

JD.com (JD US)

Driving growth in a more ambitious way

JD.com (JD) reported (6 March) better-than-expected 4Q23 results with solidly improved outlook for shareholder return: revenue was RMB306.1bn, up 3.6% YoY, 3%/2% higher than our forecast/Bloomberg consensus; non-GAAP net income was RMB8.4bn, ahead of our/consensus estimates of RMB7.4bn/7.2bn thanks to a beat on revenue and better-than-feared margin performance of JD Retail (JDR) business, translating into a non-GAAP NPM of 2.7% (4Q22: 2.6%). For 2023, total revenue was RMB1.1tn, up 3.7% YoY, and non-GAAP net income reached RMB35.2bn, up 25% YoY, with the implied non-GAAP NPM expanding 0.5pp YoY to 3.2%. For 2024, management highlighted key priorities on user experience enhancement and market share gains, and we expect JD to reinvest incremental profit in 2024 to drive user acquisition and wallet share gains, amid current intensified market competition. However, the improved shareholder return policy should provide support for valuation, while further rerating may hinge on the recovery of consumption sentiment, as well as the fully wearing off of business adjustment impact. Our DCF-based TP is unchanged at US\$52.0; maintain BUY.

- **Growth of GMR bottomed out with waning business adjustment impact.** JD's net product revenue was RMB246.5bn in 4Q23 (80.5% of total revenue), up 3.7% YoY (4Q22: 1.2%), among which electronics and home appliance (E&HA) revenue was up 6.1% YoY (4Q22: +0.5%), and general merchandise revenue (GMR) was flat YoY (2Q/3Q23: -9/-2%). Management highlighted that growth of GMR has bottomed out as business adjustment impact wanes.
- **Enhancing merchant support to propel long-term platform business development.** In 4Q23, net services revenue was RMB59.6bn (19.5% of total revenue), up 3.0% YoY, among which marketplace and ads revenue was down 4% YoY, dragged by a YoY decline in commission revenue owing to ongoing merchant support policy, while logistics and other services revenue was up 8.1% YoY. Management highlighted that JD's merchant acquisition trend is in line with its previous expectation, and guided to sustain merchant support to lay a foundation for long-term platform business revenue and earnings growth. Currently we expect commission revenue to return to growth trajectory from 3Q24 onward with the launch of merchant policy reaching a full-year milestone.
- **JDR: better-than-feared OP growth amid escalating competition.** JDR inked revenue of RMB267.6bn in 4Q23, up 3.4% YoY and 3% ahead of our forecast driven by better-than-expected growth of E&HA revenue, while OPM of JDR was 2.6% in 4Q23, in line with our forecast. We expect JD to reinvest incremental profit for user acquisition, user experience improvement, and consumer wallet share gains, and estimate +8%/+4% YoY growth for JDR's revenue/non-GAAP OP in 2024E.
- **Move to enhance shareholder return should drive valuation rerating.** JD announced that it has adopted a new share repurchase program, under which it will repurchase up to USD3bn worth of shares over the next 36 months through Mar 2027. In addition, JD announced USD1.2bn in annual dividends (USD0.76 per ADS; up 20% YoY), which indicates a c.24% payout ratio based on 2023 non-GAAP NP. The move to enhance shareholder return should help drive a valuation rerating, in our view, while further rerating may hinge on the recovery of consumption sentiment, as well as the fully wearing off of business adjustment impact.

BUY (Maintain)

Target Price US\$52.00
 (Previous TP US\$52.00)
Up/Downside 142.5%
Current Price US\$21.44

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)	33,993.1
Avg 3 mths t/o (US\$ mn)	354.7
52w High/Low (US\$)	46.98/21.44
Total Issued Shares (mn)	1585.5

Source: FactSet

Shareholding Structure

Richard Qiangdong Liu	13.8%
Max Smart Limited	13.3%

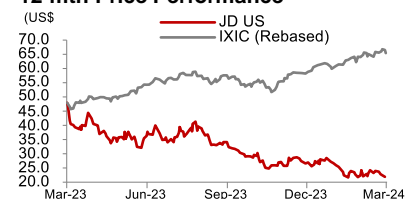
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.1%	-12.9%
3-mth	-19.4%	-28.5%
6-mth	-36.5%	-44.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	1,046,236	1,084,662	1,160,321	1,225,436	1,280,588
YoY growth (%)	9.9	3.7	7.0	5.6	4.5
Net profit (RMB mn)	10,380.0	24,167.0	30,693.5	35,487.1	39,731.8
Adjusted net profit (RMB mn)	28,220.0	35,200.0	36,050.2	41,206.6	45,776.3
EPS (Adjusted) (RMB)	11.75	22.20	22.74	25.99	28.87
Consensus EPS (RMB)	na	20.75	21.75	25.02	26.17
P/E (x)	59.3	17.2	7.9	6.8	6.1

