

JD.com (JD US)

Stronger-than-expected margin expansion

JD announced (18 Nov) 3Q22 results: revenue was RMB243.5bn, up 11.4% YoY, in line with both our forecast and Bloomberg-consensus. Non-GAAP net income of RMB10.0bn in 3Q22 was 38/41% ahead of our estimates/consensus, and translated into a non-GAAP net margin of 4.1% (3Q21: 2.3%), 1.1pp ahead of our forecast, driven by strict cost control amid macro headwinds. We lowered 22-24E revenue forecast by 1.2-3.0% to account for severe-than-expected impact brought by pandemic resurgence, and slower-than-expected general merchandise revenue growth due to management's proactive move to focus more on driving profitability expansion than scale growth. However, we lifted 22-24E non-GAAP net profit forecast by 5-9% to account for stringent-than-expected cost control, and lifted DCF-based TP by 1.2% to US\$79.5. BUY.

- **Ongoing recovery in YoY product revenue growth in 3Q, but fulfilment disruption in 4Q may bring volatility.** JD's net product revenue was RMB197.0bn in 3Q22 (80.9% of total revenue), up 5.9% YoY (2Q22: 2.9%), driven by growth of 3.5% YoY in general merchandise revenue and 7.6% YoY rise in electronics and home appliance revenue. In sight of pandemic resurgence which impacted fulfilment and drove an increase in return rate amid an already challenging macro environment, management is cautious on 4Q22 net product revenue growth. We forecast YoY growth in product revenue to slow to 2.4% YoY in 4Q22E, before seeing a rebound to 10.8% in 2023E. In 3Q22, net services revenue was RMB46.5bn, up 42.2% YoY (2Q22: 21.9%), aided by marketplace and advertising revenue growth of 13.0% YoY, and logistics and other services revenue growth of 73.0% YoY.
- **Margin expansion well on track.** GPM was 14.9% for 3Q22, up 0.7pp YoY, and management noted a gross margin expansion trend across different categories. JD Retail (JDR)'s OPM expanded by 1.2pp YoY to 5.2% in 3Q22, aided by more controlled sales promotion activity. Fulfilment expense as a percentage of revenue ratio was 5.9% in 3Q22 (3Q21: 6.5%), better than our estimate at 6.5%, and marketing expense to revenue ratio was 3.1% (3Q21: 3.6%), 0.1pp better than our estimates. Overall non-GAAP OPM was 4.1% in 3Q22 (3Q21: 2.1%), 0.6pp ahead of our estimate. We expect strong margin expansion trend to sustain in 4Q, driven by ongoing GPM improvement across categories, and efficient cost control, and forecast non-GAAP NPM to expand to 1.9% in 4Q22E (4Q21: 1.3%).
- **User engagement continuously enhancing.** The number of active customer accounts on TTM basis were 588.3mn in 3Q22, up 6.5% YoY (2Q22: 9.2%). In 3Q22, management noted user base for JDR increased by around 10mn QoQ in 3Q22, and YoY growth of average daily active user sustained double-digit level, indicating an enhanced user engagement. It also highlighted that third-party merchants on JDR's open platform recorded over 20% YoY growth for a seventh consecutive quarter in 3Q22, which in our view lays solid foundation for the recovery of JD's online marketing services revenue after pandemic impact wanes.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	745,802	951,592	1,050,957	1,206,049	1,334,311
YoY growth (%)	29.3	27.6	10.4	14.8	10.6
Net profit (RMB mn)	49,395.9	(3,551.6)	11,919.0	25,201.0	37,235.3
Adjusted net profit (RMB mn)	16,827.6	17,207.1	26,162.7	32,782.3	44,648.4
EPS (Adjusted) (RMB)	10.56	10.75	16.38	20.52	27.95
Consensus EPS (RMB)	10.56	10.75	14.11	16.98	22.26
P/E (x)	12.8	na	49.7	23.5	15.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$79.50
(Previous TP US\$78.50)
Up/Downside 48.6%
Current Price US\$53.49

