

COMPANY RESULTS

JD.com (9618 HK)

4Q22: Solid Earnings Beat, Soft 1Q23 Outlook; Rmb10b Subsidy As The Key Market Focus

JD's 4Q22 earnings beat with non-GAAP net profit of Rmb7.7b, 38% above the street's estimate, as a result of improving operating efficiency. Revenue grew 7% yoy to Rmb295.4b, in line with our and the street's estimates. Management expects JD Retail's EBIT margin to remain stable and group margins to expand for 1Q23/2023 despite the Rmb10b subsidy programme, thanks to the narrow losses from new businesses. We maintain BUY on JD with a lower target price of HK\$287.00 (US\$77.00).

4Q22 RESULTS

Year to 31 Dec (Rmbm)	4Q21	3Q22	4Q22	QoQ	YoY	UOBKH	Var	Cons	Var
Total Net revenue	275,907	243,535	295,446	21%	7%	296,010	-0.2%	295,620	-0.1%
Online direct sales	234,675	197,027	237,599	21%	1%	240,935	-1.4%		
Services and Others	41,232	46,508	57,847	24%	40%	55,075	5.0%		
Gross profits	37,122	36,196	41,537	15%	12%	44,885	-7.5%	41,109	1.0%
GPM	13.5%	14.9%	14.1%	(80 bps)	60 bps	15.2%	(110 bps)	13.9%	15.3 bps
Non-GAAP OP	2,831	9,817	7,252	-26%	156%	12,024	-39.7%		
Non-GAAP OPM	1.03%	4.03%	2.45%	(158 bps)	143 bps	4.06%	(161 bps)		
GAAP net income	(5,164)	5,963	3,032	-49%	159%	6,475	-53.2%		
Non-GAAP net income	3,565	10,040	7,659	-24%	115%	9,220	-16.9%	5,534	38.4%
Non-GAAP Net Margin	1.3%	4.1%	2.6%	(153 bps)	130 bps	3.1%	(52 bps)	1.9%	72.0 bps

Source: JD.com, UOB Kay Hian

RESULTS

• **Solid top-line growth despite pandemic disruptions.** JD.com's (JD) 4Q22 revenue growth decelerated 7% yoy, in line with management's previously guided range. Electronics and home appliances' revenue growth alleviated to 1% (3Q22: +8%), remaining largely stable amid the challenging pandemic situation. General merchandise's revenue growth moderated to +2% (3Q22: +3%) due to weak consumer demand for discretionary categories such as apparel and cosmetics. Marketplace and ads' revenue expanded 11% (3Q22: +13%) and outperformed the overall industry, primarily attributed to JD's commitment in supporting merchants. Gross margin improved marginally to 14% in 4Q22. Non-GAAP operating income surged 156% yoy to Rmb7.3b with non-GAAP operating margin expanding 143bp yoy to 2.5%, mainly driven by a higher contribution from the 3P segment. In 4Q22, EBIT margin of the JD Retail/JD Logistics/new business segments were registered at +3.0%/+0.2%/-24.2%, improving from +2.0%/+2.0%/-39.3% in 4Q21. During 2022, JD's gross merchandise value (GMV) grew by 5.6% yoy amid the challenging macro environment.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	951,592.2	1,046,236.0	1,156,694.3	1,322,020.7	1,483,170.6
EBITDA	(720.7)	684.2	49,324.2	62,435.5	79,556.3
Operating profit	4,141.0	18,344.0	29,770.7	41,160.3	56,184.1
Net profit (rep./act.)	(3,543.2)	9,009.0	21,715.9	30,038.0	42,032.1
Net profit (adj.)	17,223.5	28,570.0	32,870.7	42,382.6	53,848.9
EPS (Fen)	553.7	899.0	1,034.3	1,212.4	1,400.4
PE (x)	28.7	17.7	15.4	13.1	11.4
P/B (x)	2.4	2.3	2.1	2.1	2.0
EV/EBITDA (x)	n.m.	755.0	10.5	8.3	6.5
Dividend yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(0.4)	0.9	1.9	2.3	2.8
Net debt/(cash) to equity (%)	(20.9)	(11.9)	(19.5)	(32.2)	(44.1)
Interest cover (x)	n.a.	0.3	17.7	22.1	34.6
ROE (%)	n.a.	4.2	9.7	12.0	14.7
Consensus net profit	-	-	25,349	32,103	41,132
UOBKH/Consensus (x)	-	-	1.30	1.32	1.31