Source: Company data, Bloomberg, CMBIGM estimates

Business forecasts update and valuation

Figure 1: JD: quarterly financial results

(RMBbn)	1Q23	2Q23	3Q23	4Q23	4Q23 CMBI estimates	Diff%	4Q23 Consensus	Diff%
Revenue breakdown by product and services revenue								
Net product revenues	195.6	233.9	195.3	246.5	237.3	3.9%	237.2	3.9%
YoY growth (%)	-4.3%	3.5%	-0.9%	3.7%				
Electronics and home appliance revenues	117.0	152.1	119.3	150.4	141.9	5.9%	143.0	5.2%
YoY growth (%)	-1.2%	11.4%	0.0%	6.1%				
General merchandise revenues	78.6	81.7	76.0	96.1	95.4	0.8%	94.8	1.4%
YoY growth (%)	-8.7%	-8.6%	-2.3%	0.2%				
Net services revenues	47.4	54.1	52.4	59.6	62.2	-4.2%	62.5	-4.7%
YoY growth (%)	34.5%	30.1%	12.7%	3.0%				
Marketplace and advertising revenues	19.1	22.5	19.5	23.6	25.0	-5.4%	25.0	-5.4%
YoY growth (%)	7.8%	8.5%	3.0%	-4.0%				
Logistics and other service revenues	28.3	31.6	32.9	36.0	37.2	-3.3%	37.6	-4.3%
YoY growth (%)	61.3%	51.5%	19.3%	8.1%				
Revenue breakdown by business segment								
JD Retail	212.4	253.3	212.1	267.6	259.2	3.3%	261.4	2.4%
YoY growth (%)	-2.4%	4.9%	0.1%	3.4%	0.1%			
JD Logistics	36.7	41.0	41.7	47.2	46.2			
YoY growth (%)	34.3%	31.2%	16.5%	9.7%	7.4%			
Dada	2.6	2.8	2.9	3.1	3.1			
YoY growth (%)	274.4%	23.2%	20.5%	14.0%	14.0%			
New businesses	3.5	4.3	3.8	3.7	0.0			
YoY growth (%)	-40.1%	-31.1%	-23.6%	-21.8%	-100.0%			
Intersegment elimination	-11.7	-13.5	-12.7	-15.6	0.0			
Total revenue	243.0	287.9	247.7	306.1	299.5	2.2%	299.9	2.1%
YoY growth (%)	1.4%	7.6%	1.7%	3.6%	1.4%			
Gross profit	36.0	41.4	38.8	43.5	44.3	-1.8%	43.3	0.4%
Operating profit	6.4	8.3	9.3	2.0	6.0	-66.5%	6.1	-66.9%
JD Retail operating profit	9.8	8.1	11.0	6.9	6.8	2.6%	6.7	3.6%
New businesses (ex. gain on sale of property)	(0.6)	0.1	(0.1)	(1.7)				
Non-GAAP net profit	7.6	8.6	10.6	8.4	7.4	13.5%	7.2	16.2%
YoY growth (%)	88.3%	31.9%	5.9%	9.9%	-3.2%			
Margin profile								
GPM (%)	14.8%	14.4%	15.6%	14.2%	14.8%	-0.6 ppt	14.4%	-0.2 ppt
OPM (%)	2.6%	2.9%	3.8%	0.7%	2.0%	-1.4 ppt	2.0%	-1.4 ppt
JD Retail	4.6%	3.2%	5.2%	2.6%	2.6%	0.0 ppt	2.6%	0.0 ppt
Adjusted NPM (%)	3.1%	3.0%	4.3%	2.7%	2.5%	0.3 ppt	2.4%	0.3 ppt

Source: Bloomberg, Company data, CMBIGM

Figure 2: JD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	1,160.3	1,225.4	1,280.6	1,154.2	1,222.0	-	0.5%	0.3%	
Gross profit	173.6	185.8	196.6	172.8	185.3	-	0.5%	0.3%	
Non-GAAP net profit	36.1	41.2	45.8	35.3	39.3	-	2.1%	5.0%	
Gross margin	15.0%	15.2%	15.3%	15.0%	15.2%	-	0.0 ppt	0.0 ppt	
Non-GAAP net margin	3.1%	3.4%	3.6%	3.1%	3.2%	-	0.0 ppt	0.1 ppt	