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Stock Data

Mkt Cap (US\$ mn)	85,434.4
Avg 3 mths t/o (US\$ mn)	51.0
52w High/Low (US\$)	91.55/36.66
Total Issued Shares (mn)	1597.2

Source: FactSet

Shareholding Structure

Richard Qiangdong Liu	13.8%
Max Smart Limited	13.3%

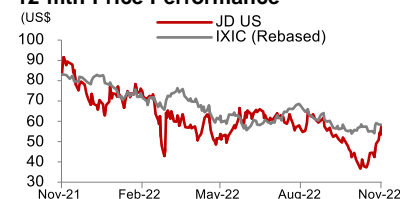
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	20.4%	14.9%
3-mth	-4.7%	10.2%
6-mth	-0.3%	6.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: JD: quarterly financial results

(RMBbn)	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Net product revenues	151.4	192.2	175.3	219.7	186.0	234.7	204.4	226.0	197.0
YoY growth (%)	27.4%	28.4%	34.7%	23.3%	22.9%	22.1%	16.6%	2.9%	5.9%
Electronics and home appliance revenues	93.3	115.8	104.0	136.8	110.9	140.9	118.4	136.6	119.3
YoY growth (%)	23.2%	24.9%	34.0%	19.8%	18.8%	21.7%	13.8%	-0.1%	7.6%
General merchandise revenues	58.1	76.4	71.3	82.9	75.1	93.7	86.0	89.4	77.7
YoY growth (%)	34.8%	34.0%	35.9%	29.5%	29.4%	22.7%	20.7%	7.8%	3.5%
Net services revenues	22.8	32.1	27.9	34.1	32.7	41.2	35.2	41.6	46.5
YoY growth (%)	42.7%	53.2%	73.1%	49.2%	43.3%	28.3%	26.3%	21.9%	42.2%
Marketplace and advertising revenues	12.4	17.5	14.1	19.0	16.8	22.2	17.7	20.7	19.0
YoY growth (%)	24.3%	29.7%	48.2%	35.1%	35.1%	27.2%	25.2%	9.3%	13.0%
Logistics and other service revenues	10.4	14.6	13.8	15.1	15.9	19.0	17.6	20.8	27.6
YoY growth (%)	73.3%	95.3%	109.2%	71.6%	53.1%	29.7%	27.5%	37.8%	73.0%
Total revenue	174.2	224.3	203.2	253.8	218.7	275.9	239.7	267.6	243.5
YoY growth (%)	29.2%	31.4%	39.0%	26.2%	25.5%	23.0%	18.0%	5.4%	11.4%
Gross profit	26.8	31.1	29.1	31.7	31.1	37.1	33.4	35.9	36.2
Operating profit	4.4	0.6	1.7	0.3	2.6	-0.4	2.4	3.8	8.7
Non-GAAP net profit	5.6	2.4	4.0	4.6	5.0	3.6	4.0	6.5	10.0
YoY growth (%)	80.1%	194.3%	33.5%	-21.7%	-9.2%	49.4%	1.6%	40.3%	98.9%
GPM (%)	15.4%	13.9%	14.3%	12.5%	14.2%	13.5%	14.0%	13.4%	14.9%
OPM (%)	2.5%	0.3%	0.8%	0.1%	1.2%	-0.1%	1.0%	1.4%	3.6%
Adjusted NPM (%)	3.2%	1.1%	2.0%	1.8%	2.3%	1.3%	1.7%	2.4%	4.1%

