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ABCI SECURITIES COMPANY LIMITED

China Ecommerce Sector Structural boost in the post-pandemic era

Oct 8, 2020

China Ecommerce Sector
Structural boost in the post-pandemic era

- China's e-commerce sector has recovered strongly since 2Q20 , with the momentum extending to 3Q20
- The shift to online consumption provides a structural boost in the post-pandemic era
- We like **Alibaba (BABA US/9988 HK)** for its dominant position in ecommerce, **JD (JD US/9618 HK)** for its supply chain prowess, and **Meituan (3690 HK)** for its leading position in consumer service ecommerce

Sector Report
OVERWEIGHT
Oct 8, 2020

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Impressive post-COVID recovery. The China ecommerce sector has been recovering since 2Q20 after a temporary slowdown in 1Q20 amid COVID-19 outbreak. The robust momentum has carried into 3Q20, with China's online sales of physical goods increasing by 15.8% YoY in 8M20 vs. 14.3% YoY in 1H20. In addition, the express delivery industry (downstream industry of the ecommerce industry) also reported robust volume growth of 32.2%/36.5% YoY in July/Aug 2020.

Structural boost in the post-pandemic era. In our view, the pandemic in 1Q20 has prompted more consumers to shop online, especially for groceries and food products. In our view, such changes in consumer behavior are structural and likely to persist in the post-pandemic era. The average monthly growth in the express delivery industry has accelerated to about 36% YoY between Apr-Aug in 2020, which was ~10ppt higher than the pre-pandemic growth at 26% YoY in 2019.

Online shopping penetration rate has been rising rapidly. Penetration rate of online shopping (online sales of physical goods/total retail sales) increased by 3.5ppt to 18.4% in 2018 and 2.3ppt to 20.7% in 2019. In 8M20, the penetration rate was up 3.9ppt to 24.6% in 8M20, as compared to 20.7% (+2.3ppt) in 2019. Assuming the current run-rate to continue in coming months, the full-year figure could potentially increase by 5.8ppt, the highest in recent years, to 26.5% for 2020E.

A sector with prospects. We maintain our positive view on China's ecommerce sector. Among the listed ecommerce platforms, we continue to prefer **Alibaba** for its dominant position in ecommerce, **JD** for its supply chain prowess, and **Meituan** for its leading position in consumer service ecommerce.

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$351	8.8	6.9	35.0	27.7
Alibaba - SW	9988 HK	BUY	HK$340	8.8	6.9	37.5	29.7
Meituan-W	3690 HK	BUY	HK$330	13.2	9.0	309.7	85.6
Pinduoduo	PDD US	BUY	US$113	13.1	8.1	NA	103.7
JD -ADR	JD US	BUY	US$93	1.2	1.0	64.7	43.3
JD - SW	9618 HK	BUY	HK$360	1.2	1.0	65.2	43.7
VIP SHOP	VIPS US	BUY	US$22	0.8	0.7	11.4	9.9

*Excluding share-based compensation, impairments, fair value changes of investment, etc.
Source(s): ABCI Securities estimates

Content

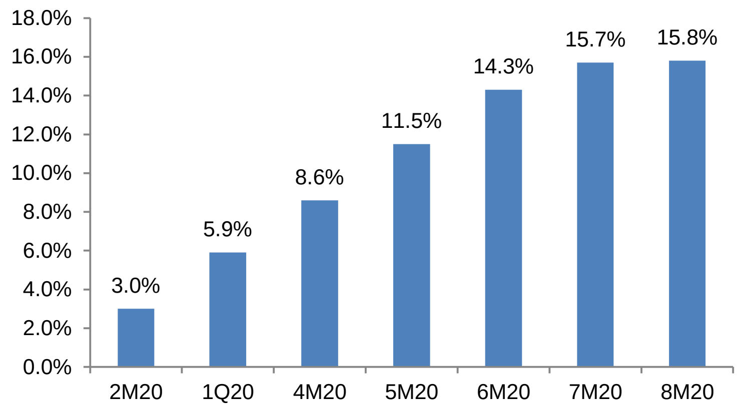
A broad-based recovery 4
Structural boost in the post-pandemic era 6
Alibaba (BABA US/9988 HK) 8
JD.com (JD US/9618 HK) 14
Meituan Dianping-W (3690 HK) 21
Pinduoduo (PDD US) 27
VIPSHOP (VIP US) 33
Risk factors 38

A broad-based recovery

The China ecommerce sector has sustained its momentum in 3Q20 after posting a strong recovery in 2Q20.

Online sales of physical goods in China increased by 15.8% YoY in 8M20 vs. 14.3% YoY in 1H20 and 5.9% YoY in 1Q20, indicating an ongoing improvement. In particular, after the success of "618 shopping festival", major ecommerce platforms, including Alibaba and JD, have launched another major promotion campaign in Aug (818 shopping festival), which boosted the overall sales in the ecommerce sector.

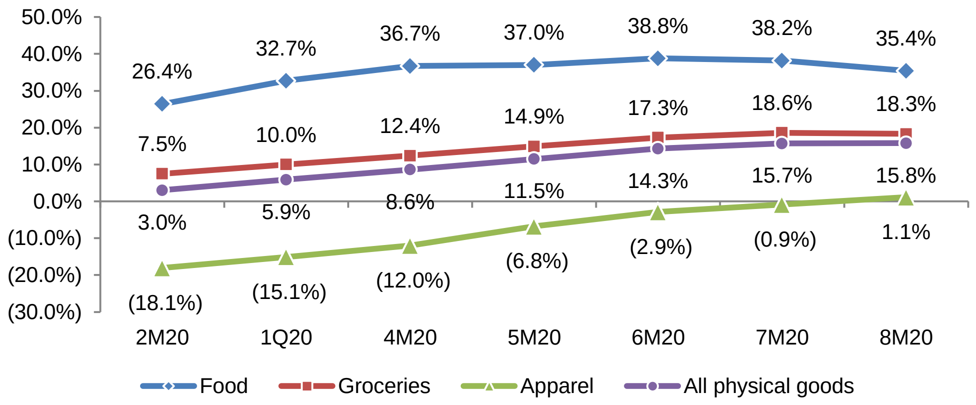
Exhibit 1: China's online sales of physical goods



Source(s): NBS, ABCI Securities

By product category, food product continued to be the outperformer, followed by groceries. In addition, growth in apparel online sales has returned to the positive territory in 8M20 after suffering from negative growth in recent months, illustrating the recovery is broad-based.

