

JD.com (JD US/9618 HK)

Look beyond the short-term headwinds

- Resilient user growth mitigating impacts of economic slowdown and COVID-related operational hiccups in 1Q22
- Near-term softness likely to extend into 2Q22 but situation might start to improve in 3Q22
- Maintain **BUY** with a TP of US\$ 74 for **JD-ADR (JD US)** and HK\$ 290 for **JD-SW (9618 HK)**

Company Report

May 19, 2022

Rating (ADR): BUY
 TP (ADR): US\$ 74
 Rating (SW-share): BUY
 TP (SW-share): HK\$ 290

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

User growth amid softening macro environment. JD's revenue growth moderated to 18% YoY in 1Q22 vs. 23% YoY in 4Q21 due to slowdown in ecommerce market amid resurgence of COVID since Mar 2022. On a positive note, JD's user growth remained at 16% YoY in 1Q22 versus 21% in 4Q21, thanks to ongoing penetration in lower-tier cities.

2Q22 could be the trough. Current softness of e-commerce industry will extend into 2Q22 given the logistics bottlenecks amid COVID. Management saw signs of improvement in order cancellation rate in May 2022 vs. Apr 2022. Sequential improvement starting from 3Q22 is possible if COVID in China alleviates in coming months, in our view.

1Q22 review. In 1Q22, revenue grew 18% YoY to RMB 239.7bn, in line with the market expectation of RMB236.7bn. Core net profit increased by 2% YoY to RMB 4.0bn, significantly better than market estimate of RMB 2.6bn thanks to effective cost control.

Look beyond the short-term headwinds. Despite near-term softness, we believe JD's long-term fundamental remains solid. Its near-trough valuation presents an entry point for investors with a longer-term investment horizon, in our view. In addition, the recent announcement of special dividend marks a good start of management's willingness to increase shareholders' return via utilizing its strong balance sheet.

Results and Valuation

FY end Dec 31	2020A	2021A	2022E	2023E
Revenue (RMB mn)	745,802	951,592	1,073,939	1,279,482
Chg (% YoY)	29.3	27.6	12.9	19.1
Net profit (RMB mn)	49,405	-3,560	2,937	14,996
Chg (% YoY)	305.5	NA	NA	410.5
Core net profit (RMB mn)	16,828	17,207	17,175	25,763
Chg (% YoY)	56.5	2.3	-0.2	50.0
Earnings per ADS (RMB)	31.7	-2.2	1.8	9.4
Chg (% YoY)	285.6	NA	NA	410.5
Core earnings per ADS (RMB)	10.6	10.8	10.8	16.2
Chg (% YoY)	45.7	2.0	0.0	50.0
Core P/E (x)- ADR	32.0	32.1	32.1	21.4
Core P/E (x)-SW share	31.7	31.9	31.9	21.2
ROAE (%)	34.2	-1.6	1.2	5.9
ROAA (%)	14.5	-0.8	0.6	2.7

*1 ADR = 2 ordinary shares

USD/CNY = 6.7646; HKD/CNY = 0.8614

Source (s): Bloomberg, ABCI Securities estimates

Price (ADR/SW-share)	US\$ 51.2/ HK\$199.8
Est. share price return (ADR/SW-share)	44.3%/45.1%
Est. dividend yield (ADR/SW-share)	NA/NA
Est. total return (ADR/SW-share)	44.3%/45.1%
Last Rating & TP (ADR/SW-share)	BUY, US\$77/ BUY, HK\$300

Previous Report Date Mar 14, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (SW-share)	365.0/160.1
52Wk H/L (US\$) (ADR)	92.6/41.5
Outstanding shares (mn)	3,115
Market cap (HK\$ mn) (all outstanding shares)	622,377
3-mth avg daily turnover (HK\$ mn) (SW-share)	2,754
3-mth avg daily turnover (US\$ mn) (ADR)	689
Major shareholder(s)	Voting right
Richard Liu	76.9%

Source(s): Bloomberg, HKEx, Company



Softness to extend into 2Q22

In 1Q22, revenue grew 18% YoY to RMB 239.7bn, in line with the market expectation of RMB236.7bn. Non-GAAP adjusted net profit (core net profit) increased by 2% YoY to RMB 4.0bn, significantly better than the market estimate of RMB 2.6bn. On the other hand, the Company reported net losses of RMB 2.9bn in 1Q22 vs. RMB3.6bn net profit in 1Q21 due to RMB3.6bn valuation charge related to Dada's (DADA US) acquisition.

JD's revenue growth slowed to 18% YoY in 1Q22 vs. 23% YoY in 4Q21 due to slowdown in ecommerce market amid resurgence of COVID since Mar 2022. JD's user growth was 16% in 1Q22 versus 21% in 4Q21 driven by ongoing penetration in lower-tier cities.

