

COMPANY UPDATE

JD.com (9618 HK)

1Q23 Results Preview: Reorganisation Pressuring Top-Line Growth

JD is in the process of restructuring, and is shifting its focus to 3P sales. Thus, it is forecasting a weak top-line growth for 2023. JD will streamline its organisational structure to increase agility and operational efficiency. We expect the recovery of JD's top-line performance to be dampened by weaker visibility stemming from a slower recovery in electronic products and home appliances. Maintain BUY with a lower target price of HK\$267.00 (US\$72.00).

WHAT'S NEW

- Top-line growth remains under pressure in 1Q23 and 2Q23.** We expect JD.com's (JD) revenue growth to come in at 0%/4% yoy in 1Q23/2Q23 respectively, with -3%/1% yoy from JD Retail (vs our previous forecast of 8%/13%). We expect JD's 1Q23 gross margin to hold up well at 15% (vs 14% in 1Q22) thanks to a higher contribution from 3P business. The dampened revenue performance in 1H23 is likely attributable to weaker growth from electronics & appliance and general merchandise given China's earlier-than-expected reopening and the increase in people's travel activities. This could be partially offset by stronger marketplace and ad revenue segment, which should see an encouraging growth of 17% yoy vs 4Q22's 11% yoy as management guided that most of the product categories have shown recovery momentum.

Management expects gross merchandise volume (GMV) growth to outpace revenue growth in 1Q23, driven by 3P growth brought about by continuous efforts to allocate more traffic and algorithm to 3P. JD targets to achieve 40%:60% GMV mix for 1P/3P in the long run. Management guided a slight sequential improvement in top-line growth in 2Q23 and expects a meaningful recovery moving towards 2H23.

- Key focuses in 2023.** Management does not expect that JD to experience significant benefits from the macro improvement in 2023 given weaker visibility stemming from its major organisational transformation. The company believes shifting its focus from revenue to GMV growth will hinder revenue growth in the short term, but will encourage healthy development in the long term with strengthening user mindshare of Every Day Low Price through the Rmb10b subsidy programme. We estimate revenue growth of 7% yoy in 2023, with JD Retail revenue growth at 1.4% yoy. The gap between growth in total revenue and JD Retail's revenue will be narrowed as the acquisition impact of Deppon will be fully digested in 2H23.

- Stable margins expected.** With JD's ongoing efforts to streamline investments of new initiatives and prudent cost control, we expect 1Q23/2023 non-GAAP operating profit to come in at Rmb6.8b/Rmb11.5b with operating margin of 2.9%/3.4%. We estimate JD's 1Q23 adjusted net margin to improve marginally by 1ppt yoy to 2.5%; however, sales & marketing (S&M) as a percentage of total revenue edged up to 4.0% in 1Q23 vs 3.6% in 1Q22 and absolute S&M spending increased by 10% yoy.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	951,592.2	1,046,236.0	1,121,479.7	1,255,855.8	1,417,144.1
EBITDA	(720.7)	684.2	49,083.3	57,989.1	72,223.0
Operating profit	4,141.0	18,344.0	29,705.9	37,176.8	49,528.0
Net profit (rep./act.)	(3,543.2)	9,009.0	21,536.5	26,907.8	36,772.0
Net profit (adj.)	17,223.5	28,570.0	32,437.1	38,774.8	48,112.2
EPS (Fen)	553.7	899.0	1,020.7	1,184.6	1,427.0
PE (x)	25.1	15.5	13.6	11.7	9.8
P/B (x)	2.1	2.0	1.9	1.7	1.6
EV/EBITDA (x)	n.m.	667.1	9.3	7.9	6.3
Dividend yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(0.4)	0.9	1.9	2.1	2.6
Net debt/(cash) to equity (%)	(20.9)	(11.9)	(18.4)	(30.3)	(41.3)
Interest cover (x)	n.a.	0.3	17.6	20.5	30.3
ROE (%)	n.a.	4.2	9.6	10.8	13.1
Consensus net profit	-	-	30,535	37,935	46,325
UOBKH/Consensus (x)	-	-	1.06	1.02	1.04