Exhibit 2: China online sales of physical goods by product

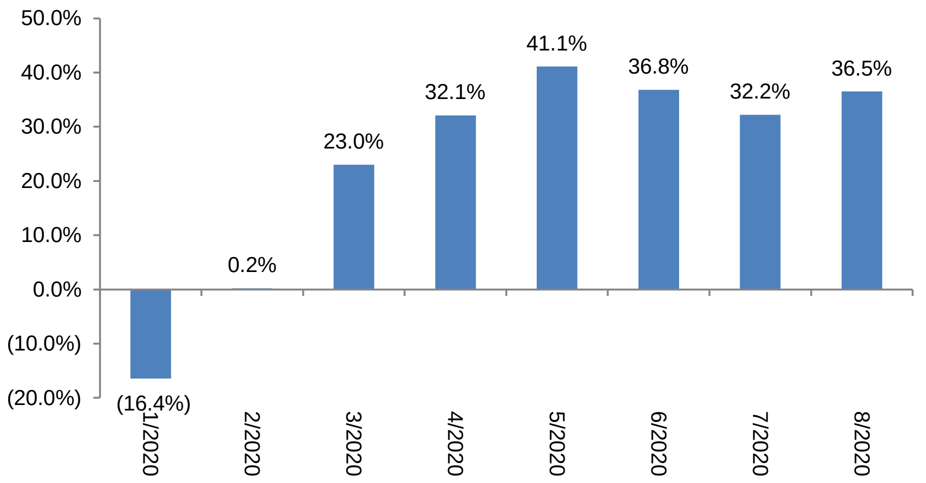


Source(s): NBS, ABCI Securities

The express delivery industry (the downstream industry of the ecommerce industry) is also moving forward with strength. According to the State Post Bureau, volume growth in the express delivery industry continued to exceed 30% YoY during Apr-Aug 2020. In particular, during the "818 shopping festival" period, volume growth of express delivery accelerated to 36.5% YoY in Aug 2020 vs. 32.2% YoY in July 2020.

Based on the stellar performance in the ecommerce industry in the past few months, we are optimistic on the upcoming annual Double 11 shopping festival in Nov, which is the largest annual sales event in the ecommerce industry.

Exhibit 3: China's express delivery volume growth



Source(s): State Post Bureau, ABCI Securities

Structural boost in the post-pandemic era

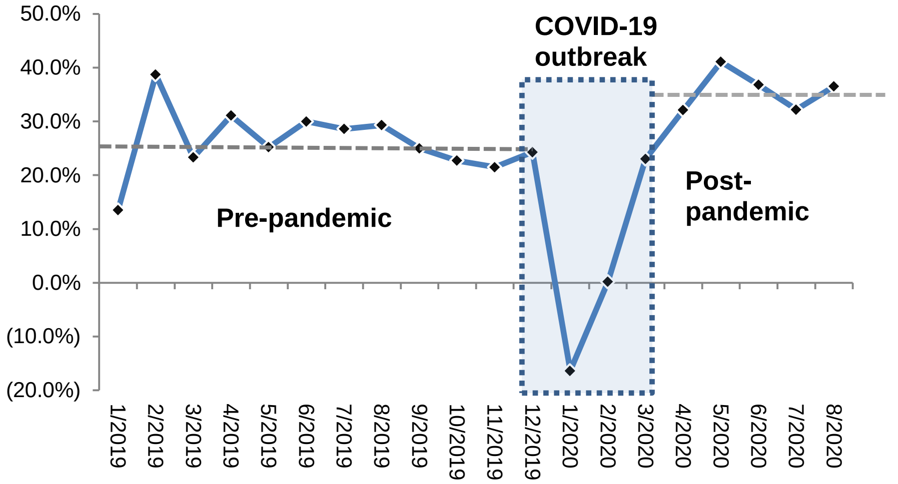
In our view, the COVID-19 outbreak in 1Q20, which led to the temporary closure of physical shops and cut-off in local transportation, has prompted more consumers to shop online, especially for groceries and food products. In our view, such changes in consumer behavior could deliver a structural boost to the ecommerce industry in the post-pandemic era. The view is substantiated by the trend of volume growth the express delivery industry (the downstream industry of the ecommerce sector). Volume change in the express delivery industry is often used as a proxy to indicate the general health of the ecommerce industry.

Pre-pandemic (2019): In 2019, the monthly volume growth in the express delivery industry averaged at 26% YoY.

COVID-19 outbreak (1Q20): The express delivery industry was heavily impacted by the COVID-19 outbreak during 1Q20 due to cut-off in local transportation.

Post-pandemic (2Q20 onwards): The express delivery industry experienced a speedy recovery in line with the ecommerce industry, with the average monthly volume growth accelerating to about 36% YoY in during Apr-Aug, 10ppt higher than the pre-pandemic growth rate. In our view, this represents a shift in consumer behavior to online shopping.

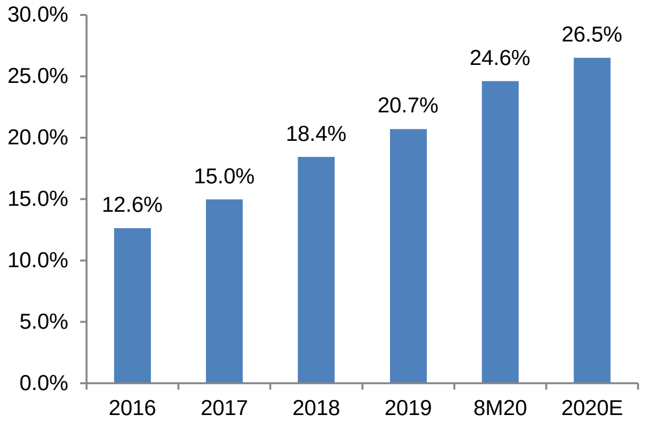
Exhibit 4: Volume growth in China's express delivery



Source(s): State Post Bureau, ABCI Securities

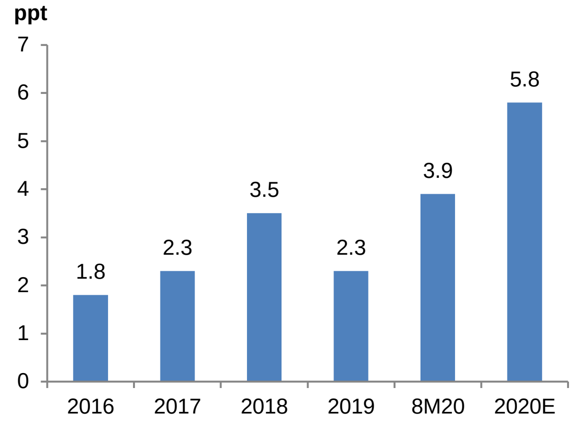
In addition, the online shopping penetration rate (online sales of physical goods/total retail sales) has been rising rapidly. Penetration rate of online shopping increased by 3.5ppt to 18.4% in 2018 and 2.3ppt to 20.7% in 2019. In 8M20, the penetration rate was up 3.9ppt to 24.6% in 8M20, indicating an accelerating shift to online consumption. Assuming the current run-rate to continue in coming months, the full-year figure could potentially increase by 5.8ppt, the highest in recent years, to 26.5% for 2020.

