

JD.com (JD US/9618 HK)

A resilient e-commerce player

- Resilient user growth indicates increased penetration in lower-tier cities
- Prudent approach in developing community group-purchase business will limit potential financial impact
- Maintain **BUY** with a TP of US\$ 108 for JD-ADR (JD US) and HK\$ 420 for JD-SW (9618 HK)

Holding up well. In 3Q21, revenue growth came in at 26% YoY vs. 26% YoY in the previous quarter, indicating no sequential slowdown during the quarter despite the weakening macro environment. Core net profit dropped 9% YoY to RMB 5.0bn, significantly better than market estimate of RMB 3.0bn, indicating better-than-expected cost control. In addition, the Company also achieved a 28.6% YoY order growth during the “Nov 11” festival, implying a resilient growth momentum.

Gaining momentum in lower-tier cities. JD has successfully leveraged its unique strength in consumer electronics products and supply chain to penetrate into lower-tier cities. Its annual active customer growth was 25% YoY in 3Q21, driving the revenue growth.

Prudent approach in community group purchase. Compared to peers such as Meituan (3690 HK) and Pinduoduo (PDD US), which have been investing heavily to develop their propriety community group-purchase business, JD adopts a more prudent approach like investing in the existing community group-purchase platform Xingsheng (兴盛优选). We believe this could reduce financial burden imposed by a high startup costs.

Maintain BUY. We maintain **BUY** with a TP of US\$ 108 on **JD-ADR (JD US)** and HK\$ 420 on **JD-SW (9618 HK)** for its unique strength in product and supply chain and further growth potential in lower-tier cities.

Results and Valuation

FY end Dec 31	2019A	2020A	2021E	2022E
Revenue (RMB mn)	576,888	745,802	931,836	1,129,626
Chg (% YoY)	24.9	29.3	24.9	21.2
Net profit (RMB mn)	12,184	49,405	4,009	14,787
Chg (% YoY)	NA	305.5	-91.9	268.9
Core net profit (RMB mn)	10,750	16,828	16,113	20,462
Chg (% YoY)	210.7	56.5	-4.2	27.0
Earnings per ADS (RMB)	8.2	31.7	1.9	8.9
Chg (% YoY)	NA	285.6	-93.9	358.3
Core earnings per ADS (RMB)	7.2	10.6	9.7	12.5
Chg (% YoY)	204.9	45.7	-7.8	28.8
Core P/E (x)- ADR	79.1	53.0	58.9	45.7
Core P/E (x)-SW share	80.4	53.8	59.8	46.5
ROAE (%)	16.7	34.2	1.8	5.6
ROAA (%)	5.2	14.5	0.9	2.9

*1 ADR = 2 ordinary shares

Source (s): Bloomberg, ABCI Securities estimates

Company Report

Rating (ADR): BUY
 TP (ADR): US\$ 108
 Rating (SW-share): BUY
 TP (SW-share): HK\$420

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Price (ADR/SW-share)	US\$ 88.6/ HK\$350.6
Est. share price return (ADR/SW-share)	19.8%/21.7%
Est. dividend yield (ADR/SW-share)	NA/NA
Est. total return (ADR/SW-share)	18.8%/21.7%
Last Rating & TP (ADR/SW-share)	BUY, US\$116/ BUY, HK\$450

Previous Report Date Feb 10, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (SW-share)	337.2/226.0
52Wk H/L (US\$) (ADR)	86.5/27.7
Outstanding shares (mn)	3,106
Market cap (HK\$ mn) (all outstanding shares)	1,088,964
3-mth avg daily turnover (HK\$ mn) (SW-share)	1,275
3-mth avg daily turnover (US\$ mn) (ADR)	694
Major shareholder(s)	Voting right
Richard Liu	79.0%
Walmart	2.5%

Source(s): Bloomberg, HKEx, Company



Recent business update

In 3Q21, revenue grew 26% YoY to RMB 218bn, 2% above the market expectation. Core net profit dropped 9% YoY to RMB 5.0bn, significantly better than market estimate of RMB 3.0bn.

