

JD.com (JD US)

Entering into a year of business transition

JD.com (JD) is entering into a year of business transition. It is enhancing supply chain capabilities, driving more engagement from third-party merchants, and diversifying product offerings to drive for consumer and merchant base expansion and long-term development of third-party business. The newly announced adjustment of organizational structure ([link](#)) could lead to better business agility and better third-party (3P) business operating environment in the medium term, but is likely to bring additional headwind to revenue growth in the near term. Though we expect the investment to drive for greater consumer mindshare on value for quality products and better 3P operating environment takes time to bear fruit, we are positive on JD's strong management execution capability, and JD's established user mindshare on quality products could help it fend off near term competition. We cut DCF-based TP by 18% to US\$61.2 to reflect near-term headwinds, translating into 22x 2023E non-GAAP PE. Maintain BUY.

- **Organization structure adjustment to aid long term healthy development.** JD unveiled organization structure adjustment on 11 April, which we believe could help JD gain better business agility and improve operating environment for 3P business merchants over medium term. JD is adopting a more balanced approach in developing 1P and 3P business, which in our view could help enhance and diversify product offerings. It could hence better fulfil user demand on value for money products, and benefit 3P business development over the long-term.
- **On the right track to drive for long-term healthy business development.** We expect JD to see additional headwind on revenue growth in 2023 from: 1) greater than previously expected impact from business adjustment on general merchandise starting from 3Q22 (operation mode of several categories shifting from 1P to 3P); and 2) organization structure adjustment. We cut total revenue forecast by 8/7% for 2023/2024E to account for these impact. However, by enhancing supply chain capability to broaden consumer base, and improving traffic allocation to bring more quality third-party merchants onboard, JD is on the right track to drive for long-term healthy business development, in our view. We estimate 2022-2025E total revenue CAGR of 7.9%, aided by 18.4% CAGR for net services revenue and 5.4% CAGR for net product revenue.
- **1Q23 preview.** For 1Q23, we estimate JD has inked revenue of RMB240.5bn, up 0.4% YoY, 1% lower than Bloomberg consensus estimates. We also forecast JD to record non-GAAP net income of RMB5.4bn, inline with consensus, which translates into non-GAAP net margin of 2.2% (1Q22: 1.7%). Taking into account the investment in "Ten billion subsidy" program, we expect a YoY flat operating margin for JD Retail in both 1Q23 and 2023, but we expect narrower losses from new businesses, and operating efficiency improvement for JD Logistics to drive for group level operating margin expansion. We forecast JD's overall non-GAAP NPM to expand to 2.8% in 2023E (2022: 2.7%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	951,592	1,046,236	1,087,235	1,208,305	1,314,770
YoY growth (%)	27.6	9.9	3.9	11.1	8.8
Net profit (RMB mn)	(3,559.6)	10,380.0	22,425.9	29,634.0	36,174.9
Adjusted net profit (RMB mn)	17,207.1	28,220.0	30,054.3	38,016.0	45,191.6
EPS (Adjusted) (RMB)	10.75	17.74	18.90	23.90	28.41
Consensus EPS (RMB)	10.75	17.73	19.13	24.04	28.40
P/E (x)	na	59.3	19.2	14.5	11.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$61.20
(Previous TP US\$74.30)
Up/Downside 53.0%
Current Price US\$40.01

China Internet

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

Ye TAO
franktao@cmbi.com.hk

Wentao LU
luwentao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	63,635.9
Avg 3 mths t/o (US\$ mn)	49.0
52w High/Low (US\$)	66.47/36.66
Total Issued Shares (mn)	1590.5

Source: FactSet

Shareholding Structure

Richard Qiangdong Liu	13.8%
Max Smart Limited	13.3%

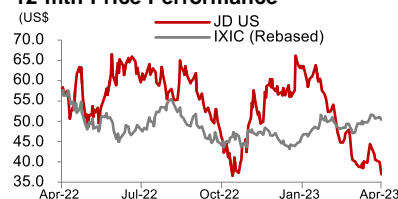
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.1%	-8.5%
3-mth	-36.7%	-42.1%
6-mth	-13.8%	-25.3%