Exhibit 5: Online shopping penetration rate



Source(s): NBS, ABCI Securities estimates

Exhibit 6: Online shopping penetration rate – increment



Source(s): NBS, ABCI Securities estimates

Alibaba (BABA US/9988 HK)
King of ecommerce

- Leading position in the ecommerce market; business transformation from online distribution platform to technology enabler for online merchants is in good progression
- Upbeat 2Q20 results with 34% YoY revenue growth and 23% YoY core net profit growth
- We continue to view Alibaba as one of our top picks in the ecommerce sector

Company Report

Oct 8, 2020

Rating (SW-share): BUY
TP (SW-share): HK$ 340
Rating (ADR): BUY
TP (ADR): US$ 351

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More than a retail platform. 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). 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 with reducing reliance on the retail business. E.g., its China retail revenue accounted for 65% of total revenue in FY20 vs. 78% in FY15. Revenue contribution from emerging businesses, such as consumer services and cloud computing, has been rising.

2Q20 review. 2Q20 revenue grew by 34 % YoY to RMB 154bn, indicating a sequential improvement (1Q20: 22%). In particular, core commerce revenue growth has accelerated to 34% YoY in 2Q20 vs. 19% YoY in 1Q20 indicating consumption shifting online in the post COVID-19 era. Core net profit grew by 23% YoY to RMB 40.6bn with core net margin improving to 26% in 2Q20 vs. 22 % in 1Q20, thanks to the better economies of scale.

Business 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 higher user spending. Revenue would increase at 27% CAGR in FY3/20-22E while core net margin (excl. impacts of share-based compensation and other non-operating items) would be 24.9% for 2022E. We estimate FY20E-22E core net profit CAGR to be 20%

Valuation and recommendation. We maintain **BUY** on Alibaba and raise our TP for Alibaba-SW (9988 HK) to HK$ 340 and TP for Alibaba-ADR (BABA US) to US$ 351. We continue to view Alibaba as one of our top picks in the ecommerce sector given its leading market position.

Price (ADR/SW-share)	US$296.5/ HK$288.2
Est. share price return (ADR/SW-share)	18.4%/18.0%
Est. dividend yield (ADR/SW-share)	NA/NA
Est. total return (ADR/SW-share)	18.4%/18.0%
Last Rating &TP (ADR/SW-share)	BUY, US$310/ BUY, HK$300
Previous Report Date	Aug 12, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK$) (SW-share)	292.0/167.6
52Wk H/L (US$) (ADR)	299.0/161.7
Issued shares (mn)	21,645
Market cap (HK$ mn) (all share)	6,238,089
3-mth avg daily turnover (HK$ mn) (SW-share)	7,161
3-mth avg daily turnover (US$ mn) (ADR)	3,639
Major shareholder(s) (%):	
Softbank	25.1%
Jack Ma	6.0%
Joseph Tsai	1.9%

Source(s): Bloomberg, HKEX, Company

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*	54.8	40.1	35.0	27.7
Core P/E (x)-SW share*	55.6	38.7	37.5	29.7
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

Financial outlook

We maintain our financial forecast. 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 7: 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 8: 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
Core commerce	**323,400**	**436,104**	**538,101**	**661,760**
Cloud computing	24,702	40,016	64,026	102,441
Digital media/ Innovation initiatives	28,742	33,591	44,333	58,562
Total revenue	**376,844**	**509,711**	**646,459**	**822,764**

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 contributions.

Product development expense: Non-GAAP product development expenses/sales ratio has remained largely stable at ~6% in recent years. 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.
We expect core net margin (excl. impacts of share-based compensation and other non-operating items) to be 24.9% for 2022E. This would result in a net profit CAGR of 20% for FY20E-22E.

Exhibit 9: 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
Total	**282,269**	**386,539**	**493,895**	**623,655**
% of revenue				
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%
Total	**74.9%**	**75.8%**	**76.4%**	**75.8%**

Note. Excluding impacts of share-based compensation and other non-operating items
Source(s): Group , 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 28x-32x on its FY3/22E core profit. For its strategic investments, we refer to the latest the book value and our estimation.

The SOTP approach results in a valuation range of HK$ 314-HK$ 353 for Alibaba-SW (9988 HK).

Alibaba-SW (9988 HK): We set our TP at HK$ 340

Alibaba-ADR (BABA US): Based on our TP of Alibaba-SW, we set the corresponding TP of Alibaba-ADR to be US$ 351 (1 ADR represents 8 shares).

Overall, our valuation range implies a wide trading range. 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 10: SOTP valuation range for Alibaba-SW (9988 HK)

(HKD per share)	High	Low	Remarks
Core business	311	272	28-32x FY22E core profit
Strategic investments*	42	42	Latest book value, ABCI Securities estimates
Total	**353**	**314**	

Source(s): ABCI Securities estimates

*Including HK$27 per share for 33% stakes of Ant Group based on US$ 230bn valuation (100%) implying 13.2x 2019 P/S

Exhibit 11: TP change for Alibaba-SW (9988 HK)

(HKD per share)	Old	New	Methodology -old	Methodology -new
TP	**300**	**340**	27x FY22E core profit	30x FY22E core profit

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 (JD US/9618 HK) and Pinduoduo (PDD US). 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 12: 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	804,915	**US$ 269.5**	11.0	8.6	6.8	39.6	34.5	27.3
3690 HK	Meituan-B	177,785	**HK$ 267.8**	14.4	13.2	9.0	301.5	309.7	85.6
PDD US	Pinduoduo-A	48,162	**US$ 74.8**	20.1	13.1	8.1	NA	NA	103.7
		Average		**15.2**	**11.7**	**7.9**	**170.5**	**172.1**	**72.2**
Business model – direct sales									
JD US	JD.com	123,254	**US$ 78.1**	1.4	1.2	1.0	75.5	64.7	43.3
VIPS US	VIP Shop -A	9,073	**US$ 15.3**	0.8	0.8	0.7	14.7	11.4	9.9
		Average		**1.1**	**1.0**	**0.9**	**45.1**	**38.0**	**26.6**

