

COMPANY UPDATE

JD.com (9618 HK)

Negative Impact On Top-line Growth In 2H23 Due To Restructuring; Recovery In 2024

JD is expecting tempered top-line growth for 2H23 given the adverse impact from restructuring and a sluggish macro backdrop. However, 3Q23 GMV growth is projected be solid at 8-9% after stripping out the impact of reorganisation. In view of the weak visibility of macro improvement, we expect lukewarm consumer sentiment to continue into 4Q23 despite strong seasonality. JD continues to focus on its Low Price Strategy as the core strategic approach for Singles Day 2023. Maintain BUY with a lower target price of HK\$183.00 (US\$48.00).

WHAT'S NEW

- **Top-line growth remains under pressure in 3Q23.** JD.com's (JD) revenue growth is guided at 0-1% yoy in 3Q23 (vs 7.6% in 2Q23) to Rmb246.6b, with -1% to 0% yoy growth from JD Retail (vs Alibaba's CMR growth of 4% yoy). The tempered top-line growth is primarily dampened by: a) lukewarm macro performance in various categories, b) organisational overhaul, c) weak seasonality, and d) high base of 3Q22. In terms of product categories, 3Q23 top-line growth was also hindered by weak air conditioner demand and smartphone sales, with the delayed release of new iPhones and Huawei's supply shortage. The adverse factors were partially offset by positive impacts from the delivery benefits to Plus members and lower free delivery for order values over Rmb59 from Rmb99 previously. After stripping out the impact of restructuring, JD's normalised gross merchandise value (GMV) growth in 3Q23 is forecasted to be high single-digit at 8-9% yoy. We expect JD's 3Q23 gross margin to hold up well at 15.6% (vs 14.9% in 3Q22), attributable to a higher contribution from 3P business. In 3Q23, 3P GMV yoy growth continues to outpace 1P GMV yoy growth. Take rate will remain flattish in 3Q23, underpinned by continuous merchant support in terms of commission rate to develop the 3P ecosystem.
- **Cautious outlook for 4Q23 top-line growth momentum despite strong seasonality.** Top-line growth forecasts in 4Q23 are in line with 3Q23, with revenue growth estimated at 0-1% yoy to reach Rmb299.7 and JD Retail (JDR) revenue growth projected at -1% to 0% yoy. The lacklustre performance in 4Q23 continues to be dragged by reorganisation, but is partially offset by the Singles Day promotion. JD remains conservative given weak visibility on consumption recovery. For full-year 2023, JD's non-GAAP net profit is steadily increasing, while JDR margin remains stable yoy.
- **Stable margin outlook for 3Q23.** With JD's ongoing efforts to streamline investments of new initiatives and prudent cost control, we expect 3Q23/2023 non-GAAP operating profit to come in at Rmb11.4b/Rmb37.9b with operating margin of 4.6%/3.5%. We estimate JD's 3Q23 adjusted net profit to drop 8% yoy, with net margin improving by 77bp yoy to 3.7% mainly due to narrowed losses in new businesses. Meanwhile, JDR's non-GAAP operating margin is projected at 4.5%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	951,592.2	1,046,236.0	1,077,252.6	1,202,544.3	1,297,269.6
EBITDA	(720.7)	684.2	49,973.0	61,874.0	74,085.8
Operating profit	4,141.0	18,344.0	30,816.8	41,494.0	52,314.5
Net profit (rep./act.)	(3,543.2)	9,009.0	24,095.3	30,561.8	38,737.4
Net profit (adj.)	17,223.5	28,570.0	31,935.6	38,305.6	45,099.7
EPS (Fen)	553.7	899.0	1,005.8	1,171.3	1,338.9
PE (x)	19.8	12.2	10.9	9.4	8.2
P/B (x)	1.6	1.6	1.5	1.3	1.2
EV/EBITDA (x)	n.m.	524.0	7.2	5.8	4.8
Dividend yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(0.4)	0.9	2.2	2.5	3.0
Net debt/(cash) to equity (%)	(20.9)	(11.9)	(19.7)	(31.5)	(41.3)
Interest cover (x)	n.a.	0.3	n.a.	24.5	36.9
ROE (%)	n.a.	4.2	10.7	12.1	13.4
Consensus net profit	-	-	32,960	38,460	45,399
UOBKH/Consensus (x)	-	-	0.97	1.00	0.99

