

## COMPANY RESULTS

### JD.com (9618 HK)

3Q22: Solid Earnings Beat; 4Q22 Revenue Growth Under Pressure

JD.com's 3Q22 results were a strong beat with revenue growing 11% yoy to Rmb243.5b, in line with our and the street's estimates. Non-GAAP OPM came in at 4.1%, better than our estimate, supported by solid JD Retail EBIT margin of 5.2% (+1.2ppt yoy). Non-GAAP net profit came in at Rmb10b, beating the street's estimate, as a result of improving operating efficiency. We maintain BUY on JD.com with a higher target price of HK\$297.00 (US\$71.00).

#### 3Q22 RESULTS

Year to 31 Dec (Rmbm)	3Q21	2Q22	3Q22	QoQ	YoY	UOBKH	Var	Cons	Var
Total Net revenue	218,708	267,600	243,535	-9%	11%	241,969	0.6%	243,070	0.2%
Online direct sales	186,008	226,020	197,027	-13%	6%	203,886	-3.4%		
Services and Others	32,700	41,580	46,508	12%	42%	38,083	22.1%		
Gross profits	31,093	35,894	36,196	1%	16%	37,379	-3.2%	35,889	0.9%
GPM	14.2%	13.4%	14.9%	145 bps	65 bps	15.4%	(59 bps)	14.8%	9.8 bps
Non-GAAP OP	4,563	5,753	9,817	71%	115%	8,703	12.8%		
Non-GAAP OPM	2.09%	2.15%	4.03%	188 bps	194 bps	3.60%	43 bps		
GAAP net income	(2,807)	4,376	5,963	36%	312%	5,001	19.2%		
Non-GAAP net income	5,048	6,489	10,040	55%	99%	7,246	38.6%	7,120	41.0%
Non-GAAP Net Margin	2.3%	2.4%	4.1%	170 bps	181 bps	3.0%	113 bps	2.9%	119.3 bps

Source: JD.com, UOB Kay Hian

#### RESULTS

- Solid top-line growth momentum continues.** JD.com's (JD) 3Q22 revenue reported a decelerated growth of 11% yoy, in line with management's previously guided range. Electronics and home appliances sales grew 8% (2Q22: +0%), better than our expectation. General merchandise's revenue growth moderated to +3% (2Q22: 8%) due to Jingxi's business adjustment as well as the weak discretionary categories within the fast-moving consumer goods (FMCG) segment, such as cosmetics and liquor. Marketplace and ads revenue expanded 13% (2Q22: +9%). JD retail's 3Q22 EBIT margin was better-than-expected at 5.2%, with a positive turnaround at JD Logistics (JDL) (3Q22: +0.7%, 3Q21: -2.8%) and the new business segment (3Q22: +5.5%, 3Q21: -36.2%). JD's annual active customers (AAC) climbed 16% yoy to 588.3m, having net added 7.8m qoq.
- Margin overview.** Gross margin rose 62ppt yoy. 3Q22 non-GAAP operating income came in at Rmb9.8b with non-GAAP operating margin expanding by 1.9ppt yoy to 4%, mainly driven by a higher contribution from the 3P segment; positive contribution and improvement of operating efficiency from the new business segment and gradual improvement at JDL attributed to a larger group of external integrated supply chain customers, which accounted for 70% of the customer mix and achieved a record-high revenue.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	745,801.9	951,592.2	1,072,107.2	1,323,805.0	1,516,481.9
EBITDA	19,196.1	14,548.1	25,133.3	44,406.8	63,197.3
Operating profit	12,342.8	4,141.0	11,967.4	27,913.4	43,244.9
Net profit (rep./act.)	51,104.1	(3,543.6)	3,693.2	21,592.2	32,225.3
Net profit (adj.)	18,526.6	17,223.1	18,553.4	34,323.0	45,198.9
EPS (Fen)	578.1	553.7	588.9	1,075.7	1,394.7
PE (x)	31.9	33.4	31.4	17.2	13.2
P/B (x)	2.8	2.9	2.9	2.6	2.3
EV/EBITDA (x)	27.7	36.6	21.2	12.0	8.4
Dividend yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	6.9	(0.4)	0.3	1.6	2.1
Net debt/(cash) to equity (%)	(29.8)	(28.5)	(30.3)	(40.5)	(49.8)
Interest cover (x)	n.a.	n.a.	4.7	46.0	227.5
ROE (%)	33.8	n.a.	1.8	10.1	13.4
Consensus net profit	-	-	18,356	28,032	37,954
UOBKH/Consensus (x)	-	-	1.01	1.22	1.19

Source: JD.com, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$218.00
Target Price	HK\$297.00
Upside	+36.2%
(Previous TP)	HK\$272.00)

#### 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):	2,695.6
Market cap (HK\$m):	680,922.0
Market cap (US\$m):	87,042.1
3-mth avg daily t'over (US\$m):	237.6