*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
Total revenue	**376,844**	**509,711**	**646,459**	**822,764**
Cost of sales	(206,929)	(282,367)	(365,991)	(469,601)
Gross profit	**169,915**	**227,344**	**280,468**	**353,163**
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)
Operating Profits	**57,084**	**91,430**	**107,312**	**125,060**
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
Profit before tax	**96,787**	**160,912**	**117,162**	**152,910**
Tax	(16,553)	(20,562)	(19,918)	(35,169)
Profit after tax	**80,234**	**140,350**	**97,245**	**117,741**
Minority interests	7,652	9,083	9,724	11,774
Accretion of mezzanine equity	(286)	(170)	(180)	(218)
Profits attributable to ordinary shareholders	**87,600**	**149,263**	**106,789**	**129,297**
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
Non-GAAP profits attributable to ordinary shareholders (Core net profit)	**100,731**	**141,344**	**162,090**	**204,955**
Growth				
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
Operating performance				
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
Total non-current assets	**694,803**	**850,062**	**900,493**	**947,402**
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
Total current assets	**270,273**	**462,923**	**596,872**	**807,687**
Total assets	**965,076**	**1,312,985**	**1,497,366**	**1,755,088**
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
Total current liabilities	**207,669**	**241,872**	**283,756**	**349,689**
Borrowings and notes	111,834	120,276	120,276	120,276
Other non-current liabilities	30,171	71,186	71,186	71,186
Total non-current liabilities	**142,005**	**191,462**	**191,462**	**191,462**
Total liabilities	**349,674**	**433,334**	**475,218**	**541,151**
Net current assets	**62,604**	**221,051**	**313,116**	**457,998**
Mezzanine equity	6,819	9,103	9,283	9,501
Equity attributable to shareholders	492,257	755,401	907,442	1,110,787
Non-controlling interests	116,326	115,147	105,423	93,648
Total equity	**608,583**	**870,548**	**1,012,864**	**1,204,436**

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
Operating cash flow	**150,975**	**185,737**	**193,949**	**270,815**
Investing cash flow	**(151,060)**	**(60,000)**	**(60,000)**	**(60,000)**
Financing cash flow	**(7,392)**	**-**	**-**	**-**
Net cash flows	**(7,477)**	**125,737**	**133,949**	**210,815**

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)
Strengths in supply chain

- 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** with a revised TP of US$ 93 for JD-ADR (JD US) and HK$ 360 for JD-SW (9618 HK)

Company Report
Oct 8, 2020
Rating (ADR): BUY
TP (ADR): US$ 93
Rating (SW-share): BUY
TP (SW-share): HK$360

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Price (ADR/SW-share)	US$ 78.1/ HK$305.2.0
Est. share price return (ADR/SW-share)	19.0%/18.1%
Est. dividend yield (ADR/SW-share)	NA/NA
Est. total return (ADR/SW-share)	19.0%/18.1%
Last Rating &TP (ADR/SW-share)	BUY, US$ 77/ BUY, HK$298
Previous Report Date	Aug 12, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK$) (SW-share)	337.2/226.0
52Wk H/L (US$) (ADR)	86.5/27.7
Issued shares (mn)	3,130
Market cap (HK$ mn) (all share)	955,215
3-mth avg daily turnover (HK$ mn) (SW-share)	1,420.4
3-mth avg daily turnover (US$ mn) (ADR)	865.9
Major shareholder(s)	Voting right
Richard Liu	79.0%
Walmart	2.5%

Source(s): Bloomberg, HKEX, Company

A premium online retailer with superior supply chain capabilities. We reiterate our long-term positive view on JD. The Group's direct sales business model, superb quality control, and robust in-house logistic infrastructure form its core competitive edge, allowing it to enjoy a leading market position in online sales of consumer electronics and home appliance products. Similar success has been replicated for various F&B products. We attribute JD's robust performance to its in-house business model with self-owned inventories and logistic network, which enables a more reliable supply chain than other ecommerce players during the COVID-19 outbreak.

2Q20 review. In 2Q20, revenue growth accelerated to 34% YoY vs. 21% YoY in 1Q20 driven by 45% YoY sales growth of general merchandize products, indicating improving market position in the non-consumer electronics product category. In addition, core net profit grew by 66% YoY with net core margin improving to 2.9% in 2Q20 (2Q19: 2.4%), thanks to ongoing improvement in operation efficiency.

Margin expansion underway. JD's margin has been expanding in recent quarters, thanks to economies of scale and better utilization of logistic capacity. 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 2.6% in 2021E from 1.9% in 2019.

Maintain BUY. We maintain **BUY** with a revised TP of US$ 93 on **JD-ADR (JD US)** and HK$ 360 on **JD-SW (9618 HK)** for its unique strengths in consumer electronics and home appliances.

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	13,222	19,048
Chg (%,YoY)	*NA*	*NA*	*8.5*	*44.1*
Core net profit (RMB mn)	3,460	10,750	16,293	21,907
Chg (%,YoY)	*NA*	*210.7*	*51.6*	*34.5*
Underlying EPS (RMB)	-1.7	8.2	8.9	12.8
Chg (%,YoY)	*NA*	*NA*	*8.5*	*44.1*
Core EPS (RMB)	2.4	7.2	11.0	14.8
Chg (%,YoY)	*NA*	*204.9*	*51.6*	*34.5*
Core P/E (x)- ADR	230.1	75.5	64.7	43.3
Core P/E (x)-SW share	232.0	76.1	65.2	43.7
ROAE (%)	-4.4	16.7	14.2	16.9
ROAA (%)	-1.3	5.2	4.6	5.6

*1 ADR = 2 ordinary shares
Source (s): Bloomberg, ABCI Securities estimates

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 higher user 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 13: 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 14: Revenue forecasts (RMB mn)

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

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 2.6% by 2021E from 1.9% in 2019. Core net profit would increase at 43% CAGR for 2019-21E.

Exhibit 15: Non-GAAP cost trend (RMB mn)

	2017	2018	2019	2020E	2021E
COGS	311,490	395,994	492,385	602,941	718,004
Fulfillment expenses	25,275	31,423	36,363	44,741	51,649
Marketing expenses	13,560	17,815	21,338	24,856	29,635
Technology & content expenses	5,927	10,883	13,180	14,204	16,934
General & admin expenses	2,387	3,036	3,609	3,551	3,387
Total	**358,639**	**459,151**	**566,874**	**690,293**	**819,608**
% of revenue					
COGS	*86.0%*	*85.7%*	*85.4%*	*84.9%*	*84.8%*
Fulfillment expenses	*7.0%*	*6.8%*	*6.3%*	*6.3%*	*6.1%*
Marketing expenses	*3.7%*	*3.9%*	*3.7%*	*3.5%*	*3.5%*
Technology & content expenses	*1.6%*	*2.4%*	*2.3%*	*2.0%*	*2.0%*
General & admin expenses	*0.7%*	*0.7%*	*0.6%*	*0.5%*	*0.4%*
Total	***99.0%***	***99.4%***	***98.3%***	***97.2%***	***96.8%***

Note: Excl. impacts of share-based compensation and other non-operating items
Source(s): the Group , ABCI Securities estimates

Exhibit 16: Forecast changes for 2020E

	2020E			Comment
(RMB mn)	old	new	Diff	
Revenues	710,178	710,178	0%	
Net income	10,163	13,222	30%	
Core profit	13,234	16,293	23%	Operational improvement

Source(s): ABCI Securities estimates

Exhibit 17: Forecast changes for 2021E

	2021E			Comment
(RMB mn)	old	new	Diff	
Revenues	846,703	846,703	0%	
Net income	16,900	19,048	13%	
Core profit	19,760	21,907	11%	Operational improvement

Source(s): ABCI Securities estimates

Valuation and TP

We derive JD's valuation range based on the SOTP approach. For JD's core business, we apply the DCF method with a WACC of 7%-10%. For strategic investments, we refer to the latest the book value and our estimates. The SOTP approach yields a valuation range of US$ 85.7- 110.5 for JD-ADR (JD US).