In terms of revenue mix, net product revenue growth was 17% YoY in 1Q22, in line with the overall revenue growth trend. Net service revenue grew 26% YoY. Net service revenue accounted for 15% of total revenue during the quarter.

JD has been successful in controlling cost through operational improvement and takes a more prudent stance in developing new businesses. In 1Q22, JD Retail's operating margin was 3.6% vs. 4.0% in 1Q21 and 2.1% in 4Q21. JD Logistics' (2618 HK) reported RMB 661mn in operating losses in 1Q22 vs. RMB1.4bn losses in 1Q21. New businesses, including Jingxi and other technology initiatives, reported RMB 2.3bn in operating losses in 1Q22, lower than the RMB 3.2bn losses in 4Q21. For new businesses, JD's losses have been less than Meituan's (3690 HK) quarterly loss exceeding RMB 10bn due to the lower marketing or promotional expenses entailed in the community group-purchase business. The Company reported a core NPM of 1.7% in 1Q22 vs. 2.0% in 1Q21.

Looking forward, the current softness of e-commerce industry is set to extend into 2Q22 given the prolonged COVID in China, which leads to bottlenecks in the logistics industry. This is illustrated by the fact that online sales growth of physical goods in China slowed to 5.2% in 4M22 vs. 8.8% in 1Q22. According to the management, order cancellation rate increased in Apr 2022 due to logistics bottlenecks. The situation improved in May 2022, although order cancellation rate is still higher than last year. In our view, the situation might start to improve in 3Q22 should the COVID situation be successfully contained and gradual easing of restrictive measures take place. In our forecast model, we predict total revenue to grow by 11.5% YoY in Apr-Dec 2022 driven by 8.2% YoY net product sales revenue growth and 30.9% YoY net service revenue growth during the same period.

Exhibit 1: 1Q22 review

Results review:	1Q21	1Q22	YoY%	Remarks
Annual active customer (mn)	500	581	16%	
Financials (RMB mn)				
Net product	175,282	204,416	17%	Driven by customer growth
Net service	27,894	35,239	26%	
Revenue	203,176	239,655	18%	In line with market expectation
Gross profit	29,122	33,446	15%	
Operating profit	1,660	2,409	45%	
- <i>JD Retail</i>	7,340	7,891	8%	
- <i>JD Logistics (2618 HK)</i>	(1,474)	(661)	(55%)	
- <i>Dada(DADA US)</i>		(191)	NA	
- <i>New businesses</i>	(2,281)	(2,386)	5%	
- <i>Unallocated item#</i>	(1,925)	(2,244)	17%	
Net profit	3,617	(2,991)	NA	RMB3.6bn valuation charge related to Dada's (DADA US) acquisition in 1Q2022
Share-based compensation	1,698	1,593	(6%)	
Impairment/FV changes of investments	41	1,234	2917%	
Others	(1,389)	4,196	NA	Loss on disposal of investments
Core profit (non-GAAP)	3,968	4,032	2%	Vs. market expectation of RMB 2.6bn
<u>Profitability (%):</u>				
	1Q21	1Q22	ppt YoY	
Gross margin	14.3	14.0	(0.4)	
Operating margin	0.8	1.0	0.2	
- <i>JD Retail</i>	4.0	3.6	(0.3)	
- <i>JD Logistics (2618 HK)</i>	(6.6)	(2.4)	4.2	
- <i>Dada (DADA US)</i>		(27.8)	NA	
- <i>New businesses</i>	(44.3)	(41.5)	2.8	
Net margin	1.8	(1.2)	(3.0)	
Core net margin (non-GAAP)	2.0	1.7	(0.3)	

Source(s): Company, ABCI Securities

Unallocated items include share-based compensation, amortization of intangible assets resulting from assets and business acquisitions, effects of business cooperation arrangements, and impairment of goodwill and intangible assets, which are not allocated to segments



Financial analysis

For 2021-23E, we expect GMV to grow at 12% CAGR to RMB 4.1tr by 2023E, driven by the expanding active user base. JD has been experiencing user growth in recent quarters thanks to improving penetration in the lower-tier cities. In our view, its user growth may mitigate the impact from the weakened macro environment.

We expect revenue to increase at 16% CAGR in 2021-23E, propelled by growing GMV and service revenue. In particular, we expect logistics and other service revenue to grow at 30% CAGR in 2021-23E, thanks to increased corporate demand for quality supply-chain services.