Source: Company data, CMBIGM

Figure 2: JD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	1,051.0	1,206.0	1,334.3	1,063.3	1,230.1	1,376.1	-1.2%	-2.0%	-3.0%
Gross Profit	148.5	176.7	203.2	151.0	181.5	211.8	-1.7%	-2.7%	-4.1%
Operating Profit	19.9	31.7	46.4	16.1	27.5	41.3	23.8%	15.2%	12.3%
Non-GAAP net profit	26.2	32.8	44.6	23.9	30.9	42.4	9.3%	6.0%	5.3%
Gross Margin	14.1%	14.6%	15.2%	14.2%	14.8%	15.4%	-0.1 ppt	-0.1 ppt	-0.2 ppt
Operating Margin	1.9%	2.6%	3.5%	1.5%	2.2%	3.0%	0.4 ppt	0.4 ppt	0.5 ppt
Non-GAAP net margin	2.5%	2.7%	3.3%	2.3%	2.5%	3.1%	0.2 ppt	0.2 ppt	0.3 ppt

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	1,051.0	1,206.0	1,334.3	1,064.0	1,242.1	1,415.3	-1.2%	-2.9%	-5.7%
Gross Profit	148.5	176.7	203.2	148.8	178.1	206.8	-0.2%	-0.8%	-1.8%
Operating Profit	19.9	31.7	46.4	14.7	24.3	34.6	35.7%	30.5%	33.8%
Non-GAAP net profit	26.2	32.8	44.6	23.2	30.7	39.7	12.7%	6.7%	12.3%
Gross Margin	14.1%	14.6%	15.2%	14.0%	14.3%	14.6%	0.1 ppt	0.3 ppt	0.6 ppt
Operating Margin	1.9%	2.6%	3.5%	1.4%	2.0%	2.4%	0.5 ppt	0.7 ppt	1.0 ppt
Non-GAAP net margin	2.5%	2.7%	3.3%	2.2%	2.5%	2.8%	0.3 ppt	0.2 ppt	0.5 ppt

Source: CMBIGM estimates

DCF based target price of US\$79.5

Our target price is US\$79.5, based on DCF valuation methodology (WACC of 11.8% and terminal growth of 2.5%; both unchanged). Our target price translates 26.8x 2023E PE (non-GAAP). Our previous DCF-based target price of US\$78.5 translates into 28.1x 2023E PE (non-GAAP).

Figure 4: JD: DCF valuation (WACC of 11.8% and terminal growth of 2.0%)

(RMBbn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	1,051	1,206	1,334	1,451	1,549	1,634	1,703	1,758	1,801
NPV of FCF	312	334							
Discounted terminal value	411	459							
Total equity valuation	802	895							
No. of shares (diluted, mn)	1,597	1,597							
Valuation per share (USD)	72	81							
TP per share (USD)	79.5								

Note: our target price is based on weighted average of 2-month target price in 2022E and 10 month target price in 2023E

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	576,888	745,802	951,592	1,050,957	1,206,049	1,334,311
Cost of goods sold	(492,467)	(636,694)	(822,525)	(902,446)	(1,029,399)	(1,131,154)
Gross profit	84,421	109,108	129,067	148,510	176,650	203,157
Operating expenses	(75,426)	(96,766)	(124,926)	(128,564)	(144,967)	(156,782)
Selling expense	(22,234)	(27,156)	(38,743)	(39,411)	(44,021)	(47,368)
Admin expense	(5,490)	(6,409)	(11,562)	(11,035)	(12,302)	(13,343)
R&D expense	(14,619)	(16,149)	(16,332)	(16,815)	(18,091)	(19,348)
Others	(33,083)	(47,051)	(58,288)	(61,303)	(70,554)	(76,723)
Operating profit	8,995	12,343	4,141	19,946	31,683	46,376
Other gains/(losses)	5,375	32,556	(590)	0	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)	17,638	31,683	46,376
Interest income	1,061	1,628	(1,213)	(1,819)	(1,511)	(1,160)
Pre-tax profit	13,693	50,819	(2,581)	15,820	30,172	45,215
Income tax	1,802	1,482	1,887	4,787	6,034	9,043
After tax profit	11,890	49,337	(4,467)	11,033	24,138	36,172
Minority interest	(297)	(75)	(924)	(886)	(1,063)	(1,063)
Discontinued operations	0	0	0	0	0	0
Others	(6)	(16)	(8)	0	0	0
Net profit	12,182	49,396	(3,552)	11,919	25,201	37,235
Adjusted net profit	10,750	16,828	17,207	26,163	32,782	44,648

