

JD.com (JD US)

Stringent ROI target on investments brings better-than-expected 2Q earnings growth

JD.com (JD) reported (15 Aug) better-than-expected 2Q24 results: revenue was RMB291.4bn, up 1% YoY, in line with our forecast and Bloomberg consensus; non-GAAP net income was RMB14.5bn, ahead of our forecast/consensus estimates at RMB9.9bn/9.6bn, thanks to stronger-than-expected GPM expansion aided by scale effect, as well as better-than-expected generation from other income. Guided by stringent ROI target and benefited from the increasing economies of scale, we remain positive on JD's earnings growth trajectory in 2H24. However, apart from the additional benefits brought by nationwide home appliance trade-in activities, since the current share repurchase program has been largely utilized, JD needs to convince the market with its ability in retaining market share in core electronics and home appliance (E&HA) category, in order to drive for further valuation rerating amid current market environment, in our view. Our DCF-based TP was unchanged at US\$51.9. Maintain BUY.

- **Guided for incremental investment to drive for reacceleration in net product revenue growth.** JD's net product revenue was RMB233.9bn in 2Q24 (80.3% of total revenue), flat YoY (2Q23: +3.5%) and was inline with consensus, among which E&HA revenue was down 4.6% YoY (2Q23: +11.4%) owing to a high base for air conditioner GMV and soft performance in PC sales due to overall weak demand, while general merchandise revenue (GMR) was up 8.7% YoY (4Q23/1Q24: +0.2%/+8.6%), among which JD highlighted that revenue for supermarket category has delivered >10% YoY growth in 1H24. Management remains confident for the growth of supermarket category in 2H24, and guided for incremental investments to drive for reacceleration in net product revenue growth in 2H24 after the high base effect dissipated.
- **Recovery in growth of marketplace and advertising revenue better than market expectation.** In 2Q24, net services revenue was RMB57.5bn (19.7% of total revenue), up 6.3% YoY, among which marketplace and ads revenue was up 4.1% YoY to RMB23.4bn, 3% better than consensus, and logistics and other services revenue was up 7.9% YoY to RMB34.1bn, 1% better than consensus. Management is positive that YoY growth in marketplace and ads revenue should further reaccelerate in 2H24, thanks to a clean base for growth for commission revenue, and sustained solid performance of ads business driven by enhancement in ad tech and innovation in ad model.
- **JDR: better-than-expected OP generation guided by quality growth goal.** JD Retail (JDR) inked revenue of RMB257.1bn in 2Q24, up 1.5% YoY, 1% better than consensus, while OPM of JDR was 3.9% in 2Q24, 0.3pp better than consensus, which in our view can be attributed to better-than-expected gross margin expansion and stringent sales and marketing cost control. We are more positive on JD's full year non-GAAP net profit growth outlook given its stringent ROI target when making investments, and lifted our 2024 earnings forecast by 8% to RMB41.7bn, which translates into non-GAAP NPM of 3.7% (was 3.3%).
- **Demonstrated determination in enhancing shareholder return.** The total number of shares repurchased by JD for the 3/6 months ended 30 Jun 2024 amounted to c. 4.5/7.1% of its ordinary shares outstanding as of 31 Mar 2024/31 Dec 2023, and the remaining amount for current share repurchases program was c. US\$0.4bn as of 30 Jun 2024.

BUY (Maintain)

Target Price US\$51.90
Up/Downside 100.4%
Current Price US\$25.90

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)	41,064.5
Avg 3 mths t/o (US\$ mn)	75.1
52w High/Low (US\$)	35.27/21.44
Total Issued Shares (mn)	1585.5

Source: FactSet

Shareholding Structure

Richard Qiangdong Liu	13.8%
Max Smart Limited	13.3%

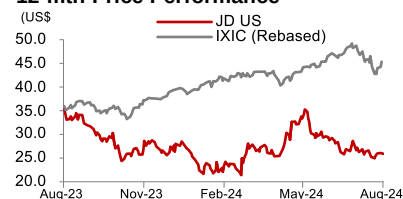
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.8%	4.4%
3-mth	-23.0%	-25.0%
6-mth	9.9%	1.7%

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	1,140,226	1,197,374	1,244,881
YoY growth (%)	9.9	3.7	5.1	5.0	4.0
Net profit (RMB mn)	10,380.0	24,167.0	36,707.5	40,491.1	44,653.4
Adjusted net profit (RMB mn)	28,220.0	35,200.0	41,684.7	43,497.9	47,808.5
EPS (Adjusted) (RMB)	11.75	22.20	26.29	27.43	30.15
Consensus EPS (RMB)	na	22.17	22.71	25.09	27.44
P/E (x)	27.9	12.0	7.9	7.2	6.5

