

### COMPANY RESULTS

#### JD.com (9618 HK)

Expecting Solid Revenue Growth; Limited Impact From Rmb10b Subsidy

JD will report its 4Q22 earnings on 9 March. We expect the recovery of JD's top-line performance to continue in 1H23 and move into growth trajectory in 2H23. The competitive landscape has become increasingly intense along with the economic recovery. According to 36Kr report, JD will launch the "Rmb10b subsidy" campaign in March - under our scenario analysis, the impact of this should be limited. Maintain BUY with target price of HK\$331.00 (US\$87.00).

#### WHAT'S NEW

- Resilient top-line growth and stable margin expectations.** We expect JD.com's (JD) 4Q22 revenue to grow steadily by 7% yoy, with JD Retail's revenue to grow 5% yoy in 4Q22. Despite weaker demand for apparel, we expect JD's 4Q22 gross margin to hold up well at 15.2% (vs 13.5% in 4Q21) due to continuous solid performance from 3P business and FMCG category. With JD's ongoing efforts in streamlining investments of new initiatives and prudent cost control, we expect 4Q22 non-GAAP operating profit to come in at Rmb12b with operating margin of 4%. We estimate JD's 4Q22 adjusted net margin at 1.9% given the absence of any major events which should see sales & marketing (S&M) as a percentage of total revenue normalise to 4.0% vs 4.8% in 4Q21; however, the absolute S&M spending should still see a qoq surge of 52% due to seasonality effect from the 11.11 shopping festival.
- Meaningful consumption recovery during Spring Festival.** According to JD's 2023 Chinese New Year Consumption Trend, JD Shop Now sales soared more than 90% yoy. In addition, consumer order amount surged significantly by 171% yoy on New Year's Eve. Product categories such as household appliances, cosmetics and perfume, thermal clothing, and mobile phones delivered robust yoy sales growths of 226%/120%/150%/70% respectively. Moving forward, JD will be shifting its focus to growth in GMV instead of revenue as the key growth metric, which bodes well for JD's aim of strengthening user mindshare. With this, we forecast 1Q23 revenue to grow 10% yoy, down from 17% yoy in 1Q22. We expect JD Retail revenue growth to accelerate to 23% yoy in 1Q223, compared to 17% yoy in 1Q22.
- JD's "Rmb10b subsidy".** According to 36Kr report, JD will launch the "Rmb10b subsidy" campaign on 8 March, and it is currently in the phase of selection of products and bidding systems before going online. JD's open platform has released a service rule that states consumers can receive double compensation if the product is purchased at a higher price from JD's Platform Open Plan (POP) than on other platforms such as Pinduoduo and Tmall, on the same day. The rules will take effect on 28 Feb 23. In our base-case scenario, we estimate a Rmb5b subsidy to boost GMV and revenue by Rmb200b (+5% of our 2023 GMV of Rmb3,931b) and Rmb60b (+5% of our 2023 GMV of Rmb1,218b) respectively, while the operating profit of JD Retail is expected to decrease by Rmb3.0b, representing a 45bp decline in operating margin and a 10% decline in our EPS.

#### KEY FINANCIALS

Year to 31 Dec (RMBm)	2020	2021	2022F	2023F	2024F
Net turnover	745,801.9	951,592.2	1,064,262.6	1,265,138.5	1,442,291.6
EBITDA	19,196.1	14,548.1	30,918.6	46,210.6	65,798.7
Operating profit	12,342.8	4,141.0	17,792.0	30,039.9	46,459.2
Net profit (rep./act.)	51,104.1	(3,543.6)	9,945.9	23,282.7	35,887.5
Net profit (adj.)	18,526.6	17,223.1	24,429.2	33,705.4	45,871.8
EPS (Fen)	578.1	553.7	769.2	964.8	1,193.7
PE (x)	29.3	30.6	22.0	17.5	14.2
P/B (x)	2.6	2.6	2.5	2.5	2.4
EV/EBITDA (x)	25.0	33.0	15.5	10.4	7.3
Dividend yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	6.9	(0.4)	0.9	1.8	2.5
Net debt/(cash) to equity (%)	(29.8)	(28.5)	(31.2)	(41.0)	(50.6)
Interest cover (x)	n.a.	n.a.	16.0	41.9	146.3
ROE (%)	33.8	n.a.	4.9	10.5	14.3
Consensus net profit	-	-	23,224	31,005	40,118
UOBKH/Consensus (x)	-	-	1.05	1.09	1.14

Source: JD.com, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	HK\$173.70
Target Price	HK\$331.00
Upside	+90.6%

#### COMPANY DESCRIPTION

JD.com is the leading online direct sales player in China.

