

## JD.com (JD US/9618 HK)

### Long-term fundamentals unchanged despite share price volatility

- Resilient user growth indicates increased penetration in lower-tier cities, mitigating impacts of macro headwinds
- Improving profitability of JD Retail and JD Logistics (2618 HK) help offset financial impacts of new business investments
- Maintain **BUY** with a TP of US\$ 77 for **JD-ADR (JD US)** and HK\$ 300 for **JD-SW (9618 HK)**

**4Q21 review.** In 4Q21, revenue grew 23% YoY to RMB 276bn, in line with the market expectation. Core net profit increased by 49% YoY to RMB 3.6bn, significantly better than market estimate of RMB 2.6bn. However, net losses reached RMB 5.1bn in 4Q21 due to impairment of equity investees, deeper than the RMB 80mn net losses expected by the market.

**User growth amid softening macro environment.** Online consumption in China slowed down in recent months amid the weakening macro environment. Despite that, JD's user growth in 4Q21 was 21%, thanks to its ongoing expansion in the lower-tier cities, which helped support revenue growth.

**Improving profitability in JD Retail and JD Logistics (2618 HK).** JD implements effective cost control through operational improvement and adopts a prudent approach in developing new businesses. In 4Q21, profitability of the core JD Retail business and JD Logistics (2618 HK) improved, which helped mitigate losses in new businesses.

**Look beyond the short-term volatility.** The counter has experienced significant price correction recently due to rising global geopolitical risk, regulatory risks, weakened economic outlook, and divestment of major strategic shareholder. JD's forward P/E is nearing its historical low in end-2019. While share price volatility may continue in the near term, the counter's low valuation presents entry opportunities for long-term investors.

#### Results and Valuation

FY end Dec 31	2020A	2021A	2022E	2023E
Revenue (RMB mn)	745,802	951,592	1,131,034	1,317,654
Chg (% YoY)	29.3	27.6	18.9	16.5
Net profit (RMB mn)	49,405	-3,559	9,448	15,784
Chg (% YoY)	305.5	NA	NA	67.1
Core net profit (RMB mn)	16,828	17,207	19,218	26,573
Chg (% YoY)	56.5	2.3	11.7	38.3
Earnings per ADS (RMB)	31.7	-2.2	5.9	9.9
Chg (% YoY)	285.6	NA	NA	67.1
Core earnings per ADS (RMB)	10.6	10.8	12.0	16.6
Chg (% YoY)	45.7	2.0	11.7	38.3
Core P/E (x)- ADR	30.6	30.7	27.5	19.9
Core P/E (x)-SW share	31.9	32.0	28.7	20.7
ROAE (%)	34.2	-1.6	3.7	5.7
ROAA (%)	14.5	-0.8	1.8	2.7

\*1 ADR = 2 ordinary shares

Source (s): Bloomberg, ABCI Securities estimates

## Company Report

### Mar 11, 2022

Rating (ADR): BUY  
 TP (ADR): US\$ 77  
 Rating (SW-share): BUY  
 TP (SW-share): HK\$300

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Price (ADR/SW-share)	US\$ 52.5/ HK\$213.8
Est. share price return (ADR/SW-share)	46.1%/40.3%
Est. dividend yield (ADR/SW-share)	NA/NA
Est. total return (ADR/SW-share)	46.1%/40.3%
Last Rating & TP (ADR/SW-share)	BUY, US\$116/ BUY, HK\$450

Previous Report Date Nov 29, 2021

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (SW-share)	365.0/195.3
52Wk H/L (US\$) (ADR)	94.4/50.6
Outstanding shares (mn)	3,129
Market cap (HK\$ mn) (all outstanding shares)	668,980
3-mth avg daily turnover (HK\$ mn) (SW-share)	1,957
3-mth avg daily turnover (US\$ mn) (ADR)	675
Major shareholder(s)	Voting right
Richard Liu	76.9%

Source(s): Bloomberg, HKEx, Company



## 4Q21 review

In 4Q21, revenue grew 23% YoY to RMB 276bn, in line with the market expectation. Core net profit increased by 49% YoY to RMB 3.6bn, significantly better than the market estimate of RMB 2.6bn. However, net losses hit RMB 5.1bn in 4Q21 on impairment of equity investees, much deeper than the RMB 80mn net losses expected by the market.

