



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

China Internet Sector

Dec 29, 2022

Divergent recovery path

China Internet Sector

Divergent recovery path

- Major internet platforms have shown operational improvement via cost optimization amid macro headwinds. E-commerce players have demonstrated a stronger recovery momentum so far
- Positive signs of regulatory development from the Central Economic Work Conference held in mid-Dec
- Favor JD (9618 HK), Meituan (3690 HK), and Pinduoduo (PDD US) on stronger recovery momentum, also recommend Alibaba (9988 HK/BABA US) on attractive valuation.

Sector Report

OVERWEIGHT

Dec 29, 2022

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Divergent recovery path. Major internet platforms have shown operational improvement through cost optimization amid macro headwinds. Recovery tracks are different among companies, with some recuperating faster than the others. While the rising COVID cases following the relaxation of lockdown measures could add volatility on the sector's recovery path, the situation might improve over time as the society gradually gains herd immunity over the next few months, in our view.

E-commerce shows a stronger momentum. Within the internet universe, the e-commerce segment has shown more resilient recovery so far. Penetration rate of online shopping rose from 25.9% in 1H22 to 27.1% in 11M22, indicating ongoing shift of consumption spending from offline to online. Online sales growth of physical goods in China climbed 6.4% YoY in 11M22 vs. 5.6% in 1H22. In particular, online sales of food products rose 15.1% in 11M22. On the other hand, online gaming and online advertising shows limited recovery.

Positive signs on regulatory environment. The Central Economic Work Conference held in mid-Dec 2022 stated the government would strongly support the development of digital economy, support platform enterprises to facilitate industry development, create job, and excel in international competition. In our view, this could lessen investors' concern on regulatory risk.

Favor JD (9618 HK), Meituan (3690 HK), and Pinduoduo (PDD US) on stronger recovery momentum; we also recommend **Alibaba (9988 HK/BABA US)** on attractive valuation.

Sector valuation summary

Company	Ticker	Rating	Price	TP	2022E P/S(x)	2023E P/S(x)	2022E Core P/E(x)*	2023E Core P/E(x)*
Alibaba - ADR	BABA US	BUY	US\$87.2	US\$123	1.8	1.6	13.1	10.4
Alibaba - SW	9988 HK	BUY	HK\$85.0	HK\$120	1.9	1.7	12.8	10.2
JD -ADR	JD US	BUY	US\$56.1	US\$77	0.6	0.5	24.9	20.5
JD - SW	9618 HK	BUY	HK\$218	HK\$300	0.6	0.5	24.7	20.4
Kuaishou	1024 HK	BUY	HK\$70.5	HK\$85	2.9	2.5	NA	198.9
Meituan-W	3690 HK	BUY	HK\$183	HK\$230	4.6	3.8	NA	70.0
Pinduoduo	PDD US	BUY	US\$81.4	US\$110	6.2	4.9	24.0	19.7
Tencent	700 HK	BUY	HK\$334	HK\$390	5.1	4.8	25.5	21.5

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

Financial ratios are based on current share prices

Source(s): ABCI Securities estimates



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Divergent recovery path

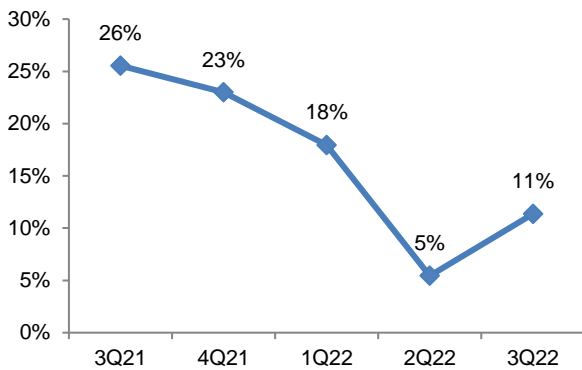
Despite a soft economic environment, we see signs of bottoming out with most players reporting better revenue growth and cost control recently. Having said that, each player is in its own stage of recovery- some faster than others, resulting in divergent recovery paths within the sector.

JD, Meituan, Pinduoduo show visible rebound

Among the major internet platforms, we believe JD, Meituan, Pinduoduo are showing clearer signs of bottoming out, which include 1) clear acceleration of revenue growth in 3Q22; 2) resumption of high profit growth or significant narrowing of losses driven by operational improvement. In our view, their solid 3Q22 performance provide some buffer against the resurgence of COVID in China since Oct.

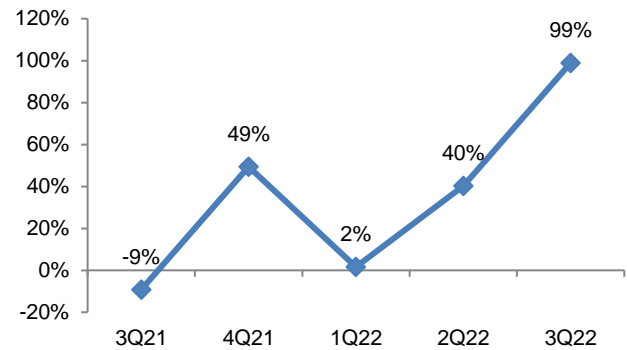
JD's revenue growth accelerated to 11% in 3Q22 vs. 5% in 2Q22 amid a gradually improving operating environment in the e-commerce sector. In addition, its core net profit jumped 40% YoY and 99% YoY in 2Q22 and 3Q22, thanks to ongoing cost control and operating efficiency.

Exhibit 1: JD- revenue growth (YoY)



Source(s): Company, ABCI Securities

Exhibit 2: JD –core profit growth (YoY)

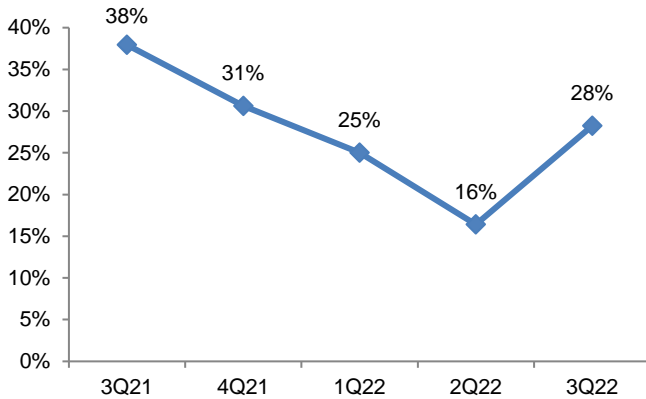


Source(s): Company, ABCI Securities

Meituan's 3Q22 revenue went up 28% YoY to RMB 62.6bn, indicating a sequential improvement after the 16% YoY revenue growth in 2Q22, thanks to an improving operating environment. With better cost control, the company achieved two consecutive quarters of positive core net profit in 2Q/3Q22.

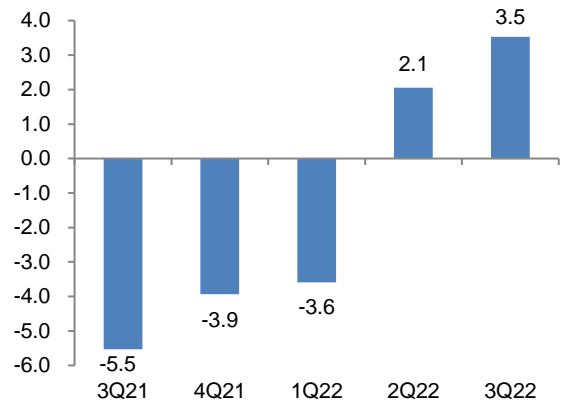


Exhibit 3: Meituan- revenue growth (YoY)



Source(s): Company, ABCI Securities

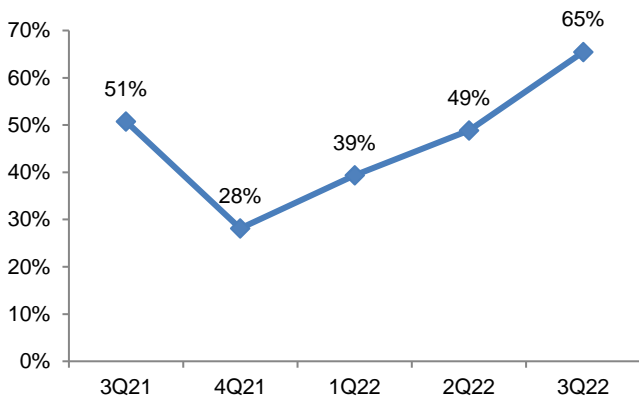
Exhibit 4: Meituan- core net profit (RMB bn)



Source(s): Company, ABCI Securities

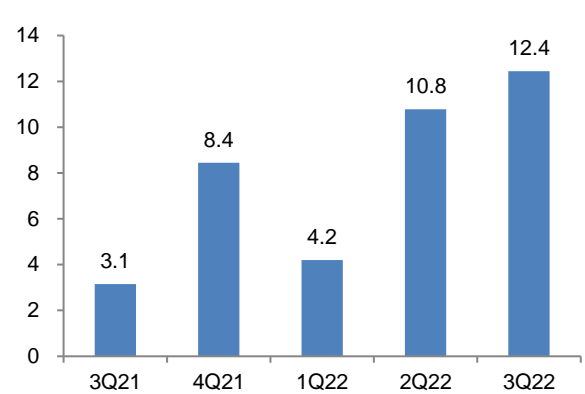
Pinduoduo's ex-1P revenue (excluding merchandise sales) has experienced an accelerating growth in recent quarters, reaching 65% YoY in 3Q22. In our view, this is driven by 1) ongoing business transformation towards agriculture products; 2) consumers trading down to "value-for-money" platforms such as Pinduoduo during economic downturn; 3) resilient demand on food and daily necessities products amid ongoing COVID development. On the other hand core net profit has trended up in recent quarters along with revenue growth and cost control.

Exhibit 5: Pinduoduo- ex-1P revenue growth (YoY)



Source(s): Company, ABCI Securities

Exhibit 6: Pinduoduo- core net profit (RMB bn)



Source(s): Company, ABCI Securities

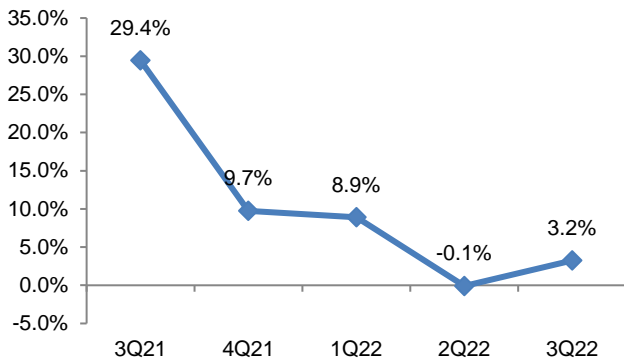
Tencent and Alibaba are stabilizing

Tencent and Alibaba reported mild revenue growth in 3Q22. Overall, their pace of revenue growth is less significant compared with JD, Meituan, and Pinduoduo. On a positive note, Tencent and Alibaba still show profit growth driven by cost control.

For Alibaba, its revenue growth improved slightly from -0.1% YoY in 2Q22 to 3.2% YoY in 3Q22. In our view, investors would need clear evidence of growth in coming quarters. Despite the mild revenue growth, it still achieved a double-digit core net profit growth in 3Q22 on better cost control.

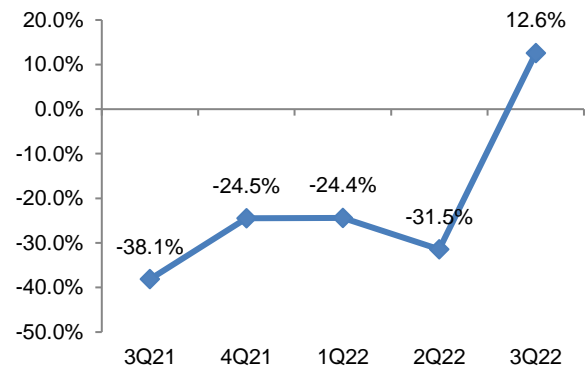


Exhibit 7: Alibaba- revenue growth (YoY)



Source(s): Company, ABCI Securities

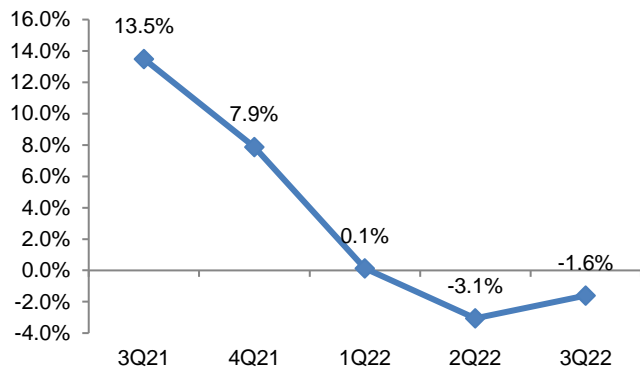
Exhibit 8: Alibaba- core profit growth (YoY)



Source(s): Company, ABCI Securities

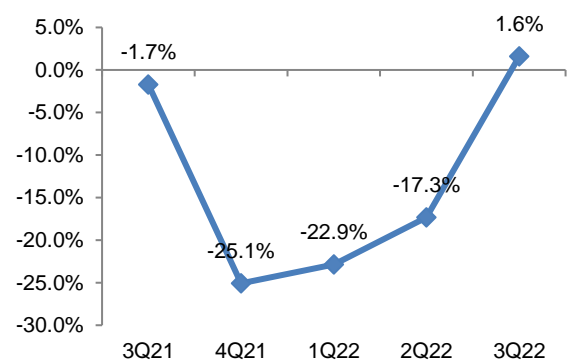
For Tencent, revenue growth improved sequentially from -3.1% YoY in 2Q22 to -1.6% YoY in 3Q22. Its segment performance represents a mixed picture, with online game revenue growth moderating to -4% YoY in 3Q22 vs. -1% YoY in 2Q22 and online advertising revenue growth improving from -18% YoY in 2Q22 to -5% YoY in 3Q22. Having said that, core net profit resumed to grow 1.6% YoY in 3Q22, marking the end of four consecutive quarters of core profit decline thanks to vigilant cost control.

Exhibit 9: Tencent- revenue growth (YoY)



Source(s): Company, ABCI Securities

Exhibit 10: Tencent- core profit growth (YoY)



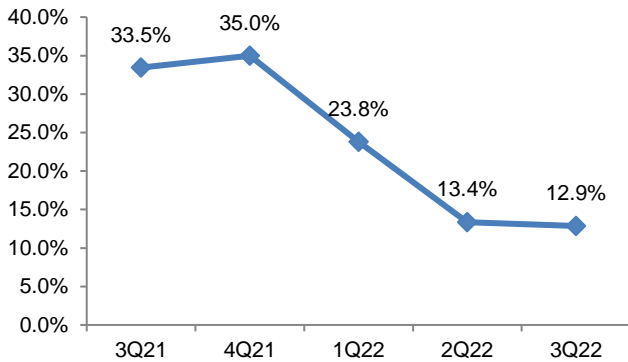
Source(s): Company, ABCI Securities

Kuaishou- Still in moderating mode

For Kuaishou, its revenue growth was down mildly at 12.9% YoY in 3Q22 vs. 13.4% YoY in 2Q22. In addition, online marketing and live streaming segments, which collectively accounted for 90% of total revenue, showed moderating revenue growth of 6.2%/15.8% vs. 10.5%/19.1% in the previous quarter. On a positive note, core net margin improved from -6.0% in 2Q22 to -2.9% in 3Q22 on cost control.

