



JD.com (JD US/9618 HK)

Strengthen price competitiveness

- Prudent rollout of the discounting campaign “RMB10bn subsidy” will help alleviate some market concern
- Strengthening price edges for effective competition against other value-to-money platforms such as Pinduoduo (PDD US)
- Current valuation is appealing to long-term investors despite potential short-term price volatility

The RMB10bn subsidy program to be rolled out in measured pace. For the first phase of the subsidy program, JD has budgeted RMB 1bn and these subsidies could be shared with merchants and suppliers. The management would also evaluate the effectiveness of the program and adjust accordingly. Strategically, the Company aims to change the customers' shopping behaviors. Instead of focusing on major promotional events such as “Double 11”, the Company is encouraging consumers to spend on daily events such as “everyday low prices”, which could lead to further operational improvement on the supply chain. For now, JD has no plans to adjust its marketing budget significantly, but it would reallocate some large-scale promotional activities to non-peak seasons. In our view, the gradual and careful implementation of the subsidy program should reduce market concerns although uncertainties, such as competitors' counter response, will remain.

Strengthen price competitiveness. In our view, online shoppers have turned price-sensitive in past years due to the pandemic and soft economic environment. JD's incentive program could help enhance customer loyalty and enable it to compete more effectively against other “value-to-money” platforms such as Pinduoduo (PDD US), despite potential pressure on short-term margin.

Recommendation. Maintain **BUY** with a TP of US\$ 64 for JD-ADS (JD US) and HK\$ 250 for JD-SW (9618 HK). After recent share price corrections, the counter's current valuation at ~15x 2023E core P/E is appealing to long-term investors, in our view. To note, share price volatility will remain in the near term as stiff competitive among ecommerce platforms persists.

Results and Valuation

FY end Dec 31	2021A	2022A	2023E	2024E
Revenue (RMB mn)	951,592	1,046,236	1,140,196	1,275,801
Chg (% YoY)	27.6	9.9	9.0	11.9
Net profit (RMB mn)	-3,560	10,380	20,185	26,739
Chg (% YoY)	NA	NA	94.5	32.5
Core net profit (RMB mn)	17,207	28,220	29,032	36,057
Chg (% YoY)	2.3	64.0	2.9	24.2
Earnings per ADS (RMB)	-2.2	6.4	12.7	16.8
Chg (% YoY)	NA	NA	97.7	32.5
Core earnings per ADS (RMB)	10.8	17.7	18.3	22.7
Chg (% YoY)	2.0	64.7	2.9	24.2
Dividend per ADS (USD)	NA	0.62	0.64	0.79
Core P/E (x)- ADS	25.8	15.6	15.2	12.2
Core P/E (x)-SW share	25.8	15.7	15.2	12.3
ROAE (%)	-1.6	4.0	7.0	8.5
ROAA (%)	-0.8	1.9	3.2	3.9

*1 ADS = 2 ordinary shares

Source(s): Company, ABCI Securities estimates

Company Report

Mar 15, 2023

Rating (ADS): BUY

TP (ADS): US\$ 64

Rating (SW-share): BUY

TP (SW-share): HK\$ 250

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Price (ADS/SW-share)	US\$ 40.4/ HK\$159.2
Est. share price return (ADS/SW-share)	58.4%/57.0%
Est. dividend yield (ADS/SW-share)	1.6%/1.6%
Est. total return (ADS/SW-share)	60.0%/58.6%
Last Rating & TP (ADS/SW-share)	BUY, US\$77/ BUY, HK\$300
Previous Report Date	Dec 29, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (SW-share)	285.7/138.9
52Wk H/L (US\$) (ADS)	69.4/33.1
Outstanding shares (mn)	3,136
Market cap (HK\$ mn) (based on SW-share price)	499,251
3-mth avg daily turnover (HK\$ mn) (SW-share)	1,399
3-mth avg daily turnover (US\$ mn) (ADS)	362
Major shareholder(s)	Voting right
Richard Liu	76.1%

Source(s): Bloomberg, HKEx, Company

Recent business update

In 4Q22, revenue grew 7% YoY to RMB 295bn. Non-GAAP adjusted net profit (core net profit) rose 115% YoY to RMB 7.6bn, thanks to better-than-expected operational improvement.