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	9618 HK
Shares issued (m):	2,731.4
Market cap (HK\$m):	548,771.9
Market cap (US\$m):	69,912.6
3-mth avg daily t'over (US\$m):	255.0

#### Price Performance (%)

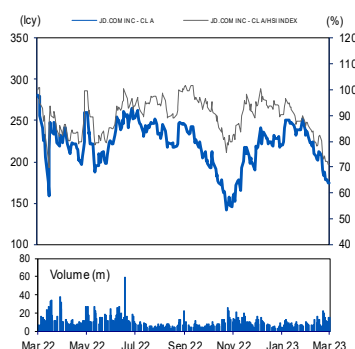
52-week high/low	HK\$281.10/HK\$141.80			
1mth	3mth	6mth	1yr	YTD
(25.0)	(20.6)	(29.6)	(36.3)	(21.1)

#### Major Shareholders

Walmart Inc	10.6
BlackRock Inc	3.1
Vanguard Group Inc	2.9

FY23 NAV/Share (RMB)	66.64
FY23 Net Cash/Share (RMB)	26.11

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Julia Pan Meng Yao**  
 +8621 5404 7225 ext 808  
 juliapan@uobkayhian.com

### STOCK IMPACT

#### SENSITIVITY ANALYSIS

EPS (cents) FY23F		Total Revenue Growth in 2023F (%YoY)						
		1.4%	6.4%	11.4%	16.4%	21.4%	26.4%	28.4%
2023F OPM	2.3%	9.33	10.01	10.70	11.39	12.07	12.76	13.03
	2.7%	12.06	12.88	13.70	14.52	15.35	16.17	16.49
	3.2%	14.79	15.75	16.71	17.66	18.62	19.57	19.96
	3.6%	17.53	18.62	19.71	20.80	21.89	22.98	23.42
	4.1%	20.26	21.49	22.71	23.94	25.16	26.39	26.88
	4.5%	22.99	24.35	25.71	27.07	28.43	29.80	30.34
	5.0%	25.73	27.22	28.72	30.21	31.71	33.20	33.80
% impact to EPS		Total Revenue Growth in 2023F (%YoY)						
		1.4%	6.4%	11.4%	16.4%	21.4%	26.4%	28.4%
2023F OPM	2.3%	-55%	-52%	-49%	-45%	-42%	-39%	-37%
	2.7%	-42%	-38%	-34%	-30%	-26%	-22%	-21%
	3.2%	-29%	-24%	-20%	-15%	-10%	-6%	-4%
	3.6%	-16%	-10%	-5%	0%	5%	10%	13%
	4.1%	-3%	3%	9%	15%	21%	27%	29%
	4.5%	11%	17%	24%	30%	37%	43%	46%
	5.0%	24%	31%	38%	45%	52%	60%	63%