Source: Company data, Bloomberg, CMBIGM estimates

Business forecasts update and valuation

Figure 1: JD: quarterly financial results

(RMBbn)	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	2Q24 Consensus	Diff%
Revenue breakdown by product and services revenue											
Net product revenues	226.0	197.0	237.6	195.6	233.9	195.3	246.5	208.5	233.9	234.9	-0.4%
YoY growth (%)	2.9%	5.9%	1.2%	-4.3%	3.5%	-0.9%	3.7%	6.6%	0.0%		
Electronics and home appliance revenues	136.6	119.3	141.7	117.0	152.1	119.3	150.4	123.2	145.1	146.6	-1.1%
YoY growth (%)	-0.1%	7.6%	0.5%	-1.2%	11.4%	0.0%	6.1%	5.3%	-4.6%		
General merchandise revenues	89.4	77.7	95.9	78.6	81.7	76.0	96.1	85.3	88.8	88.3	0.6%
YoY growth (%)	7.8%	3.5%	2.3%	-8.7%	-8.6%	-2.3%	0.2%	8.6%	8.7%		
Net services revenues	41.6	46.5	57.8	47.4	54.1	52.4	59.6	51.5	57.5	56.5	1.8%
YoY growth (%)	21.9%	42.2%	40.3%	34.5%	30.1%	12.7%	3.0%	8.8%	6.3%		
Marketplace and advertising revenues	20.7	19.0	24.6	19.1	22.5	19.5	23.6	19.3	23.4	22.7	3.1%
YoY growth (%)	9.3%	13.0%	10.6%	7.8%	8.5%	3.0%	-4.0%	1.2%	4.1%		
Logistics and other service revenues	20.8	27.6	33.2	28.3	31.6	32.9	36.0	32.3	34.1	33.7	1.0%
YoY growth (%)	37.8%	73.0%	75.1%	61.3%	51.5%	19.3%	8.1%	13.8%	7.9%		
Revenue breakdown by business segments											
JD Retail	241.6	211.9	258.9	212.4	253.3	212.1	267.6	226.8	257.1	254.8	0.9%
YoY growth (%)	3.9%	7.0%	3.6%	-2.4%	4.9%	0.1%	3.4%	6.8%	1.5%		
JD Logistics	31.3	35.8	43.0	36.7	41.0	41.7	47.2	42.1	44.2		
YoY growth (%)	20.0%	38.9%	41.1%	34.3%	31.2%	16.5%	9.7%	14.7%	7.7%		
New businesses (including Dada)	8.5	7.4	7.4	6.0	7.1	6.7	6.8	4.9	4.6		
YoY growth (%)				-6.5%	16.6%	-9.4%	-8.9%	19.2%	35.0%		
Intersegment elimination	-13.8	-11.5	-13.9	-12.2	-13.5	-12.7	-15.6	-13.8	-14.5		
Total revenue	267.6	243.5	295.4	243.0	287.9	247.7	306.1	260.0	291.4	290.5	0.3%
YoY growth (%)	5.4%	11.4%	7.1%	1.4%	7.6%	1.7%	3.6%	7.0%	1.2%		
Gross profit	35.9	36.2	41.5	36.0	41.4	38.8	43.5	39.8	45.9	43.6	5.4%
Operating profit	3.8	8.7	4.8	6.4	8.3	9.3	2.0	7.7	10.5	9.1	15.3%
JD Retail operating profit	8.2	10.9	7.9	9.8	8.1	11.0	6.9	9.3	10.1	9.4	8.0%
New businesses (ex. Gain on sale of property)	-2.0	-1.0	-1.3	-0.6	0.1	-0.1	-1.7	-0.3	-0.5		
Non-GAAP net profit	6.5	10.0	7.7	7.6	8.6	10.6	8.4	8.9	14.5	9.6	51.3%
YoY growth (%)	40.3%	98.9%	114.8%	88.3%	31.9%	5.9%	9.9%	17.2%	69.0%		
Margin profile											
GPM (%)	13.4%	14.9%	14.1%	14.8%	14.4%	15.6%	14.2%	15.3%	15.8%	15.0%	0.8 ppt
OPM (%)	1.4%	3.6%	1.6%	2.6%	2.9%	3.8%	0.7%	3.0%	3.6%	3.1%	0.5 ppt
JD Retail	3.4%	5.2%	3.0%	4.6%	3.2%	5.2%	2.6%	4.1%	3.9%	3.7%	0.3 ppt
Adjusted NPM (%)	2.4%	4.1%	2.6%	3.1%	3.0%	4.3%	2.7%	3.4%	5.0%	3.3%	1.7 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	1,140.2	1,197.4	1,244.9	1,150.6	1,217.6	1,274.2	-0.9%	-1.7%	-2.3%
Gross profit	173.7	185.4	194.5	173.6	186.1	196.1	0.1%	-0.4%	-0.8%
Non-GAAP net profit	41.7	43.5	47.8	38.5	43.8	47.9	8.4%	-0.7%	-0.2%
Gross margin	15.2%	15.5%	15.6%	15.1%	15.3%	15.4%	0.2 ppt	0.2 ppt	0.2 ppt
Non-GAAP net margin	3.7%	3.6%	3.8%	3.3%	3.6%	3.8%	0.3 ppt	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	1,140.2	1,197.4	1,244.9	1,142.4	1,209.9	1,275.9	-0.2%	-1.0%	-2.4%
Gross profit	173.7	185.4	194.5	173.1	185.8	197.7	0.4%	-0.2%	-1.6%
Non-GAAP net profit	41.7	43.5	47.8	37.8	41.2	44.9	10.1%	5.6%	6.4%
Gross margin	15.2%	15.5%	15.6%	15.1%	15.4%	15.5%	0.1 ppt	0.1 ppt	0.1 ppt
Non-GAAP net margin	3.7%	3.6%	3.8%	3.3%	3.4%	3.5%	0.3 ppt	0.2 ppt	0.3 ppt