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	139,095	234,801	299,672	330,919	367,709	413,592
Cash & equivalents	36,971	86,085	70,767	87,797	110,801	145,538
Restricted cash	2,941	4,434	5,926	5,926	5,926	5,926
Account receivables	6,191	7,112	11,900	17,276	19,825	21,934
Inventories	57,932	58,933	75,601	76,646	87,428	96,071
Prepayment	5,630	7,077	11,456	18,998	18,998	18,998
Other current assets	29,430	71,161	124,023	124,276	124,730	125,126
Non-current assets	120,629	187,487	196,835	208,667	221,432	234,161
PP&E	20,654	22,597	32,944	44,776	57,541	70,270
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	539,586	589,140	647,753
Current liabilities	140,017	174,017	221,636	236,318	252,926	266,179
Short-term borrowings	0	0	4,368	4,368	4,368	4,368
Account payables	90,428	106,818	140,484	158,237	172,036	182,844
Tax payable	2,016	3,029	2,568	2,568	2,568	2,568
Other current liabilities	19,723	28,621	33,083	30,012	32,820	35,267
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	38,173	39,386	41,056
Long-term borrowings	10,052	12,531	9,386	19,472	20,685	22,354
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	274,490	292,311	307,235
Share capital	0	0	0	0	0	0
Capital surplus	90,676	153,357	208,912	215,304	221,836	228,290
Retained earnings	(11,913)	37,418	0	11,919	37,120	74,355
Other reserves	19,057	13,900	1,212	1,212	1,212	1,212
Total shareholders equity	97,820	204,677	210,124	228,435	260,168	303,857
Minority interest	2,804	16,943	36,661	36,661	36,661	36,661
Total equity and liabilities	259,724	422,288	496,507	539,586	589,140	647,753

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	13,693	50,819	(2,581)	15,820	30,172	45,215
Depreciation & amortization	5,828	6,068	6,232	4,984	5,326	5,951
Tax paid	(1,802)	(1,482)	(1,887)	(4,787)	(6,034)	(9,043)
Change in working capital	7,343	18,678	18,948	465	2,822	2,107
Others	(280)	(31,539)	21,588	7,277	7,596	7,517
Net cash from operations	24,781	42,544	42,301	23,759	39,881	51,748
Investing						
Capital expenditure	3,013	(9,340)	(19,057)	(16,815)	(18,091)	(18,680)
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
Net cash from investing	(25,349)	(57,811)	(74,248)	(16,815)	(18,091)	(18,680)
Financing						
Net borrowings	(4,057)	4,784	(2,975)	10,086	1,213	1,670
Proceeds from share issues	6,630	66,288	22,478	0	0	0
Others	0	0	0	0	0	0
Net cash from financing	2,572	71,072	19,503	10,086	1,213	1,670
Net change in cash						
Cash at the beginning of the year	37,502	39,912	90,519	76,693	93,723	116,726
Exchange difference	406	(5,198)	(1,382)	0	0	0
Cash at the end of the year	39,912	90,519	76,693	93,723	116,726	151,464
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	24.9%	29.3%	27.6%	10.4%	14.8%	10.6%
Gross profit	28.0%	29.2%	18.3%	15.1%	18.9%	15.0%
Operating profit	na	37.2%	(66.5%)	381.7%	58.8%	46.4%
EBIT	na	289.4%	na	na	79.6%	46.4%
Net profit	na	305.5%	na	na	111.4%	47.8%
Adj. net profit	210.7%	56.5%	2.3%	52.0%	25.3%	36.2%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
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%)	5.4%	10.3%	13.2%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
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	1.6
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)	(60.4)	(58.6)	(57.3)
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	24.2	12.8	na	49.7	23.5	15.9
P/E (diluted)	24.7	13.1	na	51.1	24.2	16.4
P/B	3.0	3.1	3.8	2.6	2.3	1.9

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

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