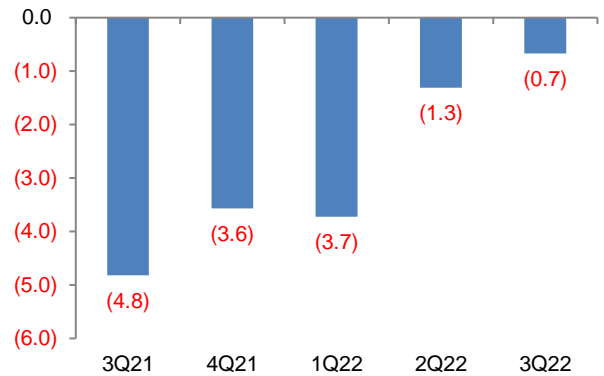


Exhibit 11: Kuaishou- revenue growth (YoY)



Source(s): Company, ABCI Securities

Exhibit 12: Kuaishou- core profit trend (RMB bn)



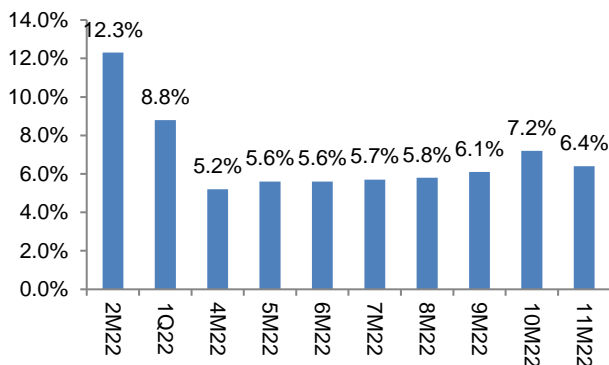
Source(s): Company, ABCI Securities

E-commerce – More visible recovery

On the macro front, we see a more visible recovery pace for the e-commerce segment within the internet universe.

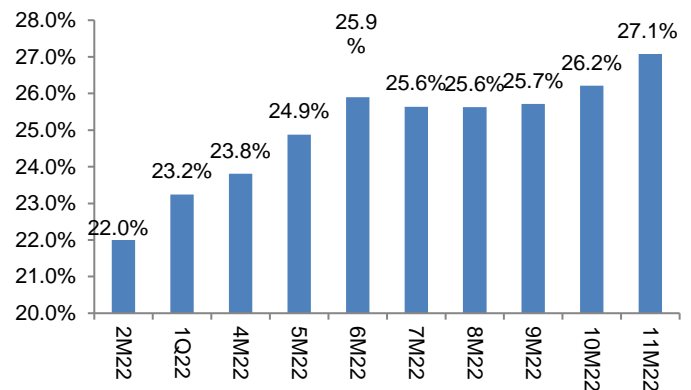
Online sales growth of physical goods in China improved to 6.4% YoY in 11M22 vs. 5.6% in 1H22, indicating an ongoing recovery driven by ongoing shift of consumption spending towards offline to online, as illustrated by the rising online penetration rate from 25.9% in 1H22 to 27.1% in 11M22.

Exhibit 13: Online sales of physical goods in China (YoY)



Source(s): NBS

Exhibit 14: Online penetration rate

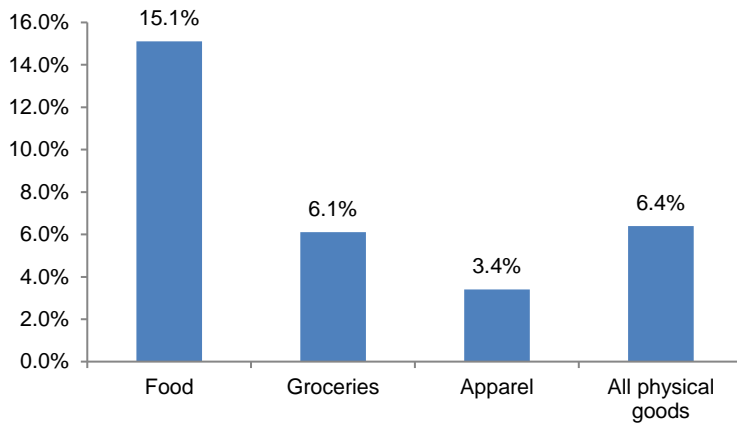


Source(s): NBS

In particular, online sales of food products rose 15.1% in 11M22, outperforming the overall sector, showing re-stocking demand for food product. Overall, consumer staples such as food and groceries have been outperforming discretionary goods in the e-commerce market in recent months.



Exhibit 15: Online sales growth of physical goods by product (YoY%, 11M22)



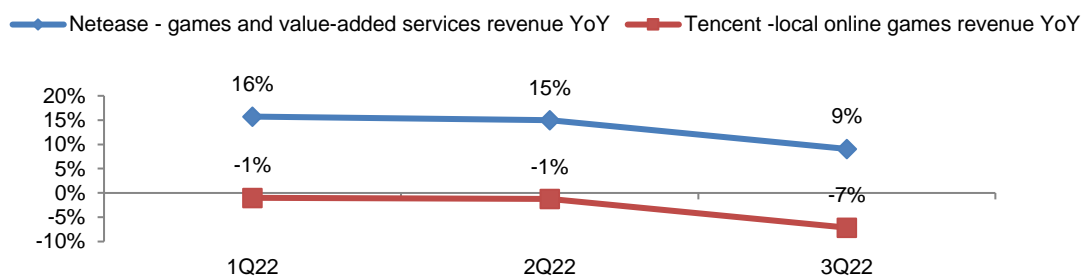
Source(s): NBS

Online gaming: Under adjustment

Compared with the e-commerce segment, the online gaming segment is still going through an adjustment period - Tencent and NetEase showed a decelerating growth in gaming revenue in 1Q-3Q22. Overall, the segment is impacted by user time control for youngsters, fewer new games, as well as decreased user spending amid weak economic environment.

We see reasons for a more positive operating environment for the online gaming market in 2023 due to 1) a lower comparable base in 2022; 2) more new game launches as regulatory approval of new games has been resumed in recent months. This could potentially mitigate impact from control on user time for youngsters and tightened requirement on gaming content, monetization method, and other restrictions .

Exhibit 16: Online gaming revenue growth of Tencent and NetEase



Source(s): Companies, ABCI Securities

Online advertising: Slower recovery

Overall, the online advertising industry is still in a downturn with no clear signs of recovery since corporates cut back advertising budgets in a sluggish economy. E-commerce-related online advertising, however, is likely to recover more swiftly .

In addition, Tencent has launched the in-feed advertising for video account. This will lead to intensified competition between Tencent and short-video platform such as Douyin and Kuaishou.



Recommendation

Overall, major internet platforms have seen implementing cost optimization measures to mitigate macro headwinds amid COVID outbreaks. As a result, most players have achieved some operational improvement in 3Q22 vs. 2Q22.

Looking forward, COVID development remains a major near-term swing factor. In particular, COVID cases is set to surge in the near term following the re-opening policy that relaxes the lockdown measures. On a positive note, the scale of infection is expected to dwindle as the society gains herd immunity over the next few months.

The Central Economic Work Conference held in Dec stated the government would strongly support the development of digital economy. It would encourage platform enterprises to lead the industry development, create jobs, and excel in international competition. In our view, regulatory risk is lessening.

Among the major listed online platforms, we favor JD, Meituan, and Pinduoduo given their stronger recovery momentum than peers; we also recommend Alibaba for its attractive valuation.

JD (9618 HK) has been experiencing resilient growth in recent quarters driven by its user growth lower-tier cities, mitigating the impact of macro softness. Its revenue growth accelerated to 11% in 3Q22 vs. 5% in 2Q22. In addition, it also demonstrates strengths in operational improvement leading to improved margins. The company's shares have a lower supply risk than its listed peers after the recent divestment by Tencent (700 HK), in our view.

Meituan (3690 HK): Meituan's revenue growth accelerated to 28% in 3Q22 vs. 16% in 2Q22. Its food delivery and various new initiatives, including Meituan Instashopping, Meituan Select, and Meituan Grocery, which mainly cover staple products, are currently benefiting from restocking demand. This could offset the impact from the in-store, hotel & travel business whose performance is highly sensitive to pandemic changes. In addition, cost optimization measures have improved the company's profitability in 2022.

Pinduoduo (PDD US): In our view, Pinduoduo's accelerating revenue growth in recent quarters (36%/65% YoY in 2Q/3Q22) amid a soft economic environment, indicates ongoing market share gains attributable to 1) improvement of product portfolio with deepened cooperation with brands in various categories such as agriculture, consumer electronics, cosmetics, home appliances, etc.; 2) more customers trading down to "value-for-money" platforms such as Pinduoduo during economic downturn; 3) customers' strong demand on food and groceries benefiting its agriculture and community group purchase business.

Alibaba (9988 HK/BABA US): As the largest e-commerce platform in China, we believe its current valuation presents an entry point for long-term investors. In addition, the recent upsize of share repurchase program by US\$ 15bn till FY3/25 mitigates concerns on divestment risk by SoftBank. In addition, Alibaba achieved 12.6% YoY core net profit growth in 3Q22 amid cost optimization measures, marking the end of four quarters of core net profit decline since 3Q21.



Alibaba (9988 HK/BABA US) Valuation play

- Resumption of positive core net profit growth in 3Q22 driven by cost optimization
- Improving operational environment in the e-commerce sector
- Current valuations presents an entry point for long-term investors

Cost optimization starts to bear fruit. After a sluggish 2Q22 with 31% YoY decline in core net profit, the company achieved 12.6% YoY core net profit growth in 3Q22 amid cost optimization measures, marking the end of four quarters of core net profit decline since 3Q21. Among major cost items, sales and marketing expenses dropped 22.5% YoY. Operating margin of loss-making segments, such as local consumer services, innovation initiatives, etc., improved from -19.4% in 2Q22 to -16.7% in 3Q22 while operating margin of China commerce rose from 28.9% in 2Q22 to 30.5% in 3Q22.

An Improving operating environment. In 3Q22, Alibaba's revenue increased 3.2% YoY to RMB 207bn vs. a flat revenue growth in the previous quarter, thanks to improvement of selected categories such as apparel/consumer electronics/healthcare products. In addition, new initiatives such as Taobao Deals and Taocaicai continued to gain momentum with narrowing losses in 3Q22. On the flip side, its recovery pace is behind peers such as Pinduoduo and JD, implying market share losses amid intensified competition.

Recommendation. Maintain **BUY** with SOTP-based TP at HK\$ 120 for Alibaba-SW (9988 HK) and US\$ 123 for Alibaba-ADR (BABA US). We believe Alibaba is still a market leader in the e-commerce sector. The company's current low valuation at 10x FY24E core P/E presents an entry point for long-term investors. In addition, the recent upsize of share repurchase program by USD15bn till FY3/25 should mitigate concerns on divestment risk by SoftBank.

Results and Valuation

FY end Mar 31	FY21A	FY22A	FY23E	FY24E
Revenue (RMB mn)	717,289	853,062	899,938	1,013,059
Chg (% YoY)	40.7	18.9	5.5	12.6
Net profit (RMB mn)	150,308	61,959	59,423	115,766
Chg (% YoY)	0.7	(58.8)	(4.1)	94.8
Core net profit (RMB mn)	178,954	143,515	127,321	160,023
Chg (% YoY)	26.6	(19.8)	(11.3)	25.7
Underlying EPS (RMB)	7.0	2.9	2.8	5.5
Chg (% YoY)	(2.1)	(58.7)	(2.4)	94.8
Core EPS (RMB)*	8.1	6.6	6.0	7.5
Chg (% YoY)	23.6	(19.1)	(9.6)	25.7
Core P/E (x)- ADR*	9.5	11.8	13.1	10.4
Core P/E (x)-SW share*	10.0	13.2	12.8	10.2
ROAE (%)	15.5	5.8	5.3	9.5
ROAA (%)	10.0	3.7	3.4	6.1

1 ADR = 8 ordinary shares; CNY/HKD = 1.12

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

Source (s): Bloomberg, ABCI Securities estimates

Company Report Dec 29, 2022

Rating (SW-share): BUY
TP (SW-share): HK\$ 120
Rating (ADR): BUY
TP (ADR): US\$ 123

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Price (ADR/SW-share)	US\$87.2/ HK\$85.0
Est. share price return (ADR/SW-share)	41.2%/41.0%
Est. dividend yield (ADR/SW-share)	NA/NA
Est. total return (ADR/SW- share)	41.2%/41.0%
Last Rating & TP (ADR/SW- share)	US\$132/ HK\$130

Previous Report Date Aug 15, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (SW-share)	135.0/60.2
52Wk H/L (US\$) (ADR)	138.7/58.0
Issued shares (mn)	21,185
Market cap (HK\$ mn) (all share)	1,800,725
3-mth avg daily turnover (HK\$ mn) (SW-share)	5,168
3-mth avg daily turnover (US\$ mn) (ADR)	1,975
Major shareholder(s) (%): SoftBank	14.6%

Source(s): Bloomberg, HKEx, Company

Financial Outlook

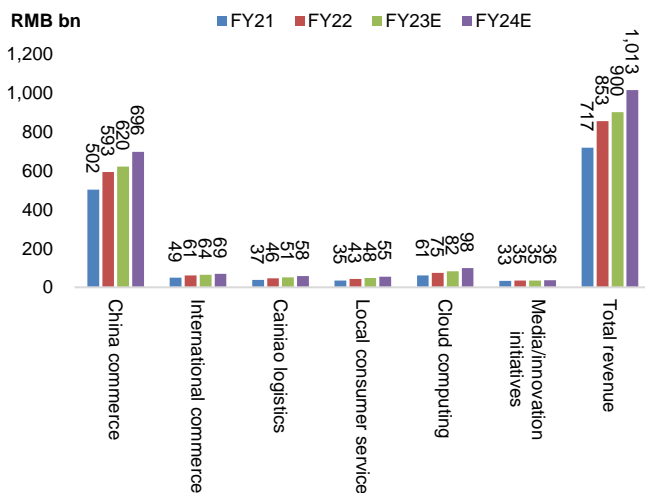
We expect revenue growth to be 5.5% in FY3/23E to reflect soft near-term economic outlook and rebound to 12.6% in FY3/24E, implying a 9% CAGR in FY3/22-24E.

China commerce revenue, which consists of the core e-commerce and new retail business, is expected to grow only 5% in FY3/23E after factoring in economic softness and logistic bottleneck related to COVID outbreaks. The segment's revenue would accelerate to 12% in FY3/24E, assuming a normalized business environment. This implies an 8% CAGR segment revenue in FY3/22-24E on the back of 5% CAGR and 6% CAGR in China's GMV and annual active customers during the same period.

Overall, China commerce is the major growth driver accounting for about 69% of total revenue in FY3/22, and we expect the trend to continue in the near future.