Source: Bloomberg, CMBIGM estimates

DCF-based target price of US\$51.9

Our target price is US\$51.9, based on the DCF valuation methodology (WACC of 11.8% and terminal growth of 1.5%; both unchanged). Our target price translates into 14.2x 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	1,140	1,197	1,245	1,282	1,311	1,334	1,353
NPV of FCF	210	211					
Discounted terminal value	264	295					
Total equity valuation	574	651					
No. of shares (diluted, mn)	1,586	1,586					
Valuation per share (USD)	50.2	56.9					
TP per share (USD)	51.9						

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	1,140,226	1,197,374	1,244,881
Cost of goods sold	(822,525)	(899,163)	(924,958)	(966,489)	(1,012,012)	(1,050,407)
Gross profit	129,067	147,073	159,704	173,737	185,362	194,474
Operating expenses	(124,926)	(127,350)	(132,663)	(135,801)	(140,213)	(144,406)
Selling expense	(38,743)	(37,772)	(40,133)	(42,758)	(44,542)	(45,936)
Admin expense	(11,562)	(11,053)	(9,710)	(8,552)	(8,741)	(8,963)
R&D expense	(16,332)	(16,893)	(16,393)	(16,077)	(16,284)	(16,681)
Others	(58,288)	(61,632)	(66,427)	(68,414)	(70,645)	(72,826)
Operating profit	4,141	19,723	27,041	37,936	45,150	50,068
Other gains/(losses)	(590)	(1,555)	7,496	12,000	9,200	9,200
Share of (losses)/profits of associates/JV	(4,918)	(2,195)	1,010	0	0	0
EBIT	(1,367)	15,973	35,547	49,936	54,350	59,268
Interest income	(1,213)	(2,106)	(2,881)	(2,463)	(1,736)	(1,451)
Others	0	0	(1,016)	412	0	0
Pre-tax profit	(2,581)	13,867	31,650	47,884	52,614	57,817
Income tax	1,887	4,176	8,393	9,577	10,523	11,563
After tax profit	(4,467)	9,691	23,257	38,307	42,091	46,253
Minority interest	(924)	(697)	(910)	1,600	1,600	1,600
Discontinued operations	0	0	0	0	0	0
Others	(16)	(8)	0	0	0	0
Net profit	(3,560)	10,380	24,167	36,707	40,491	44,653
Adjusted net profit	17,207	28,220	35,200	41,685	43,498	47,808

