



## China ecommerce sector Strong post-pandemic recovery

- China's e-commerce sector has recovered strongly since 2Q20; COVID-19 has prompted more consumers to shop online
- Positive prospects for e-commerce players with specific strength in food products, social ecommerce, or high exposure in lower-tier cities
- We like Alibaba for its dominant position in ecommerce, JD for its supply chain prowess, and Meituan for its leading position in consumer service ecommerce

**Strong recovery underway.** The China ecommerce sector has been recovering since 2Q20 after a temporary slowdown in 1Q20 amid COVID-19 outbreak. China's online sales of physical goods increased by 14.3% YoY in 1H20 vs. 5.9% YoY in 1Q20, indicating sequential improvement. In addition, the express delivery industry (downstream industry of the ecommerce industry) also rebounded in 2Q20. According to the State Post Bureau, volume growth of express delivery industry rose to 36.8% YoY in June 2020 vs. 3.2% YoY in 1Q20 while revenue growth increased to 23.9% YoY, compared to the 0.6% YoY decline in 1Q20.

**Changes in consumer behavior are likely to persist.** In our view, the COVID-19 outbreak has prompted more consumers to shop online, especially for groceries and food products, due to the closure of physical shops and disruption in local transportation. In our view, such changes in consumer behavior have benefited the ecommerce industry as a whole since 2Q20 and the impact is likely to persist in the future.

**Emerging trends.** We have seen emerging trends in the ecommerce sector that are benefiting players with strengths in 1) food products; 2) exposure in lower-tier cities; 3) social ecommerce.

**Recommendation.** We maintain our positive view on China's ecommerce sector. We like Alibaba for its dominant position in ecommerce, JD for its supply chain prowess, and Meituan for its leading position in consumer service ecommerce. In addition, investors with a higher risk appetite could consider Pinduoduo, while VIP Shop may draw interest from those looking for niche ecommerce play.

### Sector valuation summary

Company	Ticker	Rating	TP	2020E P/S(x)	2021E P/S(x)	2020E Core P/E(x)*	2021E Core P/E(x)*
Alibaba - ADR	BABA US	BUY	US\$310	7.3	5.8	29.3	23.2
Alibaba - SW	9988 HK	BUY	HK\$300	7.5	5.9	29.8	23.6
Meituan-W	3690 HK	BUY	HK\$250	11.0	7.3	321.5	73.3
JD - ADR	JD US	BUY	US\$77	0.9	0.8	50.9	34.1
JD - SW	9618 HK	BUY	HK\$298	0.9	0.8	51.9	34.8
Pinduoduo	PDD US	BUY	US\$113	15.4	9.5	NA	121.3
VIP SHOP	VIPS US	BUY	US\$28	1.1	1.0	16.5	14.3

\*Excluding share-based compensation, impairments, fair value changes of investment, etc.

Source(s): ABCI Securities estimates

## Sector Report OVERWEIGHT Aug 12, 2020

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Internet Consumer Commerce Sector  
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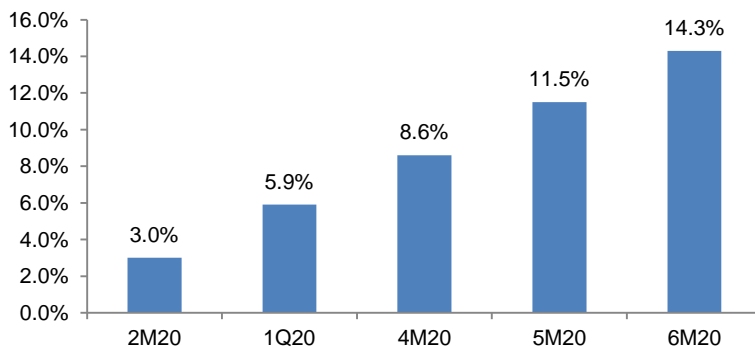
## Strong recovery underway

Overall, the China ecommerce sector has picked up since 2Q20 after a temporary slowdown in 1Q20 amid COVID-19 outbreak.

Online sales of physical goods in China increased by 14.3% YoY in 1H20 vs. 5.9% YoY in 1Q20, indicating sequential improvement as illustrated in Exhibit 1. In our view, closure of physical shops and cut-off in local transportation during the pandemic have prompted more consumers to shop online, especially for groceries and food products. In our view, such changes in consumer behavior have boosted the ecommerce industry since 2Q20 and we believe the impact will continue in the future. Major ecommerce platforms have achieved satisfactory sales performance during the “618 shopping festival”. According to media reports, JD’s GMV growth reached 33% YoY during the period (June 1 -18), while Tmall reported a record-high GMV of RMB 269bn.

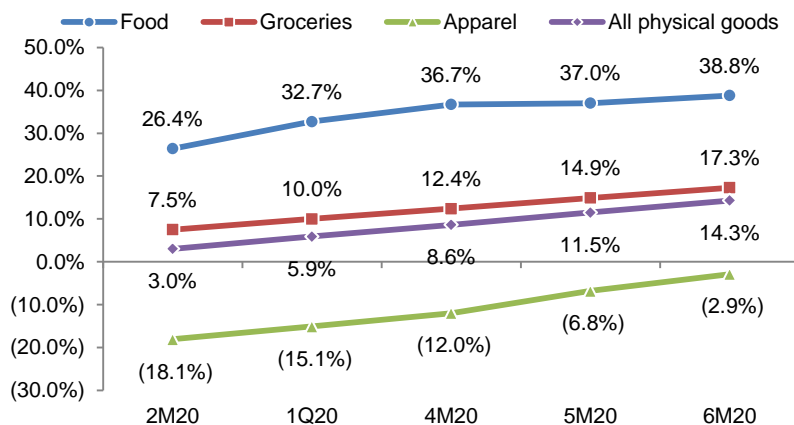
By product category, food product has been the outperformer in recent months, followed by groceries. Apparel suffered a steeper decline over 18% YoY in 2M20 but the drop has been narrowing fast since Apr 2020.

**Exhibit 1: China’s online sales of physical goods**



Source(s): NBS, ABCI Securities

**Exhibit 2: China online sales of physical goods by product**

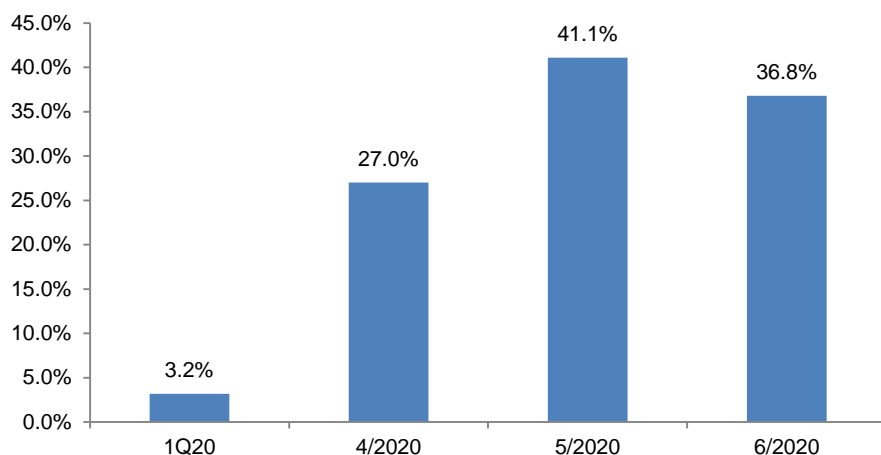


Source(s): NBS, ABCI Securities



Express delivery industry (the downstream industry of the ecommerce industry) also rebounded in 2Q20. According to the State Post Bureau, volume growth for the express delivery industry improved to 36.8% YoY in June 2020 vs. 3.2% YoY in 1Q20. In addition, express delivery industry revenue growth increased to 23.9% YoY in June 2020 vs. 0.6% YoY decline in 1Q20.

**Exhibit 3: China express delivery volume growth**



Source(s): SPU, ABCI Securities

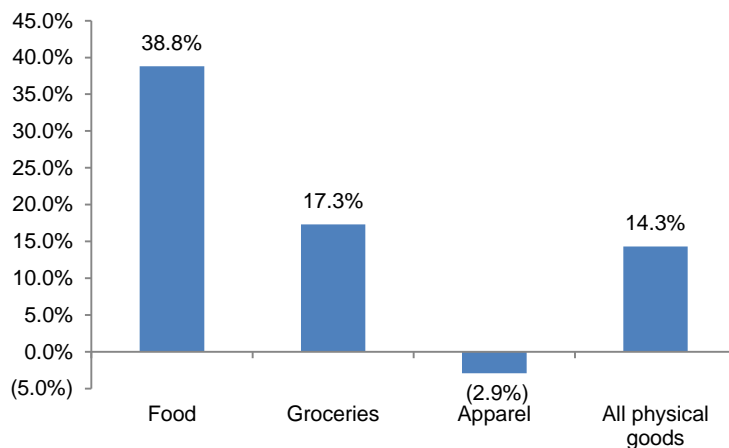


## Emerging trends

In recent years, we have seen emerging trends in the ecommerce sector that are benefiting players with strengths in specific areas.

**Food products:** Overall, food products achieved an online sales growth of 30.9% YoY in 2019, higher than 15.4% and 19.8% YoY for apparel and grocery products, according to NBS. In 1H20, online sales of food grew by 38.8% YoY, outperforming other major categories. In our view, this is partly driven by ongoing improvement in logistic supply chain, especially the same-day delivery and cold-chain service.

**Exhibit 4: China's online sales growth by category (1H20)**



Source(s): NBS, ABCI Securities

**Lower-tier cities:** Major ecommerce platforms have been focusing on lower-tier cities in recent years; for Alibaba and JD, 70% of their new customers are from these regions.

**Social ecommerce:** Social ecommerce, which leverages social network such as WeChat to allow users to share product information with friends, has become increasingly popular. Consumers could enjoy steep discounts when they share an item to their friends, or by joining ongoing group-buying deals on the apps. In addition, more online brands/online platforms partners with celebrities or internet KOLs (Key Opinion Leader) to offer live videos or short videos to introduce products.



# Alibaba (BABA US/9988 HK) King of ecommerce

- Leading position in the ecommerce market with ~62% market share in 2019
- Ongoing business transformation from online distribution platform to technology enabler for online merchants
- Maintain **BUY** and raise TP of Alibaba-SW (9988 HK) to HK\$ 300 and TP of Alibaba-ADR (BABA US) to US\$ 310

**King of ecommerce.** Alibaba is China's leading ecommerce platform with an estimated market share of ~62% in 2019, significantly higher than 24% for JD (JD US) and 12% for Pinduoduo (PDD US). In 1Q20, Alibaba had 726mn of annual active customers, significantly higher than 628mn for Pinduoduo and 387m for JD. In FY3/20, Alibaba's annual GMV per active customer was ~RMB 9,100 while the figures for JD and Pinduoduo were RMB 5,800 and RMB 1,700 in 2019. In recent years, the Group has been achieving higher revenue growth than its major competitor, JD, in recent years, indicating ongoing market share gains.