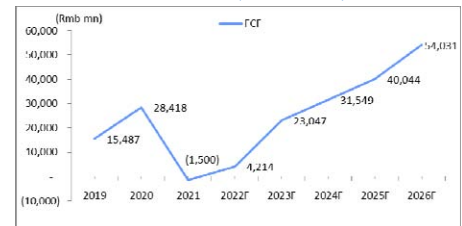
Source: UOB Kay Hian

- JD Retail to strengthen price competitiveness in the dynamic market landscape.** Back in 2019, under the "Rmb10b subsidy" Pinduoduo spent over Rmb5b in 4Q19 alone, or an average platform subsidy of 15% per good sold. The actual subsidy expenditure of the "Rmb10b subsidy" in 2019 is far more than Rmb10b, as the sales and marketing expenses of 3Q and 4Q19 reached Rmb16.2b. As of 2022, PDD S&M was down to 1.7% of GMV vs 2.6% in 2019. PDD achieved outstanding performance through the "Rmb10b subsidy" which helped to enhance brand tonality and expand the proportion of first-and second-tier users. Note that price competitiveness is crucial in driving consumption demand and helps JD to expand market shares in the intense competitive environment. However, short-term subsidies may erode operating margin. JD's stock price has experienced a significant pullback, which provides investment opportunities. We estimate the GMV proportion of core categories including digital appliances, clothing and bags, and beauty and personal care products to exceed 15% in 4Q22. The improved price competitiveness will benefit fulfilment and penetration rate of lower-end users.
- Integration of ChatJD into JD's platform.** JD has announced plans to release its own AI chatbot service. JD plans to integrate ChatJD into JD's platform infrastructure, enabling the chatbot to provide automated responses for customer service and enquiries for both buyers and sellers. We believe the AI chatbot would help in improving and optimising efficiencies for its core retail and emerging financial businesses, allowing JD to capture monetisation opportunities.
- JD Logistics as the other growth driver.** With the unique competitive edge, JD Logistics is well-positioned to develop the domestic supply chain. With the rebound of express delivery volume brought about by recovery of fulfilment capabilities, we expect JD Logistics revenue in 4Q22 to increase by 35% yoy to Rmb41.1b. According to State Post Bureau data, the national express business volume declined by 0.7%/8.4%/0.9% yoy in Oct/Nov/Dec 22, respectively. However, during the 7-day Spring Festival in Jan 23, the volume of express parcels received increased 5.1% yoy compared to the previous year's Spring Festival, representing a better recovery visibility. During Spring Festival, JD Logistics collaborated with Kuaishou to provide high-quality logistics fulfilment services to key city areas. We believe JD Logistics' cooperation with external e-commerce companies or expansion of logistics operations would help to strengthen recognition and presence of JD Logistics.

#### EARNINGS REVISION/RISK

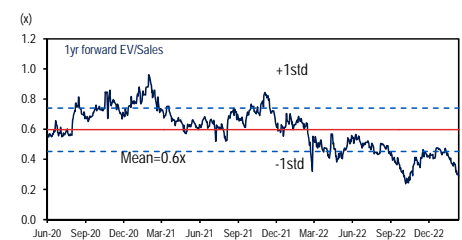
- We leave our 4Q22 estimates largely unchanged.

#### JD'S FREE CASH FLOW (2019-2026F)



Source: JD.com, UOB Kay Hian

#### JD'S 12-MONTH FORWARD EV/SALES BAND



Source: JD.com, UOB Kay Hian

- **Risks:** a) Consumption and logistics disruption from the pandemic in the coming quarters, b) intensified competition in the fresh produce and FMCG segments from peers, and c) weak consumption sentiment after pandemic.

### VALUATION/RECOMMENDATION

- **Maintain BUY on JD with target price of HK\$331.00 (US\$87.00)**, based on our SOTP valuation to 2023. Our target price implies 1x of 2023F EV/sales, 23x 2023F PE, 1x PEG. We like JD for its room for margin improvement on better operating efficiency in its own ecosystem as well as margin expansion which should be supported by the 3P segment's growth. JD is trading at 0.3x EV/sales, 2.1SD below its historical mean. The company is currently trading at 15.4x 12-month forward PE, against 22% EPS CAGR over the next 3 years.

### SHARE PRICE CATALYST

- Strong new user growth, continued margin expansion with improved operating efficiency and further extension of logistics services to internal and external customers.