The 7% YoY revenue growth during the quarter represents a sequential slowdown vs. 11% YoY revenue growth in 3Q, mostly due to COVID. In terms of revenue mix, net product revenue growth was 1% YoY during the quarter, while net service revenue grew 40% YoY driven by logistics and other services.

JD demonstrated solid operational improvement in 4Q. JD Retail's operating margin in 4Q22 was 3.0% vs. 2.1% in 4Q21. Non-retail businesses, including JD Logistics, Dada, and other initiatives, reported RMB 0.6bn in operating losses during the quarter, lower than the RMB 1.0bn operating losses in 3Q22. 4Q22 core net margin was 2.6% vs. 1.3% in 4Q21.

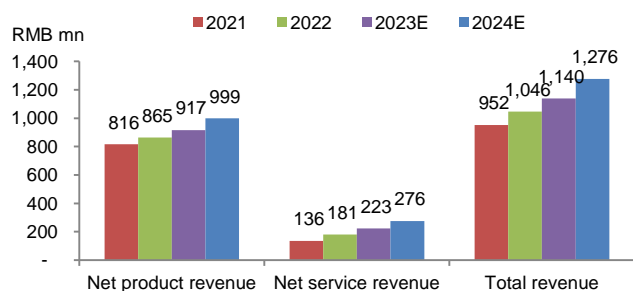
Regarding its RMB 10bn promotional program, the Company has budgeted about RMB 1bn for the first phase, and the amount would be shared between the Company and its merchants and supplies. In addition, it would continue to focus on cost and efficiency. Strategically, it aims to alter the customers' spending behaviors from ones that focus on major promotional events, such as "Double 11", to daily events such as "everyday low prices". This could lead to further operational improvement since workload would be more evenly distributed on the supply chain throughout the year. JD has no plans to adjust its marketing budget significantly, but it would reallocate some large-scale promotional activities to non-peak seasons.

Financial Outlook

We expect revenue to increase at 9% YoY in 2023E and 12% YoY in 2024E, leading to a 10% CAGR in 2022-24E. We expect net product revenue to increase at 7% CAGR in 2022-24E and net service revenue CAGR to be 23% for the same period, thanks to increased corporate demand for quality supply-chain services.

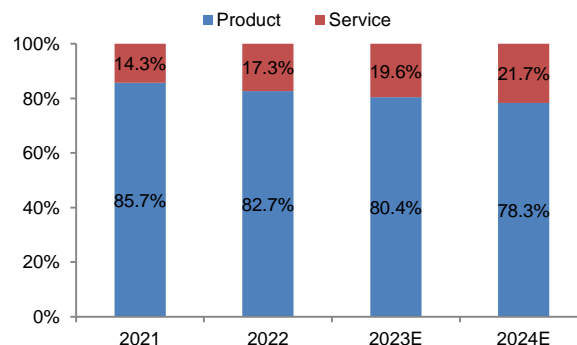
JD has launched the RMB10bn subsidy program to enhance its price competitiveness. In our view, online shoppers have turned more price sensitive in past years due to pandemic and soft macro environment, and JD's incentive program could help to enhance customer loyalty and increase "wallet market share" against other value-to-money platforms such as Pinduoduo.