In our view, the 26% YoY revenue growth in 3Q21 despite the recent slowdown in e-commerce market can be attributed to JD's strong user growth. JD's annual active customer growth was 25% YoY in 3Q21, indicating ongoing penetration in lower-tier cities.

Product revenue rose 23% YoY, driven by the 25% YoY growth of annual active customers, indicating ongoing penetration into the lower-tier cities. In terms of product revenue mix, revenue from general merchandise products reported a 29% YoY growth, higher than the 19% YoY growth for electronics and home appliance. In our view, this indicates an ongoing trend to shop for groceries and food products online. Overall, general merchandise products accounted for 40% of JD's direct sales revenue, compared to 60% from electronics and home appliances in 3Q21.

In addition, net service revenue (including marketplace, advertising, logistics, and other services) grew 43% YoY during the quarter, pointing to ongoing business expansion in the service area. Overall, net service revenue accounted for 15% of total revenue for the quarter.

New businesses such as Jingxi, technology initiatives, etc reported RMB 2.0bn in operating losses in 3Q21 vs. RMB 3.0bn operating losses in 2Q21. Overall, JD's new business losses are less than its peers' since the Company adopts a more selective approach with less marketing or promotional expenses in the community group-purchase business. In addition, the core JD retail business (online retail and marketplace) reported an 18% YoY growth in operating profit during the quarter.

Exhibit 1: 3Q21 review

Results review:	3Q20	3Q21	YoY%	Remark
Annual active customer(mn)	442	552	25%	
Financials (RMB mn)				
Net product	151,399	186,008	23%	Driven by customer growth
Net service	22,815	32,700	43%	
Revenue	174,214	218,708	26%	2% above market expectation
Gross profit	26,795	31,093	16%	
Operating profit	4,384	2,572	(41%)	
Net profit	7,561	(2,807)	(137%)	
Core profit (non-GAAP)	5,558	5,048	(9%)	vs. market expectation of RMB3.0bn
Profitability (%):				
	3Q20	3Q21	ppt YoY	
Gross margin	15.4	14.2	(1.2)	
Operating margin	2.5	1.2	(1.3)	
Net margin	4.3	(1.3)	(5.6)	
Core net margin (non-GAAP)	3.2	2.3	(0.9)	

Source(s): Company, ABCI Securities



Financial analysis

For 2020-22E, we expect GMV to grow at 20% CAGR to RMB 3.8tr by 2022E, driven by the growing number of active users. JD has been experiencing user growth in recent quarters thanks to improving penetration in lower-tier cities, and we expect the trend to continue; however, the increased mix of users from lower-tier cities may lower the average annual spending per active customer.

Overall, we expect revenue to increase at 23% CAGR in 2020-22E, propelled by growing GMV and ongoing expansion of new businesses. In particular, we expect logistics and other service revenue to grow at 38% CAGR in 2020-22E, thanks to increased corporate demand on quality supply chain services.

Exhibit 2: Major assumptions

	2019	2020	2021E	2022E
Annual active customer account (mn)	362	472	590	708
GMV (RMB bn)	2,085	2,613	3,224	3,753
Annual spending per active customer (RMB)	5,761	5,535	5,465	5,301

Source(s): Company, ABCI Securities estimates

Exhibit 3: Revenue forecasts (RMB mn)

	2019	2020	2021E	2022E
<i>Electronics and home appliance</i>	328,704	400,927	477,103	548,669
<i>General merchandize</i>	182,031	250,952	321,219	401,523
Net product revenue	510,734	651,879	798,322	950,192
<i>Marketplace and advertising</i>	42,680	53,473	74,862	97,321
<i>Logistics and other services</i>	23,474	40,450	58,652	82,113
Net service revenue	66,154	93,923	133,515	179,434
Total revenue	576,888	745,802	931,836	1,129,626

Source(s): Company, ABCI Securities estimates

Major e-commerce platforms have been increasing investments in various strategic areas, such as community group purchase, in recent quarters and margins are therefore pressured. Compared to peers such as Meituan (3690 HK) and Pinduoduo (PDD US), which have been investing heavily to develop their propriety community group-purchase business, JD adopts a more prudent approach in developing the community group-purchase business by investing in an existing company, which helps alleviate the heavy financial burden imposed by the high startup costs.