**Ongoing business transformation.** Alibaba has been transforming its business from an online distribution platform to a technology enabler for online merchants via effective use of AI and big data. Driven by ongoing development of various value-added solutions, Alibaba's revenue mix has been improving. E.g., its China retail revenue accounted for 65% of total revenue in FY20, down from 78% in FY15. Revenue contribution from emerging businesses, such as consumer services and cloud computing, has been rising.

**Business outlook.** For FY3/20-22E, we expect GMV to grow by 12% CAGR to RMB 8.2tr by FY3/22E, driven by the growing number of active users and higher user spending. We expect revenue to increase at 27% CAGR for FY3/20-22E. We expect core net margin (excl. impacts of share-based compensation and other non-operating items) to be 24.9% for 2022E. FY20-22E core net profit CAGR would be 20%

**Valuation and recommendation.** We maintain **BUY** on Alibaba and raise our TP for Alibaba-SW (9988 HK) to HK\$ 300 and TP for Alibaba-ADR (BABA US) to US\$ 310 as we roll over our valuation basis from FY3/21E to FY3/22E.

## Results and Valuation

FY end Mar 31	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	376,844	509,711	646,459	822,764
Chg (% YoY)	50.6	35.3	26.8	27.3
Net profit (RMB mn)	87,600	149,263	106,789	129,297
Chg (% YoY)	36.9	70.4	(28.5)	21.1
Core net profit (RMB mn)	100,731	141,344	162,090	204,955
Chg (% YoY)	17.4	40.3	14.7	26.4
Underlying EPS (RMB)	4.2	7.1	5.0	6.0
Chg (% YoY)	35.5	67.3	(29.9)	21.1
Core EPS (RMB)*	4.9	6.6	7.6	9.6
Chg (% YoY)	16.2	35.0	14.7	26.4
Core P/E (x)- ADR*	45.8	33.6	29.3	23.2
Core P/E (x)-SW share*	47.0	34.2	29.8	23.6
ROAE (%)	16.8	20.2	11.3	11.7
ROAA (%)	10.4	13.1	7.6	8.0

1 ADR = 8 ordinary shares

\*Excluding share-based compensation, impairments, fair value changes of investment, etc.

Source (s): Bloomberg, ABCI Securities estimates

## Company Report

Aug 12, 2020

Rating (SW-share): BUY

TP (SW-share): HK\$ 300

Rating (ADR): BUY

TP (ADR): US\$ 310

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Price (ADR/SW-share)	US\$248.1/ HK\$245.0
Est. share price return ( ADR/SW-share )	24.8%/22.4%
Est. dividend yield ( ADR/SW-share )	NA/NA
Est. total return (ADR/SW-share )	24.8%/22.4%
Last Rating & TP (ADR/SW-share )	BUY, US\$262/ BUY, HK\$254

Previous Report Date Feb 26, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L (HK\$) (SW-share)	293.8/167.6
52Wk H/L (US\$ ) (ADR)	268.0/155.5
Issued shares (mn)	21,462
Market cap (HK\$ mn) (all share)	5,257,945
3-mth avg daily turnover (HK\$ mn) (SW-share)	1,631
3-mth avg daily turnover (US\$ mn) (ADR)	4,425
Major shareholder(s) (%):	
Softbank	25.1%
Jack Ma	6.0%
Joseph Tsai	1.9%

Source(s): Bloomberg, HKEX, Company



## Financial outlook

For FY3/20-22E, we expect GMV to grow at 12%CAGR to RMB 8.2tr by FY3/22E, driven by the growing number of active users and increased user spending. We expect revenue to grow at 27% CAGR in FY3/20-22E. Among Alibaba's major business segments, core commerce would expand at 24% CAGR in FY3/20-22E; revenue from cloud computing and media/innovative initiatives would grow at 60% and 32% CAGRs in FY3/20-22E.

### Exhibit 5: Major assumptions

	FY19	FY20	FY21E	FY22E
Annual active buyers (m)	654	726	820	886
Annual GMV per customer (RMB)	8,757	9,076	9,085	9,266
Total GMV (RMB bn)	5,727	6,589	7,453	8,210
Customer management monetization rate	2.5%	2.7%	2.9%	3.2%
Commission monetization rate	1.1%	1.1%	1.1%	1.2%

Source(s): Company, ABCI Securities estimates

### Exhibit 6: Revenue forecasts

	FY19	FY20	FY21E	FY22E
China retail revenue	247,615	332,750	411,767	505,335
China wholesale	9,988	12,427	14,912	17,895
International commerce	27,725	33,917	42,396	52,995
Cainiao logistics	14,885	22,233	28,903	37,574
Consumer service (Ele.me)	18,058	25,440	27,984	32,182
Others	5,129	9,337	12,138	15,780
<b>Core commerce</b>	<b>323,400</b>	<b>436,104</b>	<b>538,101</b>	<b>661,760</b>
Cloud computing	24,702	40,016	64,026	102,441
Digital media/ Innovation initiatives	28,742	33,591	44,333	58,562
<b>Total revenue</b>	<b>376,844</b>	<b>509,711</b>	<b>646,459</b>	<b>822,764</b>

Source(s): Company, ABCI Securities estimates

**Gross margin:** Gross margin declined to 44.6% in FY20 vs. 57.2% in FY18 mainly due to changes in business mix caused by the consolidation of Cainiao Network and Ele.me. Looking forward, we expect the trend to continue with gross margin reaching 42.9% by FY22E based on the ongoing changes in business mix.

**Product development expense:** Non-GAAP product development expenses/sales ratio has remained largely stable at ~6% in recent years. Looking forward, we expect the ratio to be ~6.2% in FY21E and FY22E due to ongoing R&D investments in new services for merchants and consumers.

**Sales and marketing expenses:** Non-GAAP sales and marketing expenses/sales ratio was 9.2% in FY20. We expect the ratio to gradually improve to 8.5% by FY22E.

**General & admin expenses:** Non-GAAP general & admin expenses /sales ratio was 4.2% in FY20. We expect the ratio to improve to 3.5% by FY22E on economies of scale.

**Exhibit 7: Non-GAAP cost trend (RMB mn)**

(FY end Mar 31)	FY19	FY20	FY21E	FY22E
Cost of revenue	198,014	275,045	355,552	452,520
Product development expenses	22,057	29,426	38,788	51,011
Sales & marketing expenses	35,369	46,843	60,121	69,935
General & admin expenses	16,102	21,261	24,565	28,797
Amortization of intangible assets/Impairment	10,727	13,964	14,869	21,392
<b>Total</b>	<b>282,269</b>	<b>386,539</b>	<b>493,895</b>	<b>623,655</b>
<b>% of revenue</b>				
Cost of revenue	52.5%	54.0%	55.0%	55.0%
Product development expenses	5.9%	5.8%	6.0%	6.2%
Sales & marketing expenses	9.4%	9.2%	9.3%	8.5%
General & admin expenses	4.3%	4.2%	3.8%	3.5%
Amortization of intangible assets	2.8%	2.7%	2.3%	2.6%
<b>Total</b>	<b>74.9%</b>	<b>75.8%</b>	<b>76.4%</b>	<b>75.8%</b>

Note. Excluding impacts of share-based compensation and other non-operating items

Source(s): Group , ABCI Securities estimates

We expect core net margin (excl. impacts of share-based compensation and other non-operating items) to be 24.9% in 2022E. This would result in a net profit CAGR of 20% for FY20E-22E.

**Exhibit 8: Forecast changes**

(RMB m)	FY3/21		Diff	Comment
	old	new		
Revenues	639,174	646,459	1.1%	Fine-tuning growth assumptions
Net income	105,778	106,789	1.0%	
Core profit	160,101	162,090	1.2%	

Source(s): ABCI Securities estimates





## Valuation and TP

We derive Alibaba's valuation range based on the SOTP approach.

For Alibaba's core business, we apply a target multiple range of 25-30x on its FY3/22E core profit.

For its strategic investments, we refer to the latest the book value.

The SOTP approach results in a valuation range of HK\$ 277-HK\$ 329 for Alibaba-SW (9988 HK).

**Alibaba-SW (9988 HK):** We set our TP to HK\$ 300, around the mid-point of the valuation range.

**Alibaba-ADR (BABA US):** Based on our TP of Alibaba-SW, we set the corresponding TP of Alibaba-ADR to be US\$ 310 (1 ADR represents 8 shares).

Overall, our valuation range implies a wide trading range. For example, any major new business development or initiatives could lead to a higher valuation (higher risk appetites among investors). Our TP indicates a medium-term target but we notice that short-term share price might deviate from it due to technical factors such as supply/demand dynamic, etc.

### Exhibit 9: SOTP valuation range for Alibaba-SW (9988 HK)

(HKD per share)	High	Low	Remarks
Core business*	311	260	25-30x FY22E core profit
Strategic investments	18	18	Latest book value
<b>Total</b>	<b>329</b>	<b>277</b>	

Source(s): ABCI Securities estimates

\*Including profit contribution from Ant Financials

### Exhibit 10: TP change for Alibaba-SW (9988 HK)

(HKD per share)	Old	New	Methodology -old	Methodology -new
Core business	235	282	28x FY21E core profit	27x FY22E core profit
Strategic investments	19	18	Latest book value	Latest book value
<b>Total</b>	<b>254</b>	<b>300</b>		

Source(s): ABCI Securities estimates

### Peer valuation analysis

Comparing with local peers, Alibaba is currently trading at a lower P/E than that of JD and Pinduoduo. In our view, this could be attributed to the fact that JD is still in the early stage of profitability and Pinduoduo is still loss-making. For JD and Pinduoduo, we believe investors tend to place more emphasis on overall sales momentum than near-term profits.



Exhibit 11: Peer valuation

		Market cap# (USD mn)	Price (Lcy)	P/sales			Core P/E*		
				2019	2020E	2021E	2019	2020E	2021E
Business model- platform based									
BABA US	Alibaba	678,445	US\$248.1	9.3	7.3	5.8	33.6	29.3	23.2
3690 HK	Meituan-B	146,668	HK\$218.0	11.7	11.0	7.3	245.4	321.5	73.3
PDD US	Pinduoduo-A	56,339	US\$87.5	23.5	15.4	9.5	NA	NA	121.3
		Average		14.9	11.2	7.5	139.5	175.4	72.6
Business model – direct sales									
JD US	JD.com	98,134	US\$61.5	1.1	0.9	0.8	59.4	50.9	34.1
VIPS US	VIP Shop -A	13,052	US\$22.1	1.1	1.1	1.0	21.3	16.5	14.3
		Average		1.1	1.0	0.9	40.3	33.7	24.2

\*Excluding share-based compensation, impairments, fair value changes of investment, etc.