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	1,160.3	1,225.4	1,280.6	1,153.4	1,230.3	-	0.6%	-0.4%	-
Gross profit	173.6	185.8	196.6	173.2	187.2	-	0.3%	-0.7%	-
Non-GAAP net profit	36.1	41.2	45.8	36.5	41.4	-	-1.2%	-0.5%	-
Gross margin	15.0%	15.2%	15.3%	15.0%	15.2%	-	-0.1 ppt	0.0 ppt	-
Non-GAAP net margin	3.1%	3.4%	3.6%	3.2%	3.4%	-	-0.1 ppt	0.0 ppt	-

Source: Bloomberg, CMBIGM estimates

DCF-based target price of US\$52.0

Our target price is US\$52.0, based on the DCF valuation methodology (WACC of 11.8% and terminal growth of 1.5%; both unchanged). Our target price translates into 16.5x 2024E PE (non-GAAP).

Figure 4: JD: DCF valuation (WACC of 11.8% and terminal growth of 1.5%)

(RMBbn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	1,160	1,225	1,281	1,327	1,365	1,395	1,420
NPV of FCF	208	209					
Discounted terminal value	275	308					
Total equity valuation	576	646					
No. of shares (diluted, mn)	1,586	1,586					
Valuation per share (USD)	50.5	56.6					
TP per share (USD)	52.0						

Source: Bloomberg, CMBIGM estimates

Note: our target price is based on the weighted average of 9-month target price in 2024E and 3-month target price in 2025E

Risks

1) Consumption recovery takes longer than we expected; 2) more intensified-than-expected business competition.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	951,592	1,046,236	1,084,662	1,160,321	1,225,436	1,280,588
Cost of goods sold	(822,525)	(899,163)	(924,958)	(986,700)	(1,039,616)	(1,084,033)
Gross profit	129,067	147,073	159,704	173,621	185,820	196,554
Operating expenses	(124,926)	(127,350)	(132,663)	(138,734)	(144,437)	(149,400)
Selling expense	(38,743)	(37,772)	(40,133)	(42,352)	(44,116)	(45,461)
Admin expense	(11,562)	(11,053)	(9,710)	(10,387)	(10,970)	(11,464)
R&D expense	(16,332)	(16,893)	(16,393)	(16,956)	(17,295)	(17,817)
Others	(58,288)	(61,632)	(66,427)	(69,039)	(72,056)	(74,658)
Operating profit	4,141	19,723	27,041	34,886	41,383	47,154
Other gains/(losses)	(590)	(1,555)	7,496	4,498	3,598	2,878
Share of (losses)/profits of associates/JV	(4,918)	(2,195)	1,010	0	0	0
EBIT	(1,367)	15,973	35,547	39,384	44,981	50,032
Interest income	(1,213)	(2,106)	(2,881)	(2,154)	(1,760)	(1,505)
Others	0	0	(1,016)	0	0	0
Pre-tax profit	(2,581)	13,867	31,650	37,229	43,221	48,527
Income tax	1,887	4,176	8,393	7,446	8,644	9,705
After tax profit	(4,467)	9,691	23,257	29,783	34,577	38,822
Minority interest	(924)	(697)	(910)	(910)	(910)	(910)
Discontinued operations	0	0	0	0	0	0
Others	(16)	(8)	0	0	0	0
Net profit	(3,560)	10,380	24,167	30,693	35,487	39,732
Adjusted net profit	17,207	28,220	35,200	36,050	41,207	45,776