Exhibit 2: Major assumptions

	2020	2021	2022E	2023E
Annual active customer account (mn)	472	570	649	721
GMV (RMB bn)	2,613	3,297	3,549	4,137

Source(s): Company, ABCI Securities estimates

Exhibit 3: Revenue forecasts (RMB mn)

	2020	2021	2022E	2023E	2021-23E CAGR (%)
<i>Electronics and home appliance</i>	400,927	492,592	541,851	633,966	13.4
<i>General merchandize</i>	250,952	323,063	355,369	415,782	13.4
Net product revenue	651,879	815,655	897,220	1,049,748	13.4
<i>Marketplace and advertising</i>	53,473	72,118	93,754	121,880	30.0
<i>Logistics and other services</i>	40,450	63,819	82,965	107,854	30.0
Net service revenue	93,923	135,937	176,718	229,734	30.0
Total revenue	745,802	951,592	1,073,939	1,279,482	16.0

Source(s): Company, ABCI Securities estimates

JD has a successful track record in cost control. As said, compared to Meituan (3690 HK), which has been investing heavily to develop its proprietary community group-purchase business, JD adopts a more conservative community group-purchase expansion strategy by focusing on selected cities. As a result, its operating losses of new businesses were RMB 3.2bn in 4Q21, significantly lower than Meituan's losses of over RMB10bn per quarter.

For 2021-23E, we expect core net profit to grow at 22% CAGR to RMB 25.7bn by 2023E, driven by ongoing user growth and effective cost control.



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

	2020	2021	2022E	2023E
COGS	636,596	822,423	926,809	1,102,913
Fulfillment expenses	47,861	57,954	67,658	79,328
Marketing expenses	26,097	37,303	37,588	43,502
Technology & content expenses	14,650	14,447	13,424	15,354
General & admin expenses	4,436	5,471	5,370	6,397
Total	729,639	937,597	1,050,849	1,247,495
% of revenue				
COGS	85.4%	86.4%	86.3%	86.2%
Fulfillment expenses	6.4%	6.1%	6.3%	6.2%
Marketing expenses	3.5%	3.9%	3.5%	3.4%
Technology & content expenses	2.0%	1.5%	1.3%	1.2%
General & admin expenses	0.6%	0.6%	0.5%	0.5%
Total	97.8%	98.5%	97.9%	97.5%

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

Source(s): Company, ABCI Securities estimates

Exhibit 5: Forecast changes for 2022E

(RMB mn)	Old	New	Diff.	Comment
Revenues	1,131,034	1,073,939	-5%	Weakened economic outlook
Core profit	19,218	17,175	-11%	

Source(s): ABCI Securities estimates

Exhibit 6: Forecast changes for 2023E

(RMB mn)	Old	New	Diff.	Comment
Revenues	1,317,654	1,279,482	-3%	Weakened economic outlook
Core profit	26,573	25,763	-3%	

Source(s): ABCI Securities estimates

Valuation and TP

JD-SW (9618 HK): Our SOTP-based TP is HK\$ 290.

JD-ADR (JD US): Based on our TP for JD-SW, the TP of JD-ADR is US\$ 74 (1 ADR represents 2 shares).

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

Exhibit 7: JD-SW (9618 HK): SOTP-based valuation range (HK\$ per share)

Segment	Low	High	Comment
Core ecommerce business#	216	262	DCF –from 13% to 10% WACC
Investments*	49	49	Book/market value/ABCI Securities estimates
Overall	265	311	

*Including HK\$ 46.6 per share of JD Health (6618 HK) based on the latest market value with a 20% holding discount, and HK\$15.1 per share of JD Logistics (2618 HK) based on the latest market value with a 20% holding discount, and other strategic investments

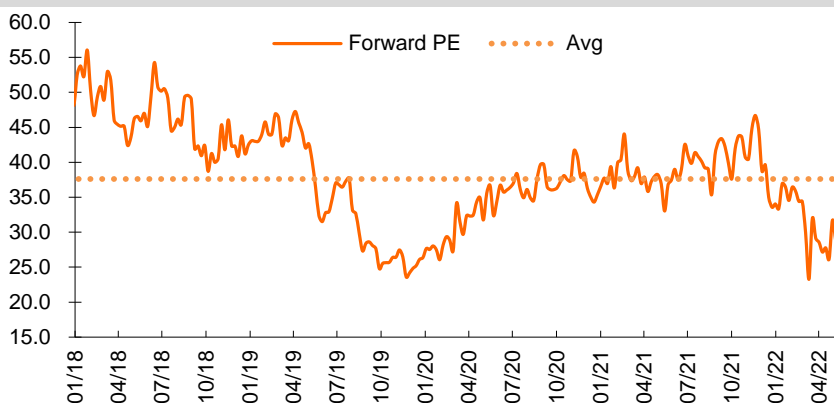
#Excluding JD Health and JD Logistics (2618 HK) and including new businesses

Source(s): ABCI Securities estimates

Despite near-term softness due to economic slowdown and COVID-related restrictive measures, we believe JD's long-term fundamental remains solid.