# All-share market cap for Alibaba and JD

Source(s): Bloomberg, ABCI Securities estimates



## Financial forecast

### Consolidated income statement (FY19A-FY22E)

FY Ended Mar 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E
Core commerce	323,400	436,104	538,101	661,760
Cloud computing & Internet infrastructure	24,702	40,016	64,026	102,441
Others	28,742	33,591	44,333	58,562
<b>Total revenue</b>	<b>376,844</b>	<b>509,711</b>	<b>646,459</b>	<b>822,764</b>
Cost of sales	(206,929)	(282,367)	(365,991)	(469,601)
<b>Gross profit</b>	<b>169,915</b>	<b>227,344</b>	<b>280,468</b>	<b>353,163</b>
Product development expenses	(37,435)	(43,080)	(58,253)	(82,864)
Selling & marketing expenses	(39,780)	(50,673)	(65,581)	(78,870)
General & admin expenses	(24,889)	(28,197)	(34,454)	(44,977)
Amortization/Impairment	(10,727)	(13,964)	(14,869)	(21,392)
<b>Operating Profits</b>	<b>57,084</b>	<b>91,430</b>	<b>107,312</b>	<b>125,060</b>
Interest and investment income	44,106	72,956	5,000	20,000
Interest expenses	(5,190)	(5,180)	(5,700)	(5,700)
Other income	221	7,439	250	250
Share of results of equity investees	566	(5,733)	10,300	13,300
<b>Profit before tax</b>	<b>96,787</b>	<b>160,912</b>	<b>117,162</b>	<b>152,910</b>
Tax	(16,553)	(20,562)	(19,918)	(35,169)
<b>Profit after tax</b>	<b>80,234</b>	<b>140,350</b>	<b>97,245</b>	<b>117,741</b>
Minority interests	7,652	9,083	9,724	11,774
Accretion of mezzanine equity	(286)	(170)	(180)	(218)
<b>Profits attributable to ordinary shareholders</b>	<b>87,600</b>	<b>149,263</b>	<b>106,789</b>	<b>129,297</b>
Share-based compensation	37,491	31,742	45,252	74,049
Amortization and impairment	22,087	39,044	14,869	21,392
Gains on disposals/revaluation of investments	(47,525)	(4,764)	(5,000)	(20,000)
Other non-core items	1,078	(73,941)	180	218
<b>Non-GAAP profits attributable to ordinary shareholders (Core net profit)</b>	<b>100,731</b>	<b>141,344</b>	<b>162,090</b>	<b>204,955</b>
<b>Growth</b>				
Total revenue (%)	50.6	35.3	26.8	27.3
Gross Profits (%)	18.6	33.8	23.4	25.9
Operating Profits (%)	(17.6)	60.2	17.4	16.5
Net profit (%)	36.9	70.4	(28.5)	21.1
Core net profit (%)	17.4	40.3	14.7	26.4
<b>Operating performance</b>				
Operating margin (%)	15.1	17.9	16.6	15.2
Net margin (%)	23.2	29.3	16.5	15.7
Core net margin (%)	26.7	27.7	25.1	24.9

Note. Individual items may not sum to total due to rounding differences

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (FY19A-FY22E)**

As of Mar 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E
Fixed assets	92,030	103,387	118,387	133,387
Investments	241,544	350,961	381,261	414,561
Other non-current assets	361,229	395,714	400,845	399,454
<b>Total non-current assets</b>	<b>694,803</b>	<b>850,062</b>	<b>900,493</b>	<b>947,402</b>
Cash & equivalents	189,976	330,503	464,452	675,267
Restricted cash and escrow receivables	8,518	15,479	15,479	15,479
Short-term investments and investment securities	13,189	32,712	32,712	32,712
Prepayments, deposits & other assets	58,590	84,229	84,229	84,229
<b>Total current assets</b>	<b>270,273</b>	<b>462,923</b>	<b>596,872</b>	<b>807,687</b>
<b>Total assets</b>	<b>965,076</b>	<b>1,312,985</b>	<b>1,497,366</b>	<b>1,755,088</b>
Accrued expenses, accounts payable and other liabilities	117,711	161,536	177,112	225,415
Other payables & accruals	25,935	23,204	23,204	23,204
Borrowings and notes	22,466	5,154	5,154	5,154
Deferred revenue	30,795	38,338	64,646	82,276
Merchants deposits	10,762	13,640	13,640	13,640
<b>Total current liabilities</b>	<b>207,669</b>	<b>241,872</b>	<b>283,756</b>	<b>349,689</b>
Borrowings and notes	111,834	120,276	120,276	120,276
Other non-current liabilities	30,171	71,186	71,186	71,186
<b>Total non-current liabilities</b>	<b>142,005</b>	<b>191,462</b>	<b>191,462</b>	<b>191,462</b>
<b>Total liabilities</b>	<b>349,674</b>	<b>433,334</b>	<b>475,218</b>	<b>541,151</b>
<b>Net current assets</b>	<b>62,604</b>	<b>221,051</b>	<b>313,116</b>	<b>457,998</b>
<b>Mezzanine equity</b>	<b>6,819</b>	<b>9,103</b>	<b>9,283</b>	<b>9,501</b>
Equity attributable to shareholders	492,257	755,401	907,442	1,110,787
Non-controlling interests	116,326	115,147	105,423	93,648
<b>Total equity</b>	<b>608,583</b>	<b>870,548</b>	<b>1,012,864</b>	<b>1,204,436</b>

Note. Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/definition differences

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (FY19A-FY22E)**

As of Mar 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E
<b>Operating cash flow</b>	<b>150,975</b>	<b>185,737</b>	<b>193,949</b>	<b>270,815</b>
<b>Investing cash flow</b>	<b>(151,060)</b>	<b>(60,000)</b>	<b>(60,000)</b>	<b>(60,000)</b>
<b>Financing cash flow</b>	<b>(7,392)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net cash flows</b>	<b>(7,477)</b>	<b>125,737</b>	<b>133,949</b>	<b>210,815</b>

Note. Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): the Group, ABCI Securities estimates



## JD.com (JD US/9618 HK) Forerunner in electronic online retail with robust supply chain capability

- Thanks to premium brand image backed by superb quality control and powerful in-house supply chain capability, JD.com (JD) secures a leading position in the online market sales of consumer electronics and home appliances.
- Margin expansion underway driven by improving operational efficiency and economies of scale
- Maintain **BUY** on JD-ADR (JD US) and raise TP to US\$ 77 and introduce TP of HK\$ 298 for JD-SW (9618 HK)

**A premium brand for online customers.** We reiterate our long-term positive view on JD. In our view, JD's direct sales business model, superb quality control, and robust in-house logistic infrastructure are its core competitive edges. It enjoyed pervasive market shares in online sales of mobile phones (54%), notebook PC (75%), desktop PC (88%), digital camera (62%), and home appliances (61%) in 3Q19, and has successfully replicated its success in various F&B products.

**Superior supply chain capabilities.** We attribute JD's robust performance to its in-house business model with its own product inventories and logistic network, which enables a more reliable supply chain than other ecommerce players during the COVID-19 outbreak. Its revenue growth was 21% YoY in 1Q20, surpassing the 5.9% growth in China's online sales of physical goods during the period.

**Margin expansion underway.** JD's margin has been expanding in recent quarters driven, thanks to higher economies of scale and logistic capacity utilization. We believe JD's profitability has passed an inflection point, which implies a margin uptrend in the medium term. We expect core net margin to improve to 2.3% in 2021E from 1.9% in 2019.

**Maintain BUY.** We maintain **BUY** on JD-ADR (JD US) and raise TP to US\$ 77. For JD-SW (9618 HK), we introduce a TP of HK\$ 298.

### Results and Valuation

FY end Dec 31	2018A	2019A	2020E	2021E
Revenue (RMB mn)	462,019	576,888	710,178	846,703
Chg (% YoY)	27.5	24.9	23.1	19.2
Net profit (RMB mn)	-2,492	12,184	10,163	16,900
Chg (% YoY)	NA	NA	-16.6	66.3
Core net profit (RMB mn)	3,460	10,750	13,234	19,760
Chg (% YoY)	-30.4	210.7	23.1	49.3
Underlying EPS (RMB)	-1.7	8.2	6.5	10.8
Chg (% YoY)	NA	NA	-20.9	66.3
Core EPS (RMB)	2.4	7.2	8.5	12.6
Chg (% YoY)	-30.4	204.9	16.7	49.3
Core P/E (x)- ADR	181.1	59.4	50.9	34.1
Core P/E (x)-SW share	184.7	60.6	51.9	34.8
ROAE (%)	-4.4	16.7	11.1	15.6
ROAA (%)	-1.3	5.2	3.6	5.1

\*1 ADR = 2 ordinary shares

Source (s): Bloomberg, ABCI Securities estimates

## Company Report

Aug 12, 2020

Rating (ADR): BUY  
TP (ADR): US\$ 77  
Rating (SW-share): BUY  
TP (SW-share): HK\$ 298

Analyst : Steve Chow  
Tel: (852) 2147 8809  
stevechow@abci.com.hk

Price (ADR/SW-share)	US\$ 61.5/ HK\$243.0
Est. share price return ( ADR/SW-share )	25.2%/22.6%
Est. dividend yield ( ADR/SW-share )	NA/NA
Est. total return (ADR/SW-share )	25.2%/22.6%
Last Rating &TP (ADR/SW-share )	BUY, US\$ 60/ NA

Previous Report Date May 20, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L (HK\$) (SW-share)	271.6/226.0
52Wk H/L (US\$ ) (ADR)	69.1/26.5
Issued shares (mn)	3,130
Market cap (HK\$ mn) (all share)	760,541
3-mth avg daily turnover (HK\$ mn) (SW-share)	232.1
3-mth avg daily turnover (US\$ mn) (ADR)	676.5
Major shareholder(s)	Voting right
Richard Liu	79.0%
Walmart	2.5%

Source(s): Bloomberg, HKEX, Company



## Financial analysis

For 2019-2021E, we expect GMV to grow by 18% CAGR to RMB 2.9tr by 2021E, driven by the growing number of active users and their spending.

Overall, we expect revenue to increase at 21% CAGR in 2019-2021E to RMB 847bn by 2021E, propelled by growing GMV and ongoing expansion of new businesses including the logistics. In particular, we expect logistic and other service revenue to grow at 45% CAGR in 2019-21E.