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	1,087.2	1,208.3	1,314.8	1,179.5	1,299.6	1,410.6	-7.8%	-7.0%	-6.8%
Gross Profit	158.9	179.8	198.8	171.6	194.4	217.4	-7.4%	-7.5%	-8.5%
Non-GAAP net profit	30.1	38.0	45.2	32.4	42.6	53.6	-7.3%	-10.8%	-15.7%
Gross Margin	14.6%	14.9%	15.1%	14.6%	15.0%	15.4%	0.1 ppt	-0.1 ppt	-0.3 ppt
Non-GAAP net margin	2.8%	3.1%	3.4%	2.7%	3.3%	3.8%	0.0 ppt	-0.1 ppt	-0.4 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB bn	CMBIGM			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	1,087.2	1,208.3	1,314.8	1,147.5	1,288.7	1,427.5	-5.3%	-6.2%	-7.9%
Gross Profit	158.9	179.8	198.8	163.1	187.1	210.0	-2.6%	-3.9%	-5.3%
Non-GAAP net profit	30.1	38.0	45.2	30.5	37.9	46.3	-1.6%	0.2%	-2.4%
Gross Margin	14.6%	14.9%	15.1%	14.2%	14.5%	14.7%	0.4 ppt	0.4 ppt	0.4 ppt
Non-GAAP net margin	2.8%	3.1%	3.4%	2.7%	2.9%	3.2%	0.1 ppt	0.2 ppt	0.2 ppt

Source: Bloomberg, CMBIGM estimates

DCF based target price of US\$61.2

Our target price is US\$61.2, based on DCF valuation methodology (WACC of 11.8% and terminal growth of 2.0%; both unchanged). Our target price translates into 22.4x 2023E PE (non-GAAP). Our previous DCF-based target price of US\$74.3 translates into 25.2x 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	1,087	1,208	1,315	1,405	1,478	1,536	1,581	1,616
NPV of FCF	258							
Discounted terminal value	334							
Total equity valuation	674							
No. of shares (diluted, mn)	1,591							
Valuation per share (USD)	61.2							

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	1,087,235	1,208,305	1,314,770
Cost of goods sold	(636,694)	(822,525)	(899,163)	(928,375)	(1,028,492)	(1,115,965)
Gross profit	109,108	129,067	147,073	158,861	179,812	198,806
Operating expenses	(96,766)	(124,926)	(127,350)	(128,523)	(140,944)	(152,049)
Selling expense	(27,156)	(38,743)	(37,772)	(38,597)	(42,895)	(46,674)
Admin expense	(6,409)	(11,562)	(11,053)	(11,160)	(12,083)	(13,148)
R&D expense	(16,149)	(16,332)	(16,893)	(16,468)	(17,697)	(18,599)
Others	(47,051)	(58,288)	(61,632)	(62,299)	(68,269)	(73,627)
Operating profit	12,343	4,141	19,723	30,337	38,868	46,757
Other gains/(losses)	32,556	(590)	(1,555)	0	0	0
Share of (losses)/profits of associates/JV	4,291	(4,918)	(2,195)	0	0	0
EBIT	49,191	(1,367)	15,973	30,337	38,868	46,757
Interest income	1,628	(1,213)	(2,106)	(3,176)	(2,696)	(2,410)
Pre-tax profit	50,819	(2,581)	13,867	27,161	36,171	44,347
Income tax	1,482	1,887	4,176	5,432	7,234	8,869
After tax profit	49,337	(4,467)	9,691	21,729	28,937	35,478
Minority interest	(75)	(924)	(697)	(697)	(697)	(697)
Discontinued operations	0	0	0	0	0	0
Others	(7)	(16)	(8)	0	0	0
Net profit	49,405	(3,560)	10,380	22,426	29,634	36,175
Adjusted net profit	16,828	17,207	28,220	30,054	38,016	45,192