For example its operating losses of new businesses ranged from RMB 2-3bn per quarter in recent quarters, significantly lower than Meituan's RMB 8-9bn new businesses operating losses per quarter.

Looking forward, we expect core net margin (excl. impacts of share-based compensation and other non-operating items) to fall from 2.3% in 2020 to 1.7% in 2021E and 2022E.



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

	2019	2020	2021E	2022E
COGS	492,385	636,596	804,175	966,960
Fulfillment expenses	36,363	47,861	61,501	73,426
Marketing expenses	21,338	26,097	32,614	39,537
Technology & content expenses	13,179	14,650	18,637	22,593
General & admin expenses	3,609	4,436	4,659	5,648
Total	566,874	729,639	921,586	1,108,163
% of revenue				
COGS	85.4%	85.4%	86.3%	85.6%
Fulfillment expenses	6.3%	6.4%	6.6%	6.5%
Marketing expenses	3.7%	3.5%	3.5%	3.5%
Technology & content expenses	2.3%	2.0%	2.0%	2.0%
General & admin expenses	0.6%	0.6%	0.5%	0.5%
Total	98.3%	97.8%	98.9%	98.1%

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

Source(s): Company, ABCI Securities estimates

Exhibit 5: Forecast changes for 2021E

(RMB mn)	2021E		Diff.	Comment
	Old	New		
Revenues	896,280	931,836	4%	
Core profit	24,698	15,113	-39%	Higher cost assumptions

Source(s): ABCI Securities estimates



Valuation and TP

JD-SW (9618 HK): We set our SOTP-based TP at HK\$ 420

JD-ADR (JD US): Based on our TP of JD-SW, the TP of JD-ADR is US\$ 108 (1 ADR represents 2 shares).

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

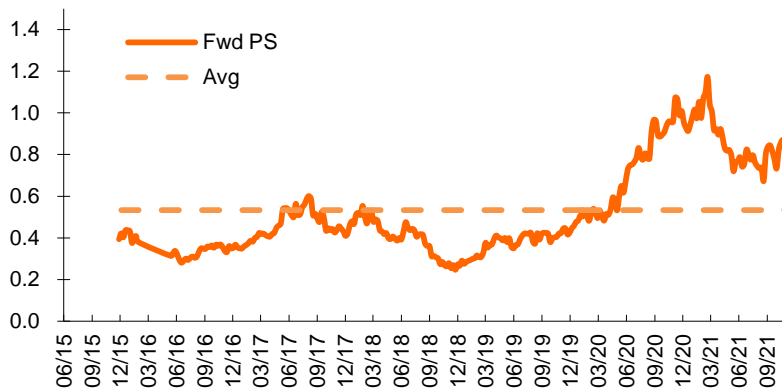
Exhibit 6: JD-SW (9618 HK): SOTP-based valuation range (HK\$ per share)

Segment	Low	High	Comment
Core ecommerce business	292	376	DCF –from 10% to 7% WACC
Investments*	93	93	Book/market value/ABCI Securities estimates
Overall	385	470	

*Including HK\$ 74.4 per share for 67.5% stakes of JD Health (6618 HK) based on the latest market value with a 20% holding discount, and HK\$31.1 per share for a 63.5% stake of JD Logistics (2618 HK) based on the latest market value with a 20% holding discount, and other strategic investments

Source(s): ABCI Securities estimates

Exhibit 7: Forward P/E



Source(s): Bloomberg, ABCI Securities

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

Old	New	Methodology-old	Methodology-new
450	420	SOTP	SOTP with revised earnings forecast