JD's revenue growth remained resilient at 23% YoY in 4Q21 vs. 26% YoY in 3Q21 despite slowdown in ecommerce market. In our view, it can be attributed to JD's strong user growth. The no. of annual active customer was up 21% YoY in 4Q21, indicating ongoing penetration in lower-tier cities.

In terms of revenue mix, net product revenue growth was 22% YoY in 4Q21, in line with the overall revenue growth trend. Net service revenue grew 28% YoY in 4Q21 vs. 43% YoY in 3Q21, indicating some slowdown in logistics business. Overall, net service revenue accounted for 15% of total revenue in 4Q21.

JD has been successful in controlling cost through operational improvement and takes a more prudent stance in developing new businesses. In 4Q21, profitability in the core JD Retail business and JD Logistics (2618 HK) rose. JD Retail's operating margin edged up from 1.9% in 4Q20 to 2.1% in 4Q21, while JD Logistics' (2618 HK) operating margin swung to black from -2.8% in 4Q20 to 2.4% in 4Q21.

New businesses, including Jingxi, technology initiatives, reported RMB 3.2bn operating losses in 4Q21, higher than the RMB 2.0bn losses in 3Q21. Despite widening losses in new businesses, JD's losses are still less than Meituan's (3690 HK) over RMB10bn due to the lower marketing or promotional expenses entailed in the community group-purchase business.

Overall, the Company reported a core NPM of 1.3% in 4Q21 vs. 1.1% in 4Q20 driven by improving profitability of its core ecommerce business and JD Logistics (2618 HK).



Exhibit 1: 4Q21 review

Results review:	4Q20	4Q21	YoY%	Remarks
Annual active customer (mn)	472	570	21%	
<b>Financials (RMB mn)</b>				
Net product	192,199	234,675	22%	Driven by customer growth
Net service	32,129	41,233	28%	
<b>Revenue</b>	<b>224,328</b>	<b>275,907</b>	<b>23%</b>	In line with market expectation
<b>Gross profit</b>	<b>31,142</b>	<b>37,123</b>	<b>19%</b>	
<b>Operating profit</b>	<b>595</b>	<b>(392)</b>	<b>NA</b>	
- JD Retail	3,955	5,344	35%	
- JD Logistics (2618 HK)	(666)	730	NA	
- New businesses	(967)	(3,224)	NA	
- Unallocated item	(1,727)	(3,241)	NA	
<b>Net profit</b>	<b>24,325</b>	<b>(5,164)</b>	<b>NA</b>	Impairment of equity investees
Share-based compensation	1,495	2,564	72%	
Impairment/FV changes of investments	(22,543)	5,845	NA	
Others	(891)	320	NA	
<b>Core profit (non-GAAP)</b>	<b>2,386</b>	<b>3,565</b>	<b>49%</b>	vs. market expectation of RMB 2.6bn
<b>Profitability (%):</b>				
	<b>4Q20</b>	<b>4Q21</b>	<b>ppt YoY</b>	
Gross margin	13.9	13.5	(0.4)	
Operating margin	0.3	(0.1)	(0.4)	
- JD Retail	1.9	2.1	0.2	
- JD Logistics (2618 HK)	(2.8)	2.4	5.2	
- New businesses	(17.1)	(39.3)	(22.1)	
Net margin	10.8	(1.9)	(12.7)	
Core net margin (non-GAAP)	1.1	1.3	0.2	

Source(s): Company, ABCI Securities



## Financial analysis

For 2021-23E, we expect GMV to grow at 15% CAGR to RMB 3.9tr by 2023E, driven by the expanding active user base. JD has been experiencing user growth in recent quarters thanks to improving penetration in the lower-tier cities. In our view, its user growth could potentially mitigate the impact from the weakened macro environment.