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	234,801	299,672	351,074	375,141	417,555	469,367
Cash & equivalents	86,085	70,767	78,861	98,373	129,216	170,915
Restricted cash	4,434	5,926	6,254	6,254	6,254	6,254
Account receivables	7,112	11,900	20,576	23,830	26,483	28,817
Inventories	58,933	75,601	77,949	79,269	87,818	95,287
Prepayment	7,077	11,456	15,156	15,156	15,156	15,156
Other current assets	71,161	124,023	152,278	152,259	152,627	152,938
Non-current assets	187,487	196,835	244,176	244,850	255,987	266,134
PP&E	22,597	32,944	55,080	55,754	66,891	77,038
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	619,991	673,542	735,502
Current liabilities	174,017	221,636	266,561	260,966	275,298	290,488
Short-term borrowings	0	4,368	12,146	12,146	12,146	12,146
Account payables	106,818	140,484	160,607	155,153	166,249	178,707
Tax payable	3,029	2,568	5,926	5,926	5,926	5,926
Other current liabilities	28,621	33,083	37,624	37,483	40,719	43,451
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	65,515	66,928	68,613
Long-term borrowings	12,531	9,386	10,224	21,173	22,586	24,271
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	326,480	342,226	359,101
Share capital	0	0	0	0	0	0
Capital surplus	153,357	208,912	213,366	210,328	218,499	227,409
Retained earnings	37,418	0	0	22,426	52,060	88,235
Other reserves	13,900	1,212	590	590	590	590
Total shareholders equity	204,677	210,124	213,956	233,344	271,149	316,234
Minority interest	16,943	36,661	60,167	60,167	60,167	60,167
Total equity and liabilities	422,288	496,507	595,250	619,991	673,542	735,502

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	50,819	(2,581)	13,867	27,161	36,171	44,347
Depreciation & amortization	6,068	6,232	4,980	5,258	5,779	6,287
Tax paid	(1,482)	(1,887)	(4,176)	(5,432)	(7,234)	(8,869)
Change in working capital	18,678	18,948	24,534	(10,151)	2,762	5,077
Others	(31,539)	21,588	18,614	7,994	8,869	9,607
Net cash from operations	42,544	42,301	57,819	24,831	46,347	56,449
Investing						
Capital expenditure	(9,340)	(19,057)	(16,740)	(16,309)	(16,916)	(16,435)
Acquisition of subsidiaries/ investments	(78,807)	(181,916)	0	0	0	0
Net proceeds from disposal of short-term investments	35,379	126,934	0	0	0	0
Others	(5,042)	(209)	(37,286)	0	0	0
Net cash from investing	(57,811)	(74,248)	(54,026)	(16,309)	(16,916)	(16,435)
Financing						
Net borrowings	4,784	(2,975)	8,616	10,949	1,413	1,685
Proceeds from share issues	66,288	22,478	0	0	0	0
Others	0	0	(7,436)	0	0	0
Net cash from financing	71,072	19,503	1,180	10,949	1,413	1,685
Net change in cash						
Cash at the beginning of the year	39,912	90,519	76,693	85,156	104,627	135,470
Exchange difference	(5,198)	(1,382)	3,490	0	0	0
Cash at the end of the year	90,519	76,693	85,156	104,627	135,470	177,169
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	29.3%	27.6%	9.9%	3.9%	11.1%	8.8%
Gross profit	29.2%	18.3%	14.0%	8.0%	13.2%	10.6%
Operating profit	37.2%	(66.5%)	376.3%	53.8%	28.1%	20.3%
EBIT	289.4%	na	na	89.9%	28.1%	20.3%
Net profit	305.5%	na	na	116.0%	32.1%	22.1%
Adj. net profit	56.5%	2.3%	64.0%	6.5%	26.5%	18.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	14.6%	13.6%	14.1%	14.6%	14.9%	15.1%
Operating margin	1.7%	0.4%	1.9%	2.8%	3.2%	3.6%
Adj. net profit margin	2.3%	1.8%	2.7%	2.8%	3.1%	3.4%
Return on equity (ROE)	32.7%	(1.7%)	4.9%	10.0%	11.7%	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)	(0.3)	(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	7.6	7.7
Inventory turnover days	(33.5)	(29.9)	(31.2)	(30.9)	(29.6)	(29.9)
Payable turnover days	(56.5)	(54.9)	(61.1)	(62.1)	(57.0)	(56.4)
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	12.8	na	59.3	19.2	14.5	11.9
P/E (diluted)	13.1	na	60.4	19.5	14.8	12.1
P/B	3.1	3.8	2.9	1.8	1.6	1.4

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.