### Exhibit 12: Major assumptions

	2017	2018	2019	2020E	2021E
Annual active customer account (mn)	293	305	362	416	458
GMV (RMB bn)	1,295	1,677	2,085	2,521	2,912
Annual spending per active customer (RMB)	4,426	5,492	5,761	6,055	6,358

Source(s): the Group , ABCI Securities estimates

### Exhibit 13: Revenue forecasts (RMB mn)

	2017	2018	2019	2020E	2021E
<i>Electronics and home appliance</i>	236,269	280,059	328,703	378,009	434,710
<i>General merchandize</i>	95,555	136,050	182,031	245,741	302,262
<b>Net product revenue</b>	<b>331,824</b>	<b>416,109</b>	<b>510,734</b>	<b>623,750</b>	<b>736,972</b>
<i>Marketplace and advertising</i>	25,391	33,532	42,680	51,216	60,435
<i>Logistics and other service</i>	5,116	12,379	23,474	35,211	49,295
<b>Net service revenue</b>	<b>30,508</b>	<b>45,911</b>	<b>66,154</b>	<b>86,427</b>	<b>109,731</b>
<b>Total revenue</b>	<b>362,332</b>	<b>462,019</b>	<b>576,888</b>	<b>710,178</b>	<b>846,703</b>

Source(s): the Group , ABCI Securities estimates

We expect core net margin (excl. impacts of share-based compensation and other non-operating items) to rise to 2.3% by 2021E from 1.9% in 2019. Core net profit would increase at 36% CAGR for 2019-21E.



Exhibit 14: Non-GAAP cost trend (RMB mn)

	2017	2018	2019	2020E	2021E
COGS	311,490	395,994	492,385	603,651	718,851
Fulfillment expenses	25,275	31,423	36,363	44,741	51,649
Marketing expenses	13,560	17,815	21,338	26,277	30,481
Technology & content expenses	5,927	10,883	13,180	15,624	17,781
General & admin expenses	2,387	3,036	3,609	3,551	3,387
<b>Total</b>	<b>358,639</b>	<b>459,151</b>	<b>566,874</b>	<b>693,844</b>	<b>822,148</b>
<b>% of revenue</b>					
COGS	86.0%	85.7%	85.4%	85.0%	84.9%
Fulfillment expenses	7.0%	6.8%	6.3%	6.3%	6.1%
Marketing expenses	3.7%	3.9%	3.7%	3.7%	3.6%
Technology & content expenses	1.6%	2.4%	2.3%	2.2%	2.1%
General & admin expenses	0.7%	0.7%	0.6%	0.5%	0.4%
<b>Total</b>	<b>99.0%</b>	<b>99.4%</b>	<b>98.3%</b>	<b>97.7%</b>	<b>97.1%</b>

Note: Excl. impacts of share-based compensation and other non-operating items

Source(s): the Group, ABCI Securities estimates



## Valuation and TP

We derive JD's valuation range based on the SOTP approach.

- For JD's core business, we apply DCF with a WACC of 7%-11%
- For strategic investments, we refer to the latest the book value with 0-20% discount

The SOTP approach results in a valuation range of US\$ 66.7-US\$ 90.9 for JD-ADR (JD US).

**JD-ADR (JD US):** We set our TP at US\$77, around the mid-point of the valuation range.

**JD-SW (9618 HK):** Based on our TP of JD-ADR, we determine TP of JD-SW to be HK\$ 298 (1 ADR represents 8 shares).

Overall, our valuation range implies a wide trading range. For example, any major new business development or initiatives could lead to a higher valuation (higher risk appetites among investors). Our TP indicates a medium-term target but we notice that short-term share price might deviate from it due to technical factors such as supply/demand dynamic, etc.

### Exhibit 15: SOTP-based valuation range (US\$ per share)

Segment	Low	High	Comment
Core business	63.8	87.3	DCF –from 7% to 11% WACC
Investments	2.9	3.6	Book value with 0-20% discount
<b>Overall</b>	<b>66.7</b>	<b>90.9</b>	

Source(s): ABCI Securities estimates

### Exhibit 16: TP changes (US\$ per share)

Old	New	Methodology -old	Methodology -new
<b>60.0</b>	<b>77.0</b>	DCF –10% WACC for core business	DCF -9% WACC for core business

Source(s): ABCI Securities estimates





## Peer valuation analysis

JD's comparable peers are major online ecommerce platforms - Alibaba, Pinduoduo, and VIP Shop. JD is trading at a higher 20E/21E P/E than Alibaba. In our view, this could be justified by its margin expansion and higher profit in coming years. JD's profit outlook is highly sensitive to its margin - meaningful upside would emerge if margin improves more than expected.

### Exhibit 17: Peer valuation

		Market cap# (USD mn)	Price (Lcy)	P/sales			Core P/E*		
				2019	2020E	2021E	2019	2020E	2021E
Business model- platform based									
BABA US	Alibaba	678,445	US\$248.1	9.3	7.3	5.8	33.6	29.3	23.2
3690 HK	Meituan-B	146,668	HK\$218.0	11.7	11.0	7.3	245.4	321.5	73.3
PDD US	Pinduoduo-A	56,339	US\$87.5	23.5	15.4	9.5	NA	NA	121.3
		Average		14.9	11.2	7.5	139.5	175.4	72.6
Business model – direct sales									
JD US	JD.com	98,134	US\$61.5	1.1	0.9	0.8	59.4	50.9	34.1
VIPS US	VIP Shop -A	13,052	US\$22.1	1.1	1.1	1.0	21.3	16.5	14.3
		Average		1.1	1.0	0.9	40.3	33.7	24.2

\*Excluding share-based compensation, impairments, fair value changes of investment, etc.

# All-share market cap for Alibaba and JD

Source(s): Bloomberg, ABCI Securities estimates



## Financial forecast

### Consolidated income statement (2018A-2021E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E
Net product revenue	416,109	510,734	623,750	736,972
Net service revenue	45,911	66,154	86,427	109,731
<b>Total revenue</b>	<b>462,019</b>	<b>576,888</b>	<b>710,178</b>	<b>846,703</b>
Cost of sales	(396,066)	(492,467)	(603,673)	(718,870)
<b>Gross profit</b>	<b>65,953</b>	<b>84,421</b>	<b>106,505</b>	<b>127,833</b>
Fulfillment expenses	(32,010)	(36,968)	(45,207)	(52,098)
Marketing expenses	(19,237)	(22,234)	(27,360)	(31,739)
Technology & content expenses	(12,144)	(14,619)	(16,195)	(18,302)
General & admin expenses	(5,182)	(5,490)	(4,993)	(4,727)
Gains on disposal	0	3,885	0	0
<b>Operating Profits</b>	<b>(2,619)</b>	<b>8,995</b>	<b>12,751</b>	<b>20,968</b>
Interest income	(1,113)	(1,738)	(1,600)	(1,600)
Interest expenses	2,118	1,786	1,600	1,650
Share of results of equity investees	(855)	(725)	(850)	(900)
Others, net	95	5,375	100	100
<b>PBT</b>	<b>(2,374)</b>	<b>13,693</b>	<b>12,001</b>	<b>20,218</b>
Tax	(427)	(1,802)	(2,087)	(3,568)
<b>PAT</b>	<b>(2,801)</b>	<b>11,890</b>	<b>9,913</b>	<b>16,650</b>
Minority interests	(309)	(293)	(250)	(250)
<b>Profits attributable to shareholders</b>	<b>(2,492)</b>	<b>12,184</b>	<b>10,163</b>	<b>16,900</b>
Share-based compensation	3,660	3,695	2,163	1,893
Amortization	1,806	885	1,420	1,693
Impairment/FV changes of investments	808	(745)	0	0
Other non-core items	(321)	(5,269)	(513)	(727)
<b>Non-GAAP profits attributable to shareholders</b>	<b>3,460</b>	<b>10,750</b>	<b>13,234</b>	<b>19,760</b>
<b>Growth</b>				
Total revenue (%)	27.5	24.9	23.1	19.2
Gross Profits (%)	29.8	28.0	26.2	20.0
Operating Profits (%)	213.8	NA	41.7	64.4
Net profit (%)	NA	NA	(16.6)	66.3
Non-GAAP net profit (%)	(30.4)	210.7	23.1	49.3
<b>Operating performance</b>				
Operating margin (%)	(0.6)	1.6	1.8	2.5
Net margin (%)	(0.5)	2.1	1.4	2.0
Core net margin (%)	0.7	1.9	1.9	2.3
ROAE (%)	(4.4)	16.7	11.1	15.6
ROAA (%)	(1.3)	5.2	3.6	5.1

Note. Individual items may not sum to total due to rounding

Source(s): the Group, ABCI Securities estimates



Consolidated balance sheet (2018A-2021E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E
Fixed assets	38,112	37,352	53,852	70,352
Investments	47,258	56,993	56,993	56,993
Other non-current assets	18,939	26,284	29,184	32,084
<b>Total non-current assets</b>	<b>104,309</b>	<b>120,629</b>	<b>140,028</b>	<b>159,428</b>
Cash & equivalents	37,502	39,912	41,233	48,302
Short-term investments and investment securities	2,036	24,603	24,603	24,603
Inventories	44,030	57,932	68,415	81,470
Account receivables	11,110	6,191	27,240	32,476
Other current assets	10,178	10,457	10,457	10,457
<b>Total current assets</b>	<b>104,855</b>	<b>139,094</b>	<b>171,946</b>	<b>197,307</b>
<b>Total assets</b>	<b>209,164</b>	<b>259,723</b>	<b>311,975</b>	<b>356,736</b>
Account payables	93,003	106,507	145,083	169,700
Borrowings and notes	4,545	0	0	0
Other current liabilities	23,314	33,510	33,510	33,510
<b>Total current liabilities</b>	<b>120,862</b>	<b>140,017</b>	<b>178,592</b>	<b>203,210</b>
Payables & accruals	309	226	226	226
Borrowings and notes	9,874	10,052	10,052	10,052
Other non-current liabilities	1,291	8,805	8,805	8,805
<b>Total non-current liabilities</b>	<b>11,474</b>	<b>19,082</b>	<b>19,082</b>	<b>19,082</b>
<b>Total liabilities</b>	<b>132,336</b>	<b>159,099</b>	<b>197,674</b>	<b>222,292</b>
<b>Mezzanine equity</b>	<b>15,961</b>	<b>15,964</b>	<b>15,961</b>	<b>15,961</b>
Equity attributable to shareholders	59,771	81,856	95,782	116,176
Non-controlling interests	1,096	2,804	2,554	2,304
<b>Total equity</b>	<b>60,866</b>	<b>84,660</b>	<b>98,336</b>	<b>118,479</b>

Note. Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): the Group, ABCI Securities estimates

Consolidated cash flow statement (2018A-2021E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E
<b>Operating cash flow</b>	<b>20,881</b>	<b>24,782</b>	<b>26,321</b>	<b>32,069</b>
<b>Investing cash flow</b>	<b>(26,078)</b>	<b>(25,349)</b>	<b>(25,000)</b>	<b>(25,000)</b>
<b>Financing cash flow</b>	<b>11,220</b>	<b>2,573</b>	<b>-</b>	<b>-</b>
Effective of FX	1,681	405	-	-
<b>Net cash flows</b>	<b>7,704</b>	<b>2,410</b>	<b>1,321</b>	<b>7,069</b>

Note. Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): the Group, ABCI Securities estimates

## Meituan Dianping-W (3690 HK)

### Leading consumer service ecommerce platform

- Intact medium-term outlook to benefit from the structural uptrend of consumer service ecommerce
- Improving business environment especially for the food delivery services
- We expect GTV growth to slow to 3% YoY in 2020E due to the pandemic before rebounding by 48% in 2021E due to low base and normalized business situation.
- Upgrade to **BUY** with a TP of HK\$ 250

**Leading consumer service ecommerce platform.** We believe Meituan (MD) is well positioned to benefit from the structural uptrend of consumer upgrade from physical goods to services given its leading position in the consumer service ecommerce market. As China's largest online food delivery platform, MD has become a household brand in the country. In our view, MD's strong brand equity has led to a substantial user base with 449m annual transaction users in 1Q20. In 2019, the Group generated RMB393bn food delivery Gross Transaction Value (GTV).