JD-ADR (JD US): We set our TP at US$93.

JD-SW (9618 HK): Based on our TP of JD-ADR, we determine TP of JD-SW to be HK$ 360 (1 ADR represents 2 shares).

Overall, our valuation range implies a wide trading range. 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 18: SOTP-based valuation range (US$ per ADR)

Segment	Low	High	Comment
Core business	74.2	94.0	DCF –from 7% to 10% WACC
Investments*	11.5	11.5	Book value/ABCI Securities estimates
Overall	**85.7**	**110.5**	

Source(s): ABCI Securities estimates

*Including US$ 6.9 per ADR for 36.8% stakes of JD Digits based on US$ 27.8bn gross valuation (100%), implying 10x 2019 P/S

Exhibit 19: TP changes (US$ per share)

Old	New	Methodology -old	Methodology -new
77.0	**93.0**	DCF –9% WACC for core business	DCF -8.5% WACC for core business

Source(s): ABCI Securities estimates

Peer valuation analysis

JD's comparables are major online ecommerce platforms – Alibaba (BABA US/ 9988 HK), Pinduoduo (PDD US), and VIP Shop (CIPS US). 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 20: 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	804,915	**US$ 269.5**	11.0	8.6	6.8	39.6	34.5	27.3
3690 HK	Meituan-B	177,785	**HK$ 267.8**	14.4	13.2	9.0	301.5	309.7	85.6
PDD US	Pinduoduo-A	48,162	**US$ 74.8**	20.1	13.1	8.1	NA	NA	103.7
		Average		**15.2**	**11.7**	**7.9**	**170.5**	**172.1**	**72.2**
Business model – direct sales									
JD US	JD.com	123,254	**US$ 78.1**	1.4	1.2	1.0	75.5	64.7	43.3
VIPS US	VIP Shop -A	9,073	**US$ 15.3**	0.8	0.8	0.7	14.7	11.4	9.9
		Average		**1.1**	**1.0**	**0.9**	**45.1**	**38.0**	**26.6**

*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
Total revenue	**462,019**	**576,888**	**710,178**	**846,703**
Cost of sales	(396,066)	(492,467)	-602,962	-718,023
Gross profit	**65,953**	**84,421**	**107,215**	**128,680**
Fulfillment expenses	(32,010)	(36,968)	-45,207	-52,098
Marketing expenses	(19,237)	(22,234)	-25,939	-30,892
Technology & content expenses	(12,144)	(14,619)	-14,775	-17,455
General & admin expenses	(5,182)	(5,490)	-4,993	-4,727
Gains on disposal	0	3,885	0	0
Operating Profits	**(2,619)**	**8,995**	**16,301**	**23,508**
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
PBT	**(2,374)**	**13,693**	**15,551**	**22,758**
Tax	(427)	(1,802)	-2,579	-3,960
PAT	**(2,801)**	**11,890**	**12,972**	**18,798**
Minority interests	(309)	(293)	-250	-250
Profits attributable to shareholders	**(2,492)**	**12,184**	**13,222**	**19,048**
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
Non-GAAP profits attributable to shareholders	**3,460**	**10,750**	**16,293**	**21,907**
Growth				
Total revenue (%)	27.5	24.9	23.1	19.2
Gross Profits (%)	29.8	28.0	27.0	20.0
Operating Profits (%)	213.8	NA	81.2	44.2
Net profit (%)	NA	NA	8.5	44.1
Non-GAAP net profit (%)	(30.4)	210.7	51.6	34.5
Operating performance				
Operating margin (%)	(0.6)	1.6	2.3	2.8
Net margin (%)	(0.5)	2.1	1.9	2.2
Core net margin (%)	0.7	1.9	2.3	2.6
ROAE (%)	(4.4)	16.7	14.2	16.9
ROAA (%)	(1.3)	5.2	4.6	5.6

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
Total non-current assets	**104,309**	**120,629**	**140,029**	**159,429**
Cash & equivalents	37,502	39,912	44,221	53,423
Short-term investments and investment securities	2,036	24,603	24,603	24,603
Inventories	44,030	57,932	68,334	81,374
Account receivables	11,110	6,191	27,240	32,476
Other current assets	10,178	10,457	10,457	10,457
Total current assets	**104,855**	**139,094**	**174,854**	**202,333**
Total assets	**209,164**	**259,723**	**314,883**	**361,762**
Account payables	93,003	106,507	144,931	169,520
Borrowings and notes	4,545	0	0	0
Other current liabilities	23,314	33,510	33,510	33,510
Total current liabilities	**120,862**	**140,017**	**178,441**	**203,029**
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
Total non-current liabilities	**11,474**	**19,082**	**19,082**	**19,082**
Total liabilities	**132,336**	**159,099**	**197,523**	**222,111**
Mezzanine equity	**15,961**	**15,964**	**15,961**	**15,961**
Equity attributable to shareholders	59,771	81,856	98,841	121,382
Non-controlling interests	1,096	2,804	2,554	2,304
Total equity	**60,866**	**84,660**	**101,395**	**123,686**

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
Operating cash flow	**20,881**	**24,782**	**29,308**	**34,202**
Investing cash flow	**(26,078)**	**(25,349)**	**-25,000**	**-25,000**
Financing cash flow	**11,220**	**2,573**	**-**	**-**
Effective of FX	1,681	405	-	-
Net cash flows	**7,704**	**2,410**	**4,308**	**9,202**

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 in consumer service ecommerce
- Improving business environment for food delivery services
- We expect GTV growth to slow to 3% YoY in 2020E due to the pandemic before rebounding by 48% in 2021E on low base and normalized business situation.
- Maintain **BUY** with a revised TP of HK$ 330

Company Report
Oct 8, 2020
Rating: BUY
TP: HK$330

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

Share price (HK$)	267.8
Est. share price return	23.2%
Est. dividend yield	NA
Est. total return	23.2%
Previous Rating &TP	BUY/HK$250
Previous Report Date	Aug 12, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK$)	280.0/70.1
Issued shares (mn)	5,881
of which:	
Listed B shares (mm)	5,145
Unlisted shares (mm)	736
B share market cap (HK$ mn)	1,377,831
Avg daily turnover (HK$ mn)	5,420
Major shareholder(s)	Voting right
Wang Xing	49.1%
Mu Rongjun	10.8%

Source(s): Bloomberg, HKEX, Company

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, with a substantial user base with 457mn annual transaction users in 2Q20. In 2019, the Group generated RMB 393bn in gross transaction value (GTV) from food delivery.