We expect revenue to increase at 18% CAGR in 2021-23E, propelled by growing GMV and ongoing expansion of new businesses. In particular, we expect logistics and other service revenue to grow at 30% CAGR in 2021-23E, thanks to increased corporate demand for quality supply-chain services.

### Exhibit 2: Major assumptions

	2020	2021	2022E	2023E
Annual active customer account (mn)	472	570	655	721
GMV (RMB bn)	2,613	3,297	3,580	3,938

Source(s): Company, ABCI Securities estimates

### Exhibit 3: Revenue forecasts (RMB mn)

	2020	2021	2022E	2023E
<i>Electronics and home appliance</i>	400,927	492,592	576,333	657,019
<i>General merchandize</i>	250,952	323,063	377,983	430,901
<b>Net product revenue</b>	<b>651,879</b>	<b>815,655</b>	<b>954,316</b>	<b>1,087,920</b>
<i>Marketplace and advertising</i>	53,473	72,118	93,754	121,880
<i>Logistics and other services</i>	40,450	63,819	82,965	107,854
<b>Net service revenue</b>	<b>93,923</b>	<b>135,937</b>	<b>176,718</b>	<b>229,734</b>
<b>Total revenue</b>	<b>745,802</b>	<b>951,592</b>	<b>1,131,034</b>	<b>1,317,654</b>

Source(s): Company, ABCI Securities estimates

JD has a successful track record in cost control. As said, compared to Meituan (3690 HK), which has been investing heavily to develop their propriety community group-purchase business, JD adopts a more conservative community group-purchase expansion strategy by focusing on selected cities. As a result, its operating losses of new businesses were RMB3.2bn in 4Q21, significantly lower than Meituan's over RMB10bn losses per quarter.

For 2021-23E, we expect core net profit to grow at 24% CAGR to RMB26.5bn by 2023E, driven by ongoing user growth and effective cost control.



**Exhibit 4: Non-GAAP cost trend (RMB mn)**

	2020	2021	2022E	2023E
COGS	636,596	822,423	977,214	1,137,136
Fulfillment expenses	47,861	57,954	71,255	81,695
Marketing expenses	26,097	37,303	39,586	44,800
Technology & content expenses	14,650	14,447	14,138	15,812
General & admin expenses	4,436	5,471	5,655	6,588
<b>Total</b>	<b>729,639</b>	<b>937,597</b>	<b>1,107,848</b>	<b>1,286,031</b>
<b>% of revenue</b>				
COGS	85.4%	86.4%	86.4%	86.3%
Fulfillment expenses	6.4%	6.1%	6.3%	6.2%
Marketing expenses	3.5%	3.9%	3.5%	3.4%
Technology & content expenses	2.0%	1.5%	1.3%	1.2%
General & admin expenses	0.6%	0.6%	0.5%	0.5%
<b>Total</b>	<b>97.8%</b>	<b>98.5%</b>	<b>98.0%</b>	<b>97.6%</b>

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

Source(s): Company, ABCI Securities estimates

**Exhibit 5: Forecast changes for 2022E**

(RMB mn)	Old	New	Diff.
Revenues	1,129,626	1,131,034	0%
Core profit	19,462	19,218	(1%)

Source(s): ABCI Securities estimates

## Valuation and TP

**JD-SW (9618 HK):** We lower our SOTP-based TP at HK\$300 as we incorporate a higher WACC assumption of 11.5% vs. 8.5% previously in the DCF model.

**JD-ADR (JD US):** Based on our TP for JD-SW, the TP of JD-ADR is US\$ 77(1 ADR represents 2 shares).

The table below shows our SOTP-based valuation range for JD-SW (9618 HK).