**Out of the woods.** In 1Q20, the Group has experienced a revenue drop of 12.6% YoY and a core net loss of RMB 216m due to the COVID-19 outbreak. With economic activities resuming in 2Q20 as the pandemic in China recedes, we expect sequential improvement in coming quarters especially for the food delivery business.

**Business outlook.** We expect GTV growth to slow to 3% YoY in 2020E due to the pandemic before rebounding by 48% in 2021E due to low base and normalized business situation. Similarly, we expect revenue growth to slow to 7.8% YoY in 2020E before accelerating to 50.5% YoY in 2021E.

**Upgrade to BUY.** We upgrade the counter to **BUY** given its intact medium term outlook and gradually improving business situation. Our SOTP-based TP is HK\$ 250.

#### Results and Valuation

FY end Dec 31	2018A	2019A	2020E	2021E
Revenue (RMB mn)	65,227	97,528	105,091	158,155
Chg (% YoY)	92.3	49.5	7.8	50.5
Net profit (RMB mn)	-115,477	2,239	1,935	12,892
Chg (% YoY)	NA	NA	NA	566.2
Core net profit (RMB mn)*	-8,346	4,657	3,586	15,719
Chg (% YoY)	NA	NA	(23.0)	338.3
Underlying EPS (RMB)	-42.41	0.39	0.33	2.22
Chg (% YoY)	NA	NA	-14.3	566.2
Core EPS (RMB)*	-3.06	0.81	0.62	2.70
Chg (% YoY)	NA	NA	-23.6	338.3
P/S (x)	8.3	11.7	11.0	7.3
Core P/E (x)*	NA	245.4	321.5	73.3
ROAE (%)	NA	2.5	2.1	12.8
ROAA (%)	NA	1.8	1.4	9.0

\*Excl. share-based compensation, amortization, impairment, etc.

Source(s): Bloomberg, ABCI Securities estimates

### Company Report Aug 12, 2020

Rating: **BUY**

TP: HK\$ 250

Analyst : **Steve Chow**  
Tel: (852) 2147 8809  
stevechow@abci.com.hk

Share price (HK\$)	218.0
Est. share price return	14.7%
Est. dividend yield	NA
Est. total return	14.7%
Previous Rating & TP	HOLD/HK\$95
Previous Report Date	Mar 31, 2020

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L(HK\$)	229.2/62.0
Issued shares (mn)	5,879
of which:	
Listed B shares (mn)	5,143
Unlisted shares (mn)	736
B share market cap (HK\$ mn)	1,121,174
Avg daily turnover (HK\$ mn)	1,355
Major shareholder(s)	Voting right
Wang Xing	49.1%
Mu Rongjun	10.8%

Source(s): Bloomberg, HKEX, Company



## Financial analysis

We expect GTV growth to slow to 3% YoY in 2020E due to COVID-19 outbreak, to be followed by a 48% growth in 2021E due to the low base expected for 2020E and normalized business situation in 2021E.

### Exhibit 18: Major assumptions

	2018	2019	2020E	2021E
Annual transacting users (mn)	400	451	496	535
No. of food delivery transactions (mn)	6,393	8,722	9,784	13,697
No. of domestic hotel room nights (mn)	284	392	354	503
Monetization rates	12.7%	14.3%	15.0%	15.3%

Source(s): the Company, ABCI Securities estimates

Similarly, we expect MD's revenue growth to slow to 7.8% YoY for 2020E before accelerating to 50.5% YoY for 2021E. Among major business segments, we expect food delivery revenue to increase by 13% YoY in 2020E, to be followed by a 48% YoY growth for 2021E. For the in-store, hotel and travel segment, we factor in a 6% revenue decline for 2020E, to be followed by a 44% growth for 2021E.

### Exhibit 19: GTV and revenue forecasts

	2018	2019	2020E	2021E
<b>Gross transaction volume (RMB bn)</b>	<b>516</b>	<b>682</b>	<b>702</b>	<b>1,036</b>
Food delivery	283	393	449	678
In-store, hotel and travel	177	222	176	251
New initiatives and others	56	67	76	107
<b>Revenue (RMB mn)</b>	<b>65,227</b>	<b>97,528</b>	<b>105,091</b>	<b>158,155</b>
Food delivery	38,143	54,843	62,100	94,970
In-store, hotel and travel	15,840	22,275	20,937	30,088
New initiatives and others	11,244	20,410	22,054	33,097

Source(s): Company, ABCI Securities estimates

Overall gross margin improved to 33.1% in 2019 vs. 23.2% in 2018, mainly driven by improving profitability of food delivery and new initiatives segments. Looking forward, we expect gross margin to drop to 31.4% for 2020E amid weakened consumption sentiment before recovering to 32.2% for 2021E.

In terms of operating cost, we expect SG&A/GTV ratio to rise to 4.8% for 2020E before dropping to 3.7% by 2021E vs. 4.6% in 2019.

Based on the above assumptions, we expect core net profit to drop by 23.0% YoY to RMB 3.6bn for 2020E on business disruptions brought by the pandemic. For 2021E, we expect core net profit to recuperate to RMB 15.7bn with a core net margin of 9.9%.



#### Exhibit 20: Forecast changes

(RMB m)	2020E			Comment
	old	new	Diff	
Revenues	94,606	105,091	11%	Higher GTV assumptions
Net income	1,200	1,935	61%	
Core profit	2,740	3,586	31%	Operating leverage

Source(s): ABCI Securities estimates

#### Exhibit 21: Forecast changes

(RMB m)	2021E			Comment
	old	new	Diff	
Revenues	133,581	158,155	18%	Higher GTV assumptions
Net income	8,062	12,892	60%	
Core profit	10,589	15,719	48%	Operating leverage

Source(s): ABCI Securities estimates

## Valuation and TP

We derive MD's valuation range based on the SOTP approach.

- For food delivery business, we apply the DCF valuation with a WACC of 8%-11%
- In-store, hotel and travel business, we apply a target P/E range of 15x-20x

The SOTP approach results in a valuation range of HK\$ 154.0-HK\$ 292.0. We set our TP at HK\$250, which warrants a **BUY** rating.

Overall, our valuation range implies a wide trading range. For example, any major new business development or initiatives could lead to a higher valuation (higher risk appetites among investors). Our TP indicates a medium-term target but we notice that short-term share price might deviate from it due to technical factors such as supply/demand dynamic, etc.

#### Exhibit 22: SOTP-based valuation range (HK\$ per share)

Segment	Low	High	Comment
Food delivery	136.9	269.2	DCF with 8%-11% WACC
In-store/Hotel/Travel	17.1	22.8	15-20x 2021E P/E
<b>Overall</b>	<b>154.0</b>	<b>292.0</b>	

Source(s): ABCI Securities estimates



## Peer valuation analysis

Comparing with other major ecommerce platforms including Alibaba and JD, MD is trading at a higher valuation in terms of core P/E. In our view, this could be due to the fact that MD is still in early stage of profitability and investors tend to focus on its longer-term outlook.

### Exhibit 23: Peer valuation

		Market cap# (USD mn)	Price (Lcy)	P/sales			Core P/E*		
				2019	2020E	2021E	2019	2020E	2021E
Business model- platform based									
BABA US	Alibaba	678,445	US\$248.1	9.3	7.3	5.8	33.6	29.3	23.2
3690 HK	Meituan-B	146,668	HK\$218.0	11.7	11.0	7.3	245.4	321.5	73.3
PDD US	Pinduoduo-A	56,339	US\$87.5	23.5	15.4	9.5	NA	NA	121.3
		Average		14.9	11.2	7.5	139.5	175.4	72.6
Business model – direct sales									
JD US	JD.com	98,134	US\$61.5	1.1	0.9	0.8	59.4	50.9	34.1
VIPS US	VIP Shop -A	13,052	US\$22.1	1.1	1.1	1.0	21.3	16.5	14.3
		Average		1.1	1.0	0.9	40.3	33.7	24.2

\*Excluding share-based compensation, impairments, fair value changes of investment, etc.

# All-share market cap for Alibaba and JD

Source(s): Bloomberg, ABCI Securities estimates

### Exhibit 24: TP changes (HK\$ per share)

Segment	Old	New	Methodology- old	Methodology -new
Food delivery	84	229	5.5x 2021E P/S	DCF with a 9% WACC
In-store/Hotel/Travel	11	21	12.5x 2021 P/E	17.5x 2021 P/E
<b>Overall</b>	<b>95</b>	<b>250</b>		

Source(s): ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

## Financial forecast

Internet Consumer Commerce Sector

Aug 12, 2020

### Consolidated income statement (FY18A-FY21E)

FY Ended Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E
<b>Total revenue</b>	<b>65,227</b>	<b>97,528</b>	<b>105,091</b>	<b>158,155</b>
Cost of sales	(50,122)	(65,208)	(72,102)	(107,188)
<b>Gross profit</b>	<b>15,105</b>	<b>32,320</b>	<b>32,988</b>	<b>50,967</b>
Other gains/losses	2,585	2,609	2,850	2,850
Selling & marketing expenses	(15,872)	(18,819)	(20,344)	(23,825)
R&D expenses	(7,072)	(8,446)	(8,558)	(8,287)
General & admin expenses	(5,546)	(4,339)	(4,560)	(5,697)
Impairment	(286)	(646)	0	0
<b>Operating Profits</b>	<b>(11,086)</b>	<b>2,680</b>	<b>2,377</b>	<b>16,009</b>
Finance income, net	249	(25)	(50)	(20)
Other cost	(104,654)	107	90	110
<b>Profit before tax</b>	<b>(115,491)</b>	<b>2,762</b>	<b>2,417</b>	<b>16,099</b>
Tax	2	526	483	3,220
<b>Profit after tax</b>	<b>(115,493)</b>	<b>2,236</b>	<b>1,933</b>	<b>12,879</b>
Minority interests	(16)	(3)	(2)	(13)
<b>Profits attributable to shareholders</b>	<b>(115,477)</b>	<b>2,239</b>	<b>1,935</b>	<b>12,892</b>
Share-based compensation	1,865	2,191	1,403	2,590
Amortization and impairment	2,367	751	600	600
Adjustments on disposals/revaluation	102,743	(547)	(350)	(350)
Other adjustments	157	23	(2)	(13)
<b>Core profits</b>	<b>(8,346)</b>	<b>4,657</b>	<b>3,586</b>	<b>15,719</b>
<b>Growth</b>				
Total revenue (%)	92.3	49.5	7.8	50.5
Gross Profits (%)	23.6	114.0	2.1	54.5
Operating Profits (%)	NA	NA	(11.3)	573.6
Net profit (%)	NA	NA	(13.6)	566.2
Core profit (%)	NA	NA	(23.0)	338.3
<b>Operating performance</b>				
Operating margin (%)	(17.0)	2.7	2.3	10.1
Net margin (%)	(177.0)	2.3	1.8	8.2
Core net margin (%)	(12.8)	4.8	3.4	9.9
ROAE (%)	(502.0)	2.5	2.1	12.8
ROAA (%)	(113.0)	1.8	1.4	9.0