Source: JD.com, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	HK\$117.70
Target Price	HK\$183.00
Upside	+55.5%
(Previous TP)	HK\$199.00

COMPANY DESCRIPTION

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

STOCK DATA

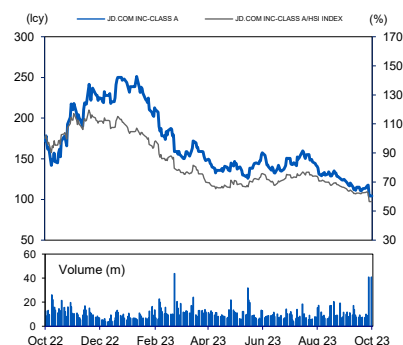
GICS sector	Consumer Discretionary
Bloomberg ticker:	9618 HK
Shares issued (m):	2,756.6
Market cap (HK\$m):	369,933.1
Market cap (US\$m):	47,301.2
3-mth avg daily t'over (US\$m):	156.5
Price Performance (%)	

52-week high/low	HK\$251.40/HK\$110.30			
1mth	3mth	6mth	1yr	YTD
(5.6)	(16.9)	(23.1)	(36.5)	(46.5)

Major Shareholders

Walmart Inc	10.5
BlackRock Inc	3.3
Vanguard Group Inc	3.1
FY23 NAV/Share (RMB)	75.09
FY23 Net Cash/Share (RMB)	14.78

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Overview of macro backdrop in Jul/Aug 23.** Based on NBS data, July/August national online physical goods GMV grew 5.0%/6.1% yoy (vs 12.1% yoy in 2Q23), while two-year CAGR was 6.3% (vs 5.7% in July). Communication equipment delivered resilient yoy growth of 3.0%/8.5% yoy, with home appliances and fast-moving consumer goods (FMCG) remaining soft yoy. Management guided a lacklustre top-line growth in Oct 23 given Golden Week and low seasonality.
- JD's target for 2024.** JD targets to achieve double-digit revenue growth for 2024. We forecast revenue and non-GAAP net profit to grow at 12% yoy and 20% yoy to Rmb1.2t and Rmb38.3b, translating to net margin of 3.2%. JD continues to refine the product categories mix, enhance the sales channel structure and bolster operational capabilities. JD highlighted that the supermarket category remains a key driver for expansion in the long term.
- Upcoming IPO to unlock value for JD.** Jingdong Property focuses on the development and management of logistics and business parks. By end-Dec 22, Jingdong Property's total asset management scale was valued at Rmb93.7b (US\$13.7b). Jingdong Property possessed a total gross floor area (GFA) spanning 23.3m sqm. According to the filing, Jingdong Property's portfolio included 219 logistics parks, 13 business parks and four data centres as of the conclusion of the previous year. Management guided that there is no significant change in value of property or managed assets. The estimated market capitalisation for Jingdong Property and Jingdong Industrials stood at Rmb54.9b and Rmb13.7b respectively.

EARNINGS REVISION/RISK

- We cut our 3Q23/2023 revenue estimates by 6.3%/3.3%, representing revenue growths of 1.3%/3.0% yoy as our previous forecast had not factored in the early release of demand for the electronics & appliances and weaker visibility for consumption recovery. We lower our non-GAAP net profit forecasts for 3Q23/2023 by 9.0%/7.0% in view of the increased merchants support initiatives to capture consumer demand during Singles Day promotion. We expect JD's adjusted net margin for 3Q23/2023 to be 3.7%/3.0% respectively.
- 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 the pandemic ends.

VALUATION/RECOMMENDATION

- Maintain BUY on JD with a lower target price of HK\$183.00 (US\$48.00)**, based on our SOTP valuation to 2023. Our target price implies 0.4x of 2023F EV/sales, 15x 2023F PE, 1x PEG. We expect there to be 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 0.2x EV/sales, 2SD below its historical mean. The company is currently trading at 8x 2024 PE, against 14% EPS CAGR over the next three years.