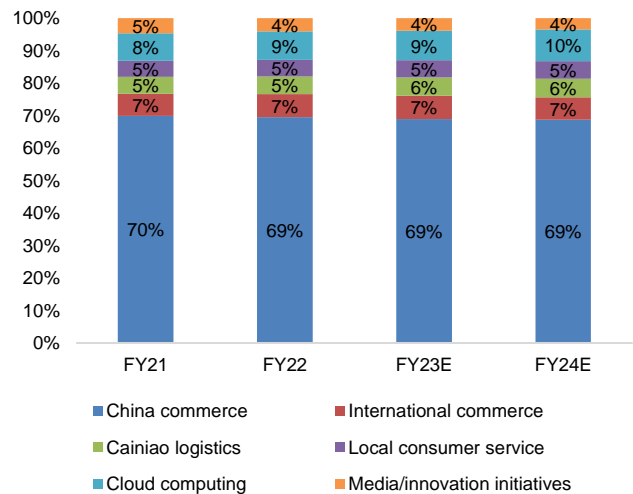
For other businesses, we expect international commerce to grow at 6% CAGR in FY3/22-24E, with Cainiao and local consumer service expanding at 12% CAGR each in FY3/22-24E. In addition, cloud and median/innovation initiatives would expand at 15% and 1% CAGRs in FY3/22-24E. These businesses collectively accounted for about 30% of total revenue in FY21-22, and we expect its contribution to remain stable going forward.

Exhibit 17: Revenue outlook



Source(s): Company, ABCI Securities estimates

Exhibit 18: Revenue mix outlook



Source(s): Company, ABCI Securities estimates

Gross margin: We expect gross margin to decline from 36.8% in FY3/22 to 35.8% in FY3/23E due to near-term softness; it will rebound to 36.7% in FY3/24E on better cost control.

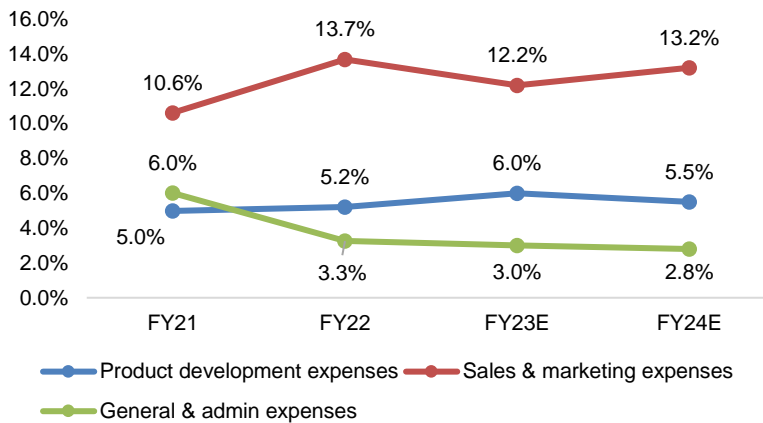
Product development expense: We expect non-GAAP product development expenses/sales ratio to be 6.0% in FY3/23E and 5.5% in FY3/24E due to ongoing R&D investments in new services for merchants and consumers to increase loyalty.

Sales and marketing expenses: We expect non-GAAP sales and marketing expenses/sales ratio to drop from 13.7% in FY3/22 to 13.2% in FY3/24E due to cost

control and improving economies of scale for new businesses such as new retail, consumer services, among others.

General & admin expenses: We expect non-GAAP general & admin expenses /sales ratio drop from 3.3% in FY3/22 to 2.8% in FY3/24E due to improving economies of scales.

Exhibit 19: Non-GAAP* cost trend (% of revenue)



Source(s): Company, ABCI Securities estimates

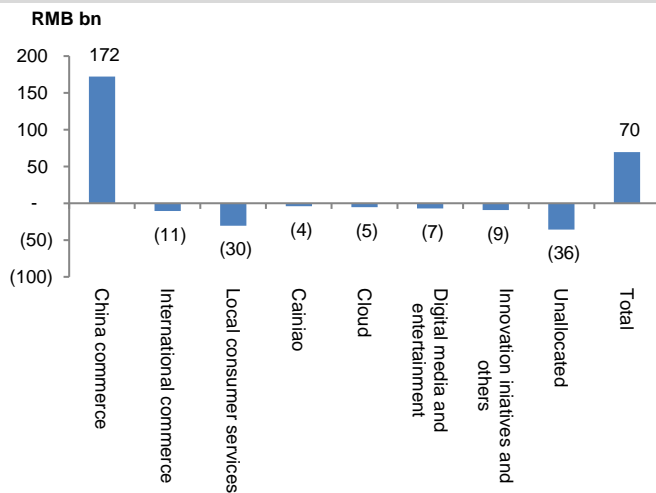
* Excluding impacts of share-based compensation and other non-operating items

The China commerce segment had a 29.1% operating margin in FY3/22, while other businesses (international commerce, local service, Cainiao, cloud, media, and innovation initiatives) had an aggregate operating margin of -24.1%. Overall, non-China commerce businesses (international commerce, local service, Cainiao, cloud, media, and innovation initiatives) collectively reported RMB 66.6bn in operating losses for FY3/22, eroding the RMB 172bn operating profit in China commerce. In our view, cost optimization potential of these loss-making businesses becomes necessary. In particular, local consumer services reported RMB 30.4bn in operating losses for FY3/22 with a -70% operating margin, making it the segment with the heaviest losses.

The company views cost optimization as one of its major priorities. Looking forward, we expect operating margin of non-China commerce businesses to improve from -24.1% in FY3/22 to -15.4% in FY3/24E driven by ongoing cost control; on the other hand, the operating margin of China commerce business would drop from 29.1% in FY3/22 to 26.0% in FY3/24E.

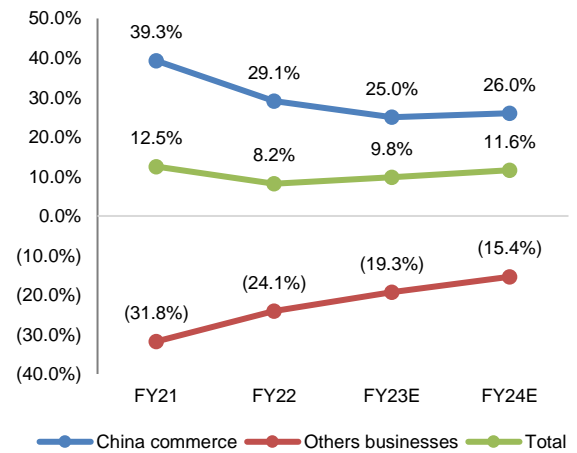


Exhibit 20: Segment operating profit (FY3/22)



Source(s): Company

Exhibit 21: Segment operating margin outlook



Source(s): Company, ABCI Securities estimates

We expect core net margin (excl. impacts of share-based compensation and other non-operating items) to be 14.1% and 15.8% for FY3/23E and FY3/24E. As a result, we expect core net profit to drop by 11.3% in FY3/23E, to be followed by a 25.7% growth in FY3/24E.

Exhibit 22: Forecast changes for FY3/23E

(RMB mn)	Old	New	Diff.	Comment
Revenue	899,938	899,938	0%	
Core profit	126,229	127,321	1%	Adjusting down cost assumptions

Source(s): ABCI Securities estimates



Valuation and TP

Maintain **BUY** with SOTP-based TP at HK\$ 120 for Alibaba-SW (9988 HK) and US\$ 123 for Alibaba-ADR (BABA US), given Alibaba’s leading market position in the e-commerce sector.

Alibaba-SW (9988 HK): We set our SOTP-based TP at HK\$ 120.

Alibaba-ADR (BABA US): Based on our TP of Alibaba-SW, we set the corresponding TP of Alibaba-ADR at US\$ 123 (1 ADR represents 8 shares).

Exhibit 23: SOTP valuation for Alibaba-SW (9988 HK)

(HKD per share)	Low	High	Remarks
Core business	78	116	10-15x FY3/24E core profit#
Strategic investments	23	23	Book value
Total	100	139	

Excluding contribution of Ant Group
Source(s): ABCI Securities estimates

The Company has increased its share repurchase effort. As of Nov 16, 2022, the company repurchased about US\$18bn of shares under its existing US\$25bn share repurchase program till Mar 2024. In addition, it has upsized the share repurchase program by another US\$15bn and extend it to the end-Mar 2025. In our view, this could mitigate further disposal risk by SoftBank.

We believe its low valuation at ~10x FY24E core P/E presents an entry point for long-term investors.

Exhibit 24: Alibaba’s fwd. core P/E



Source(s): Bloomberg, ABCI Securities

Exhibit 25: TP changes (HK\$/shr)

Old	New	Methodology-old	Methodology-new
130	120	SOTP	SOTP

Source(s): ABCI Securities estimates



Financial Forecast

Consolidated income statement (FY21A-FY24E)

FY Ended Mar 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E
Total revenue	717,289	853,062	899,938	1,013,059
Cost of sales	(421,205)	(539,450)	(577,479)	(641,191)
Gross profit	296,084	313,612	322,459	371,868
Product development expenses	(57,236)	(55,465)	(65,596)	(69,243)
Selling & marketing expenses	(81,519)	(119,799)	(112,999)	(137,462)
General & admin expenses	(55,224)	(31,922)	(31,372)	(33,465)
Amortization/Impairment	(12,427)	(36,788)	(12,599)	(14,183)
Operating Profits	89,678	69,638	99,893	117,515
Interest and investment income	72,794	(15,702)	(20,000)	9,500
Interest expenses	(4,476)	(4,909)	(5,500)	(5,800)
Other income	7,582	10,523	4,500	5,500
Share of results of equity investees	6,984	14,344	(10,000)	7,500
Profit before tax	172,562	73,894	68,893	134,215
Tax	(29,278)	(26,815)	(13,779)	(26,843)
Profit after tax	143,284	47,079	55,114	107,372
Minority interests	7,294	15,170	4,409	8,590
Accretion of mezzanine equity	(270)	(290)	(100)	(195)
Profits attributable to ordinary shareholders	150,308	61,959	59,423	115,766
Share-based compensation	50,120	23,971	25,198	29,379
Amortization and impairment	27,164	51,911	22,599	24,183
Gains on disposals/revaluation of investments	(66,305)	21,671	20,000	(9,500)
Other non-core items	17,667	(15,997)	100	195
Non-GAAP profits attributable to ordinary shareholders (Core net profit)	178,954	143,515	127,321	160,023
Growth				
Total revenue (%)	40.7	18.9	5.5	12.6
Gross Profits (%)	30.2	5.9	2.8	15.3
Operating Profits (%)	(1.9)	(22.3)	43.4	17.6
Net profit (%)	0.7	(58.8)	(4.1)	94.8
Core net profit (%)	26.6	(19.8)	(11.3)	25.7
Operating performance				
Operating margin (%)	12.5	8.2	11.1	11.6
Net margin (%)	21.0	7.3	6.6	11.4
Core net margin (%)	24.9	16.8	14.1	15.8

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

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (FY21A-FY24E)

As of Mar 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E
Fixed assets	147,412	171,806	164,306	166,306
Investments	437,410	443,253	488,253	548,753
Other non-current assets	462,036	441,959	478,360	516,177
Total non-current assets	1,046,858	1,057,018	1,130,919	1,231,236
Cash & equivalents	321,262	189,898	214,142	271,035
Restricted cash and escrow receivables	35,207	37,455	39,328	41,294
Short-term investments and investment securities	162,183	265,187	265,187	265,187
Prepayments, deposits & other assets	124,708	145,995	153,295	160,959
Total current assets	643,360	638,535	671,951	738,476
Total assets	1,690,218	1,695,553	1,802,870	1,969,712
Accrued expenses, accounts payable and other liabilities	260,929	271,460	283,542	291,428
Other payables & accruals	25,486	21,753	22,841	23,983
Borrowings and notes	13,437	8,841	13,841	21,841
Deferred revenue	62,489	66,983	71,995	81,045
Merchants deposits	15,017	14,747	15,484	16,259
Total current liabilities	377,358	383,784	407,703	434,555
Borrowings and notes	135,716	132,503	132,503	132,503
Other non-current liabilities	93,510	97,073	100,158	103,398
Total non-current liabilities	229,226	229,576	232,661	235,901
Total liabilities	606,584	613,360	640,364	670,456
Net current assets	266,002	254,751	264,248	303,921
Mezzanine equity	8,673	9,655	9,755	9,951
Equity attributable to shareholders	937,470	948,479	1,033,101	1,178,246
Non-controlling interests	137,491	124,059	119,650	111,060
Total equity	1,074,961	1,072,538	1,152,750	1,289,306

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 flows statement (FY21A-FY24E)

As of Mar 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E
Net income	143,284	47,079	55,114	107,372
Depreciation and amortization	47,909	48,065	40,099	42,183
Other non-cash adjustments	(9,915)	65,765	35,198	21,879
Change in working capital	50,508	(18,150)	12,832	12,460
Operating cash flow	231,786	142,759	143,244	183,894
Investing cash flow	(244,194)	(198,592)	(124,000)	(135,000)
Financing cash flow	30,082	(64,449)	5,000	8,000
Net cash flows	17,674	(120,282)	24,244	56,894

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



JD.com (9618 HK/ JD US) Strengths in operational improvement

- Revenue growth reacceleration driven by user growth
- Strengths in cost control leading to better margins
- More favorable supply-demand dynamic than peers after Tencent's divestment

Recovery underway. In 3Q22, revenue grew 11% YoY to RMB 243bn. Non-GAAP adjusted net profit (core net profit) doubled to RMB 10.0bn thanks to operational improvement. The 11% YoY revenue growth in 3Q22 represents a sequential improvement after the 5% YoY revenue growth in 2Q22. In particular, electronics and home appliance product recorded an 8% YoY revenue growth, indicating JD's strength in this product category. Net service revenue grew 42% YoY driven by logistics and other services.

Strengths in operational improvement. JD is rationalizing investments in new businesses with more emphasis placed on profitability, acquisition of high-quality customers, and controls on spending, especially in marketing. In 3Q22, JD Retail's operating margin was 5.2% vs. 4.0% in 3Q21. In addition, JD Logistics reported RMB 2.3bn in operating profit for 3Q22 (RMB 36mn in 2Q22). New businesses, including Jingxi and other technology initiatives, reported RMB 1.0bn in operating losses for 3Q22, lower (RMB 2.0bn operating losses in 2Q22). Core net margin was 4.1% in 3Q22, vs. 2.4% in 2Q22.

Recommendation. Maintain **BUY** with a TP of US\$ 77 for JD-ADR (JD US) and HK\$ 300 for JD-SW (9618 HK). We believe JD's strong track record in operational improvement could result in better margins in coming quarters. In addition, JD has lower share supply risk than its listed peers after the recent divestment by Tencent (700 HK), in our view.