Exhibit 1: Revenue outlook



Source(s): Company, ABCI Securities estimates

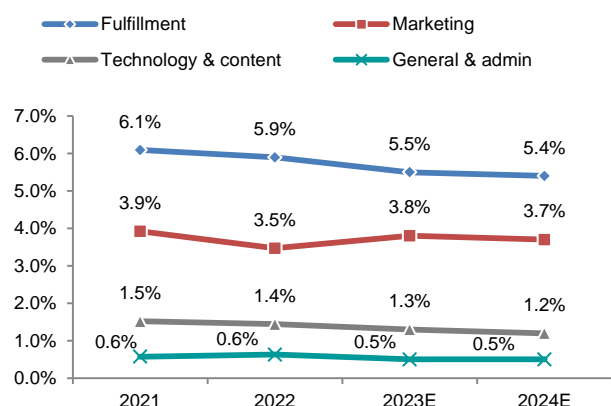
Exhibit 2: Revenue mix



Source(s): Company, ABCI Securities estimates

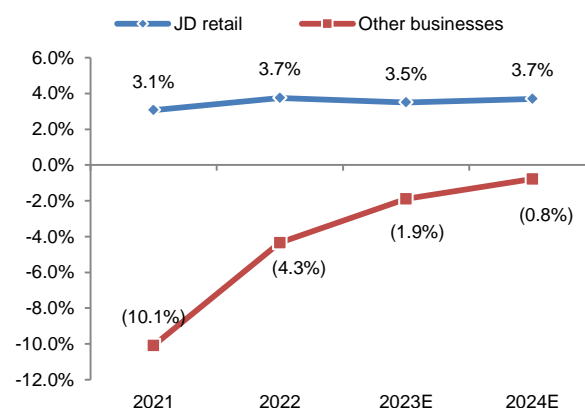
JD has been implementing operational improvement initiatives in recent quarters by emphasizing more on profitability, rationalizing new business initiatives, and tightened controls over spending. Looking forward, it would evaluate the effectiveness of its RMB10bn subsidy program and adjust continuously according to situation. In addition, the relocation of promotional activities from peak-seasons to non-peak ones could lead to potential efficiency gains due to the more evenly distributed workload on the supply chain throughout the year.

We expect core net margin to moderate to 2.5% in 2023E vs. 2.7% in 2022 due to increased price promotion but improve to 2.8% in 2024E driven by efficiency gains on supply chain. This would led to 13% CAGR in core net profit in 2022-24E.

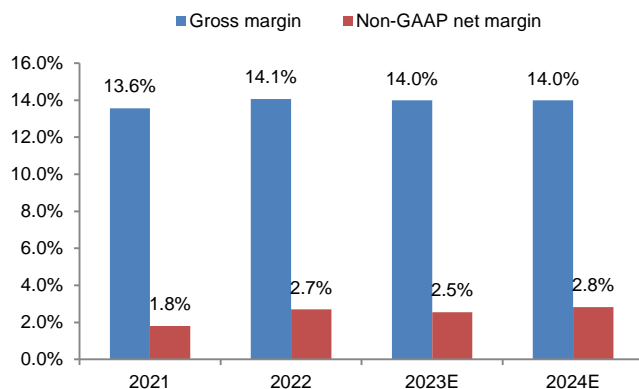
Exhibit 3: Non-GAAP* cost trend (% of sales)


Source(s): Company, ABCI Securities estimates

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

Exhibit 4: Segment operating margin outlook


Source(s): Company, ABCI Securities estimates

Exhibit 5: Margin outlook


Source(s): Company, ABCI Securities estimates

Exhibit 6: Forecast changes for 2023E

(RMB mn)	Old	New	Diff.	Comment
Revenue	1,206,919	1,140,196	(6%)	Soft consumer confidence
Core profit	31,189	29,032	(7%)	Margin impact on subsidy program

Source(s): ABCI Securities estimates

Valuation and TP

JD-SW (9618 HK): Our SOTP-based TP is HK\$ 250.

JD-ADS (JD US): Based on our TP for JD-SW, the TP of JD-ADS is US\$ 64 (1 ADS represents 2 shares).