2Q20 review. In 2Q20, revenue resumed an 8.9% YoY growth after the 12.6% YoY decline in 1Q20 amid ongoing business recovery in the post-pandemic era. In addition, after posting a net core net loss of RMB 216mn in 1Q20, the Group reported RMB 2.7bn in core net profit for 2Q20 with a core net margin of 11.0% vs. 6.6% in 2Q19. We expect sequential improvement in coming quarters especially for the food delivery business.

Business outlook. We expect GTV growth to slow to 4% YoY in 2020E due to the pandemic before rebounding by 45% in 2021E on low base and normalized business. Similarly, we expect revenue to slow to 10% YoY in 2020E before leaping by 48% YoY jump in 2021E.

Maintain BUY. We maintain our BUY call on the counter with a revised SOTP-based TP of HK$ 330.

Results and Valuation

FY end Dec 31	2018A	2019A	2020E	2021E
Revenue (RMB mn)	65,227	97,528	107,122	158,159
Chg (%,YoY)	*92.3*	*49.5*	*9.8*	*47.6*
Net profit (RMB mn)	-115,477	2,239	2,900	13,721
Chg (%,YoY)	*NA*	*NA*	*NA*	*373.1*
Core net profit (RMB mn)*	-8,346	4,657	4,573	16,547
Chg (%,YoY)	*NA*	*NA*	*(1.8)*	*261.9*
Underlying EPS (RMB)	-42.41	0.39	0.50	2.36
Chg (%,YoY)	*NA*	*NA*	*28.4*	*373.1*
Core EPS (RMB)*	-3.06	0.81	0.79	2.84
Chg (%,YoY)	*NA*	*NA*	*-2.6*	*261.9*
P/S (x)	10.2	14.4	13.2	9.0
Core P/E (x)*	NA	301.5	309.7	85.6
ROAE (%)	NA	2.5	3.1	13.5
ROAA (%)	NA	1.8	2.2	9.5

*Excl. share-based compensation, amortization, impairment, etc.
Source(s): Bloomberg, ABCI Securities estimates

Financial analysis

We expect GTV growth to slow to 4% YoY in 2020E due to the COVID-19 outbreak, to be followed by a 45% growth in 2021E due to the low base expected for 2020E and normalized business situation in 2021E.

Exhibit 21: 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 9.8% YoY for 2020E before accelerating to 47.6% YoY for 2021E. Among major business segments, we expect food delivery revenue to increase by 15% YoY in 2020E, to be followed by a 50% 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 22: GTV and revenue forecasts

	2018	2019	2020E	2021E
Gross transaction volume (RMB bn)	**516**	**682**	**713**	**1,036**
Food delivery	283	393	460	678
In-store, hotel and travel	177	222	176	251
New initiatives and others	56	67	76	107
Revenue (RMB mn)	**65,227**	**97,528**	**107,122**	**158,159**
Food delivery	38,143	54,843	63,157	94,974
In-store, hotel and travel	15,840	22,275	20,891	30,088
New initiatives and others	11,244	20,410	23,074	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 the food delivery and the new initiatives segments. Looking forward, we expect gross margin to drop to 31.1% 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 drop to 3.6% by 2021E vs. 4.6% in 2019.

Based on the above assumptions, we expect core net profit to drop by 1.8% YoY to RMB4.6bn for 2020E on pandemic-related disruptions. For 2021E, we expect core net profit to recuperate to RMB 16.5bn, with a core net margin of 10.5%.

Exhibit 23: Forecast changes in 2020E

	2020E			Comment
(RMB m)	old	new	Diff	
Revenues	105,091	107,122	2%	
Net income	1,935	2,900	50%	
Core profit	3,586	4,573	28%	Lower cost assumptions

Source(s): ABCI Securities estimates

Exhibit 24: Forecast changes for 2021E

	2021E			Comment
(RMB m)	old	new	Diff	
Revenues	158,155	158,159	0%	
Net income	12,892	13,721	6%	
Core profit	15,719	16,547	5%	Lower cost assumptions

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 7%-10%; for 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$ 192.9-HK$ 420.6. We set our TP at HK$330, which warrants a **BUY** rating.

Overall, our valuation range implies a wide trading range. 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 25: SOTP-based valuation range (HK$ per share)

Segment	Low	High	Comment
Food delivery	175.8	397.8	DCF with 7%-10% WACC
In-store/Hotel/Travel	17.1	22.8	15-20x 2021E P/E
Overall	**192.9**	**420.6**	

Source(s): ABCI Securities estimates

Peer valuation analysis

Comparing with other major ecommerce platforms including Alibaba (BABA US/9988 HK) and JD (JD US/9618 HK), MD is trading at a higher valuation in terms of core P/E. In our view, this could due to the fact that MD is still in early stage of profitability and investors tend to focus on its longer-term outlook.

Exhibit 26: 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	804,915	**US$ 269.5**	11.0	8.6	6.8	39.6	34.5	27.3
3690 HK	Meituan-B	177,785	**HK$ 267.8**	14.4	13.2	9.0	301.5	309.7	85.6
PDD US	Pinduoduo-A	48,162	**US$ 74.8**	20.1	13.1	8.1	NA	NA	103.7
		Average		**15.2**	**11.7**	**7.9**	**170.5**	**172.1**	**72.2**
Business model – direct sales									
JD US	JD.com	123,254	**US$ 78.1**	1.4	1.2	1.0	75.5	64.7	43.3
VIPS US	VIP Shop -A	9,073	**US$ 15.3**	0.8	0.8	0.7	14.7	11.4	9.9
		Average		**1.1**	**1.0**	**0.9**	**45.1**	**38.0**	**26.6**

*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 27: TP changes (HK$ per share)

Segment	Old	New	Methodology-old	Methodology-new
Food delivery	229	309	DCF with a 9% WACC	DCF with a 8% WACC
In-store/Hotel/Travel	21	21	17.5x 2021 P/E	17.5x 2021 P/E
Overall	**250**	**330**		

Source(s): ABCI Securities estimates

Financial forecast

Consolidated income statement (FY18A-FY21E)