#### Price Performance (%)

52-week high/low HK\$350.84/HK\$141.80

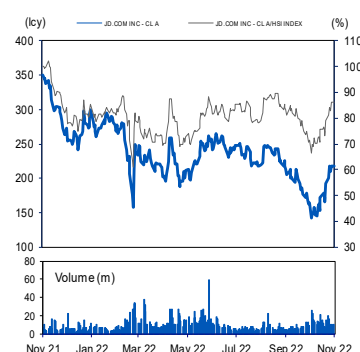
1mth	3mth	6mth	1yr	YTD
22.3	0.2	5.1	(30.9)	(18.5)

Major Shareholders	%
-	-
-	-
-	-

FY22 NAV/Share (RMB) 66.67

FY22 Net Cash/Share (RMB) 20.02

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- Revenue grew rapidly** by 39% yoy to Rmb35.8b, with external revenue contribution of as high as 70%. Excluding the consolidation of Deppon, JDL's revenue went up 17% yoy. Revenue from other customers was Rmb17.5b, up 103% yoy due to increased express delivery and the consolidation of Deppon Group. During 3Q22, JDL's gross margin expanded by 2.5ppt yoy to 7.4% as a result of: a) refined cost control measures, b) effective restructuring of customer portfolio (as JDL continues to expand its overseas and cross border integrated supply chain logistic services to global customers), c) higher cost efficiency driven by rapid growth of economies of scale as revenue ramps up, and d) the positive impact on gross profit as a result of the consolidation of Deppon Group. Adjusted net income was recorded at Rmb447m (or 1.2% adjusted net margin).
- Near-term outlook.** During 11.11, JD delivered gross merchandise value (GMV) growth of mid-high single-digits, compared with a 10% GMV growth for 6.18. The company provided subsidies for merchants due to weakness in consumer sentiment, which sequentially eroded 4Q22 net margin. JD guided that the yoy revenue growth from JD retail should be slower in 4Q22 vs 3Q22 of 7%, and overall revenue growth should be lower than in 3Q22 due to the lockdown disruptions and a high base last year. Around 17% of the regions in China were under lockdown since end-September, which impacted JD's logistics network. With management's continuous efforts in net margin improvement by adjusting product structure with a higher percentage of certain progressive products, we expect the company to generate sustainable growth in gross margins and revenue from the services. Management mentioned that JD retail will adhere to a few main strategies: a) development of the supply chain capabilities, b) expansion into the lower tier market, and c) building open ecosystem.
- Competitive edge developed upon Shop Now launch.** In September, JD's intra-city business played an active role in supporting the launch of new smartphone models. As the only on-demand retail platform selected for Apple's pre-sale, JD Daojia (JDDJ) joined hands with Shop Now. The platform provides one-hour delivery service, as well as securing inventory of iPhone14 models from Apple's authorised resellers. The extension of JD's and Apple's collaboration from online to offline by leveraging JD.com's proprietary business model formed a competitive edge for the company against emerging players in the current intense competitive landscape. The resilience is reflected in the robust sales of Rmb200m in the first six hours on the opening day. We think this is the competitive edge developed by the company.

### EARNINGS REVISION/RISK

- We lowered our 4Q22 revenue forecast by 4.7%,** factoring in the weaker macro environment given weak demand across various categories and subdued 3P performance of +2% in 2Q22. We raised 4Q22 net profit by 14%, with net margin of 2.4% for 4Q22. For 2022, we lowered our revenue forecast by 1.2%, representing a 10% yoy growth with adjusted net margin of 2.6% (2021: 1.8%). We forecast a 17% yoy revenue growth for 2023 and 3% non-GAAP net margin in 2023 vs 2.6% in 2022.
- Risks:** Prolonged lockdown measures in China, intensified competition in fresh produce and the FMCG segment from Pinduoduo, slowing GMV growth.

### VALUATION/RECOMMENDATION

- Maintain BUY** with a higher target price of HK\$297.00 (US\$71.00), which implies 0.7x 2022E forward EV/Sales, in line with the company's historical mean of 0.8x. JD is trading at 0.4x 12-month forward EV/Sales, 0.8SD below its historical mean.

### SHARE PRICE CATALYST

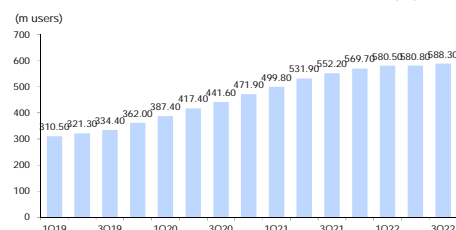
- Strong new user growth,** b) continued margin expansion with improved operating efficiency, and c) further extension of logistics services to internal and external customers.