**Exhibit 6: JD-SW (9618 HK): SOTP-based valuation range (HK\$ per share)**

Segment	Low	High	Comment
Core ecommerce business#	218	277	DCF –from 13% to 10% WACC
Investments*	48	48	Book/market value/ABCI Securities estimates
<b>Overall</b>	<b>266</b>	<b>325</b>	

\*Including HK\$ 38.5 per share of JD Health (6618 HK) based on the latest market value with a 20% holding discount, and HK\$18.6 per share of JD Logistics (2618 HK) based on the latest market value with a 20% holding discount, and other strategic investments

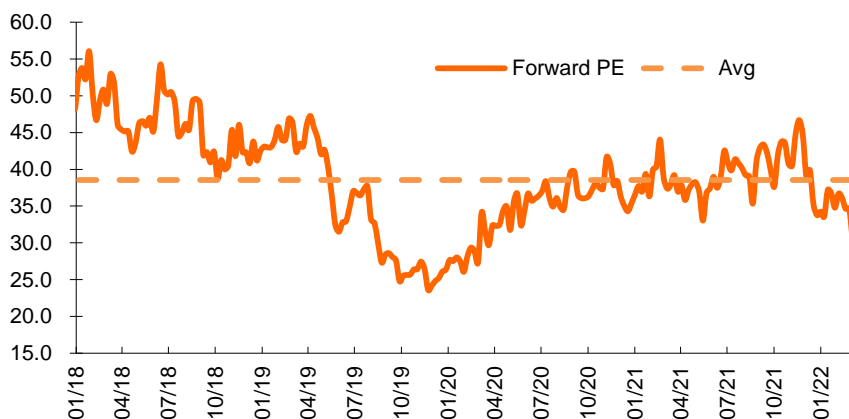
#Excluding JD Health and JD Logistics (2618 HK) and including new businesses

Source(s): ABCI Securities estimates

The counter have experienced sharp corrections recently due to weakened market sentiment amid rising global geopolitical risk, US regulatory risk on US-listed China companies, sector-specific regulatory risk in China, divestment of major strategic shareholder.

As a result, JD's forward P/E has been trending down towards its historical low, as shown in the chart below. While share price volatility might continue in the near term, the low valuation at presents an entry point for investors with a longer-term investment horizon, in our view.

**Exhibit 7: Forward P/E**



Source(s): Bloomberg, ABCI Securities

**Exhibit 8: TP changes (HK\$ per share)**

Old	New	Methodology-old	Methodology-new
<b>420</b>	<b>300</b>	SOTP with 8.5% WACC	SOTP with 11.5% WACC

Source(s): ABCI Securities estimates



## Financial forecast

### Consolidated income statement (2020A-2023E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Net product revenue	651,879	815,655	954,316	1,087,920
Net service revenue	93,923	135,937	176,718	229,734
<b>Total revenue</b>	<b>745,802</b>	<b>951,592</b>	<b>1,131,034</b>	<b>1,317,654</b>
Cost of sales	(636,694)	(822,525)	(977,305)	(1,137,236)
<b>Gross profit</b>	<b>109,108</b>	<b>129,067</b>	<b>153,729</b>	<b>180,418</b>
Fulfillment expenses	(48,700)	(59,055)	(72,772)	(83,370)
Marketing expenses	(27,156)	(38,743)	(40,814)	(46,201)
Technology & content expenses	(16,149)	(16,332)	(16,316)	(18,212)
General & admin expenses	(6,409)	(11,562)	(10,895)	(12,365)
Gains on disposal	1,649	767	0	0
<b>Operating Profits</b>	<b>12,343</b>	<b>4,141</b>	<b>12,933</b>	<b>20,271</b>
Share of results of equity investees	4,291	(4,918)	(500)	(500)
Interest income	2,753	0	0	0
Interest expenses	(1,125)	(1,213)	(1,000)	(1,000)
Others, net	32,556	(590)	(500)	(500)
<b>PBT</b>	<b>50,819</b>	<b>(2,580)</b>	<b>10,933</b>	<b>18,271</b>
Tax	(1,482)	(1,887)	(2,484)	(3,487)
<b>PAT</b>	<b>49,337</b>	<b>(4,467)</b>	<b>8,448</b>	<b>14,784</b>
Minority interests	(68)	(908)	(1,000)	(1,000)
<b>Profits attributable to shareholders</b>	<b>49,405</b>	<b>(3,559)</b>	<b>9,448</b>	<b>15,784</b>
Share-based compensation	4,156	8,293	9,123	10,035
Amortization	723	853	1,131	1,318
Impairment/FV changes of investments	(35,690)	13,371	0	0
Other non-core items	(1,767)	(1,751)	(484)	(564)
<b>Non-GAAP profits attributable to shareholders</b>	<b>16,828</b>	<b>17,207</b>	<b>19,218</b>	<b>26,573</b>
<b>Growth</b>				
Total revenue (%)	29.3	27.6	18.9	16.5
Gross Profits (%)	29.2	18.3	19.1	17.4
Operating Profits (%)	37.2	(66.4)	212.3	56.7
Net profit (%)	305.5	NA	NA	67.1
Non-GAAP net profit (%)	56.5	2.3	11.7	38.3
<b>Operating performance</b>				
Operating margin (%)	1.7	0.4	1.1	1.5
Net margin (%)	6.6	(0.4)	0.8	1.2
Core net margin (%)	2.3	1.8	1.7	2.0
ROAE (%)	34.2	(1.6)	3.7	5.7
ROAA (%)	14.5	(0.8)	1.8	2.7