Source: JD.com, Bloomberg, UOB Kay Hian

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

BUY

(Maintained)

Share Price	HK\$158.60
Target Price	HK\$267.00
Upside	+68.3%
(Previous TP)	HK\$287.00)

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):	501,066.4
Market cap (US\$m):	63,830.9
3-mth avg daily t'over (US\$m):	267.1

Price Performance (%)

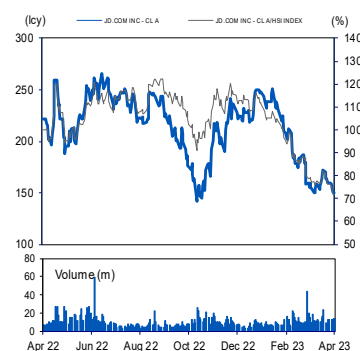
52-week high/low HK\$265.40/HK\$141.80

1mth	3mth	6mth	1yr	YTD
(0.1)	(35.7)	(13.0)	(24.6)	(28.0)

Major Shareholders

	%
Walmart Inc	10.6
Vanguard Group Inc	3.3
BlackRock Inc	3.2
FY23 NAV/Share (RMB)	74.38
FY23 Net Cash/Share (RMB)	13.69

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Reorganisation of JD Retail...** Recently, JD decided to revamp its organisational structure by transforming the previous five business groups to five business units and dividing previous sub-business unit into smaller product category units. The restructuring represents JD's largest organisational overhaul since 2018. In addition, JD will integrate self-operations and third-party platform open plan (POP) under unified unit managers. Upon restructuring, the five business group leaders will retain their responsibilities as the new business unit heads and directly report to the JD Retail's CEO. Furthermore, the respective new business unit heads will be granted increased decision-making autonomy. Currently, there are five business groups, which are home appliance & furniture, 3C electronics, supermarket, life services and fashion & luxury goods. Each business group has independent departments such as same-city retail and corporate business. The transition will not involve employee reduction, and similar structural adjustments are expected within other businesses such as JD Logistics.
- ...and its potential impact.** The flattening of management levels will facilitate customer and market responsiveness as well as optimise organisational efficiency. On the other hand, the integration of self-operated and POP helps to foster balanced traffic allocation and fair price competition between 3P and 1P to stimulate vitality within the platform. Note that revenue growth in 2023 will remain under pressure primarily due to unclear visibility from reorganisation. However, we opine the restructuring is beneficial in the long term as it will develop a competitive edge for JD to navigate through the heightened market competition.
- Launch of ChatJD in 2023.** JD plans to launch ChatJD in 2023. This chatbot will be tailored to the retail and finance industries and will consist of a platform utilising natural language processing, with two domains (retail and finance) and five applications.

EARNINGS REVISION/RISK

- We cut our 1Q23/2Q23 revenue estimates by 8.4%/10%,** representing revenue growths of 0%/4% yoy as our previous forecast in mid-May had not factored in the vague visibility stemming from recent reorganisation plan. We lower our 2023 revenue growth estimate to 7% given the soft consumption recovery momentum. We expect JD's 1Q23/2023 adjusted net margin to be 2.5%/2.9% 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\$267.00 (US\$72.00),** based on our SOTP valuation to 2023. Our target price implies 1x of 2023F EV/sales, 22x 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, 2.2SD below its historical mean. The company is currently trading at 15.3x 12-month forward PE, against 20% EPS CAGR over the next three 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 m)	EBITDA (Rmb m)	EV/EBITDA	To JD (HK\$)	JD stake	To JD(10% discount)	HK\$/share	of TP value
JD Retail	942,534	37,701	10x	436,129	Majority	436,129	136	51%
JD Logistics (mkt cap)				99,610	81%	56,479	18	7%
JD Cloud and digital				133,455	37%	44,440	15	6%
JD Health (mkt cap)	58,701			67,905	67%	40,947	13	5%
Key Investments						49,499	15	6%
Net cash				220,585		220,585	69	26%
SOTP value				957,683		848,079	267	