Exhibit 7: JD-SW (9618 HK): SOTP sensitivity (HK\$ per share)

Segment	Low	High	Comment
Core ecommerce business [#]	186	245	DCF –from 15% to 10% WACC
Investments [*]	54	54	Book/market value
Overall	240	299	

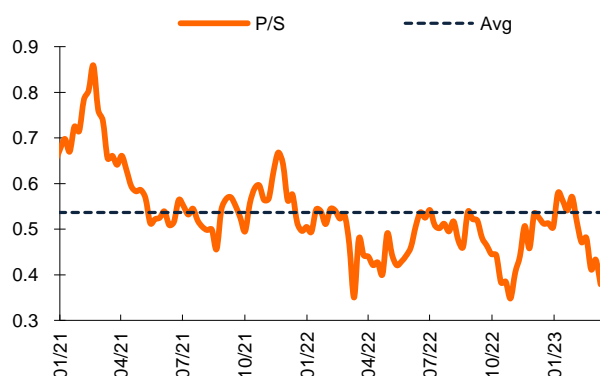
[#] Excluding JD Health (6618 HK) and JD Logistics (2618 HK)

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

Source(s): ABCI Securities estimates

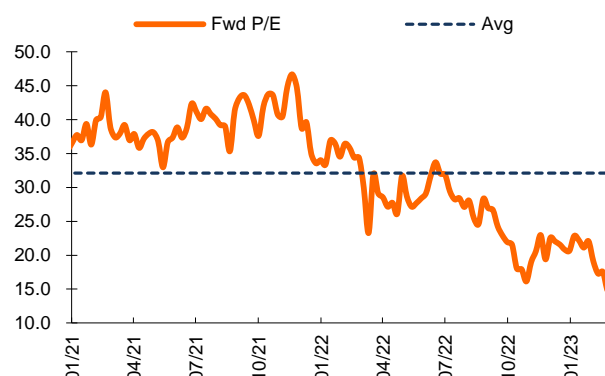
We assign a **BUY** call on the counter based on its long track record in supply chain management and long-term user growth potential. After recent share price corrections, its current valuation at ~15x 2023E core P/E have priced in some market concern, in our view, and may appeal to the long-term investors. Having said that, share price volatility could remain in the near term due to potential near-term margin impact.

Exhibit 8: P/S



Source(s): Bloomberg, ABCI Securities

Exhibit 9: Forward P/E



Source(s): Bloomberg, ABCI Securities

Exhibit 10: TP changes (HK\$ per share)

Old	New	Remark
300	250	SOTP-based; TP implies 19.3x 2024E core P/E vs. 23.2x previously

Source(s): ABCI Securities estimates



Financial Forecast

Consolidated income statement (2021A-2024E)

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E
Net product revenue	815,655	865,062	916,966	999,493
Net service revenue	135,937	181,174	223,231	276,309
Total revenue	951,592	1,046,236	1,140,196	1,275,801
Cost of sales	(822,525)	(899,163)	(980,696)	(1,097,323)
Gross profit	129,067	147,073	159,500	178,479
Fulfillment expenses	(59,055)	(63,011)	(63,801)	(70,057)
Marketing expenses	(38,743)	(37,772)	(44,473)	(48,448)
Research and development expenses	(16,332)	(16,893)	(16,389)	(16,967)
General & admin expenses	(11,562)	(11,053)	(9,619)	(10,500)
Gains on disposal	767	1,379	0	0
Operating Profit	4,141	19,723	25,218	32,507
Share of results of equity investees	(4,918)	(2,195)	500	500
Interest expenses, net	(1,213)	(2,106)	(2,000)	(1,800)
Others, net	(590)	(1,555)	0	0
PBT	(2,580)	13,867	23,718	31,207
Tax	(1,887)	(4,176)	(4,234)	(5,268)
PAT	(4,467)	9,691	19,485	25,939
Minority interests	(907)	(689)	(700)	(800)
Profit attributable to shareholders	(3,560)	10,380	20,185	26,739
Share-based compensation	8,293	6,388	6,707	7,043
Amortization	853	845	1,140	1,276
Impairment/FV changes of investments	13,371	7,234	0	0
Other non-core items	(1,750)	3,373	1,000	1,000
Non-GAAP core net profit	17,207	28,220	29,032	36,057
Growth				
Total revenue (%)	27.6	9.9	9.0	11.9
Gross Profit (%)	18.3	14.0	8.4	11.9
Operating Profit (%)	(66.4)	376.3	27.9	28.9
Net profit (%)	(107.2)	(391.6)	94.5	32.5
Non-GAAP net profit (%)	2.3	64.0	2.9	24.2
Operating performance				
Operating margin (%)	0.4	1.9	2.2	2.5
Net margin (%)	(0.4)	1.0	1.8	2.1
Core net margin (%)	1.8	2.7	2.5	2.8
ROAE (%)	(1.6)	4.0	7.0	8.5
ROAA (%)	(0.8)	1.9	3.2	3.9