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

Source(s): the Group, ABCI Securities estimates



Consolidated balance sheet (2020A-2023E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Fixed assets	41,628	53,089	54,589	56,089
Investments	98,916	82,310	82,310	82,310
Other non-current assets	46,944	61,436	59,336	57,236
<b>Total non-current assets</b>	<b>187,487</b>	<b>196,835</b>	<b>196,235</b>	<b>195,635</b>
Cash & equivalents	90,519	76,692	62,279	91,396
Short-term investments and investment securities	60,577	114,564	114,564	114,564
Inventories	58,933	75,601	110,759	128,884
Account receivables	7,112	11,900	43,382	50,540
Other current assets	17,660	20,915	20,915	20,915
<b>Total current assets</b>	<b>234,801</b>	<b>299,671</b>	<b>351,899</b>	<b>406,298</b>
<b>Total assets</b>	<b>422,288</b>	<b>496,507</b>	<b>548,134</b>	<b>601,934</b>
Account payables	127,816	169,590	203,147	231,627
Borrowings and notes	3,260	4,367	4,367	4,367
Other current liabilities	42,941	47,678	47,678	47,678
<b>Total current liabilities</b>	<b>174,016</b>	<b>221,635</b>	<b>255,192</b>	<b>283,672</b>
Payables & accruals	332	1,786	1,786	1,786
Borrowings and notes	12,531	9,386	9,386	9,386
Other non-current liabilities	13,790	16,915	16,915	16,915
<b>Total non-current liabilities</b>	<b>26,653</b>	<b>28,087</b>	<b>28,087</b>	<b>28,087</b>
<b>Total liabilities</b>	<b>200,669</b>	<b>249,722</b>	<b>283,279</b>	<b>311,759</b>
<b>Mezzanine equity</b>	<b>17,133</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>
Equity attributable to shareholders	187,543	208,912	227,982	254,301
Non-controlling interests	16,943	36,661	35,661	34,661
<b>Total equity</b>	<b>204,486</b>	<b>245,572</b>	<b>263,643</b>	<b>288,962</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





## Risk factors

### Tightened regulatory environment

The government has implemented various regulations in recent months, leading to an overall tightened regulatory environment. For example, the State Administration for Market Regulation of the People's Republic of China (the "SAMR") has launched anti-monopoly investigation on selected e-commerce platforms, imposed fines and demanded business restructuring of these platforms.

### Market competition

The ecommerce industry is highly competitive, with companies contending 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 the Group's 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

Ecommerce 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.



## Disclosures

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ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with JD.com and JD Logistics.

### Definition of equity rating

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

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 2009 (HSI total return index 2009-21 averaged at 9.2%)

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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