FY Ended Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E
Total revenue	**65,227**	**97,528**	**107,122**	**158,159**
Cost of sales	(50,122)	(65,208)	-73,826	-107,191
Gross profit	**15,105**	**32,320**	**33,295**	**50,968**
Other gains/losses	2,585	2,609	2,850	2,850
Selling & marketing expenses	(15,872)	(18,819)	-19,239	-22,789
R&D expenses	(7,072)	(8,446)	-8,693	-8,287
General & admin expenses	(5,546)	(4,339)	-4,632	-5,697
Impairment	(286)	(646)	0	0
Operating Profits	**(11,086)**	**2,680**	**3,582**	**17,044**
Finance income, net	249	(25)	-50	-20
Other cost	(104,654)	107	90	110
Profit before tax	**(115,491)**	**2,762**	**3,622**	**17,134**
Tax	2	526	724	3,427
Profit after tax	**(115,493)**	**2,236**	**2,897**	**13,707**
Minority interests	(16)	(3)	-3	-14
Profits attributable to shareholders	**(115,477)**	**2,239**	**2,900**	**13,721**
Share-based compensation	1,865	2,191	1,425	2,590
Amortization and impairment	2,367	751	600	600
Adjustments on disposals/revaluation	102,743	(547)	-350	-350
Other adjustments	157	23	-3	-14
Core profits	**(8,346)**	**4,657**	**4,573**	**16,547**
Growth				
Total revenue (%)	92.3	49.5	9.8	47.6
Gross Profits (%)	23.6	114.0	3.0	53.1
Operating Profits (%)	NA	NA	33.7	375.9
Net profit (%)	NA	NA	29.5	373.1
Core profit (%)	NA	NA	-1.8	261.9
Operating performance				
Operating margin (%)	(17.0)	2.7	3.3	10.8
Net margin (%)	(177.0)	2.3	2.7	8.7
Core net margin (%)	(12.8)	4.8	4.3	10.5
ROAE (%)	(502.0)	2.5	3.1	13.5
ROAA (%)	(113.0)	1.8	2.2	9.5

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	3,981	9,516
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
Total non-current assets	**47,512**	**49,877**	**48,482**	**54,017**
Cash & equivalents	17,044	13,396	17,189	27,460
Restricted cash	4,256	8,760	8,760	8,760
Account receivables	466	677	2,246	3,749
Deposit, prepayments and other assets	9,065	9,591	9,591	9,591
Inventories	400	275	657	970
Short term investment	41,918	49,436	49,436	49,436
Total current assets	**73,149**	**82,135**	**87,879**	**99,966**
Total assets	**120,661**	**132,012**	**136,361**	**153,983**
Accounts payable	5,341	6,766	8,218	12,133
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
Total current liabilities	**31,825**	**36,592**	**38,043**	**41,959**
Deferred revenue	625	389	389	389
Borrowings	470	467	467	467
Other non-current liabilities	1,232	2,510	2,510	2,510
Total non-current liabilities	**2,326**	**3,366**	**3,366**	**3,366**
Total liabilities	**34,151**	**39,958**	**41,409**	**45,324**
Net current assets	**41,324**	**45,542**	**49,836**	**58,007**
Equity attributable to shareholders	86,504	92,113	95,013	108,734
Non-controlling interests	5	(58)	(61)	(75)
Total equity	**86,510**	**92,055**	**94,952**	**108,659**

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	7,542	15,806
Investing cash flow	(23,439)	(3,506)	(3,749)	(5,536)
Financing cash flow	29,295	-	**-**	**-**
Net cash flows	**(3,323)**	**3,606**	**3,793**	**10,270**

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)

Rising fast and furious; inflection in 2021E

- Emerging ecommerce platform with rapid growth on innovative social ecommerce features; 683mn users in 2Q20 vs. 417mn for JD and 742mn for Alibaba; estimated online market share of ~12% in 2019
- Long-term investment on user loyalty via sizable marketing spending would hamper near-term profitability
- Maintain **BUY** on emerging potential in lower-tier cities

Company Report
Oct 8, 2020
Rating: BUY
TP: US$ 113

Analyst : Steve Chow
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stevechow@abci.com.hk

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 683mn in 2Q20 vs. 417mn for JD and 742mn for Alibaba. 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, and expect a breakeven to occur by 2021E based on the ongoing sales growth and improving margins enabled by better economies of scale and cost control.

2Q20 review. In 2Q20, revenue grew by 66% YoY (1Q20 growth: 44% YoY) to RMB12.2bn, driven by a 41% YoY growth in annual active customers i. In addition, core net losses narrowed significantly from RMB 3.2bn in 1Q20 to RMB 77m in 2Q20 driven by lower marketing expenses, paving the way for a potential breakeven by 2021E.

Maintain BUY on potential in lower-tier regions. 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.

ADS price (US$)	74.8
Est. share price return	51.1%
Est. dividend yield	NA
Est. total return	51.1%
Previous Rating &TP	BUY/US$113
Previous Report Date	Aug 12, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(US$)	99.0/30.2
Issued shares (mn)	4,650
of which:	
Listed A shares (mn)	2,576
Unlisted B shares (mn)	2,074
A share market cap (US$ mn)	48,162
Avg daily turnover (US$ mn)	643
Major shareholder(s)	Voting right
Zheng Huang	88.9%
Banyan Partners	1.7%

Source(s): Bloomberg, Company

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	103.7
P/S (x)	29.6	20.1	13.1	8.1
ROAE (%)	NA	NA	NA	10.4
ROAA (%)	NA	NA	NA	2.9

1 ADS = 4 common shares
Source(s): Bloomberg, ABCI Securities estimates

Financial analysis

We maintain our financial forecast. 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 28: 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 an improving monetization rate from 3.0% in 2019 to 3.5% in 2021E on value-added services provided to merchants.

Exhibit 29: 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
Total revenue	**13,120**	**30,142**	**46,403**	**75,368**

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. 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, 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, the Group's bargaining power over merchants improves as its operation scale grows. 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 30: 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)
Total	**(17,078)**	**(36,123)**	**(51,507)**	**(70,846)**
% of revenue				
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%*
Total	***130.2%***	***119.8%***	***111.0%***	***94.0%***

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 estimate 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. 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 peers are China's major online ecommerce platforms, including Alibaba (BABA US/9988 HK), JD (JD US/HK).

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. Pinduoduo is trading at a higher P/S than Alibaba, reflecting the higher GMV growth expected for the Group.

Exhibit 31: 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	804,915	**US$ 269.5**	11.0	8.6	6.8	39.6	34.5	27.3
3690 HK	Meituan-B	177,785	**HK$ 267.8**	14.4	13.2	9.0	301.5	309.7	85.6
PDD US	Pinduoduo-A	48,162	**US$ 74.8**	20.1	13.1	8.1	NA	NA	103.7
		Average		**15.2**	**11.7**	**7.9**	**170.5**	**172.1**	**72.2**
Business model – direct sales									
JD US	JD.com	123,254	**US$ 78.1**	1.4	1.2	1.0	75.5	64.7	43.3
VIPS US	VIP Shop -A	9,073	**US$ 15.3**	0.8	0.8	0.7	14.7	11.4	9.9
		Average		**1.1**	**1.0**	**0.9**	**45.1**	**38.0**	**26.6**