### VALUATION

2023E	Revenue (Rmb)	EBITDA	EV/EBITDA	To JD (HK\$)	JD stake	To JD (10% discount)	HK\$/share
JD Retail	1,130,388	56,519	12x	784,580	Majority	784,580	222
JD Logistics				113,243	81%	64,209	18
JD Cloud and digital				141,305	37%	47,055	15
JD Health	58,728		3x (PS)	67,936	67%	40,965	12
Key Investments						49,499	14
Net cash				180,728		180,728	51
SOTP value				1,287,792		1,167,036	331

Source: JD.com, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMBm)	2021	2022F	2023F	2024F
Net turnover	951,592	1,064,263	1,265,138	1,442,292
EBITDA	14,548	30,919	46,211	65,799
Deprec. & amort.	10,407	13,127	16,171	19,339
EBIT	4,141	17,792	30,040	46,459
Total other non-operating income	(7,546)	(2,685)	0	0
Net interest income/(expense)	824	(1,931)	(1,102)	(450)
Pre-tax profit	(2,581)	13,176	28,938	46,010
Tax	(1,887)	(4,112)	(5,656)	(10,122)
Minorities	924	882	0	0
Net profit	(3,544)	9,946	23,283	35,887
Net profit (adj.)	17,223	24,429	33,705	45,872

### CASH FLOW

Year to 31 Dec (RMBm)	2021	2022F	2023F	2024F
Operating	15,030	29,477	55,493	69,199
Pre-tax profit	(2,581)	13,176	28,938	46,010
Tax	(1,887)	(4,112)	(5,656)	(10,122)
Deprec. & amort.	10,407	13,127	16,171	19,339
Associates	1	2	3	4
Working capital changes	9,091	7,286	16,040	13,972
Other operating cashflows	(1)	(2)	(3)	(4)
Investing	(19,032)	(21,285)	(25,303)	(28,846)
Capex (growth)	(19,032)	(21,285)	(25,303)	(28,846)
Capex (maintenance)	0	0	1	2
Investments	0	0	0	0
Proceeds from sale of assets	0	0	1	2
Others	0	0	(2)	(4)
Financing	(25,034)	(3,200)	(3,200)	(3,200)
Dividend payments	0	0	1	2
Issue of shares	0	0	0	0
Proceeds from borrowings	(25,034)	(3,200)	(3,200)	(3,200)
Loan repayment	0	0	1	2
Others/interest paid	0	0	(2)	(4)
Net cash inflow (outflow)	(29,036)	4,991	26,990	37,153
Beginning cash & cash equivalent	86,085	57,049	62,041	89,031
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	57,049	62,041	89,031	126,184

### BALANCE SHEET

Year to 31 Dec (RMBm)	2021	2022F	2023F	2024F
Fixed assets	31,221	39,380	48,512	58,018
Other LT assets	164,890	164,890	164,890	164,890
Cash/ST investment	57,049	62,041	89,031	126,184
Other current assets	173,233	186,504	209,834	230,546
<b>Total assets</b>	<b>426,394</b>	<b>452,815</b>	<b>512,267</b>	<b>579,638</b>
ST debt	0	0	0	0
Other current liabilities	207,624	228,181	267,551	302,234
LT debt	0	(3,200)	(6,400)	(9,600)
Other LT liabilities	1,618	1,618	1,618	1,618
Shareholders' equity	200,209	209,273	232,556	268,443
Minority interest	16,943	16,943	16,943	16,943
<b>Total liabilities &amp; equity</b>	<b>426,394</b>	<b>452,815</b>	<b>512,267</b>	<b>579,638</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	1.5	2.9	3.7	4.6
Pre-tax margin	(0.3)	1.2	2.3	3.2
Net margin	(0.4)	0.9	1.8	2.5
ROA	n.a.	2.3	4.8	6.6
ROE	n.a.	4.9	10.5	14.3
<b>Growth</b>				
Turnover	27.6	11.8	18.9	14.0
EBITDA	(24.2)	112.5	49.5	42.4
Pre-tax profit	(104.9)	n.a.	119.6	59.0
Net profit	(106.9)	n.a.	134.1	54.1
Net profit (adj.)	(7.0)	41.8	38.0	36.1
EPS	(4.2)	38.9	25.4	23.7
<b>Leverage</b>				
Debt to total capital	0.0	(1.4)	(2.6)	(3.5)
Debt to equity	0.0	(1.5)	(2.8)	(3.6)
Net debt/(cash) to equity	(28.5)	(31.2)	(41.0)	(50.6)
Interest cover (x)	n.a.	16.0	41.9	146.3

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK has provided investment banking services to China Resources Mixc Lifestyle Services (1209 HK) and has received compensation for such services in the preceding 12 months. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W