SHARE PRICE CATALYST

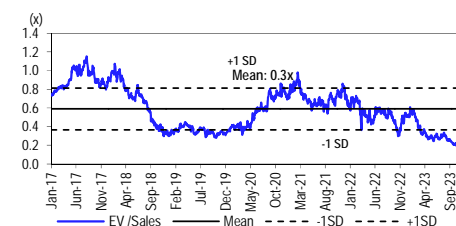
- Strong growth, continued new user margin expansion with improved operating efficiency and further extension of logistics services to internal and external customers.

VALUATION

2023-24E	Revenue (Rmb m)	EBITDA (Rmb m)	EV/EBITDA (x)	To JD (HK\$)	JD stake	To JD (20% discount)	HK\$/share	% of TP value
JD Retail	972,205	34,027	5	170,136	Majority	170,136	53	29
JD Logistics (mkt cap)				92,136	81%	59,704	19	10
JD Digital/Industrial/Real estate				117,450	37%	34,765	14	7
JD Health (mkt cap)			3x (PS)	62,810	67%	33,666	11	6
Key Investments						30,067	9	5
Net cash				228,142		228,142	78	42
SOTP value				670,674		556,480	183	

Source: JD.com, UOB Kay Hian

12-MONTH FORWARD EV/SALES BAND



Source: JD.com, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	1,046,236	1,077,253	1,202,544	1,297,270
EBITDA	684	49,973	61,874	74,086
Deprec. & amort.	(17,660)	19,156	20,380	21,771
EBIT	18,344	30,817	41,494	52,315
Total other non-operating income	(3,438)	86	0	0
Net interest income/(expense)	(2,418)	1,354	(2,526)	(2,006)
Pre-tax profit	12,488	32,257	38,968	50,308
Tax	(4,176)	(7,882)	(8,406)	(11,571)
Minorities	697	(280)	0	0
Net profit	9,009	24,095	30,562	38,737
Net profit (adj.)	28,570	31,936	38,306	45,100

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	57,819	37,254	61,960	68,156
Pre-tax profit	12,488	32,257	38,968	50,308
Tax	(4,176)	(7,882)	(8,406)	(11,571)
Deprec. & amort.	(17,660)	19,156	20,380	21,771
Associates	2	3	4	5
Working capital changes	28,477	(6,278)	11,018	7,647
Other operating cashflows	38,688	(3)	(4)	(5)
Investing	(54,026)	(21,545)	(24,051)	(25,945)
Capex (growth)	(4,476)	(21,545)	(24,051)	(25,945)
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	(40,950)	34,709	39,010
Beginning cash & cash equivalent	70,767	78,861	43,714	78,422
Changes due to forex impact	8,924	0	0	0
Ending cash & cash equivalent	78,861	43,714	78,422	117,433

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	55,080	57,469	61,140	65,314
Other LT assets	189,096	189,096	189,096	189,097
Cash/ST investment	78,861	43,714	78,422	117,433
Other current assets	272,213	275,016	290,772	303,221
Total assets	595,250	565,295	619,430	675,064
ST debt	0	0	0	0
Other current liabilities	266,561	263,086	289,860	309,956
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	238,331	268,893	307,632
Minority interest	60,167	60,167	60,167	60,167
Total liabilities & equity	595,250	565,295	619,430	675,065

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	0.1	4.6	5.1	5.7
Pre-tax margin	1.2	3.0	3.2	3.9
Net margin	0.9	2.2	2.5	3.0
ROA	1.7	4.2	5.2	6.0
ROE	4.2	10.7	12.1	13.4
Growth				
Turnover	9.9	3.0	11.6	7.9
EBITDA	n.a.	7,204.3	23.8	19.7
Pre-tax profit	n.a.	158.3	20.8	29.1
Net profit	n.a.	167.5	26.8	26.8
Net profit (adj.)	65.9	11.8	19.9	17.7
EPS	62.4	11.9	16.5	14.3
Leverage				
Debt to total capital	16.3	(1.1)	(2.0)	(2.7)
Debt to equity	25.0	(1.3)	(2.4)	(3.1)
Net debt/(cash) to equity	(11.9)	(19.7)	(31.5)	(41.3)
Interest cover (x)	0.3	n.a.	24.5	36.9

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