### VALUATION

	Revenue	EBITDA	EV/EBITDA	To JD (HK\$)	JD stake	To JD (10% discount)	HK\$/share
2023E	(Rmb)						
JD Retail	1,151,027	52,947	12x	734,993	Majority	661,493	187
JD Logistics (mkt cap)				111,731	81%	63,351	18
JD Cloud and digital				141,305	37%	47,055	15
JD Health (mkt cap)	56,796		3x (PS)	65,702	67%	39,618	11
Key Investments						49,499	14
Net cash				184,305		184,305	52
SOTP value				1,238,035		1,045,322	297

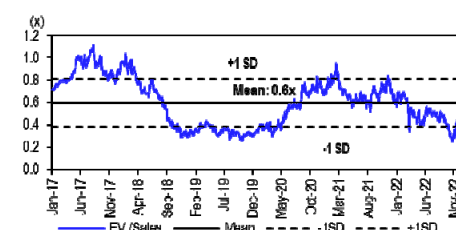
Source: JD.com, UOB Kay Hian

### ANNUAL ACTIVE CUSTOMER ACCOUNTS (M)



Source: JD.com, UOB Kay Hian

### EV/SALES BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
<b>Net turnover</b>	<b>951,592</b>	<b>1,051,102</b>	<b>1,232,589</b>	<b>1,410,897</b>
EBITDA	14,548	37,574	50,136	73,553
Deprec. & amort.	10,407	13,061	15,959	19,023
EBIT	4,141	24,513	34,177	54,529
Total other non-operating income	(7,546)	(3,563)	0	0
Net interest income/(expense)	824	(2,151)	(2,638)	(2,629)
<b>Pre-tax profit</b>	<b>(2,581)</b>	<b>18,799</b>	<b>31,539</b>	<b>51,900</b>
Tax	(1,887)	(9,049)	(6,340)	(10,724)
Minorities	924	886	0	0
<b>Net profit</b>	<b>(3,544)</b>	<b>10,636</b>	<b>25,199</b>	<b>41,176</b>
Net profit (adj.)	17,223	27,814	37,220	54,402

### CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>15,030</b>	<b>27,015</b>	<b>55,921</b>	<b>73,069</b>
Pre-tax profit	(2,581)	18,799	31,539	51,900
Tax	(1,887)	(9,049)	(6,340)	(10,724)
Deprec. & amort.	10,407	13,061	15,959	19,023
Associates	1	2	3	4
Working capital changes	9,091	4,204	14,763	12,869
Other operating cashflows	(1)	(2)	(3)	(4)
<b>Investing</b>	<b>(19,032)</b>	<b>(21,022)</b>	<b>(24,652)</b>	<b>(28,218)</b>
Capex (growth)	(19,032)	(21,022)	(24,652)	(28,218)
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)
<b>Financing</b>	<b>(25,034)</b>	<b>(3,200)</b>	<b>(3,200)</b>	<b>(3,200)</b>
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)
<b>Net cash inflow (outflow)</b>	<b>(29,036)</b>	<b>2,793</b>	<b>28,069</b>	<b>41,651</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>86,085</b>	<b>57,049</b>	<b>59,842</b>	<b>87,911</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>57,049</b>	<b>59,842</b>	<b>87,911</b>	<b>129,562</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	31,221	39,183	47,876	57,070
Other LT assets	164,890	164,890	164,890	164,890
Cash/ST investment	57,049	59,842	87,911	129,562
Other current assets	173,233	184,906	206,197	226,933
<b>Total assets</b>	<b>426,394</b>	<b>448,821</b>	<b>506,874</b>	<b>578,455</b>
ST debt	0	0	0	0
Other current liabilities	207,624	223,501	259,555	293,160
LT debt	0	(3,200)	(6,400)	(9,600)
Other LT liabilities	1,618	1,618	1,618	1,618
Shareholders' equity	200,209	209,959	235,159	276,335
Minority interest	16,943	16,943	16,943	16,943
<b>Total liabilities &amp; equity</b>	<b>426,394</b>	<b>448,821</b>	<b>506,874</b>	<b>578,455</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	1.5	3.6	4.1	5.2
Pre-tax margin	(0.3)	1.8	2.6	3.7
Net margin	(0.4)	1.0	2.0	2.9
ROA	n.a.	2.4	5.3	7.6
ROE	n.a.	5.2	11.3	16.1
<b>Growth</b>				
Turnover	27.6	10.5	17.3	14.5
EBITDA	(24.2)	158.3	33.4	46.7
Pre-tax profit	(104.9)	n.a.	67.8	64.6
Net profit	(106.9)	n.a.	136.9	63.4
Net profit (adj.)	(7.0)	61.5	33.8	46.2
EPS	(4.2)	57.9	21.7	32.9
<b>Leverage</b>				
Debt to total capital	0.0	(1.4)	(2.6)	(3.4)
Debt to equity	0.0	(1.5)	(2.7)	(3.5)
Net debt/(cash) to equity	(28.5)	(30.0)	(40.1)	(50.4)
Interest cover (x)	n.a.	17.5	19.0	28.0

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