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	299,672	351,074	307,810	352,858	396,454	444,059
Cash & equivalents	70,767	78,861	71,892	101,806	139,639	182,395
Restricted cash	5,926	6,254	7,506	7,506	7,506	7,506
Account receivables	11,900	20,576	20,302	25,432	26,859	28,068
Inventories	75,601	77,949	68,058	77,877	82,053	85,559
Prepayment	11,456	15,156	15,639	15,639	15,639	15,639
Other current assets	124,023	152,278	124,413	124,599	124,758	124,892
Non-current assets	196,835	244,176	321,148	317,319	326,423	334,431
PP&E	32,944	55,080	70,035	66,206	75,310	83,318
Right-of-use assets	19,987	22,267	20,863	20,863	20,863	20,863
Deferred income tax	1,111	1,536	1,744	1,744	1,744	1,744
Investment in JVs & assos	63,222	57,641	56,746	56,746	56,746	56,746
Intangibles	5,837	9,139	6,935	6,935	6,935	6,935
Goodwill	12,433	23,123	19,979	19,979	19,979	19,979
Other non-current assets	61,300	75,390	144,846	144,846	144,846	144,846
Total assets	496,507	595,250	628,958	670,177	722,877	778,490
Current liabilities	221,636	266,561	265,650	278,420	289,732	299,240
Short-term borrowings	4,368	12,146	5,034	5,034	5,034	5,034
Account payables	140,484	160,607	166,167	174,293	183,640	191,486
Tax payable	2,568	5,926	7,313	7,313	7,313	7,313
Other current liabilities	33,083	37,624	35,848	40,492	42,457	44,118
Lease liabilities	6,665	7,688	7,755	7,755	7,755	7,755
Accrued expenses	34,469	42,570	43,533	43,533	43,533	43,533
Non-current liabilities	28,087	54,566	66,928	77,952	79,360	80,927
Long-term borrowings	9,386	10,224	10,411	21,435	22,843	24,410
Deferred income	1,297	1,107	964	964	964	964
Other non-current liabilities	17,404	43,235	55,553	55,553	55,553	55,553
Total liabilities	249,723	321,127	332,578	356,373	369,092	380,167
Share capital	0	0	0	0	0	0
Capital surplus	208,912	213,366	231,858	218,589	223,083	227,889
Retained earnings	0	0	0	30,693	66,181	105,912
Other reserves	1,212	590	614	614	614	614
Total shareholders equity	210,124	213,956	232,472	249,896	289,877	334,415
Minority interest	36,661	60,167	63,908	63,908	63,908	63,908
Total equity and liabilities	496,507	595,250	628,958	670,177	722,877	778,490

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,581)	13,867	31,650	37,229	43,221	48,527
Depreciation & amortization	6,232	7,236	5,257	5,755	6,214	6,719
Tax paid	(1,887)	(4,176)	(8,393)	(7,446)	(8,644)	(9,705)
Change in working capital	18,948	22,119	20,639	(2,364)	5,549	4,658
Others	21,588	18,773	10,368	5,049	5,404	5,716
Net cash from operations	42,301	57,819	59,521	38,224	51,744	55,915
Investing						
Capital expenditure	(19,057)	(38,165)	(16,270)	(16,244)	(15,318)	(14,727)
Acquisition of subsidiaries/ investments	(181,916)	(184,792)	0	0	0	0
Net proceeds from disposal of short-term investments	126,934	171,853	0	0	0	0
Others	(209)	(2,922)	(43,273)	0	0	0
Net cash from investing	(74,248)	(54,026)	(59,543)	(16,244)	(15,318)	(14,727)
Financing						
Net borrowings	(2,975)	7,027	(6,925)	11,024	1,407	1,568
Proceeds from share issues	22,478	(5,847)	0	0	0	0
Others	0	0	1,117	0	0	0
Net cash from financing	19,503	1,180	(5,808)	11,024	1,407	1,568
Net change in cash						
Cash at the beginning of the year	87,376	73,550	82,013	76,308	109,312	147,145
Exchange difference	(1,382)	3,490	125	0	0	0
Cash at the end of the year	73,550	82,013	76,308	109,312	147,145	189,901
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	27.6%	9.9%	3.7%	7.0%	5.6%	4.5%
Gross profit	18.3%	14.0%	8.6%	8.7%	7.0%	5.8%
Operating profit	(55.0%)	376.3%	37.1%	29.0%	18.6%	13.9%
EBIT	na	na	122.5%	10.8%	14.2%	11.2%
Net profit	na	na	132.8%	27.0%	15.6%	12.0%
Adj. net profit	25.7%	64.0%	24.7%	2.4%	14.3%	11.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	13.6%	14.1%	14.7%	15.0%	15.2%	15.3%
Operating margin	0.4%	1.9%	2.5%	3.0%	3.4%	3.7%
Adj. net profit margin	1.8%	2.7%	3.2%	3.1%	3.4%	3.6%
Return on equity (ROE)	(1.7%)	4.9%	10.8%	12.7%	13.1%	12.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.3)	(0.2)	(0.3)	(0.4)	(0.5)
Current ratio (x)	1.4	1.3	1.2	1.3	1.4	1.5
Receivable turnover days	3.6	5.7	6.9	7.2	7.8	7.8
Inventory turnover days	(29.9)	(31.2)	(28.8)	(27.0)	(28.1)	(28.2)
Payable turnover days	(54.9)	(61.1)	(64.5)	(63.0)	(62.8)	(63.2)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	59.3	17.2	7.9	6.8	6.1
P/E (diluted)	ns	60.4	17.3	8.0	6.9	6.2
P/B	3.8	2.9	1.8	1.0	0.8	0.7

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

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CMB International Global Markets Limited

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

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