JD's forward P/E has been trending down towards its historical low, as shown in the chart below. While share price volatility might continue in the near term, the low valuation presents an entry point for investors with a longer-term investment horizon, in our view. In addition, we believe the recent announcement of special dividend marks a good start of management's willingness to increase shareholders' return via utilizing its strong balance sheet.

Exhibit 8: Forward P/E



Source(s): Bloomberg, ABCI Securities

Exhibit 9: TP changes (HK\$ per share)

Old	New	Methodology-old	Methodology-new
300	290	SOTP	SOTP with revised financial forecasts

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	897,220	1,049,748
Net service revenue	93,923	135,937	176,718	229,734
Total revenue	745,802	951,592	1,073,939	1,279,482
Cost of sales	(636,694)	(822,525)	(926,900)	(1,103,013)
Gross profit	109,108	129,067	147,038	176,468
Fulfillment expenses	(48,700)	(59,055)	(69,169)	(80,999)
Marketing expenses	(27,156)	(38,743)	(38,776)	(44,877)
Research and development expenses	(16,149)	(16,332)	(15,600)	(17,752)
General & admin expenses	(6,409)	(11,562)	(10,600)	(12,167)
Gains on disposal	1,649	767	0	0
Operating Profit	12,343	4,141	12,893	20,673
Share of results of equity investees	4,291	(4,918)	(3,000)	(1,000)
Interest expenses, net	1,628	(1,213)	(1,250)	(1,300)
Others, net	32,556	(590)	(4,500)	(1,000)
PBT	50,819	(2,580)	4,143	17,373
Tax	(1,482)	(1,887)	(2,206)	(3,377)
PAT	49,337	(4,467)	1,937	13,996
Minority interests	(68)	(907)	(1,000)	(1,000)
Profit attributable to shareholders	49,405	(3,560)	2,937	14,996
Share-based compensation	4,156	8,293	9,123	10,035
Amortization	723	853	1,074	1,279
Impairment/FV changes of investments	(35,690)	13,371	4,500	0
Other non-core items	(1,767)	(1,750)	(459)	(547)
Non-GAAP profit attributable to shareholders	16,828	17,207	17,175	25,763
Growth				
Total revenue (%)	29.3	27.6	12.9	19.1
Gross Profit (%)	29.2	18.3	13.9	20.0
Operating Profit (%)	37.2	(66.4)	211.3	60.3
Net profit (%)	305.5	(107.2)	(182.5)	410.5
Non-GAAP net profit (%)	56.5	2.3	(0.2)	50.0
Operating performance				
Operating margin (%)	1.7	0.4	1.2	1.6
Net margin (%)	6.6	(0.4)	0.3	1.2
Core net margin (%)	2.3	1.8	1.6	2.0
ROAE (%)	34.2	(1.6)	1.2	5.8
ROAA (%)	14.5	(0.8)	0.6	2.7

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

Source(s): the Group, ABCI Securities estimates



Consolidated balance sheet (2020A-2023E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Fixed assets	41,628	53,089	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	69,426	79,284
Short-term investments and investment securities	60,577	114,564	129,564	154,564
Inventories	58,933	75,601	87,828	87,636
Account receivables	7,112	11,900	10,592	14,022
Other current assets	17,660	20,915	21,488	22,089
Total current assets	234,801	299,672	318,898	357,594
Total assets	422,288	496,507	534,594	596,710
Account payables	127,816	169,590	205,644	239,432
Borrowings and notes	3,260	4,367	6,367	8,367
Other current liabilities	42,941	47,679	47,807	47,942
Total current liabilities	174,016	221,636	259,818	295,741
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	200,668	249,723	290,059	328,144
Mezzanine equity	17,133	1,212	1,212	1,212
Equity attributable to shareholders	187,543	208,911	207,662	232,693
Non-controlling interests	16,943	36,661	35,661	34,661
Total equity	204,486	245,572	243,323	267,353

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)	1,937	13,996
Depreciation and amortization	6,068	6,232	6,300	6,400
Other non-cash adjustments	(31,538)	21,588	9,123	10,035
Change in working capital	18,677	18,948	21,683	26,927
Operating cash flow	42,544	42,301	39,044	57,358
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)	(7,265)	9,858

Note. Individual items may not sum to total due to rounding
Individual items may vary from reported figures due to rounding /definition differences
Source(s): the Group, ABCI Securities estimates



Risk factors

Tightened regulatory environment

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

Market competition

The ecommerce industry is highly competitive, with companies contending on commission rate, promotion discount, brand advertising, technological investment, and more.

Slowdown in ecommerce consumption

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

Non-GAAP financials

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

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

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



Disclosures

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

Definition of equity rating

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

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

Market return rate: average market return rate since 2009 (HSI total return index 2009-21 averaged at 9.2%)

Time horizon of share price target: 12-month

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

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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 218