Results and Valuation

FY end Dec 31	2020A	2021A	2022E	2023E
Revenue (RMB mn)	745,802	951,592	1,048,144	1,206,919
Chg (% YoY)	29.3	27.6	10.1	15.1
Net profit (RMB mn)	49,405	-3,560	12,080	22,096
Chg (% YoY)	305.5	NA	NA	82.9
Core net profit (RMB mn)	16,828	17,207	25,729	31,189
Chg (% YoY)	56.5	2.3	49.5	21.2
Earnings per ADS (RMB)	31.7	-2.2	7.6	13.9
Chg (% YoY)	285.6	NA	NA	82.9
Core earnings per ADS (RMB)	10.6	10.8	16.1	19.6
Chg (% YoY)	45.7	2.0	49.8	21.2
Core P/E (x)- ADR	37.3	37.5	24.9	20.5
Core P/E (x)-SW share	38.0	38.2	24.7	20.4
ROAE (%)	34.2	-1.6	4.9	8.3
ROAA (%)	14.5	-0.8	2.3	3.9

*1 ADR = 2 ordinary shares; CNY/HKD = 1.12

Source (s): Bloomberg, ABCI Securities estimates

Company Report Dec 29, 2022

Rating (ADR): BUY

TP (ADR): US\$ 77

Rating (SW-share): BUY

TP (SW-share): HK\$ 300

Analyst : Steve Chow

Tel: (852) 2147 8809

stevechow@abci.com.hk

Price (ADR/SW-share)	US\$ 56.1/ HK\$218
Est. share price return (ADR/SW-share)	36.8%/37.5%
Est. dividend yield (ADR/SW-share)	2.2%/2.2%
Est. total return (ADR/SW-share)	39.0%/39.7%
Last Rating & TP (ADR/SW-share)	BUY, US\$84/ BUY, HK\$330
Previous Report Date	Aug 29, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

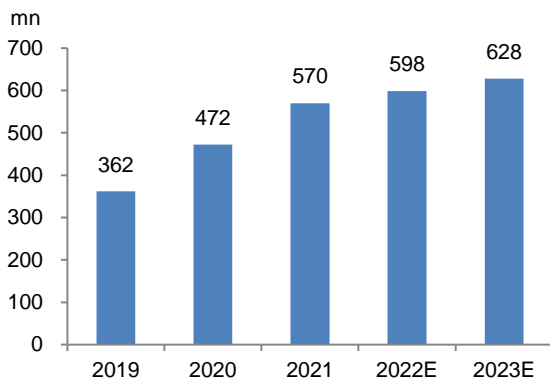
52Wk H/L (HK\$) (SW-share)	301.0/138.9
52Wk H/L (US\$) (ADR)	79.2/33.1
Outstanding shares (mn)	3,131
Market cap (HK\$ mn) (all outstanding shares)	683,184
3-mth avg daily turnover (HK\$ mn) (SW-share)	1,926
3-mth avg daily turnover (US\$ mn) (ADR)	478
Major shareholder(s)	Voting right
Richard Liu	76.1%

Source(s): Bloomberg, HKEx, Company

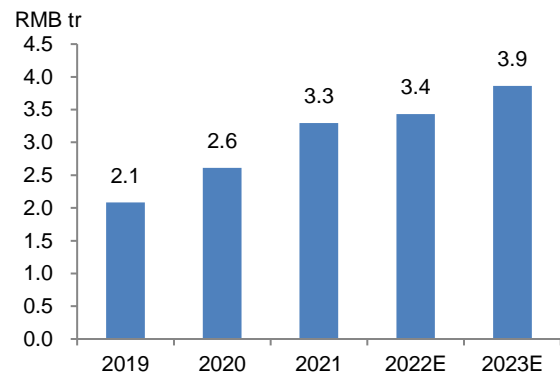
Financial Outlook

We expect revenue to increase at 13% CAGR in 2021-23E amid the 8% CAGR in GMV and the 5% CAGR in annual active customer during the period. We expect net product revenue to increase at 10% CAGR in 2021-23E, mainly driven by general merchandise products. We expect net service revenue CAGR to be 25%, thanks to increased corporate demand for quality supply-chain services.

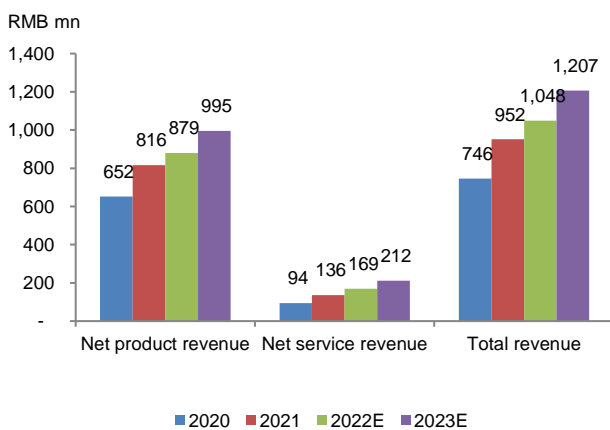
Amid a soft economic environment, JD is rationalizing its business expansion with more emphasis on profitability of new businesses (such as Jingxi and overseas businesses). As the company seeks to acquire more quality customers with higher average spending, we expect annual active customer to increase at 5% CAGR in 2021-23E. In our view, this strategy could support margins of new businesses despite slower customer growth in the near term.

Exhibit 26: Annual active customer outlook


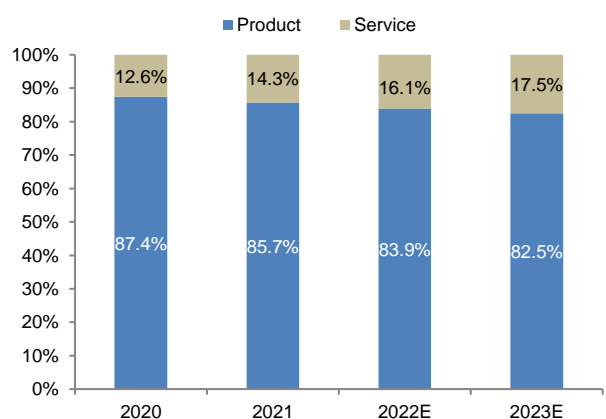
Source(s): Company, ABCI Securities estimates

Exhibit 27: GMV outlook


Source(s): Company, ABCI Securities estimates

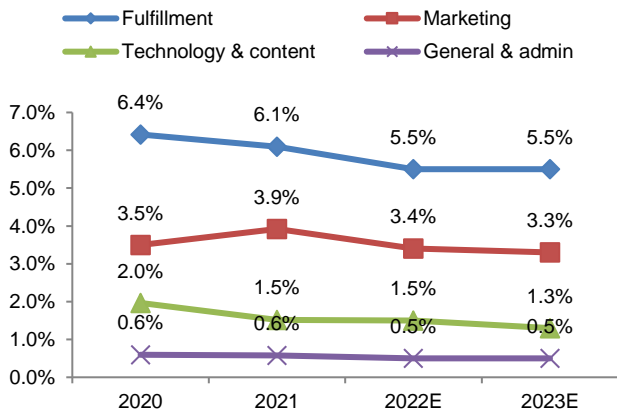
Exhibit 28: Revenue outlook


Source(s): Company, ABCI Securities estimates

Exhibit 29: Revenue mix


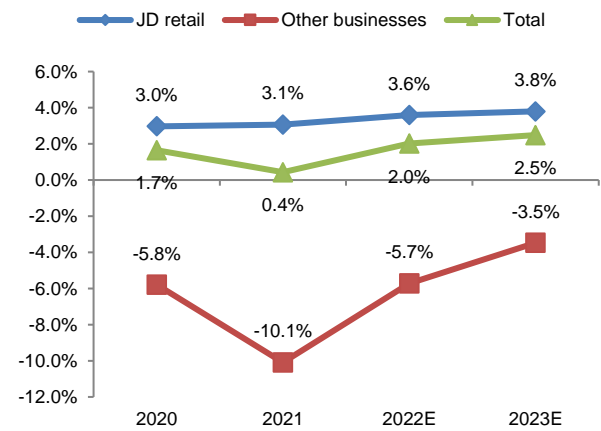
Source(s): Company, ABCI Securities estimates

In terms of segment profitability, we see cost optimization potential of loss-making businesses, including Jingxi, technology, and other new businesses, given JD's strong track record in cost control. Looking forward, we expect JD Retail's operating margin to improve from 3.1% in 2021 to 3.8% in 2023E, while operating margin of other businesses to increase from -10.1% in 2021 to -3.5% in 2023E.

Exhibit 30: Non-GAAP* cost trend (% of sales)


Source(s): Company, ABCI Securities estimates

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

Exhibit 31: Segment operating margin outlook


Source(s): Company, ABCI Securities estimates

As a result of ongoing cost control and operating improvement, we expect core net margin to improve to 2.6% in 2023E vs. 1.8% in 2021.

Exhibit 32: Forecast changes for 2022E

(RMB mn)	Old	New	Diff.	Comment
Revenues	1,048,144	1,048,144	0%	
Core profit	19,315	25,729	33%	Cost control and operational improvement

Source(s): ABCI Securities estimates

Exhibit 33: Forecast changes for 2023E

(RMB mn)	Old	New	Diff.	Comment
Revenues	1,206,919	1,206,919	0%	
Core profit	26,940	31,189	16%	Cost control and operational improvement

Source(s): ABCI Securities estimates

Valuation and TP

JD-SW (9618 HK): Our SOTP-based TP is HK\$ 300.

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

Exhibit 34: JD-SW (9618 HK): SOTP-based valuation (HK\$ per share)

Segment	Low	High	Comment
Core ecommerce business [#]	226	296	DCF –from 15% to 11% WACC
Investments [*]	58	58	Book/market value/ABCI Securities estimates
Overall	284	354	

[#]Excluding JD Health (6618 HK) and JD Logistics (2618 HK) and including new businesses

^{*}JD Health (6618 HK) and JD Logistics (2618 HK) based on market value with a 20% holding discount, and other strategic investments

Source(s): ABCI Securities estimates

JD's revenue growth momentum has been tracking ahead of its major peers, Alibaba, in recent quarters thanks to ongoing user growth. In addition, we believe its strong record in operational improvement could lead to better margins in coming quarters. The counter has a lower supply risk than its listed peers after the recent divestment by Tencent (700 HK), in our view.

Exhibit 35: TP changes (HK\$ per share)

Old	New	Methodology-old	Methodology-new
330	300	SOTP	SOTP

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	879,052	995,393
Net service revenue	93,923	135,937	169,092	211,525
Total revenue	745,802	951,592	1,048,144	1,206,919
Cost of sales	(636,694)	(822,525)	(905,666)	(1,040,438)
Gross profit	109,108	129,067	142,477	166,481
Fulfillment expenses	(48,700)	(59,055)	(58,836)	(67,638)
Marketing expenses	(27,156)	(38,743)	(36,705)	(41,023)
Research and development expenses	(16,149)	(16,332)	(17,414)	(17,471)
General & admin expenses	(6,409)	(11,562)	(9,320)	(10,336)
Gains on disposal	1,649	767	1,000	0
Operating Profit	12,343	4,141	21,202	30,013
Share of results of equity investees	4,291	(4,918)	(4,500)	(2,500)
Interest expenses, net	1,628	(1,213)	(1,250)	(1,300)
Others, net	32,556	(590)	(1,000)	(1,000)
PBT	50,819	(2,580)	14,452	25,213
Tax	(1,482)	(1,887)	(3,372)	(4,117)
PAT	49,337	(4,467)	11,080	21,096
Minority interests	(68)	(907)	(1,000)	(1,000)
Profit attributable to shareholders	49,405	(3,560)	12,080	22,096
Share-based compensation	4,156	8,293	7,049	7,402
Amortization	723	853	1,048	1,207
Impairment/FV changes of investments	(35,690)	13,371	1,000	0
Other non-core items	(1,767)	(1,750)	4,552	484
Non-GAAP profit attributable to shareholders	16,828	17,207	25,729	31,189
Growth				
Total revenue (%)	29.3	27.6	10.1	15.1
Gross Profit (%)	29.2	18.3	10.4	16.8
Operating Profit (%)	37.2	(66.4)	412.0	41.6
Net profit (%)	305.5	(107.2)	(439.4)	82.9
Non-GAAP net profit (%)	56.5	2.3	49.5	21.2
Operating performance				
Operating margin (%)	1.7	0.4	2.0	2.5
Net margin (%)	6.6	(0.4)	1.2	1.8
Core net margin (%)	2.3	1.8	2.5	2.6
ROAE (%)	34.2	(1.6)	4.9	8.3
ROAA (%)	14.5	(0.8)	2.3	3.9

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	70,989	93,289
Investments	98,916	82,310	85,471	88,790
Other non-current assets	46,944	61,436	59,236	57,036
Total non-current assets	187,487	196,835	215,696	239,116
Cash & equivalents	90,519	76,692	74,619	84,657
Short-term investments and investment securities	60,577	114,564	129,564	154,564
Inventories	58,933	75,601	85,718	82,666
Account receivables	7,112	11,900	10,338	13,227
Other current assets	17,660	20,915	21,488	22,089
Total current assets	234,801	299,672	321,727	357,202
Total assets	422,288	496,507	537,423	596,318
Account payables	127,818	169,590	201,404	227,504
Borrowings and notes	3,260	4,367	6,367	8,367
Other current liabilities	42,939	47,679	47,807	47,942
Total current liabilities	174,017	221,636	255,578	283,812
Payables & accruals	332	1,786	1,875	1,969
Borrowings and notes	12,530	9,386	11,386	13,386
Other non-current liabilities	13,790	16,915	16,980	17,048
Total non-current liabilities	26,652	28,087	30,241	32,403
Total liabilities	200,669	249,723	285,819	316,215
Mezzanine equity	17,133	1,212	1,212	1,212
Equity attributable to shareholders	187,543	208,911	214,732	244,229
Non-controlling interests	16,943	36,661	35,661	34,661
Total equity	204,486	245,572	250,392	278,890

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 flows statement (2020A-2023E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Net income	49,337	(4,467)	11,080	21,096
Depreciation and amortization	6,068	6,232	6,300	6,400
Other non-cash adjustments	(31,538)	21,588	7,049	7,402
Change in working capital	18,677	18,948	19,807	22,640
Operating cash flow	42,544	42,301	44,237	57,538
Acquisition of fixed asset	(12,437)	(22,255)	(22,000)	(26,500)
Movement of short-term investments	(35,599)	(54,322)	(15,000)	(25,000)
Other investment cash flow	(9,775)	2,329	-	-
Investing cash flow	(57,811)	(74,248)	(37,000)	(51,500)
Financing cash flow	71,072	19,503	(9,309)	4,000
Effective of FX	(5,082)	(1,498)	-	-
Net cash flows	50,723	(13,942)	(2,072)	10,038

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 estimate

Kuaishou (1024 HK)

Late-stage recovery play

- Core businesses still facing macro headwinds but growing e-commerce business should help reduce impact
- On track to achieve positive core net profit in 2023E driven by cost control
- Upgrade to **BUY** with a TP of HK\$85 on improving profitability

Still in the woods. Overall, Kuaishou's recovery pace has been tracking behind other major internet platforms so far. Its revenue growth decelerated to 12.9% in 3Q22 from 13.4% in 2Q22. In addition, online marketing and live streaming segments, which collectively accounted for 90% of total revenue, showed a moderating revenue growth of 6.2%/15.8% vs. 10.5%/19.1% in the previous quarter. In our view, headwinds in the online advertising market caused by advertising budget cuts of corporates will linger until a more sustainable economic recovery occurs in coming months.

Live-streaming e-commerce is a bright spot. Its live-streaming e-commerce business has been enjoying industry tailwinds in recent quarters with 26.6% YoY GMV growth in 3Q22. Nonetheless, its revenue contribution is still small at the moment (about or less than 10%) and therefore is unable to offset the softness of its online marketing and live streaming businesses.