Source: JD.com, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	HK\$179.30
Target Price	HK\$287.00
Upside	+60.1%
(Previous TP)	HK\$331.00)

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):	566,464.1
Market cap (US\$m):	72,161.0
3-mth avg daily t'over (US\$m):	241.36
Price Performance (%)	

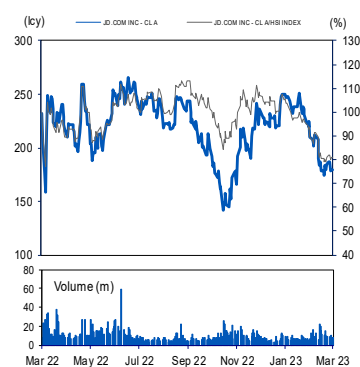
52-week high/low HK\$265.40/HK\$141.820

1mth	3mth	6mth	1yr	YTD
(20.2)	(24.3)	(26.3)	(21.9)	(18.6)

Major Shareholders

Walmart Inc	10.6
BlackRock Inc	3.1
Vanguard Group Inc	2.9
FY22 NAV/Share (RMB)	74.44
FY22 Net Debt/Share (RMB)	14.51

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Soft 1Q23 outlook.** Management expects a low single-digit decline in JD Retail's revenue in 1Q23 as it saw a soft performance in Jan-Feb 23, partly due to the company's strategy in product mix shift, a higher base in 1Q22, and a weaker CNY spend. However, the company saw a solid sequential recovery in March amid the Rmb10b subsidy programme. It is cautiously optimistic on the recovery in 2023, and expects better recovery growth in 2H23 from 2Q23, and slight improve in margins despite the Rmb10b subsidy programme.

STOCK IMPACT

- **JDL made significant progress in expanding logistics infrastructure,** notably JD Airlines, and increasing cargo route. In 4Q22, JD Logistics' (JDL) revenue grew rapidly at 41% yoy to Rmb43b, with external revenue contribution as high as 65%. Excluding the consolidation of Deppon, JDL's revenue rose 13% yoy. Revenue from other customers was Rmb21.8b, up 51% yoy due to increased express delivery and the consolidation of Deppon Group. During 4Q22, JDL's adjusted net income jumped 19% yoy to Rmb1b, translating to adjusted net margin of 2.3%.
- **Expecting meaningful recovery visibility in 2H23.** During 4Q22, JD Retail saw a healthy expansion of merchant base by over 20% yoy along with an encouraging investment for advertising budget on JD's platform. By collaborating with brands and offline stores, JD's omni-channel business maintained its strong growth trajectory in 4Q22. GMV generated by JD's O2O business and Shop Now's one-hour delivery service surged by 29% and 80% yoy respectively in 4Q22. For 2023, management guided a flattish or negative low single-digit revenue yoy growth. JD also expects a stable or slight yoy improvement in net margin in 2023, alleviated by margin improvement in 2022. In addition, JD expects a better recovery visibility in 2Q23 as compared with 1Q23, boosted by the release of pent-up demand and implementation of economic stimulus measures by the government. JD remains cautious on top-line growth in 1H23 and expects the recovery pace to be more significant in 2H23.
- **Launch of "Rmb10b subsidy" campaign as a double edge sword.** JD had allocated Rmb1b for the first two months of its Rmb10b subsidy campaign. The campaign launched by JD covers 13 categories as compared with its rival, Pinduoduo (PDD) which covers 23 categories. We believe the Rmb10b subsidy would enhance JD's price competitiveness to seize market shares, expand user base, and stimulate GMV growth. JD intends to supplement organic growth for brands and merchants by adopting the low price strategy to generate scalable sales and create a low-price environment. Although JD's operating margin is likely to be boosted by revenue scale expansion, profit margin will be inevitably eroded by the elevated S&M expenses. Meanwhile, we expect the performance to be balanced by the intensified competitive landscape with an expected recovery backdrop. Hence, we remain cautiously optimistic and opine that the impact of the Rmb10b subsidy will be minimal on JD.