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	299,672	351,074	307,810	358,096	409,035	464,102
Cash & equivalents	70,767	78,861	71,892	109,150	155,115	206,004
Restricted cash	5,926	6,254	7,506	7,506	7,506	7,506
Account receivables	11,900	20,576	20,302	24,991	26,244	27,285
Inventories	75,601	77,949	68,058	76,281	79,874	82,905
Prepayment	11,456	15,156	15,639	15,639	15,639	15,639
Other current assets	124,023	152,278	124,413	124,528	124,657	124,763
Non-current assets	196,835	244,176	321,148	326,755	334,607	341,370
PP&E	32,944	55,080	70,035	75,642	83,494	90,257
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	684,851	743,642	805,472
Current liabilities	221,636	266,561	265,650	273,976	283,614	291,707
Short-term borrowings	4,368	12,146	5,034	5,034	5,034	5,034
Account payables	140,484	160,607	166,167	170,723	178,764	185,547
Tax payable	2,568	5,926	7,313	7,313	7,313	7,313
Other current liabilities	33,083	37,624	35,848	39,618	41,214	42,526
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	78,238	79,909	81,737
Long-term borrowings	9,386	10,224	10,411	21,721	23,392	25,220
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	352,214	363,523	373,444
Share capital	0	0	0	0	0	0
Capital surplus	208,912	213,366	231,858	221,102	228,093	235,348
Retained earnings	0	0	0	36,295	76,787	121,440
Other reserves	1,212	590	614	614	614	614
Total shareholders equity	210,124	213,956	232,472	258,012	305,493	357,402
Minority interest	36,661	60,167	63,908	63,908	63,908	63,908
Total equity and liabilities	496,507	595,250	628,958	674,134	732,924	794,754

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,581)	13,867	31,650	47,884	52,614	57,817
Depreciation & amortization	6,232	7,236	8,292	6,755	7,116	7,553
Tax paid	(1,887)	(4,176)	(8,393)	(9,577)	(10,523)	(11,563)
Change in working capital	18,948	22,119	16,547	(4,701)	4,663	3,916
Others	21,588	18,773	11,425	4,640	5,390	5,655
Net cash from operations	42,301	57,819	59,521	45,001	59,260	63,378
Investing						
Capital expenditure	(19,057)	(38,165)	(15,050)	(15,963)	(14,967)	(14,316)
Acquisition of subsidiaries/ investments	(181,916)	(184,792)	(194,987)	0	0	0
Net proceeds from disposal of short-term investments	126,934	171,853	225,889	0	0	0
Others	(209)	(2,922)	(75,395)	0	0	0
Net cash from investing	(74,248)	(54,026)	(59,543)	(15,963)	(14,967)	(14,316)
Financing						
Net borrowings	(2,975)	7,027	1,562	11,310	1,671	1,827
Proceeds from share issues	22,478	(5,847)	(7,370)	0	0	0
Others	0	0	0	0	0	0
Net cash from financing	19,503	1,180	(5,808)	11,310	1,671	1,827
Net change in cash						
Cash at the beginning of the year	87,376	73,550	82,013	76,308	116,656	162,621
Exchange difference	(1,382)	3,490	125	0	0	0
Cash at the end of the year	73,550	82,013	76,308	116,656	162,621	213,510
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	27.6%	9.9%	3.7%	5.1%	5.0%	4.0%
Gross profit	18.3%	14.0%	8.6%	8.8%	6.7%	4.9%
Operating profit	(55.0%)	376.3%	37.1%	40.3%	19.0%	10.9%
EBIT	na	na	122.5%	40.5%	8.8%	9.0%
Net profit	na	na	132.8%	51.9%	10.3%	10.3%
Adj. net profit	25.7%	64.0%	24.7%	18.4%	4.3%	9.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	13.6%	14.1%	14.7%	15.2%	15.5%	15.6%
Operating margin	0.4%	1.9%	2.5%	3.3%	3.8%	4.0%
Adj. net profit margin	1.8%	2.7%	3.2%	3.7%	3.6%	3.8%
Return on equity (ROE)	(1.7%)	4.9%	10.8%	15.0%	14.4%	13.5%
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	1.6
Receivable turnover days	3.6	5.7	6.9	7.2	7.8	7.8
Inventory turnover days	(29.9)	(31.2)	(28.8)	(27.3)	(28.2)	(28.3)
Payable turnover days	(54.9)	(61.1)	(64.5)	(63.6)	(63.0)	(63.3)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	27.9	12.0	7.9	7.2	6.5
P/E (diluted)	ns	28.4	12.1	8.0	7.2	6.6
P/B	1.4	1.4	1.3	1.1	1.0	0.8

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

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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

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