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

Source(s): the Group, ABCI Securities estimates



Consolidated balance sheet (2021A-2024E)

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E
Fixed assets	53,089	100,089	122,389	144,689
Investments	82,310	69,252	72,134	72,134
Other non-current assets	61,436	74,835	72,635	70,435
Total non-current assets	196,835	244,176	267,158	287,258
Cash & restricted cash	76,692	85,115	101,762	105,161
Short-term investments and investment securities	114,564	141,095	166,095	191,095
Inventories	75,601	77,949	78,096	87,384
Account receivables	11,900	20,576	12,495	13,981
Other current assets	20,915	26,339	27,097	27,097
Total current assets	299,672	351,074	385,545	424,718
Total assets	496,507	595,250	652,703	711,976
Account payables and advance from customers	169,590	194,320	221,143	243,434
Borrowings and notes	4,367	12,146	14,146	16,146
Other current liabilities	47,679	60,095	60,391	60,391
Total current liabilities	221,636	266,561	295,680	319,971
Operating lease liabilities	13,721	14,978	14,978	14,978
Borrowings and notes	9,386	30,233	32,233	34,233
Other non-current liabilities	4,980	9,355	9,497	9,497
Total non-current liabilities	28,087	54,566	56,708	58,708
Total liabilities	249,723	321,127	352,388	378,679
Mezzanine equity	1,212	590	590	590
Equity attributable to shareholders	208,911	213,366	240,258	274,039
Non-controlling interests	36,661	60,167	59,467	58,667
Total equity	245,572	273,533	299,725	332,706

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 (2021A-2024E)

As of Dec 31 (RMB mn)	2021A	2022E	2023E	2024E
Net income	(4,467)	9,691	19,485	25,939
Depreciation and amortization	6,232	6,300	6,400	6,400
Other non-cash adjustments	21,588	27,728	6,707	7,043
Change in working capital	18,948	14,100	31,555	11,517
Operating cash flow	42,301	57,819	64,147	50,899
Acquisition of fixed asset	(22,255)	(22,000)	(26,500)	(26,500)
Movement of short-term investments	(54,322)	(15,000)	(25,000)	(25,000)
Other investment cash flow	2,329	(17,026)	-	-
Investing cash flow	(74,248)	(54,026)	(51,500)	(51,500)
Financing cash flow	19,503	1,180	4,000	4,000
Effective of FX	(1,498)	3,490	-	-
Net cash flows	(13,942)	8,463	16,647	3,399

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



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

JD.com, Inc. (9618 HK, BUY/ JD US, BUY)

China Internet Sector

Mar 15, 2023

Risk factors

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

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

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



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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 9\%$)
Hold	- Market return rate ($\sim 9\%$) \leq Stock return rate $<$ Market return rate ($\sim 9\%$)
Sell	Stock return $<$ - Market return ($\sim 9\%$)

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 2006 (HSI total return index 2006-22 averaged at 8.4%)

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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