Improving profitability. The company has demonstrated improving profitability in recent quarters with core net margin rising from -14.6% in 4Q21 to -2.9% in 3Q22 driven by cost control. In addition, its China business has achieved positive operating profit for two consecutive quarters. In our view, the company is on track to achieve positive core net profit in 2023E,

A late-stage recovery play. Upgrade to **BUY** with a TP of HK\$ 85 on recovering profitability. We consider the counter as a late-stage recovery play, potentially suitable for investors with a longer investment horizon and higher tolerance for share price volatility. To note, the counter could be one of Tencent's potential targets for divestment after JD and Meituan.

Results and Valuation

FY end Dec 31	2020A	2021A	2022E	2023E
Revenue (RMB mn)	58,776	81,082	93,102	107,826
Chg (% YoY)	50.2	37.9	14.8	15.8
Net profit (RMB mn)	(116,635)	(78,074)	(15,138)	(7,139)
Non-GAAP net profit (RMB mn)	(7,863)	(18,852)	(6,638)	1,361
EPS (RMB)	(125.3)	(20.4)	(3.5)	(1.7)
Non-GAAP EPS (RMB)	(8.5)	(4.9)	(1.6)	0.3
P/S (x)	4.1	3.0	2.9	2.5
Core P/E (x)	NA	NA	NA	198.9
ROAE (%)	NA	NA	NA	3.7
ROAA (%)	NA	NA	NA	1.6

CNY/HKD = 1.12

Source(s): Company, ABCI Securities estimates

Company Report

Rating: **BUY**
TP: HK\$ 85

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

Share price (HK\$)	70.5
Est. share price return	20.6%
Est. dividend yield	NA
Est. total return	20.6%
Previous Rating & TP	HOLD/HK\$60
Previous Report Date	Apr 27, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	99.4/31.7
Issued class B shares (mn)	3,538
Class B share market cap (HK\$ mn)	249,429
Avg daily turnover (HK\$ mn)	1,639
Major shareholder(s)	
Mr. Su Hua	11.30%
Mr. Cheng Yixiao	8.96%

Source(s): Bloomberg, ABCI Securities

Financial Outlook

We expect overall revenue to grow 16% in 2023E, a slight improvement compared to the 15% YoY growth in 2022E.

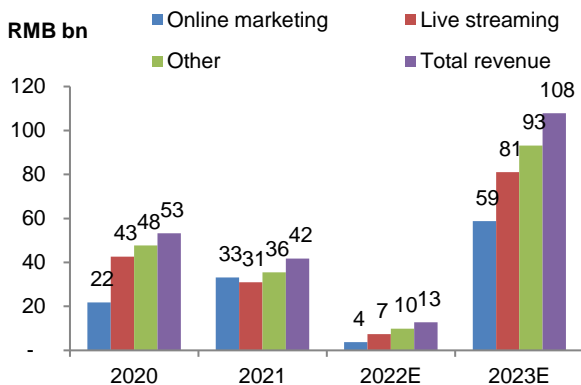
Online marketing: We expect online marketing revenue to expand at 12% YoY in 2023E amid 15% YoY growth in DAU and 3% YoY decline of average online marketing revenue per DAU. In our view, the online advertising segment is still facing headwinds amid corporates' budget cuts and it would take time to recover.

Live streaming: We expect live streaming revenue to grow by 16% YoY in 2023E driven by 12% YoY growth in live-streaming MPUs (monthly paying users) and 5% YoY growth in live-streaming monthly ARPPU (average revenue per paying user).

Others: We expect other revenue, mainly consists of e-commerce business and other value-added services, to grow by 31% YoY in 2023E primarily driven by e-commerce business.

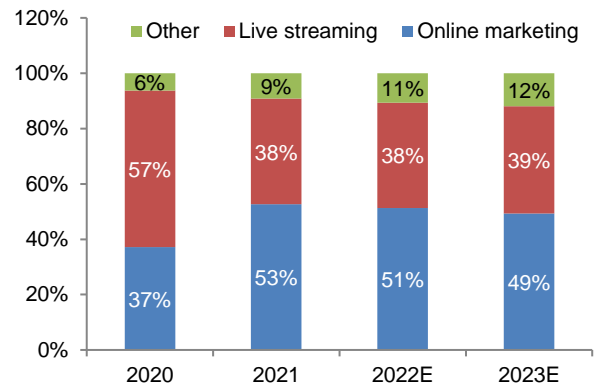
In terms of revenue mix, we expect contribution from other business to increase from 9% in 2021 to 12% in 2023E, partly offsetting the anemic growth in online marketing and live streaming businesses.

Exhibit 36: Revenue outlook



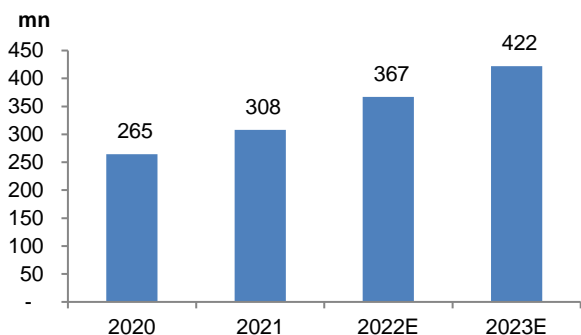
Source(s): Company, ABCI Securities estimates

Exhibit 37: Revenue mix outlook



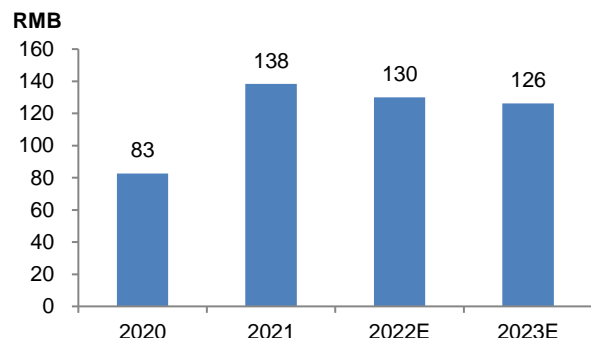
Source(s): Company, ABCI Securities estimates

Exhibit 38: DAU trend



Source(s): Company, ABCI Securities estimates

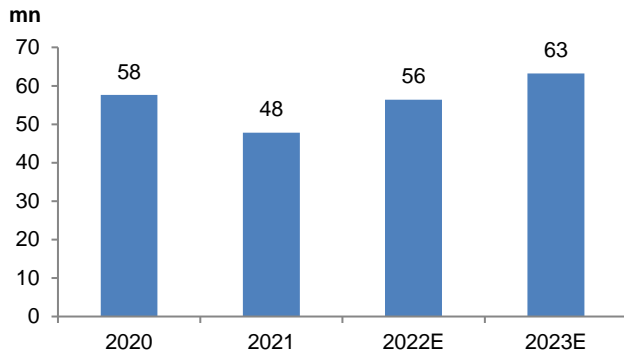
Exhibit 39: Avg. quarterly online marketing service revenue per DAU



Source(s): Company, ABCI Securities estimates

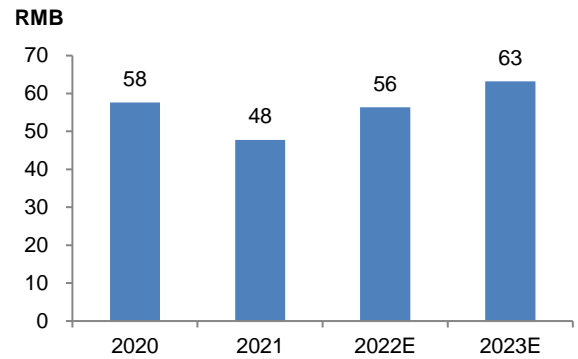


Exhibit 40: Live streaming MPUs (monthly paying user)



Source(s): Company, ABCI Securities estimates

Exhibit 41: Live streaming monthly ARPPU



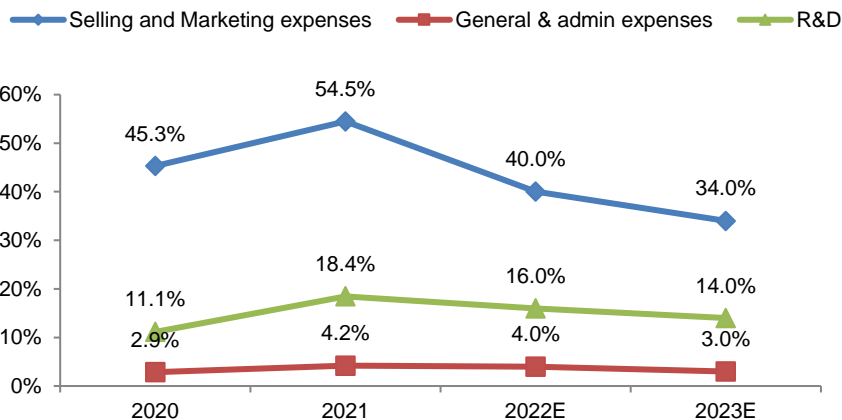
Source(s): Company, ABCI Securities estimates

Selling and marketing expenses: Selling and marketing expenses have been a major cost item equivalent to 54.5% of revenue in 2021. The high expenses are caused by investments on product promotion as well as intense competition on traffic acquisition. The company plans to strengthen cost control and improve operational efficiency to drive up margins. In particular, the domestic business has already achieved quarterly breakeven. We expect selling and marketing expenses/revenue ratio to fall to 34% in 2023E due to cost control.

General and admin expenses: Thanks to the higher economies of scale and operational improvement, we expect general and admin cost-to-revenue ratio to drop from 4.2% in 2021 to 3.0% in 2023E.

R&D: We expect R&D cost-to-revenue ratio to drop from 18.4% in 2021 to 14.0% in 2023E, thanks to improving economies of scale.

Exhibit 42: Cost trend (% of revenue)



Source(s): Company, ABCI Securities estimates

Based on above growth trends, we expect the company to achieve RMB1.4bn of core net profit in 2023E vs. RMB6.6bn of core net losses in 2022E.



Exhibit 43: Forecast changes for 2022E

(RMB mn)	Old	New	Diff.	Comment
Revenues	102,676	93,102	-9%	Slower growth for online marketing
Core profit	(11,474)	(6,638)	NA	Cost control and operational improvement

Source(s): ABCI Securities estimates

Exhibit 44: Forecast changes for 2023E

(RMB mn)	Old	New	Diff.	Comment
Revenues	125,920	107,826	-14%	Slower growth for online marketing
Core profit	(3,814)	1,361	NA	Cost control and operational improvement

Source(s): ABCI Securities estimates

Recommendation

Upgrade to **BUY** with a DCF-based TP of HK\$ 85 based on improving profitability. We view the counter as a late-stage recovery play, potentially suitable for investors with a longer investment horizon and higher tolerance for share price volatility. To note, the counter could be one of Tencent's potential targets for divestment after JD and Meituan.

Exhibit 45: DCF sensitivity

		WACC				
		14%	15%	16%	17%	18%
Terminal growth	2.0%	91	85	79	74	69
	2.5%	94	88	82	77	72
	3.0%	98	91	85	80	74
	3.5%	102	95	89	83	77
	4.0%	107	100	93	87	81

Source (s): ABCI Securities estimates

Exhibit 46: TP changes (HK\$/shr)

Old	New	Methodology-old	Methodology-new
65	85	DCF	DCF with updated financial forecast

Source(s): ABCI Securities estimates



Financial Forecast

Consolidated income statement (2020A-2023E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Total revenue	58,776	81,082	93,102	107,826
Cost of sales	(34,961)	(47,052)	(51,672)	(59,520)
Gross profit	23,815	34,030	41,431	48,306
Selling and Marketing expenses	(26,615)	(44,176)	(37,241)	(36,661)
General & admin expenses	(1,677)	(3,400)	(3,724)	(3,235)
R&D	(6,547)	(14,956)	(14,896)	(15,096)
Other income/losses	704	802	200	0
Operating Profits	(10,319)	(27,701)	(14,231)	(6,685)
Net finance expenses	(35)	(39)	(50)	(50)
FV change of CB	(106,846)	(51,275)	0	0
Others, net	0	(87)	0	0
PBT	(117,200)	(79,102)	(14,281)	(6,735)
Income tax benefits	565	1,025	(857)	(404)
PAT	(116,635)	(78,077)	(15,138)	(7,139)
Minority interests	0	(3)	0	0
Profits attributable to shareholders	(116,635)	(78,074)	(15,138)	(7,139)
Share-based compensation	1,841	7,830	7,000	7,000
Impairment/FV changes of CB	106,846	51,276	0	0
Other non-core items	85	116	1,500	1,500
Non-GAAP profits attributable to shareholders	(7,863)	(18,852)	(6,638)	1,361
Growth				
Total revenue (%)	50.2	37.9	14.8	15.8
Gross Profits (%)	68.9	42.9	21.7	16.6
Operating Profits (%)	NA	NA	NA	NA
Net profit (%)	NA	NA	NA	NA
Non-GAAP net profit (%)	NA	NA	NA	NA
Operating performance				
Operating margin (%)	(17.6)	(34.2)	(15.3)	(6.2)
Net margin (%)	(198.4)	(96.3)	(16.3)	(6.6)
Core net margin (%)	(13.4)	(23.3)	(7.1)	1.3
ROAE (%)	NA	NA	NA	3.7
ROAA (%)	NA	NA	NA	1.6

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

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



Consolidated balance sheet (2020A-2023E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Fixed assets	13,654	24,785	25,285	25,785
Investments	3,843	4,712	5,778	6,946
Other non-current assets	3,122	10,008	10,196	10,676
Total non-current assets	20,619	39,505	41,259	43,407
Cash & equivalents	20,392	32,612	23,514	22,085
Short-term deposit	2,729	3,825	3,825	3,825
Financial assets	3,690	8,842	9,342	9,842
Account receivables	2,428	4,450	4,673	4,906
Other current assets	2,289	3,281	3,445	3,617
Total current assets	31,528	53,011	44,799	44,276
Total assets	52,147	92,516	86,058	87,683
Account payables	17,307	29,144	30,145	31,196
Other current liabilities	5,877	8,111	8,287	8,470
Total current liabilities	23,185	37,256	38,432	39,667
Borrowings and notes	185,372	-	-	-
Other non-current liabilities	3,640	10,164	10,668	11,197
Total non-current liabilities	189,012	10,164	10,668	11,197
Total liabilities	212,196	47,419	49,100	50,864
Equity attributable to shareholders	(160,050)	45,089	36,952	36,812
Non-controlling interests	-	7	7	7
Total equity	(160,050)	45,096	36,958	36,819

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

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

Consolidated cash flow statement (2020A-2023E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Net profit	(117,200)	(79,102)	(15,138)	(7,139)
Depreciation and amortization	4,751	6,883	7,000	7,000
Fair value change of convertible redeemable preferred shares	106,845	51,275	-	-
Share-based compensation	1,841	7,830	7,000	7,000
Other operating cash flow	6,051	7,595	1,040	710
Operating cash flow	2,289	(5,519)	(98)	7,571
Capital expenditure	(5,908)	(7,764)	(7,500)	(7,500)
Other investment cash flow	1,041	(10,597)	(1,000)	(1,000)
Investing cash flow	(4,867)	(18,361)	(8,500)	(8,500)
Financing cash flow	19,290	36,500	(500)	(500)
Effective of FX	(316)	(399)	-	-
Net cash flows	16,396	12,221	(9,098)	(1,429)

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

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

Meituan-W (3690 HK)

Resilient demand on staples

- Meituan's food delivery business and new initiatives are benefiting from consumers' resilient demand on food and staple products; the relaxation of COVID measures could drive recovery of in-store/hotel/travel businesses
- Improving profitability thanks to cost control and improved operation

Resilient demand on staples. Meituan's food delivery and various new initiatives, including Meituan Instashopping, Meituan Select, and Meituan Grocery, which mainly cover staple products, are currently benefiting from restocking demand from consumers. In addition, recent relaxation of COVID measures could drive the recovery of in-store, hotel & travel business going forward.