*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
Total revenue	**13,120**	**30,142**	**46,403**	**75,368**
Cost of sales	(2,905)	(6,339)	(8,615)	(12,844)
Gross profit	**10,215**	**23,803**	**37,788**	**62,524**
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)
Operating Profits	**(10,799)**	**(8,538)**	**(8,352)**	**1,131**
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
PBT	**(10,217)**	**(6,968)**	**(6,902)**	**2,481**
Tax	0	0	0	0
PAT	**(10,217)**	**(6,968)**	**(6,902)**	**2,481**
Minority interests/distribution to convertible preferred shareholders	(81)	0	0	0
Profits attributable to shareholders	**(10,297)**	**(6,968)**	**(6,902)**	**2,481**
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
Non-GAAP profits attributable to shareholders	**(3,456)**	**(4,266)**	**(3,654)**	**5,872**
Growth				
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
Operating performance				
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
Total non-current assets	**2,791**	**3,056**	**3,131**	**3,207**
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
Total current assets	**40,391**	**73,001**	**75,199**	**89,728**
Total assets	**43,182**	**76,057**	**78,329**	**92,935**
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
Total current liabilities	**24,359**	**45,768**	**51,695**	**60,429**
Convertible bonds	-	5,207	5,207	5,207
Other non-current liabilities	-	436	436	436
Total non-current liabilities	**-**	**5,642**	**5,642**	**5,642**
Total liabilities	**24,359**	**51,410**	**57,337**	**66,071**
Equity attributable to shareholders	18,823	24,647	20,993	26,865
Non-controlling interests	-	-	-	-
Total equity	**18,823**	**24,647**	**20,993**	**26,865**

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
Operating cash flow	**7,768**	**14,821**	**4,733**	**14,540**
Investing cash flow	**(7,549)**	**(28,320)**	**(600)**	**(650)**
Financing cash flow	**17,344**	**15,855**	**500**	**500**
Effective of FX	547	450	-	-
Net cash flows	**18,111**	**2,806**	**4,633**	**14,390**

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 a strong reputation and a loyal customer base
- Strategic move to refocus on the core discount retailing market and operating improvement resulted in better margins
- Maintain **BUY** with TP of US$ 22 on potential margin improvement

Company Report
Oct 8, 2020
Rating: BUY
TP: US$ 22

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

ADS price (US$)	15.3
Est. share price return	43.8%
Est. dividend yield	NA
Est. total return	43.8%
Previous Rating &TP	BUY, US$ 28
Previous Report Date	Aug 12, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(US$)	24.5/8.6
Issued shares (mn)	135.1
of which:	
Listed A shares (mn)	118.6
Unlisted B shares(mn)	16.5
A share market cap (US$ mn)	9,073
Avg daily turnover (US$ mn)	135
Major shareholder(s)	
Eric Ya Shen	12.7%

Source(s): Bloomberg, Company

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 Group's business model offers some degree of counter cyclicality. 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.

2Q20 review. In 2Q20, revenue resumed 6% YoY growth after dropping 12% YoY in 1Q20 driven by 9% YoY growth in GMV and 17% YoY growth in active customers. In addition, core net profit grew by 24% YoY with core net margin improving to 5.5% in 2Q20 vs. 4.7% in 2Q19 driven by ongoing operational improvement. In particular, fulfillment cost/revenue ratio dropped from 9.5% in 2Q19 to 6.6% in 2Q20 as the Group outsourced deliveries to external parties

Maintain BUY. We maintain **BUY** with a DCF-based TP of US$ 22 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)	27.9	14.7	11.4	9.9
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

Financial analysis

We maintain our financial forecast. 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 32: 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 33: 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 34: 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)**
% of revenue				
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$ 22.

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$ 22.

Overall, our valuation range implies a wide trading range. 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 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. We believe this is due to its smaller operation and narrower product selection. Nonetheless, its undemanding valuation could imply potential re-rating in the medium term given the Group's ongoing margin expansion.

Exhibit 35: 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	804,915	**US$ 269.5**	11.0	8.6	6.8	39.6	34.5	27.3
3690 HK	Meituan-B	177,785	**HK$ 267.8**	14.4	13.2	9.0	301.5	309.7	85.6
PDD US	Pinduoduo-A	48,162	**US$ 74.8**	20.1	13.1	8.1	NA	NA	103.7
		Average		**15.2**	**11.7**	**7.9**	**170.5**	**172.1**	**72.2**
Business model – direct sales									
JD US	JD.com	123,254	**US$ 78.1**	1.4	1.2	1.0	75.5	64.7	43.3
VIPS US	VIP Shop -A	9,073	**US$ 15.3**	0.8	0.8	0.7	14.7	11.4	9.9
		Average		**1.1**	**1.0**	**0.9**	**45.1**	**38.0**	**26.6**

*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 36: TP changes (US$ per share)

Old	New	Methodology -old	Methodology -new
28	**22**	DCF –11% WACC	DCF -13% WACC

Source(s): ABCI Securities estimates

Financial forecast

Consolidated income statement (2018A-2021E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E
Total revenue	**84,524**	**92,994**	**96,186**	**104,486**
Cost of sales	(67,455)	(72,314)	(75,025)	(81,499)
Gross profit	**17,069**	**20,680**	**21,161**	**22,987**
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
Operating Profits	**2,421**	**4,773**	**6,438**	**7,725**
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
PBT	**2,700**	**4,970**	**6,668**	**7,960**
Tax	(566)	(984)	(1,200)	(1,592)
PAT	**2,133**	**3,986**	**5,468**	**6,368**
Minority interests	(5)	30	42	49
Net income	**2,129**	**4,017**	**5,509**	**6,416**
Share-based compensation	671	688	962	1,045
Other non-core items	(81)	308	0	0
Core net income	**2,719**	**5,013**	**6,471**	**7,461**
Growth				
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
Operating performance				
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
Total non-current assets	**16,237**	**25,554**	**29,654**	**33,754**
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
Total current assets	**27,325**	**23,029**	**24,006**	**31,022**
Total assets	**43,562**	**48,583**	**53,660**	**64,776**
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
Total current liabilities	**25,945**	**23,926**	**22,532**	**26,186**
Long term debt	-	65	65	65
Other non-current liabilities	406	2,343	2,343	2,343
Total non-current liabilities	**406**	**2,407**	**2,407**	**2,407**
Total liabilities	**26,351**	**26,333**	**24,939**	**28,593**
Equity attributable to shareholders	17,262	21,827	28,257	35,669
Non-controlling interests	(51)	423	464	513
Total equity	**17,211**	**22,250**	**28,721**	**36,182**

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
Operating cash flow	**5,746**	**12,290**	**7,922**	**8,908**
Investing cash flow	**(6,694)**	**(8,240)**	**(5,000)**	**(5,000)**
Financing cash flow	**587**	**(6,257)**	**-**	**-**
FX effect	178	(112)	-	-
Net cash flows	**(184)**	**(2,319)**	**2,922**	**3,908**

*Note. I*ndividual 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

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 companies with a proven profitable record.

Market competition

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

Slowdown in 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 references.

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Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (10%)
Hold	- Market return rate (-10%) ≤ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: 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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