EARNINGS REVISION/RISK

- We lowered our 1Q23 revenue forecast by 8%, factoring in the slower-than-expected recovery pace given weak demand across inflationary and discretionary products. We trimmed 4Q22 net profit by 24%, with net margin of 2.4% for 1Q23. For full-year 2023, we lowered our revenue forecast by 5%, representing a 1% yoy growth with adjusted net margin of 2.8% (vs 2022: 2.7%). We forecast an 11% yoy revenue growth for 2023.
- **Risks:** Prolonged lockdown measures in China, keener competition from PDD in the fresh produce and the fast-moving consumer goods (FMCG) segment, and slowing GMV growth.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of HK\$287.00 (US\$77.00),** which implies 0.6x 2023E forward EV/Sales, in line with the company's historical mean of 0.8x. JD is trading at 0.3x 12-month forward EV/Sales, 1.9SD below its historical mean.

SHARE PRICE CATALYST

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

EV/SALES BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Net turnover	1,046,236	1,156,694	1,322,021	1,483,171
EBITDA	684	49,324	62,435	79,556
Deprec. & amort.	(17,660)	19,553	21,275	23,372
EBIT	18,344	29,771	41,160	56,184
Total other non-operating income	(3,438)	0	0	0
Net interest income/(expense)	(2,418)	(2,789)	(2,826)	(2,297)
Pre-tax profit	12,488	26,981	38,334	53,887
Tax	(4,176)	(5,266)	(8,296)	(11,855)
Minorities	697	0	0	0
Net profit	9,009	21,716	30,038	42,032
Net profit (adj.)	28,570	32,871	42,383	53,849

CASH FLOW

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Operating	57,819	43,686	65,921	79,961
Pre-tax profit	12,488	26,981	38,334	53,887
Tax	(4,176)	(5,266)	(8,296)	(11,855)
Deprec. & amort.	(17,660)	19,553	21,275	23,372
Associates	2	3	4	5
Working capital changes	28,477	2,417	14,608	14,557
Other operating cashflows	38,688	(3)	(4)	(5)
Investing	(54,026)	(23,134)	(26,440)	(29,663)
Capex (growth)	(4,476)	(23,134)	(26,440)	(29,663)
Capex (maintenance)	0	1	2	3
Investments	(27,484)	0	0	0
Proceeds from sale of assets	0	1	2	3
Others	(22,066)	(2)	(4)	(6)
Financing	1,180	(56,659)	(3,200)	(3,200)
Dividend payments	0	1	2	3
Issue of shares	4,454	0	0	0
Proceeds from borrowings	26,479	(56,659)	(3,200)	(3,200)
Loan repayment	0	1	2	3
Others/interest paid	(29,753)	(2)	(4)	(6)
Net cash inflow (outflow)	4,973	(36,107)	36,280	47,098
Beginning cash & cash equivalent	70,767	78,861	42,754	79,035
Changes due to forex impact	3,121	0	0	0
Ending cash & cash equivalent	78,861	42,754	79,035	126,133

BALANCE SHEET

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Fixed assets	55,080	58,660	63,826	70,117
Other LT assets	189,096	189,096	189,096	189,097
Cash/ST investment	78,861	42,754	79,035	126,133
Other current assets	272,213	284,363	305,048	325,199
Total assets	595,250	574,874	637,004	710,545
ST debt	0	0	0	0
Other current liabilities	266,561	281,128	316,420	351,128
LT debt	53,459	(3,200)	(6,400)	(9,600)
Other LT liabilities	1,107	1,107	1,107	1,108
Shareholders' equity	213,956	235,672	265,710	307,743
Minority interest	60,167	60,167	60,167	60,167
Total liabilities & equity	595,250	574,874	637,004	710,546

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	0.1	4.3	4.7	5.4
Pre-tax margin	1.2	2.3	2.9	3.6
Net margin	0.9	1.9	2.3	2.8
ROA	1.7	3.7	5.0	6.2
ROE	4.2	9.7	12.0	14.7
Growth				
Turnover	9.9	10.6	14.3	12.2
EBITDA	n.a.	7,109.4	26.6	27.4
Pre-tax profit	n.a.	116.1	42.1	40.6
Net profit	n.a.	141.0	38.3	39.9
Net profit (adj.)	65.9	15.1	28.9	27.1
EPS	62.4	15.1	17.2	15.5
Leverage				
Debt to total capital	16.3	(1.1)	(2.0)	(2.7)
Debt to equity	25.0	(1.4)	(2.4)	(3.1)
Net debt/(cash) to equity	(11.9)	(19.5)	(32.2)	(44.1)
Interest cover (x)	0.3	17.7	22.1	34.6

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