Recovery momentum on track. Meituan's revenue growth accelerated to 28% in 3Q22 vs. 16% in 2Q22. Core local commerce revenue grew 25% YoY driven by 16% YoY order growth of food delivery and Meituan Instashopping businesses. New initiative revenue growth remained solid at 40% YoY during the quarter as Meituan Select and Meituan Grocery benefited from increasing demand of groceries and daily necessities.

Improving profitability. Thanks to ongoing cost control, operating margin of new businesses improved to -41.6% vs. -48.0% in the previous quarter. Operating margin of local core commerce improved to 20.1% during the quarter vs. 11.2% in 3Q21. As a result, core net margin improved to 5.6% during the quarter vs. -11.3% in 3Q21. Overall, the company has achieved two consecutive quarters of positive core net profit since 2Q22. Driven by improving profitability of the new initiatives, we expect a 2023E core net profit of RMB 10.8bn vs. 2022E core net losses of RMB 2.7bn.

Maintain BUY. We maintain **BUY** with a DCF-based TP of HK\$ 230 given the resilient demand of consumer staples and ongoing improving profitability.

Results and Valuation

FY end Dec 31	2020A	2021A	2022E	2023E
Revenue (RMB mn)	114,795	179,128	217,125	266,596
Chg (% YoY)	17.7	56.0	21.2	22.8
Net profit (RMB mn)	4,709	(23,539)	(5,979)	6,065
Chg (% YoY)	NA	NA	NA	NA
Core net profit (RMB mn)*	3,121	(15,572)	2,891	14,324
Chg (% YoY)	(33.0)	NA	NA	NA
EPS (RMB)	0.8	(3.9)	(1.0)	1.0
Chg (% YoY)	107.5	NA	NA	NA
Core EPS (RMB)*	0.5	(2.6)	0.5	2.3
Chg (% YoY)	(33.9)	NA	NA	NA
P/S (x)	8.3	5.5	4.6	3.8
Core P/E (x)*	305.9	NA	NA	70.0
ROAE (%)	5.0	(21.1)	(4.8)	4.6
ROAA (%)	3.2	(11.6)	(2.4)	2.2

CNY/HKD = 1.12

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

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Dec 29, 2022

Rating: BUY

TP: HK\$ 230

Analyst : Steve Chow

Tel: (852) 2147 8809

stevechow@abci.com.hk

Share price (HK\$)	183
Est. share price return	25.7%
Est. dividend yield	NA
Est. total return	25.7%
Previous Rating & TP	BUY/HK\$240
Previous Report Date	Sept 5, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	242.4/103.5
Issued B shares (mn)	5,548
B share market cap (HK\$ mn)	1,015,284
Avg daily turnover (HK\$ mn)	5,664
Major shareholder(s)	Voting right
Wang Xing	42.0%

Source(s): Bloomberg, Company, ABCI Securities

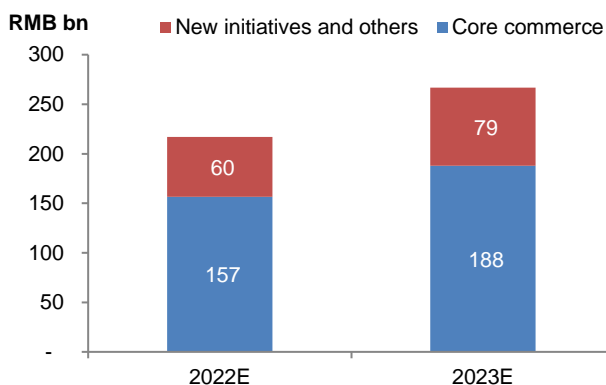
Financial Outlook

We expect revenue growth to be 23% YoY in 2023E, as compared to 21% YoY in 2022E.

Core commerce: We expect core commerce (food delivery and in-store/hotel/travel) revenue to increase 20% YoY in 2023E, driven by resilient consumer staple demand supporting the food delivery business, as well as the recovery of the in-store/hotel/travel segment amid recent relaxation of the COVID measures in China.

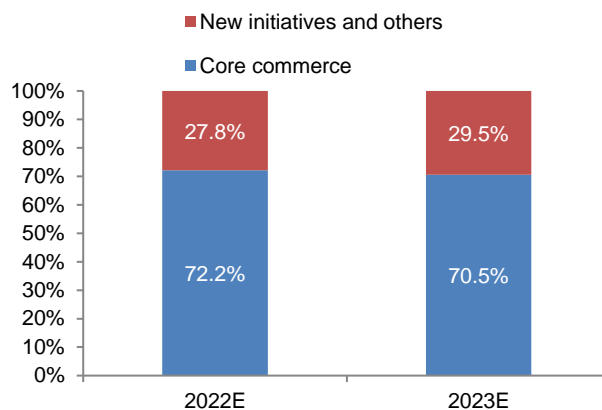
New initiatives and others: We expect segment revenue to increase by 30% in 2023E on rising demand of food and grocery products since consumers are keen to stock up on staples amid potential lockdowns. In addition, competition in emerging businesses, such as community group purchase and fresh food, has dwindled as smaller platforms streamline operation, benefiting established players such as Meituan.

Exhibit 47: Revenue trend



Source(s): Company, ABCI Securities estimates

Exhibit 48: Revenue mix



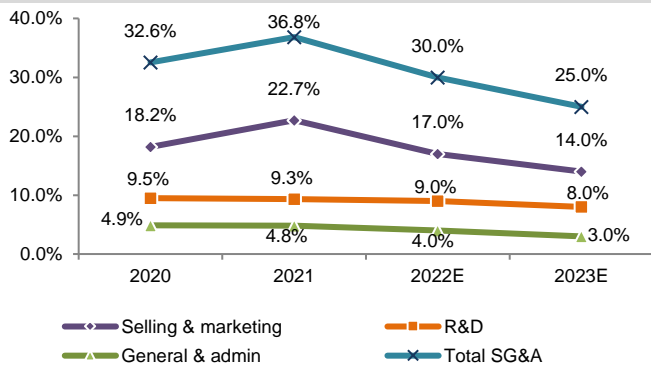
Source(s): Company, ABCI Securities estimates

In terms of operating cost, we expect SG&A/revenue ratio to trend down to 25.0% in 2023E from 36.8% in 2021 on economies of scale and cost control, especially in the new initiatives and others segment. In particular, we expect selling and marketing expenses/revenue ratio to fall from 22.7% in 2021 to 14.0% in 2023E since the Group has acquired a certain level of consumer loyalty and fewer subsidies will be needed.

Profitability of new initiatives and others segment is the major swing factor of profit outlook. We expect segmental losses to narrow to RMB 17.7bn by 2023E from RMB 27.7bn in 2022E as the business increased in scale with effective cost control. As such, we expect the Group to achieve RMB14.3bn of core net profit in 2023E.

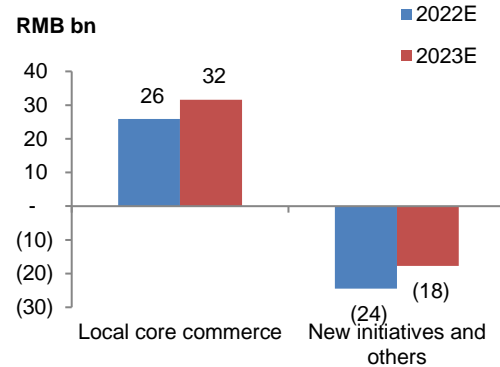


Exhibit 49: Cost trend (% of revenue)



Source(s): Company, ABCI Securities estimates

Exhibit 50: Segment operating profit



Source(s): Company, ABCI Securities estimates

Exhibit 51: Forecast changes

RMB mn	2022E			Comment	2023E			Comment
	Old	New	Diff		Old	New	Diff	
Revenues	219,326	217,125	-1.0%		278,926	266,596	-4.4%	
Core profit	(2,708)	2,891	NA	Cost control	10,809	14,324	32.5%	Cost control

Source(s): ABCI Securities estimates

Valuation and TP

We maintain **BUY** with a DCF-based TP of HK\$ 230. Meituan has been demonstrating stronger recovery momentum than most peers, and the recent relaxation of COVID measures should further strengthen its recovery pace, especially for the in-store/hotel/travel segment. In addition, the narrowing losses of new businesses would allay investors' concerns on profitability.

Exhibit 52: DCF sensitivity

Terminal growth	WACC				
	11.0%	12.0%	13.0%	14.0%	15.0%
2.0%	290	249	216	189	167
2.5%	302	258	223	195	171
3.0%	316	268	231	201	176
3.5%	332	280	239	207	181
4.0%	350	293	249	214	187

Source (s): ABCI Securities estimates

Exhibit 53: TP changes (HK\$ per share)

Old	New	Methodology-old	Methodology-new
240	230	DCF	DCF

Source(s): ABCI Securities estimates



Financial Forecast

Consolidated income statement (FY20A-FY23E)

FY Ended Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E
Total revenue	114,795	179,128	217,125	266,596
Cost of sales	(80,744)	(136,654)	(158,501)	(194,615)
Gross profit	34,051	42,474	58,624	71,981
Other gains/losses	8,117	630	2,000	2,500
Selling & marketing expenses	(20,883)	(40,683)	(36,911)	(37,323)
R&D expenses	(10,893)	(16,676)	(19,541)	(21,328)
General & admin expenses	(5,594)	(8,613)	(8,685)	(7,998)
Impairment	(468)	(260)	(600)	(500)
Operating Profits	4,330	(23,127)	(5,114)	7,332
Finance income, net	(156)	(585)	(500)	(400)
Share of gains of investments	264	146	(300)	(200)
Profit before tax	4,438	(23,566)	(5,914)	6,732
Tax	270	30	(59)	(673)
Profit after tax	4,708	(23,536)	(5,973)	6,059
Minority interests	(1)	2	6	(6)
Profit attributable to shareholders	4,709	(23,539)	(5,979)	6,065
Share-based compensation	3,277	5,194	6,514	6,665
Amortization and impairment	610	496	550	600
Adjustments on disposals/revaluation	(5,810)	(1,247)	1,800	1,000
Other adjustments	335	3,524	6	(6)
Core net profit	3,121	(15,572)	2,891	14,324
Growth				
Total revenue (%)	17.7	56.0	21.2	22.8
Gross Profits (%)	5.4	24.7	38.0	22.8
Operating Profits (%)	61.6	NA	NA	NA
Net profit (%)	110.3	NA	NA	NA
Core profit (%)	(33.0)	NA	NA	NA
Operating performance				
Operating margin (%)	3.8	(12.9)	(2.4)	2.8
Net margin (%)	4.1	(13.1)	(2.8)	2.3
Core net margin (%)	2.7	(8.7)	1.3	5.4
ROAE (%)	5.0	(21.1)	(4.8)	4.6
ROAA (%)	3.2	(11.6)	(2.4)	2.2

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

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (FY20A-FY23E)

As of Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E
Fixed assets	13,917	22,814	23,814	24,814
Intangible assets	31,676	31,049	31,549	32,049
Investment in associates and JV	13,794	18,310	23,310	28,310
Financial assets	10,863	15,892	16,686	17,521
Other non-current assets	8,019	4,760	4,929	5,106
Total non-current assets	78,269	92,825	100,288	107,800
Cash & equivalents	17,094	32,513	46,607	64,103
Restricted cash	12,776	13,277	13,941	14,638
Account receivables	1,031	1,793	2,379	2,922
Deposit, prepayments and other assets	12,940	15,282	16,046	16,848
Inventories	466	682	1,332	1,636
Short term investment	43,999	84,282	84,282	84,282
Total current assets	88,306	147,829	164,588	184,428
Total assets	166,575	240,654	264,876	292,228
Accounts payable	11,967	15,166	18,441	22,642
Borrowings and notes	6,395	11,565	21,565	26,565
Deferred revenue	5,053	5,478	5,752	6,040
Other current liabilities	27,733	36,383	36,471	36,563
Total current liabilities	51,148	68,593	82,229	91,811
Deferred revenue	167	-	-	-
Borrowings	14,923	42,603	52,603	57,603
Other non-current liabilities	2,703	3,901	3,946	3,993
Total non-current liabilities	17,793	46,504	56,549	61,596
Total liabilities	68,941	115,097	138,778	153,406
Net current assets	37,158	79,237	82,359	92,618
Equity attributable to shareholders	97,693	125,613	126,148	138,878
Non-controlling interests	(59)	(57)	(51)	(57)
Total equity	97,634	125,557	126,098	138,821

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 (FY20A-FY23E)

As of Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E
PBT	4,438	(23,566)	(5,914)	6,732
Depreciation and amortization	5,194	8,928	8,000	8,000
Other operating cash flow	(3,047)	3,419	6,455	5,992
Change in working capital	1,890	7,208	848	2,106
Operating cash flow	8,475	(4,011)	9,389	22,830
Acquisition of fixed asset	(15,824)	(9,010)	(9,000)	(9,000)
Purchase of investment	2,679	(44,744)	(5,000)	(5,000)
Other investment cash flow	(8,087)	(4,738)	(1,295)	(1,334)
Investing cash flow	(21,232)	(58,492)	(15,295)	(15,334)
Financing cash flow	17,418	78,598	20,000	10,000
Net cash flows	4,661	16,095	14,094	17,495

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)

Ongoing market share gains

- Superior revenue growth in recent quarters indicates ongoing market share gains
- Strategic shift from marketing to R&D results in better profitability
- Maintain **BUY** with a TP of US\$ 110

Company Report

Dec 29, 2022

Rating: BUY

TP: US\$ 110

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

Ongoing market share gains. Pinduoduo has been achieving superior revenue growth (36%/65% YoY in 2Q/3Q22) in recent quarters despite a soft economic environment. In our view, this indicates ongoing market share gains, which can be attributed to 1) ongoing improvement of product portfolio with deepened cooperation with brands in various categories such as agriculture, consumer electronics, cosmetics, home appliances, etc.; 2) more customers trading down to “value-for-money” platforms such as Pinduoduo during economic downturn; 3) customers’ strong demand on food and groceries benefiting its agriculture and community group purchase business.

Strategic shift from marketing to R&D start to bear fruit. The company’s strategic shift from marketing to R&D has started to bear fruit, as illustrated by its core net margin jumping from 17.7% in 1Q22 to 35.1% in 3Q22. On the other hand, sales and marketing expenses/revenue ratio dropped from 45.0% to 37.9% over the same period. In our view, the improved profitability has provided financial cushion for the company for its international expansion and agricultural initiatives.

Maintain BUY. We maintain our **BUY** rating with a DCF-based TP is US\$110 given Pinduoduo’s stronger growth momentum than major peers in recent quarters, supporting its share performance.