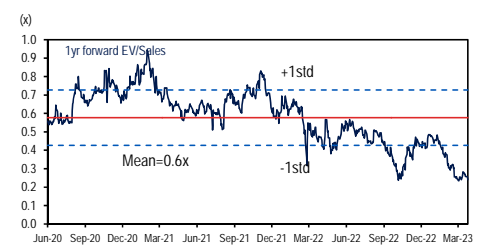
Source: JD.com, UOB Kay Hian

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

PROFIT & LOSS

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Net turnover	1,046,236	1,121,480	1,255,856	1,417,144
EBITDA	684	49,083	57,989	72,223
Deprec. & amort.	(17,660)	19,377	20,812	22,695
EBIT	18,344	29,706	37,177	49,528
Total other non-operating income	(3,438)	0	0	0
Net interest income/(expense)	(2,418)	(2,789)	(2,826)	(2,384)
Pre-tax profit	12,488	26,917	34,351	47,144
Tax	(4,176)	(5,380)	(7,443)	(10,372)
Minorities	697	0	0	0
Net profit	9,009	21,536	26,908	36,772
Net profit (adj.)	28,570	32,437	38,775	48,112

CASH FLOW

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Operating	57,819	40,364	61,367	72,272
Pre-tax profit	12,488	26,917	34,351	47,144
Tax	(4,176)	(5,380)	(7,443)	(10,372)
Deprec. & amort.	(17,660)	19,377	20,812	22,695
Associates	2	3	4	5
Working capital changes	28,477	(550)	13,647	12,806
Other operating cashflows	38,688	(3)	(4)	(5)
Investing	(54,026)	(22,430)	(25,117)	(28,343)
Capex (growth)	(4,476)	(22,430)	(25,117)	(28,343)
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	(38,725)	33,050	40,730
Beginning cash & cash equivalent	70,767	78,861	40,136	73,186
Changes due to forex impact	3,121	0	0	0
Ending cash & cash equivalent	78,861	40,136	73,186	113,916

BALANCE SHEET

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Fixed assets	55,080	58,132	62,437	68,085
Other LT assets	189,096	189,096	189,096	189,097
Cash/ST investment	78,861	40,136	73,186	113,916
Other current assets	272,213	280,075	296,927	317,705
Total assets	595,250	567,439	621,646	688,802
ST debt	0	0	0	0
Other current liabilities	266,561	273,872	304,372	337,955
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	235,492	262,400	299,173
Minority interest	60,167	60,167	60,167	60,167
Total liabilities & equity	595,250	567,439	621,646	688,803

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	0.1	4.4	4.6	5.1
Pre-tax margin	1.2	2.4	2.7	3.3
Net margin	0.9	1.9	2.1	2.6
ROA	1.7	3.7	4.5	5.6
ROE	4.2	9.6	10.8	13.1
Growth				
Turnover	9.9	7.2	12.0	12.8
EBITDA	n.a.	7,074.2	18.1	24.5
Pre-tax profit	n.a.	115.5	27.6	37.2
Net profit	n.a.	139.1	24.9	36.7
Net profit (adj.)	65.9	13.5	19.5	24.1
EPS	62.4	13.5	16.1	20.5
Leverage				
Debt to total capital	16.3	(1.1)	(2.0)	(2.7)
Debt to equity	25.0	(1.4)	(2.4)	(3.2)
Net debt/(cash) to equity	(11.9)	(18.4)	(30.3)	(41.3)
Interest cover (x)	0.3	17.6	20.5	30.3

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