Source(s): ABCI Securities estimates



Financial forecast

Consolidated income statement (2019A-2022E)

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E
Net product revenue	510,734	651,879	798,322	950,192
Net service revenue	66,154	93,923	133,515	179,434
Total revenue	576,888	745,802	931,836	1,129,626
Cost of sales	(492,467)	(636,694)	(804,221)	(967,010)
Gross profit	84,421	109,108	127,616	162,616
Fulfillment expenses	(36,968)	(48,700)	(62,295)	(74,308)
Marketing expenses	(22,234)	(27,156)	(33,480)	(40,561)
Technology & content expenses	(14,619)	(16,149)	(19,746)	(23,817)
General & admin expenses	(5,490)	(6,409)	(7,348)	(8,624)
Gains on disposal	3,885	1,649	1,000	1,000
Operating Profits	8,995	12,343	5,747	16,305
Share of results of equity investees	(1,738)	4,291	(700)	(500)
Interest income	1,786	2,753	1,500	2,000
Interest expenses	(725)	(1,125)	(1,000)	(1,000)
Others, net	5,375	32,556	(500)	(500)
PBT	13,693	50,819	5,047	16,305
Tax	(1,802)	(1,482)	(1,938)	(2,518)
PAT	11,890	49,337	3,109	13,787
Minority interests	(293)	(68)	(900)	(1,000)
Profits attributable to shareholders	12,184	49,405	4,009	14,787
Share-based compensation	3,695	4,156	4,572	5,029
Amortization	885	723	932	1,130
Impairment/FV changes of investments	(745)	(35,690)	7,000	0
Other non-core items	(5,269)	(1,767)	(399)	(483)
Non-GAAP profits attributable to shareholders	10,750	16,828	16,113	20,462
Growth				
Total revenue (%)	24.9	29.3	24.9	21.2
Gross Profits (%)	28.0	29.2	17.0	27.4
Operating Profits (%)	NA	37.2	(53.4)	183.7
Net profit (%)	NA	305.5	(91.9)	268.9
Non-GAAP net profit (%)	210.7	56.5	(4.2)	27.0
Operating performance				
Operating margin (%)	1.6	1.7	0.6	1.4
Net margin (%)	2.1	6.6	0.4	1.3
Core net margin (%)	1.9	2.3	1.7	1.8
ROAE (%)	16.7	34.2	1.8	5.6
ROAA (%)	5.2	14.5	0.9	2.9

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

Source(s): the Group, ABCI Securities estimates



Consolidated balance sheet (2019A-2022E)

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E
Fixed assets	37,352	41,628	48,128	49,628
Investments	56,993	98,916	98,916	98,916
Other non-current assets	26,284	46,944	44,844	42,744
Total non-current assets	120,629	187,487	191,887	191,287
Cash & equivalents	39,912	90,519	94,059	115,929
Short-term investments and investment securities	24,603	60,577	60,577	60,577
Inventories	57,932	58,933	91,143	109,592
Account receivables	6,191	7,112	35,742	43,328
Other current assets	10,457	17,660	17,660	17,660
Total current assets	139,094	234,801	299,180	347,086
Total assets	259,723	422,288	491,067	538,373
Account payables	106,507	127,816	164,215	193,205
Borrowings and notes	0	3,260	3,260	3,260
Other current liabilities	33,510	42,941	42,941	42,941
Total current liabilities	140,017	174,016	210,416	239,406
Payables & accruals	226	332	332	332
Borrowings and notes	10,052	12,531	12,531	12,531
Other non-current liabilities	8,805	13,790	13,790	13,790
Total non-current liabilities	19,082	26,653	26,653	26,653
Total liabilities	159,099	200,669	237,068	266,058
Mezzanine equity	15,964	17,133	1,133	1,133
Equity attributable to shareholders	81,856	187,543	220,823	240,139
Non-controlling interests	2,804	16,943	32,043	31,043
Total equity	84,660	204,486	252,866	271,181

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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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 2008 (HSI total return index 2008-20 CAGR 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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