Results and Valuation

FY end Dec 31	2020A	2021A	2022E	2023E
Revenue (RMB mn)	59,492	93,950	127,363	161,608
Chg (% YoY)	97.4	57.9	35.6	26.9
Net profit (RMB mn)	(7,180)	7,769	26,238	32,151
Chg (% YoY)	NA	NA	237.7	22.5
Core net profit*(RMB mn)	(2,965)	13,830	33,138	40,381
Chg (% YoY)	NA	NA	139.6	21.9
Earnings per ADS (RMB)	-6.0	5.4	18.5	22.6
Chg (% YoY)	NA	NA	239.2	22.5
Core earnings per ADS (RMB)	-2.5	9.7	23.3	28.4
Chg (% YoY)	NA	NA	140.7	21.9
Core P/E (x)	NA	61.7	24.0	19.7
P/S (x)	12.0	9.1	6.2	4.9
ROAE (%)	NA	11.5	28.6	25.1
ROAA (%)	NA	4.6	12.0	11.6

Note: 1ADR=4 ordinary shares; USD/CNY =6.97

Source (s): Bloomberg, ABCI Securities estimates

Price	US\$ 81.4
Est. share price return	35.1%
Est. dividend yield	NA
Est. total return	35.1%
Last Rating & TP	BUY, US\$65
Previous Report Date	June 1, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

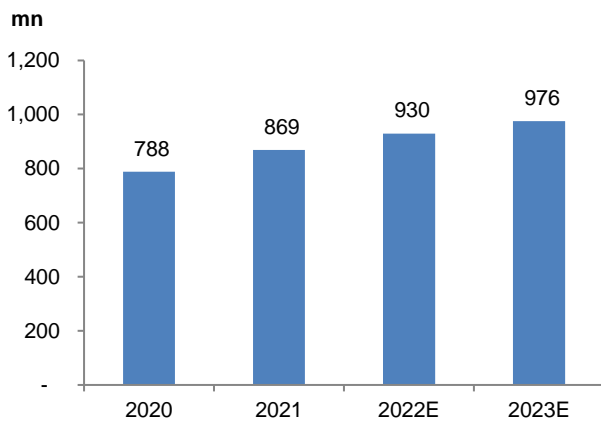
52Wk H/L (US\$)	93.1/23.2
Outstanding shares (mn)	5,057
Market cap (US\$ mn)	102,910
3-mth avg daily turnover (US\$ mn)	837
Major shareholder(s)	
Zheng Huang	27.9%

Source(s): Bloomberg, Company

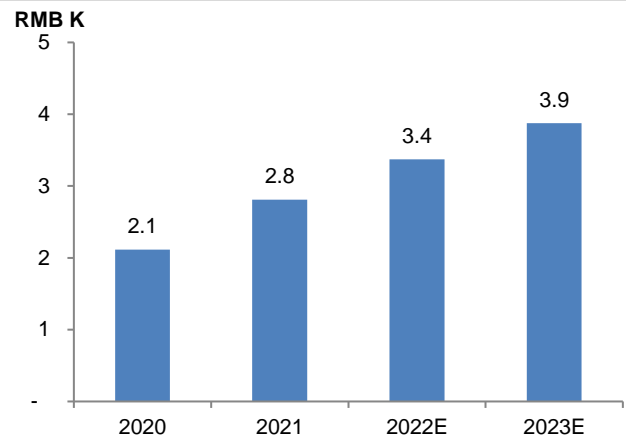
Financial Outlook

For 2021-23E, we expect GMV to grow at 25% CAGR to RMB3.8tr by 2023E on the back of 6% CAGR of annual active customer growth and 17% CAGR of annual spending per active customer. We see significant growth potential in Pinduoduo's annual spending per active customer since it is still significantly lower than the major peers.

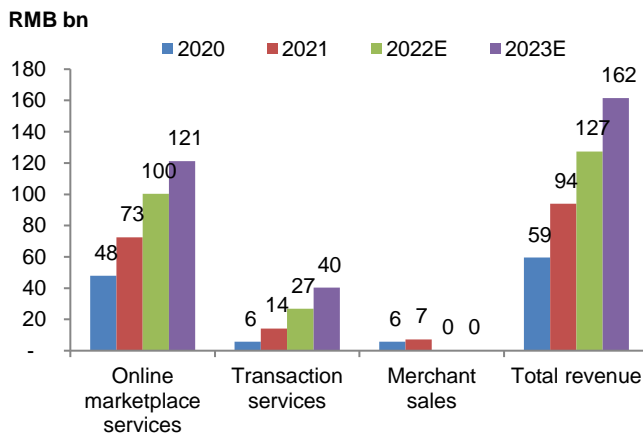
We expect revenue to increase at 31% CAGR in 2021-23E, largely driven by GMV growth and improving valued-added services to merchants.

Exhibit 54: Annual active customer


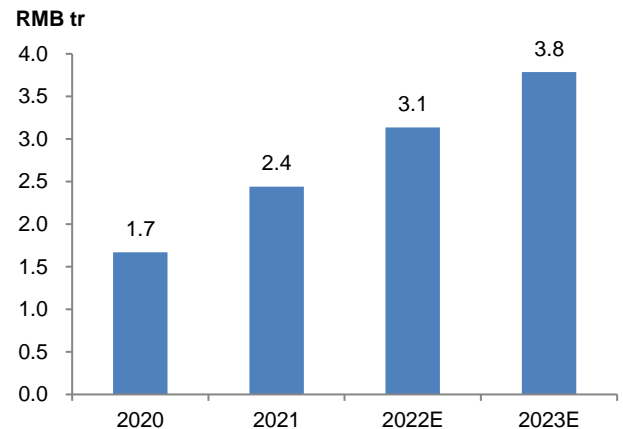
Source(s): Company, ABCI Securities estimates

Exhibit 55: Average spending per active customer


Source(s): Company, ABCI Securities estimates

Exhibit 56: Revenue trend


Source(s): Company, ABCI Securities estimates

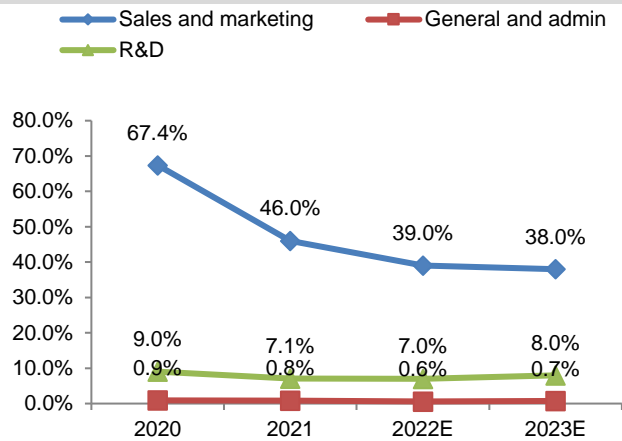
Exhibit 57: GMV trend


Source(s): Company, ABCI Securities estimates



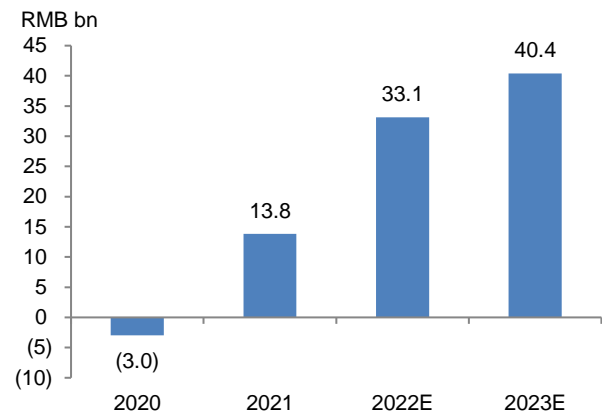
Sales and marketing expenses has been the largest cost item due to the aggressive strategy on subsidies and promotion to drive growth. Profitability has improved since PDD shifted its priority to R&D in recent quarters. Looking forward, we expect non-GAAP sales and marketing expenses/revenue ratio to fall from 46% in 2021 to 38% in 2023E on stringent expense control. Nonetheless, we expect R&D expenses/revenue ratio to increase from 7.1% in 2021 to 8.0% in 2023E on higher investments in the agricultural sector. Overall, we expect non-GAAP core net profit reach RMB 40.4bn by 2023E vs. RMB 13.8bn in 2021.

Exhibit 58: Non-GAAP cost trend (% of revenue)



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

Exhibit 59: Core net profit trend



Source(s): Company, ABCI Securities estimates

Exhibit 60: Forecast changes

RMB mn	2022E				2023E			
	Old	New	Diff	Comment	Old	New	Diff	Comment
Revenues	123,598	127,363	3%		151,506	161,608	7%	Higher growth assumption
Core profit	24,066	33,138	38%	Cost control	30,499	40,381	32%	Cost control

Source(s): ABCI Securities estimates



Valuation and TP

We maintain our **BUY** rating on the counter with a DCF-based TP is US\$ 110 to reflect Pinduoduo’s resilient growth momentum and ongoing operational improvement.

On the flip side, concerns on US delisting risks and potential divestment of strategic shareholders will remain in the near term; impacts of delisting in the US can be reduced if plans on HK or PRC listing is announced.

Exhibit 61: DCF sensitivity

		WACC				
		12.0%	13.0%	14.0%	15.0%	16.0%
Terminal growth	2.0%	112	101	92	85	78
	2.5%	118	106	96	87	80
	3.0%	124	111	100	90	83
	3.5%	133	117	104	94	86
	4.0%	143	125	110	98	89

Source (s): ABCI Securities estimates

Exhibit 62: TP changes (US\$ per share)

Old	New	Methodology-old	Methodology new
65	110	DCF	DCF with revised financial forecast

Source(s): ABCI Securities estimates



Financial Forecast

Consolidated income statement (2020A-2023E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Total revenue	59,492	93,950	127,363	161,608
Cost of sales	(19,279)	(31,718)	(33,174)	(42,090)
Gross profit	40,214	62,232	94,189	119,518
Sales and marketing	(41,195)	(44,802)	(51,715)	(63,857)
General and admin	(1,507)	(1,541)	(2,571)	(3,294)
R&D	(6,892)	(8,993)	(11,756)	(16,329)
Operating Profits	(9,380)	6,897	28,147	36,038
Interest income	2,455	3,062	3,500	3,500
Interest expenses	(757)	(1,231)	(100)	(100)
Fx gain	225	72	0	0
Others, net	193	656	1,500	1,000
Share of results of investee	84	247	(250)	(250)
PBT	(7,180)	9,702	32,797	40,188
Tax	0	(1,934)	(6,559)	(8,038)
PAT	(7,180)	7,769	26,238	32,151
Minority interests	0	0	0	0
Profits attributable to shareholders	(7,180)	7,769	26,238	32,151
Share-based compensation	3,613	4,775	6,750	8,080
Other non-core items	602	1,286	150	150
Non-GAAP profits attributable to shareholders	(2,965)	13,830	33,138	40,381
Basic earnings per ADS (RMB)	(6.02)	6.20	20.84	25.54
Diluted earnings per ADS (RMB)	(6.02)	5.44	18.45	22.61
Diluted non-GAAP earnings per ADS (RMB)	(2.49)	9.68	23.30	28.40
Growth				
Total revenue (%)	97.4	57.9	35.6	26.9
Gross Profit (%)	68.9	54.8	51.4	26.9
Operating Profit (%)	NA	NA	308.1	28.0
Net profit (%)	NA	NA	237.7	22.5
Non-GAAP net profit (%)	NA	NA	139.6	21.9
Operating performance				
Operating margin (%)	(15.8)	7.3	22.1	22.3
Net margin (%)	(12.1)	8.3	20.6	19.9
Core net margin (%)	(5.0)	14.7	26.0	25.0
ROAE (%)	NA	11.5	28.6	25.1
ROAA (%)	NA	4.6	12.0	11.6

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	203	2,203	3,903	5,903
Intangible assets	1,277	701	736	773
Other non-current assets	7,905	17,396	18,219	19,083
Total non-current assets	9,385	20,301	22,858	25,759
Cash & equivalents	22,421	6,427	71,130	101,086
Restricted cash	52,422	59,617	65,579	72,137
Short-term investments	64,551	86,517	87,517	92,517
Account receivables	730	674	707	743
Other current assets	9,400	7,675	7,887	8,110
Total current assets	149,524	160,909	232,820	274,592
Total assets	158,908	181,210	255,678	300,352
Payable to merchants	53,834	62,510	92,056	94,582
Merchant deposit	10,926	13,578	20,770	20,705
Borrowings and notes	1,866	0	1,000	2,000
Other current liabilities	17,255	17,642	17,820	18,007
Total current liabilities	83,882	93,730	131,646	135,294
Convertible bonds	14,433	11,789	15,326	16,092
Other non-current liabilities	418	577	604	632
Total non-current liabilities	14,851	12,365	15,929	16,724
Total liabilities	98,732	106,095	147,576	152,018
Equity attributable to shareholders	60,176	75,115	108,102	148,334
Non-controlling interests	-	-	-	-
Total equity	60,176	75,115	108,102	148,334

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 flows (2020A-2023E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Net income	(7,180)	7,769	26,238	32,151
Depreciation and amortization	651	1,495	1,800	2,000
Other non-cash adjustments	3,676	5,957	6,750	8,080
Change in working capital	31,050	13,562	33,415	(4,275)
Operating cash flow	28,197	28,783	68,203	37,956
Acquisition of fixed asset	(43)	(3,287)	(3,500)	(4,000)
Net purchase of investments	(38,077)	(32,720)	(1,000)	(5,000)
Other investment cash flow	(238)	445	-	-
Investing cash flow	(38,358)	(35,562)	(4,500)	(9,000)
Financing cash flow	51,799	(1,875)	1,000	1,000
Fx effect	(140)	(145)	-	-
Net cash flow	41,498	(8,800)	64,703	29,956

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

Tencent (700 HK)

Good signs emerging

- Resumption of core net profit growth after four consecutive quarters of decline thanks to cost optimization measures
- Online advertising is turning around while online gaming still in doldrums
- Distribution of Meituan's stake shows commitment to increase shareholders' return

Resumption of core net profit growth in 3Q22. 3Q22 revenue dropped 2% YoY to RMB 140bn while non-GAAP net profit increased 2% YoY to RMB 32.2bn. Thanks to cost optimization measures, positive net core profit growth in 3Q22 has marked the end of four consecutive quarters of decline since 3Q21. Core net margin improved to 23.0% vs. 21.0% in the previous quarter.

Turnaround in online advertising; online gaming still facing headwinds. The decline in online advertising revenue narrowed to 5% YoY vs. the 18% YoY decline in 2Q22, thanks to improvement in certain categories and increase in in-feed advertising for Video Accounts. In our view, positive segment revenue growth in coming quarters is possible. In contrast, online gaming revenue declined 4% YoY in 3Q22, compared to the 1% YoY decline in 2Q. We believe user spending will resume if regulators restart approval for more new games.

Utilizing balance sheet to enhance shareholders' return. Maintain **BUY** with a SOTP-based TP of HK\$ 390 given Tencent's leading position in online entertainment market. In our view, the impact of share disposal by Prosus would reduce over time and be partially offset by ongoing share repurchase. In addition, the distribution of Meituan's stake shows the company's effort to increase shareholders' return.

