)	(17,231)
Others	(47,051)	(58,288)	(61,632)	(63,997)	(67,867)	(71,856)
Operating profit	12,343	4,141	19,723	29,032	33,830	39,427
Other gains/(losses)	32,556	(590)	(1,555)	0	0	0
Share of (losses)/profits of associates/JV	4,291	(4,918)	(2,195)	513	0	0
EBIT	49,191	(1,367)	15,973	29,545	33,830	39,427
Interest income	1,628	(1,213)	(2,106)	(2,505)	(2,710)	(2,465)
Pre-tax profit	50,819	(2,581)	13,867	27,040	31,120	36,962
Income tax	1,482	1,887	4,176	7,689	7,604	8,496
After tax profit	49,337	(4,467)	9,691	19,351	23,516	28,465
Minority interest	(75)	(924)	(697)	567	567	567
Discontinued operations	0	0	0	0	0	0
Others	(7)	(16)	(8)	0	0	0
Net profit	49,405	(3,560)	10,380	18,784	22,949	27,898
Adjusted net profit	16,828	17,207	28,220	34,197	35,313	39,261

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	234,801	299,672	351,074	371,092	401,380	440,375
Cash & equivalents	86,085	70,767	78,861	95,443	118,364	150,936
Restricted cash	4,434	5,926	6,254	6,254	6,254	6,254
Account receivables	7,112	11,900	20,576	23,629	25,297	26,785
Inventories	58,933	75,601	77,949	78,346	83,797	88,519
Prepayment	7,077	11,456	15,156	15,156	15,156	15,156
Other current assets	71,161	124,023	152,278	152,265	152,512	152,725
Non-current assets	187,487	196,835	244,176	244,717	255,130	264,203
PP&E	22,597	32,944	55,080	55,621	66,034	75,107
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	615,810	656,510	704,578
Current liabilities	174,017	221,636	266,561	259,207	266,671	275,919
Short-term borrowings	0	4,368	12,146	12,146	12,146	12,146
Account payables	106,818	140,484	160,607	153,346	158,637	166,015
Tax payable	3,029	2,568	5,926	5,926	5,926	5,926
Other current liabilities	28,621	33,083	37,624	37,531	39,704	41,574
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	65,427	66,625	68,024
Long-term borrowings	12,531	9,386	10,224	21,085	22,283	23,682
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	324,634	333,296	343,943
Share capital	0	0	0	0	0	0
Capital surplus	153,357	208,912	213,366	211,634	220,724	230,247
Retained earnings	37,418	0	0	18,784	41,733	69,632
Other reserves	13,900	1,212	590	590	590	590
Total shareholders equity	204,677	210,124	213,956	231,008	263,047	300,468
Minority interest	16,943	36,661	60,167	60,167	60,167	60,167
Total equity and liabilities	422,288	496,507	595,250	615,810	656,510	704,578

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	50,819	(2,581)	13,867	27,040	31,120	36,962
Depreciation & amortization	6,068	6,232	7,236	5,253	5,746	6,202
Tax paid	(1,482)	(1,887)	(4,176)	(7,689)	(7,604)	(8,496)
Change in working capital	18,678	18,948	22,119	(10,791)	98	2,826
Others	(31,539)	21,588	18,773	8,077	8,523	8,956
Net cash from operations	42,544	42,301	57,819	21,891	37,883	46,449
Investing						
Capital expenditure	(9,340)	(19,057)	(38,165)	(16,171)	(16,159)	(15,276)
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)	(16,171)	(16,159)	(15,276)
Financing						
Net borrowings	4,784	(2,975)	7,027	10,861	1,198	1,399
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	10,861	1,198	1,399
Net change in cash						
Cash at the beginning of the year	39,912	90,519	76,693	85,115	101,697	124,618
Exchange difference	(5,198)	(1,382)	3,449	0	0	0
Cash at the end of the year	90,519	76,693	85,115	101,697	124,618	157,190
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	29.3%	27.6%	9.9%	3.0%	7.1%	5.9%
Gross profit	29.2%	18.3%	14.0%	9.1%	7.6%	7.3%
Operating profit	37.2%	(66.5%)	376.3%	47.2%	16.5%	16.5%
EBIT	289.4%	na	na	85.0%	14.5%	16.5%
Net profit	305.5%	na	na	81.0%	22.2%	21.6%
Adj. net profit	56.5%	2.3%	64.0%	21.2%	3.3%	11.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	14.6%	13.6%	14.1%	14.9%	15.0%	15.2%
Operating margin	1.7%	0.4%	1.9%	2.7%	2.9%	3.2%
Adj. net profit margin	2.3%	1.8%	2.7%	3.2%	3.1%	3.2%
Return on equity (ROE)	32.7%	(1.7%)	4.9%	8.4%	9.3%	9.9%
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)	(0.3)	(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	7.5	7.7	7.8
Inventory turnover days	(33.5)	(29.9)	(31.2)	(31.1)	(30.2)	(30.3)
Payable turnover days	(56.5)	(54.9)	(61.1)	(62.4)	(58.0)	(57.2)
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	12.8	na	59.3	13.9	11.3	9.3
P/E (diluted)	13.1	na	60.4	14.1	11.5	9.5
P/B	3.1	3.8	2.9	1.1	1.0	0.9

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

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