Note. Individual items may not sum to total due to rounding

Source(s): Company, ABCI Securities estimates





**Consolidated balance sheet (FY18A-FY21E)**

As of Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E
Fixed assets	3,979	5,376	3,909	9,445
Intangible assets	33,876	32,700	32,700	32,700
Investment in associates and JV	2,103	2,284	2,284	2,284
Financial assets	6,242	7,166	7,166	7,166
Other non-current assets	1,312	2,352	2,352	2,352
<b>Total non-current assets</b>	<b>47,512</b>	<b>49,877</b>	<b>48,410</b>	<b>53,946</b>
Cash & equivalents	17,044	13,396	16,195	25,738
Restricted cash	4,256	8,760	8,760	8,760
Account receivables	466	677	2,203	3,749
Deposit, prepayments and other assets	9,065	9,591	9,591	9,591
Inventories	400	275	645	970
Short term investment	41,918	49,436	49,436	49,436
<b>Total current assets</b>	<b>73,149</b>	<b>82,135</b>	<b>86,830</b>	<b>98,244</b>
<b>Total assets</b>	<b>120,661</b>	<b>132,012</b>	<b>135,240</b>	<b>152,190</b>
Accounts payable	5,341	6,766	8,062	12,132
Borrowings and notes	1,800	3,553	3,553	3,553
Deferred revenue	3,103	4,567	4,567	4,567
Other current liabilities	21,581	21,706	21,706	21,706
<b>Total current liabilities</b>	<b>31,825</b>	<b>36,592</b>	<b>37,888</b>	<b>41,958</b>
Deferred revenue	625	389	389	389
Borrowings	470	467	467	467
Other non-current liabilities	1,232	2,510	2,510	2,510
<b>Total non-current liabilities</b>	<b>2,326</b>	<b>3,366</b>	<b>3,366</b>	<b>3,366</b>
<b>Total liabilities</b>	<b>34,151</b>	<b>39,958</b>	<b>41,253</b>	<b>45,324</b>
<b>Net current assets</b>	<b>41,324</b>	<b>45,542</b>	<b>48,942</b>	<b>56,286</b>
Equity attributable to shareholders	86,504	92,113	94,048	106,939
Non-controlling interests	5	(58)	(60)	(73)
<b>Total equity</b>	<b>86,510</b>	<b>92,055</b>	<b>93,988</b>	<b>106,867</b>

Note. Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): Company, ABCI Securities estimates

**Consolidated Cash flows statement (FY18A-FY21E)**

As of Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E
Operating cash flow	(9,180)	7,112	6,477	15,078
Investing cash flow	(23,439)	(3,506)	(3,678)	(5,535)
Financing cash flow	29,295	-	-	-
<b>Net cash flows</b>	<b>(3,323)</b>	<b>3,606</b>	<b>2,799</b>	<b>9,543</b>

Note. Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): Company, ABCI Securities estimates

# Pinduoduo (PDD US)

## A rising star reaching inflection

- Emerging ecommerce platform with rapid growth in recent years on innovative social ecommerce features; 628mn users in 1Q20 vs. 387mn for JD and 726m for Alibaba; estimated market share of ~12% in 2019
- Long-term investment on user loyalty via sizable marketing spending would hamper near-term profitability
- Maintain **BUY** with TP of US\$ 113 on emerging potential in lower-tier cities

**A rising star in lower-tier cities.** Pinduoduo is an emerging player with rapid growth in the ecommerce sector despite its relatively short operating history (since 2015). In our view, its rising popularity is driven by its innovative business model, which provides buyers with value-for-money products and interactive shopping experiences. Strong user growth was seen, with its active users reaching 628mn in 1Q20 vs. 387mn for JD and 726mn for Alibaba. In 2019, the Group generated RMB 1.0tr of GMV, up 113% YoY. We estimate its online market share in 2019 was ~12%, vs. 62% for Alibaba and 24% for JD.

**Long-term investment on user loyalty.** Pinduoduo has been suffering from core net losses in recent years, mainly dragged by sales and marketing expenses that accounted for 2.7% of GMV in 2019 vs. 0.7% for Alibaba and 1.0% for JD. We view such expenses as a long-term investment on user loyalty and stickiness. We expect a breakeven to occur by 2021E, driven by ongoing sales growth and margin improvement amid better economies of scale and better cost control.

**Strategic partnership with Gome Retail.** The company has formed a strategic partnership with Gome Retail, which could strengthen its position in the household appliances and electronics, especially the big-ticket consumer goods.

**Maintain BUY.** We maintain **BUY** with a DCF-based TP of US\$ 113. We believe the Group is well positioned to ride on the consumption growth in China's lower-tier cities.

### Results and Valuation

FY end Dec 31	2018A	2019A	2020E	2021E
Revenue (RMB mn)	13,120	30,142	46,403	75,368
Chg (% YoY)	652.5	129.7	53.9	62.4
Net profit (RMB mn)	-10,297	-6,968	-6,902	2,481
Chg (% YoY)	NA	NA	NA	NA
Core net profit (RMB mn)	-3,456	-4,266	-3,654	5,872
Chg (% YoY)	NA	NA	NA	NA
Earnings per ADS (RMB)	-13.9	-6.0	-5.9	2.1
Chg (% YoY)	NA	NA	NA	NA
Core earnings per ADS (RMB)	-4.7	-3.7	-3.1	5.1
Chg (% YoY)	NA	NA	NA	NA
Core P/E (x)	NA	NA	NA	121.3
P/S (x)	34.7	23.5	15.4	9.5
ROAE (%)	NA	NA	NA	10.4
ROAA (%)	NA	NA	NA	2.9

1 ADS = 4 common shares

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Aug 12, 2020

Rating: **BUY**

TP: US\$ 113

Analyst : Steve Chow

Tel: (852) 2147 8809

stevechow@abci.com.hk

ADS price (US\$ )	87.5
Est. share price return	29.1%
Est. dividend yield	NA
Est. total return	29.1%
Previous Rating & TP	BUY/US\$57
Previous Report Date	Apr 27, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L(US\$ )	98.9/22.0
Issued shares (mn)	4,650
of which:	
Listed A shares (mn)	2,576
Unlisted B shares (mn)	2,074
A share market cap (US\$ mn)	56,339
Avg daily turnover (US\$ mn)	756
Major shareholder(s)	Voting right
Zheng Huang	88.9%
Banyan Partners	1.7%

Source(s): Bloomberg, Company



## Financial analysis

For 2019-2021E, we expect GMV to grow by 46% CAGR to RMB 2.2tr by 2021E, driven by the growing number of active users and spending.

### Exhibit 25: Major assumptions

	2018	2019	2020E	2021E
Annual active customer account (mn)	419	585	702	772
GMV (RMB bn)	472	1,007	1,450	2,153
Annual spending per active customer (RMB)	1,127	1,721	2,065	2,788
Monetization rate	2.8%	3.0%	3.2%	3.5%

Source(s): the Group, ABCI Securities estimates

Overall, we expect revenue to increase at 58% CAGR in 2019-21E to RMB 75.4bn by 2021E, propelled by growing GMV and improving monetization rate from 3.0% in 2019 to 3.5% in 2021E on improving value-added services provided to merchants.

### Exhibit 26: Revenue forecasts (RMB mn)

	2018	2019	2020E	2021E
Online marketplace services	11,516	26,814	41,762	68,585
Transaction services	1,604	3,328	4,640	6,783
<b>Total revenue</b>	<b>13,120</b>	<b>30,142</b>	<b>46,403</b>	<b>75,368</b>

Source(s): the Group, ABCI Securities estimates

Gross margin trended up to 79.0% in 2019 vs. 58.5% in 2017, driven by economies of scale and improving efficiency of online marketplace. Looking forward, we expect such improvement to continue with gross margin reaching 83.0% by 2021E.

**Sales and marketing expenses:** Non-GAAP sales and marketing expenses have been the biggest cost item for Pinduoduo, accounting for 87.3% of revenue in 2019. Such ratio has been declining from the peak of 99.4% in 2018 because less promotion and subsidies are required as customer loyalty increases; also, Pinduoduo's bargaining power over merchants improves as its operation scale grows. Looking forward, we expect non-GAAP sales and marketing expenses/revenue ratio to improve to 68.0% by 2021E.

**General & admin expenses:** We expect non-GAAP G&A expense/sales ratio to improve to 1.0% for 2021E vs. 1.7% in 2019, driven by improving economies of scale.

**R&D expenses:** Non-GAAP R&D expenses /sales ratio was 9.9% in 2019. We expect this ratio to improve in 2020E-21E on economies of scale and reach 8.0% in 2021E.



Exhibit 27: Non-GAAP cost trend (RMB mn)

	2018	2019	2020E	2021E
Cost of revenue	(2,902)	(6,315)	(8,584)	(12,813)
Sales and marketing	(13,036)	(26,313)	(38,050)	(51,250)
General and admin	(160)	(510)	(696)	(754)
R&D	(980)	(2,984)	(4,176)	(6,029)
<b>Total</b>	<b>(17,078)</b>	<b>(36,123)</b>	<b>(51,507)</b>	<b>(70,846)</b>
<b>% of revenue</b>				
Cost of revenue	22.1%	21.0%	18.5%	17.0%
Sales and marketing	99.4%	87.3%	82.0%	68.0%
General and admin	1.2%	1.7%	1.5%	1.0%
R&D	7.5%	9.9%	9.0%	8.0%
<b>Total</b>	<b>130.2%</b>	<b>119.8%</b>	<b>111.0%</b>	<b>94.0%</b>

Note. Excl. impacts of share-based compensation and other non-operating items

Source(s): the Group, ABCI Securities estimates

Based on improving gross margins and cost trends, we expect the Group would reach the breakeven point by 2021E with a core net profit of RMB 5.9bn, implying a core net margin of 7.8% in 2021E vs. -14.2% in 2019. Nonetheless, earnings visibility is still low at the moment and our forecasts are subject to revision with reference to quarterly earnings.