Results and Valuation

FY end Dec 31	2020A	2021A	2022E	2023E
Revenue (RMB mn)	482,064	560,118	556,141	594,116
Chg (% YoY)	27.8	16.2	(0.7)	6.8
Net profit (RMB mn)	159,847	224,822	135,703	192,378
Chg (% YoY)	71.3	40.6	(39.6)	41.8
Non-GAAP net profit (RMB mn)	122,742	123,788	112,191	133,054
Chg (% YoY)	30.1	0.9	(9.4)	18.6
EPS (RMB)	16.8	23.6	14.2	20.1
Chg (% YoY)	70.9	40.1	(40.0)	41.8
Non-GAAP EPS (RMB)	12.9	13.0	11.7	13.9
Chg (% YoY)	29.8	0.4	(9.9)	18.6
Core P/E (x)	21.5	21.4	25.5	21.5
P/B (x)	3.7	3.3	3.0	2.4
ROAE (%)	25.2	27.2	14.2	16.9
ROAA (%)	14.0	15.3	8.2	10.6
DPS(HKD)	1.60	1.60	1.60	1.65
Cash dividend Yield (%)	0.5	0.5	0.5	0.5

CNY/HKD =1.12

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Dec 29, 2022

Rating: BUY

TP: HK\$ 390

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

Share price (HK\$)	334
Est. share price return	16.8%
Est. cash dividend yield	0.5%
Est. total return	17.3%
Previous Rating & TP	BUY, HK\$430
Previous Report Date	Aug 22

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	488.0/198.6
Issued shares (mn)	9,574
Market cap (HK\$ mn)	3,195,801
Avg daily turnover (HK\$ mn)	8,916
Major shareholder(s)	
Naspers	26.99%
Huateng Ma	8.4%

Source(s): Companies, Bloomberg, ABCI Securities

Financial Outlook

We expect revenue to grow 6.8% YoY in 2023E.

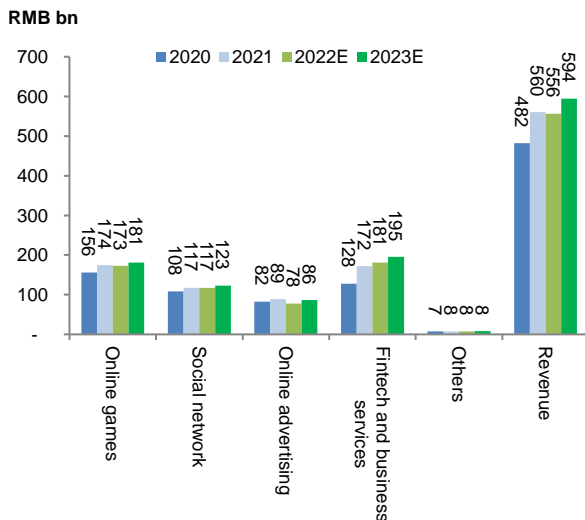
Online gaming: We expect revenue to expand by 5% 2023E on content enrichment of existing local games and new games launched in the international market. Resumption of new game approval, mostly granted to smaller game developers in for now, signals a stabilizing regulatory environment. To adapt to changes in operating environment, Tencent is focusing on developing fewer but larger new games, in addition to upgrading existing games. On the other hand, the international game segment is normalizing and we expect the trend to continue in the near term.

Social network: Fee-based valued-added services (VAS) subscriber growth slowed from 21.9% in 2020 to 7.7% in 2021, which we believe is a result of ongoing competition from short-video platforms against Tencent's long-video format. We expect social network revenue to increase 5% in 2023E.

Online advertising: Slow economic growth and competition from short-video platforms have hit hard on the online advertising segment but 3Q22 results bring hope as improvement in certain categories was evident. Looking forward, we expect the segment revenue to increase 11% YoY in 2023E, driven by ongoing industry recovery and ramp-up of in-feed advertising in Video Accounts.

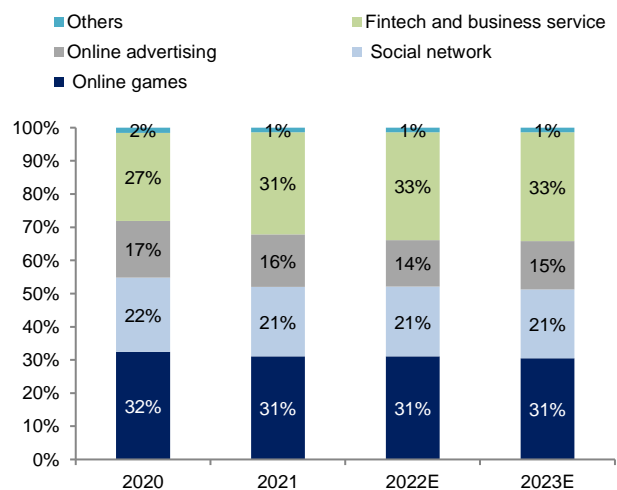
FinTech and business service: We expect segment revenue to increase 8% in 2023E on rising commercial payment volume. For the cloud business, Tencent is rising profitability by cutting out loss-making contracts. This will improve the client mix but may result in a lower revenue growth in the short term.

Exhibit 63: Revenue outlook



Source(s): Company, ABCI Securities estimates

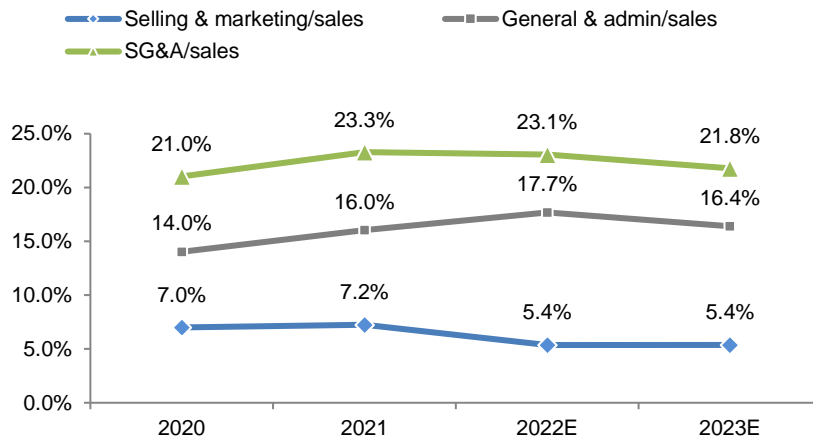
Exhibit 64: Revenue mix outlook



Source(s): Company, ABCI Securities estimates

Tencent has implemented various cost-control measures, including closing down non-core businesses and rationalizing underperforming businesses as mentioned earlier in this report (P.2). We expect SG&A cost-to-revenue ratio to fall from 23.1% in 2022E to 21.8% in 2023E.

Core net margin (excl. impacts of share-based compensation and other non-operating items) would improve to 20.2% in 2022E 22.5% in 2023E.

Exhibit 65: Cost trend (% of revenue)


Source(s): Company, ABCI Securities estimates

Exhibit 66: Forecast changes for 2022E

(RMB mn)	Old	New	Diff.	Comment
Revenue	564,454	556,141	(1%)	--
Core profit	106,922	112,191	5%	Cost optimization

Source(s): ABCI Securities estimates

Exhibit 67: Forecast changes for 2023E

(RMB mn)	Old	New	Diff.	Comment
Revenue	626,780	594,116	(5%)	Lower growth assumption amid weak macro environment
Core profit	135,826	133,054	(2%)	--

Source(s): ABCI Securities estimates

Valuation and recommendation

Maintain **BUY** on Tencent with a SOTP-based TP of HK\$390. In our view, Tencent's leading market position in the online entertainment industry remains unchanged.

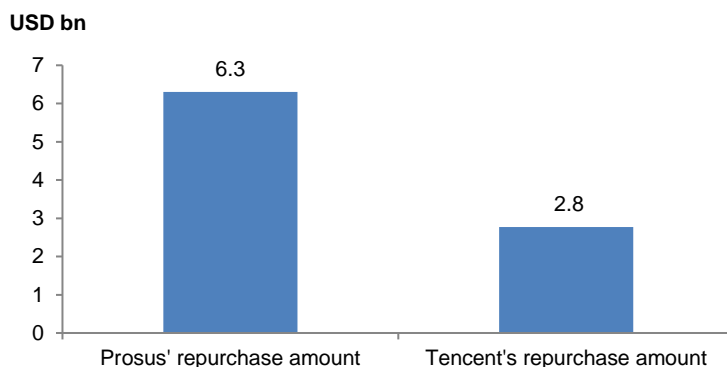
Exhibit 68: SOTP valuation range (HK\$ per share)

	High	Low	Remarks
Core business	368	246	16x -24x 2023E core P/E
Investments	81	81	Book value
Total	449	327	

Source(s): ABCI Securities estimates

Tencent's strategic shareholders, Naspers/Prosus (Prosus is majority owned by Naspers), announced in late June to dispose of Tencent's stakes orderly in the open market to fund its own share repurchase program. Between June 28 and Dec 2, Prosus spent about US\$ 6.3bn in share repurchase. Tencent has allocated about US\$ 2.8bn on share repurchase over the same period, which reduced some of the selling pressure from Prosus. If we assume Prosus' repurchase is fully funded by disposal of Tencent's shares, the corresponding net selling pressure of Tencent would be equivalent to ~ 3.1% of Tencent's average trading volume during the same period.

Exhibit 69: Repurchase amount –Prosus vs Tencent



Source(s): Companies, Bloomberg, ABCI Securities

Note: June 28 – 2 Dec, 2022

In addition, the distribution of JD's and Meituan's stake implies future potential for the Group to increase shareholders' return through realizing its sizable investment portfolio. In our view, selected divestments of shares in listed companies are consistent with its current strategy to scale down non-core businesses, including e-commerce.

Exhibit 70: TP changes (HK\$ per share)

Old	New	Methodology-old	Methodology-new
430	390	SOTP	SOTP

Source(s): ABCI Securities estimates



Financial Forecast

Consolidated income statement (2020A-2023E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
VAS	264,212	291,572	289,906	304,401
Online advertising	82,271	88,666	77,745	86,376
FinTech and business service	128,086	172,195	180,805	195,269
Others	7,495	7,685	7,685	8,069
Total revenue	482,064	560,118	556,141	594,116
Cost of sales	(260,532)	(314,174)	(316,242)	(336,128)
Gross profit	221,532	245,944	239,899	257,988
Interest income	6,957	6,650	8,050	8,050
Other gains/losses	57,131	149,467	67,100	108,000
Selling & marketing expenses	(33,758)	(40,594)	(29,896)	(31,911)
General & admin expenses	(67,625)	(89,847)	(98,343)	(97,506)
Operating Profits	184,237	271,620	186,810	244,621
Finance cost	(7,887)	(7,114)	(7,500)	(7,800)
Share of profit of investments in associates	3,672	(16,444)	(17,000)	(12,500)
Profit before tax	180,022	248,062	162,310	224,321
Tax	(19,897)	(20,252)	(24,984)	(29,699)
Profit after tax	160,125	227,810	137,327	194,621
Minority interests	278	2,988	1,623	2,243
Net profit	159,847	224,822	135,703	192,378
Share based compensation	16,228	30,070	30,588	32,676
Gain/losses from investee companies	(69,473)	(166,661)	(71,100)	(112,000)
Amortization and impairment	17,060	36,382	17,000	20,000
Other non-core items	(920)	(825)	-	-
Non-GAAP net profit (core profit)	122,742	123,788	112,191	133,054
Growth				
Total revenue (%)	27.8	16.2	(0.7)	6.8
Gross Profits (%)	32.2	11.0	(2.5)	7.5
Operating Profits (%)	55.2	47.4	(31.2)	30.9
Net Profits (%)	71.3	40.6	(39.6)	41.8
Non-GAAP net profit (%)	30.1	0.9	(9.4)	18.6
Operating performance				
Gross margin (%)	46.0	43.9	43.1	43.4
Operating margin (%)	38.2	48.5	33.6	41.2
Net margin (%)	33.2	40.1	24.4	32.4
Non-GAAP net margin (%)	25.5	22.1	20.2	22.4
ROAE (%)	25.2	27.2	14.2	16.9
ROAA (%)	14.0	15.3	8.2	10.6

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

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



Consolidated balance sheet (2020A-2023E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Fixed assets	94,385	106,550	127,550	148,550
Intangible assets	159,437	171,376	222,376	275,376
Investment in associates and JV	305,262	324,449	307,449	294,949
Financial assets	379,035	442,441	497,441	557,441
Term deposit	31,681	19,491	20,466	21,489
Other non-current assets	45,978	63,245	65,104	67,056
Total non-current assets	1,015,778	1,127,552	1,240,385	1,364,860
Cash & equivalents	152,798	167,966	234,366	336,945
Restricted cash	2,520	2,476	2,600	2,730
Term deposit	68,487	83,813	88,004	92,404
Account receivables	44,981	49,331	46,091	50,866
Deposit, prepayments and other assets	40,321	65,390	68,660	72,092
Inventories	814	1,063	1,116	1,172
Other current assets	7,726	114,773	12,322	12,322
Total current assets	317,647	484,812	453,157	568,531
Total assets	1,333,425	1,612,364	1,693,543	1,933,391
Accounts payable	94,030	109,470	114,780	121,998
Other payables & accruals	54,308	60,582	63,611	66,792
Borrowings and notes	14,242	19,003	24,003	29,003
Deferred revenue	86,649	93,292	97,957	102,854
Other current liabilities	19,850	120,751	18,300	18,300
Total current liabilities	269,079	403,098	318,651	338,947
Loans and bonds payables	234,202	282,526	292,526	302,526
Deferred revenue	6,678	4,526	4,752	4,990
Other non-current liabilities	45,423	45,521	46,178	46,868
Total non-current liabilities	286,303	332,573	343,456	354,384
Total liabilities	555,382	735,671	662,107	693,331
Net current assets	48,568	81,714	134,506	229,584
Equity attributable to shareholders	703,984	806,299	959,418	1,165,800
Non-controlling interests	74,059	70,394	72,017	74,260
Total equity	778,043	876,693	1,031,435	1,240,060

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

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

Consolidated cash flows statement (2020A-2023E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Net income	180,022	248,062	162,310	224,321
Depreciation and amortization	50,774	57,670	10,000	13,000
Other non-cash adjustments	(64,100)	(131,437)	22,604	15,477
Change in working capital	27,423	891	6,657	455
Operating cash flow	194,119	175,186	201,572	253,252
Acquisition of fixed asset	(34,070)	(29,302)	(24,000)	(24,000)
Net purchase of investments	(57,715)	(81,250)	(50,000)	(55,000)
Other investment cash flow	(90,170)	(67,997)	(63,000)	(68,000)
Investing cash flow	(181,955)	(178,549)	(137,000)	(147,000)
Financing cash flow	13,647	21,620	1,828	(3,673)
Fx effect	(6,004)	(3,089)	-	-
Net cash flow	19,807	15,168	66,400	102,579

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

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

Risk factors

Tightened regulatory environment

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

Market competition

The ecommerce industry is a competitive one. Commission rate, promotion discount, brand advertising, technological investment, among others, are crucial in determining success..

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

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

Analyst Certification

The analyst, CHOW Sau Shing, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

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

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(For reference: 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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