## Maintain BUY

Our DCF-based valuation range is US\$ 72.42- US\$ 153.3 per share, based on a WACC of 7%-10%. We set our TP to US\$ 113.

Overall, our valuation range implies a wide trading range. For example, any major new business development or initiatives could lead to a higher valuation (higher risk appetites among investors). Our TP indicates a medium-term target but we notice that short-term share price might deviate from it due to technical factors such as supply/demand dynamic, etc.

### Peer valuation analysis

Pinduoduo's comparable peers are China's major online ecommerce platforms including Alibaba, JD, etc.

Pinduoduo is currently trading at a higher P/E than Alibaba and JD; however, P/E is not the best valuation metric for the Group since it is still in the early stage of profitability. As a result, we refrain from using P/E as our primary valuation metric. On a P/S basis, Pinduoduo is trading at higher P/S than Alibaba, reflecting the former's higher GMV growth expected.

#### Exhibit 28: Peer valuation

		Market cap# (USD mn)	Price (Lcy)	P/sales			Core P/E*		
				2019	2020E	2021E	2019	2020E	2021E
Business model- platform based									
BABA US	Alibaba	678,445	US\$248.1	9.3	7.3	5.8	33.6	29.3	23.2
3690 HK	Meituan-B	146,668	HK\$218.0	11.7	11.0	7.3	245.4	321.5	73.3
PDD US	Pinduoduo-A	56,339	US\$87.5	23.5	15.4	9.5	NA	NA	121.3
		Average		14.9	11.2	7.5	139.5	175.4	72.6
Business model – direct sales									
JD US	JD.com	98,134	US\$61.5	1.1	0.9	0.8	59.4	50.9	34.1
VIPS US	VIP Shop -A	13,052	US\$22.1	1.1	1.1	1.0	21.3	16.5	14.3
		Average		1.1	1.0	0.9	40.3	33.7	24.2

\*Excluding share-based compensation, impairments, fair value changes of investment, etc.

# All-share market cap for Alibaba and JD

Source(s): Bloomberg, ABCI Securities estimates

#### Exhibit 29: TP changes (US\$ per share)

Old	New	Methodology -old	Methodology -new
57	113	DCF -11% WACC	DCF -8% WACC

Source(s): ABCI Securities estimates



## Financial forecast

### Consolidated income statement (2018A-2021E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E
<b>Total revenue</b>	<b>13,120</b>	<b>30,142</b>	<b>46,403</b>	<b>75,368</b>
Cost of sales	(2,905)	(6,339)	(8,615)	(12,844)
<b>Gross profit</b>	<b>10,215</b>	<b>23,803</b>	<b>37,788</b>	<b>62,524</b>
Sales and marketing	(13,442)	(27,174)	(39,143)	(52,392)
General and admin	(6,456)	(1,297)	(1,695)	(1,797)
R&D	(1,116)	(3,870)	(5,302)	(7,205)
<b>Operating Profits</b>	<b>(10,799)</b>	<b>(8,538)</b>	<b>(8,352)</b>	<b>1,131</b>
Interest income	585	1,542	1,450	1,350
Interest expenses	0	(146)	0	0
Fx gain	10	63	0	0
Others, net	(12)	83	0	0
Share of results of investee	0	29	0	0
<b>PBT</b>	<b>(10,217)</b>	<b>(6,968)</b>	<b>(6,902)</b>	<b>2,481</b>
Tax	0	0	0	0
<b>PAT</b>	<b>(10,217)</b>	<b>(6,968)</b>	<b>(6,902)</b>	<b>2,481</b>
Minority interests/distribution to convertible preferred shareholders	(81)	0	0	0
<b>Profits attributable to shareholders</b>	<b>(10,297)</b>	<b>(6,968)</b>	<b>(6,902)</b>	<b>2,481</b>
Share-based compensation	6,841	2,558	3,248	3,392
Interest related to CB amortization	0	144	0	0
Other non-core items	0	0	0	0
<b>Non-GAAP profits attributable to shareholders</b>	<b>(3,456)</b>	<b>(4,266)</b>	<b>(3,654)</b>	<b>5,872</b>
<b>Growth</b>				
Total revenue (%)	652.5	129.7	53.9	62.4
Gross Profits (%)	900.8	133.0	58.8	65.5
Operating Profits (%)	NA	NA	NA	NA
Net profit (%)	NA	NA	NA	NA
Non-GAAP net profit (%)	NA	NA	NA	NA
<b>Operating performance</b>				
Operating margin (%)	(82.3)	(28.3)	(18.0)	1.5
Net margin (%)	(78.5)	(23.1)	(14.9)	3.3
Core net margin (%)	(26.3)	(14.2)	(7.9)	7.8
ROAE (%)	(115.5)	(32.1)	(30.2)	10.4
ROAA (%)	(36.5)	(11.7)	(8.9)	2.9

Note. Individual items may not sum to total due to rounding

Source(s): the Group, ABCI Securities estimates



Consolidated balance sheet (2018A-2021E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E
Fixed assets	29	41	91	141
Intangible asset	2,579	1,994	1,994	1,994
Other non-current assets	183	1,020	1,045	1,072
<b>Total non-current assets</b>	<b>2,791</b>	<b>3,056</b>	<b>3,131</b>	<b>3,207</b>
Cash & equivalents	14,160	5,768	10,401	24,792
Restricted cash	16,379	27,578	30,335	33,369
Short-term investments and investment securities	7,631	35,289	29,996	26,996
Account receivables	248	1,051	1,104	1,159
Other current assets	1,973	3,315	3,363	3,413
<b>Total current assets</b>	<b>40,391</b>	<b>73,001</b>	<b>75,199</b>	<b>89,728</b>
<b>Total assets</b>	<b>43,182</b>	<b>76,057</b>	<b>78,329</b>	<b>92,935</b>
Account payables	670	2,109	2,184	2,263
Payable to merchants	17,276	29,927	33,639	37,157
Merchant deposit	4,188	7,841	9,481	14,118
Borrowings and notes	0	899	1,399	1,899
Other current liabilities	2,225	4,993	4,993	4,993
<b>Total current liabilities</b>	<b>24,359</b>	<b>45,768</b>	<b>51,695</b>	<b>60,429</b>
Convertible bonds	-	5,207	5,207	5,207
Other non-current liabilities	-	436	436	436
<b>Total non-current liabilities</b>	<b>-</b>	<b>5,642</b>	<b>5,642</b>	<b>5,642</b>
<b>Total liabilities</b>	<b>24,359</b>	<b>51,410</b>	<b>57,337</b>	<b>66,071</b>
Equity attributable to shareholders	18,823	24,647	20,993	26,865
Non-controlling interests	-	-	-	-
<b>Total equity</b>	<b>18,823</b>	<b>24,647</b>	<b>20,993</b>	<b>26,865</b>

Note. Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): the Group, ABCI Securities estimates

Consolidated cash flow statement (2018A-2021E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E
<b>Operating cash flow</b>	<b>7,768</b>	<b>14,821</b>	<b>4,733</b>	<b>14,540</b>
<b>Investing cash flow</b>	<b>(7,549)</b>	<b>(28,320)</b>	<b>(600)</b>	<b>(650)</b>
<b>Financing cash flow</b>	<b>17,344</b>	<b>15,855</b>	<b>500</b>	<b>500</b>
Effective of FX	547	450	-	-
<b>Net cash flows</b>	<b>18,111</b>	<b>2,806</b>	<b>4,633</b>	<b>14,390</b>

Note. Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): the Group, ABCI Securities estimates



## VIPSHOP (VIP US)

### Niche player in discount online retailing

- A niche online e-commerce platform in China focusing on discount online retailing with strong reputation and loyal customer base in the niche segment.
- Strategic move to refocus on the core discount retailing market and operating improvement resulted in better margins
- Maintain **BUY** with TP of US\$ 28 on potential margin improvement

**A niche player focusing on discounted online retailing.** VIPSHOP (VIPS) is a niche online ecommerce platform in China focusing on discount online retailing. Unlike other online retail platforms offering a wide range of merchandises to customers, VIPS specializes in flash sales of discounted branded products, resembling the outlet format in traditional offline retailing. The Group has earned a strong reputation in this niche segment with 69mn active customers at end-2019.

**Counter-cyclical nature.** In our view, the Company's business model offers some degree of counter cyclicity. During the economic downturn, brand owners typically choose to clear its inventories via heavy discounts to VIPS. This allows VIPS to lower purchase cost and offers a deeper discount to customers, which enhances overall customer engagement and loyalty.

**Strategic reposition.** After multiple diversification attempts over the past few years, the Group has been refocusing on its core online flash sales business since 2018. Key strategies include shifting low-margin categories from direct sales (1P) to marketplace model (3P), refocusing on off-season branded apparel vs. in-season apparel, and outsourcing deliveries to external parties. These moves have boosted core net margin from 3.2% in 2018 to 5.4% in 2019.

**Maintain BUY.** We maintain **BUY** with a DCF-based TP of US\$ 28 to reflect its solid market position in the discount online retailing market and ongoing margin improvement.

#### Results and Valuation

FY end Dec 31	2018A	2019A	2020E	2021E
Revenue (RMB mn)	84,524	92,994	96,186	104,486
Chg (% YoY)	15.9	10.0	3.4	8.6
Net profit (RMB mn)	2,129	4,017	5,509	6,416
Chg (% YoY)	9.2	88.7	37.2	16.5
Core net profit (RMB mn)	2,719	5,013	6,471	7,461
Chg (% YoY)	(6.9)	84.4	29.1	15.3
Earnings per ADS (RMB)	3.1	5.9	8.1	9.4
Chg (% YoY)	11.3	90.5	37.2	16.5
Core earnings per ADS (RMB)	3.9	7.4	9.5	11.0
Chg (% YoY)	(6.9)	89.8	29.1	15.3
Core P/E (x)	40.4	21.3	16.5	14.3
ROAE (%)	24.7	20.4	21.6	19.8
ROAA (%)	9.8	8.7	10.8	10.8

1 common shares = 5 ADS

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Aug 12, 2020

Rating: **BUY**

TP: US\$ 28

Analyst : Steve Chow

Tel: (852) 2147 8809

stevechow@abci.com.hk

ADS price (US\$ )	22.1
Est. share price return	26.5%
Est. dividend yield	NA
Est. total return	26.5%
Previous Rating & TP	BUY, US\$ 25
Previous Report Date	June 29, 2020

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L(US\$ )	24.0/6.1
Issued shares (mn)	134.4
of which:	
Listed A shares (mn)	117.9
Unlisted B shares(mn)	16.5
A share market cap (US\$ mn)	13,052
Avg daily turnover (US\$ mn)	111
Major shareholder(s)	
Eric Ya Shen	12.7%

Source(s): Bloomberg, Company





## Financial analysis

For 2019-2021E, we expect GMV to grow by 6% CAGR to RMB 166bn by 2021E, driven by the growing number of active users.

**Annual active customer:** the Company had 69mn annual active customers at end-2019, up 14% YoY. Looking forward, we expect the figure to reach 75mn by 2021E.

**Annual spending per active customer:** Annual spending per active customer has been largely stable at about RMB 2.1K in recent years. We expect this trend to continue going forward.

Based on the above assumptions, we expect revenue to increase by 3%/9% YoY growth in 2020E/21E. With improving gross margins and cost trends, we expect core net profit to reach RMB7.5bn by 2021E vs. RMB5.0bn for 2019.

### Exhibit 30: Major assumptions

	2018	2019	2020E	2021E
Active customer (mn)	61	69	70	75
GMV (RMB bn)	131	148	153	166
Annual spending per active customer (RMB)	2,165	2,148	2,169	2,213

Source(s): the Company, ABCI Securities estimates

### Exhibit 31: Revenue forecasts (RMB mn)

	2018	2019	2020E	2021E
Product revenue	81,510	88,721	91,766	99,685
Other revenue	3,014	4,273	4,420	4,801
Total revenue	84,524	92,994	96,186	104,486

Source(s): The Company, ABCI Securities estimates

### Exhibit 32: Non-GAAP cost trend (RMB mn)

	2018	2019	2020E	2021E
Fulfillment	(7,416)	(7,205)	(6,925)	(7,419)
Marketing	(3,200)	(3,289)	(2,982)	(3,135)
Technology and content	(1,798)	(1,388)	(1,154)	(1,254)
General and admin	(2,321)	(3,704)	(3,366)	(3,135)
Total	(14,734)	(15,586)	(14,428)	(14,942)
<b>% of revenue</b>				
Fulfillment	8.8%	7.7%	7.2%	7.1%
Marketing	3.8%	3.5%	3.1%	3.0%
Technology and content	2.1%	1.5%	1.2%	1.2%
General and admin	2.7%	4.0%	3.5%	3.0%
Total	17.4%	16.8%	15.0%	14.3%

Note. Excl. impacts of share-based compensation and other non-operating items

Source(s): The Company, ABCI Securities estimates



## Maintain BUY

We maintain **BUY** on the counter with a DCF-based TP of US\$ 28.

Our DCF-based valuation range is US\$ 19.6- US\$ 32.8 per ADS, based on a 3% terminal growth rate and a WACC of 10%-14% WACC. We set our TP at US\$ 28.

Overall, our valuation range implies a wide trading range. For example, any major new business development or initiatives could lead to a higher valuation (higher risk appetites among investors). Our TP indicates a medium-term target but we notice that short-term share price might deviate from it due to technical factors such as supply/demand dynamic, etc.

### Peer valuation analysis

VIPS's comparable peers are major online ecommerce platforms, including Alibaba (BABA US, 9988 HK) and Pinduoduo (PDD US). Overall, it is trading at discounts to peers on a core P/E basis. In our view, this is due to its smaller operation and narrower product selection than peers. Its undemanding valuation could imply potential re-rating in the medium term given the Group's ongoing margin expansion.

#### Exhibit 33: Peer valuation

		Market cap# (USD mn)	Price (Lcy)	P/sales			Core P/E*		
				<u>2019</u>	<u>2020E</u>	<u>2021E</u>	<u>2019</u>	<u>2020E</u>	<u>2021E</u>
Business model- platform based									
BABA US	Alibaba	678,445	US\$248.1	9.3	7.3	5.8	33.6	29.3	23.2
3690 HK	Meituan-B	146,668	HK\$218.0	11.7	11.0	7.3	245.4	321.5	73.3
PDD US	Pinduoduo-A	56,339	US\$87.5	23.5	15.4	9.5	NA	NA	121.3
Average				14.9	11.2	7.5	139.5	175.4	72.6
Business model – direct sales									
JD US	JD.com	98,134	US\$61.5	1.1	0.9	0.8	59.4	50.9	34.1
VIPS US	VIP Shop -A	13,052	US\$22.1	1.1	1.1	1.0	21.3	16.5	14.3
Average				1.1	1.0	0.9	40.3	33.7	24.2

\*Excluding share-based compensation, impairments, fair value changes of investment, etc.

# All-share market cap for Alibaba and JD

Source(s): Bloomberg, ABCI Securities estimates

#### Exhibit 34: TP changes (US\$ per share)

Old	New	Methodology -old	Methodology -new
25	28	DCF -12% WACC	DCF -11% WACC

Source(s): ABCI Securities estimates



## Financial forecast

### Consolidated income statement (2018A-2021E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E
<b>Total revenue</b>	<b>84,524</b>	<b>92,994</b>	<b>96,186</b>	<b>104,486</b>
Cost of sales	(67,455)	(72,314)	(75,025)	(81,499)
<b>Gross profit</b>	<b>17,069</b>	<b>20,680</b>	<b>21,161</b>	<b>22,987</b>
Fulfillment	(7,489)	(7,318)	(7,083)	(7,590)
Marketing	(3,241)	(3,324)	(3,031)	(3,188)
R&D	(2,001)	(1,568)	(1,407)	(1,528)
General and admin	(2,674)	(4,064)	(3,870)	(3,681)
Others, net	757	367	667	724
<b>Operating Profits</b>	<b>2,421</b>	<b>4,773</b>	<b>6,438</b>	<b>7,725</b>
Interest income	243	217	220	230
Interest expenses	(160)	(86)	(70)	(75)
Investment and FX gain	243	38	50	50
Share of results of investee	(47)	27	30	30
<b>PBT</b>	<b>2,700</b>	<b>4,970</b>	<b>6,668</b>	<b>7,960</b>
Tax	(566)	(984)	(1,200)	(1,592)
<b>PAT</b>	<b>2,133</b>	<b>3,986</b>	<b>5,468</b>	<b>6,368</b>
Minority interests	(5)	30	42	49
<b>Net income</b>	<b>2,129</b>	<b>4,017</b>	<b>5,509</b>	<b>6,416</b>
Share-based compensation	671	688	962	1,045
Other non-core items	(81)	308	0	0
<b>Core net income</b>	<b>2,719</b>	<b>5,013</b>	<b>6,471</b>	<b>7,461</b>
<b>Growth</b>				
Total revenue (%)	15.9	10.0	3.4	8.6
Gross Profits (%)	4.8	21.2	2.3	8.6
Operating Profits (%)	(10.0)	97.1	34.9	20.0
Net profit (%)	9.2	88.7	37.2	16.5
Core net profit (%)	(6.9)	84.4	29.1	15.3
<b>Operating performance</b>				
Operating margin (%)	2.9	5.1	6.7	7.4
Net margin (%)	2.5	4.3	5.7	6.1
Core net margin (%)	3.2	5.4	6.7	7.1
ROAE (%)	24.7	20.4	21.6	19.8
ROAA (%)	9.8	8.7	10.8	10.8

Note. Individual items may not sum to total due to rounding

Source(s): The Company, ABCI Securities estimates



Consolidated balance sheet (2018A-2021E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E
Fixed assets	12,593	16,899	20,999	25,099
Investments	2,139	5,116	5,116	5,116
Other non-current assets	1,505	3,539	3,539	3,539
<b>Total non-current assets</b>	<b>16,237</b>	<b>25,554</b>	<b>29,654</b>	<b>33,754</b>
Cash & equivalents	9,540	6,574	9,496	13,404
Restricted cash	498	1,146	1,146	1,146
Short-term investments	2,321	3,053	3,053	3,053
Account receivables	5,675	1,296	1,296	1,296
Inventories	5,368	7,708	5,763	8,871
Other current assets	3,923	3,252	3,252	3,252
<b>Total current assets</b>	<b>27,325</b>	<b>23,029</b>	<b>24,006</b>	<b>31,022</b>
<b>Total assets</b>	<b>43,562</b>	<b>48,583</b>	<b>53,660</b>	<b>64,776</b>
Advance from customer	1,473	1,233	1,233	1,233
Account payables	11,630	13,792	12,398	16,052
Borrowings and notes	6,639	1,094	1,094	1,094
Other current liabilities	6,203	7,807	7,807	7,807
<b>Total current liabilities</b>	<b>25,945</b>	<b>23,926</b>	<b>22,532</b>	<b>26,186</b>
Long term debt	-	65	65	65
Other non-current liabilities	406	2,343	2,343	2,343
<b>Total non-current liabilities</b>	<b>406</b>	<b>2,407</b>	<b>2,407</b>	<b>2,407</b>
<b>Total liabilities</b>	<b>26,351</b>	<b>26,333</b>	<b>24,939</b>	<b>28,593</b>
Equity attributable to shareholders	17,262	21,827	28,257	35,669
Non-controlling interests	(51)	423	464	513
<b>Total equity</b>	<b>17,211</b>	<b>22,250</b>	<b>28,721</b>	<b>36,182</b>

Note. Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): The Company, ABCI Securities estimates

Consolidated cash flow statement (2018A-2021E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E
<b>Operating cash flow</b>	<b>5,746</b>	<b>12,290</b>	<b>7,922</b>	<b>8,908</b>
<b>Investing cash flow</b>	<b>(6,694)</b>	<b>(8,240)</b>	<b>(5,000)</b>	<b>(5,000)</b>
<b>Financing cash flow</b>	<b>587</b>	<b>(6,257)</b>	<b>-</b>	<b>-</b>
FX effect	178	(112)	-	-
<b>Net cash flows</b>	<b>(184)</b>	<b>(2,319)</b>	<b>2,922</b>	<b>3,908</b>

Note. Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): The Company, ABCI Securities estimates



## Industry and company risk factors

### Loss-making business

Selected ecommerce platform such as Pinduoduo reported net losses in recent years. The current business model may not be sustainable in the long run without a turnaround in coming years. In such case, our forecast and valuation method cannot be justified. The counter may not be suitable to prudent investors who prefer to invest in companies operating with a profitable business model.

### Market competition

Overall, the ecommerce industry is a competitive one. The competition will be on commission rate, promotion discount, brand advertising, technological investment, and more.

### Slowing ecommerce consumption

As the industry is dependent on consumer spending, any significant slowdown of consumption in China would hamper performance. In the long term, we believe consumption growth in domestic market would converge with income growth, which is usually in line with GDP growth.

### Non-GAAP financials

E-commerce platforms generally disclosed the non-GAAP financial metrics, such as the non-GAAP net profit, to supplement its GAAP financial measures. Historically, there were differences between its GAAP net profit and non-GAAP net profit due to inclusion of items such as share-based compensation and other non-core items in the former.

Among these items, share-based compensation expense is related to various factors including price movement of ordinary shares, expected volatility, risk-free interest rate, etc.

While investors tend to exclude these items when performing analysis given their non-cash nature, we believe these non-GAAP financial measures should only serve as a reference.



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Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Note. Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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