

COMPANY RESULTS

JD.com (9618 HK)

2Q23: Strong Earnings Beat; 3Q Outlook To Be The Market Focus

JD's 2Q23 revenue rose 7.6% yoy to Rmb287b, above our and consensus estimates. Gross profit margin improved 1ppt yoy to 14.4% in 2Q23 thanks to strong 3P business revenue growth. Non-GAAP operating profit soared 51% yoy to Rmb8.7b, translating to non-GAAP OPM of 3%. Non-GAAP net profit came in at Rmb8.6b, 10% above consensus estimate, as a result of streamlining of operations. Adjusted net margin was 3.0%, better than our expectation. Maintain BUY with a lower target price of HK\$199.00.

2Q23 RESULTS

Year to 31 Dec (Rmbm)	2022	1Q23	2Q23	QoQ	YoY	UOBKH	Var	Cons	Var
Total Net revenue	267,600	242,956	287,931	19%	8%	279,861	2.9%	279,136	3.2%
Online direct sales	226,020	195,564	233,855	20%	3%	223,298	4.7%		
Services and Others	41,580	47,392	54,076	14%	30%	56,562	-4.4%		
Gross profits	35,894	36,018	41,433	15%	15%	39,953	3.7%	39,766	4.2%
GPM	13.4%	14.8%	14.4%	(44 bps)	98 bps	14.3%	11 bps	14.2%	14.4 bps
Non-GAAP OP	5,753	8,072	8,676	7%	51%	9,184	-5.5%		
Non-GAAP OPM	2.15%	3.32%	3.01%	(31 bps)	86 bps	3.28%	(27 bps)		
GAAP net income	4,376	6,261	6,581	5%	50%	4,904	34.2%		
Non-GAAP net income	6,489	7,591	8,557	13%	32%	7,619	12.3%	7,776	10.0%
Non-GAAP Net Margin	2.4%	3.1%	3.0%	(15 bps)	55 bps	2.7%	25 bps	2.8%	18.6 bps

Source: JD.com, UOB Kay Hian

RESULTS

- Resilient 2Q23 top-line growth, boosted by 618 promotion.** JD.com's (JD) 2Q23 revenue showed accelerated growth of 7.6% yoy vs 1% yoy in 1Q23, better than management's previously guided range of 2-4%. Electronics and home appliances' revenue grew 11% yoy (1Q23: -1%), mainly bolstered by strong demand for home appliances and mobile phones, outperforming the industry growth in 2Q23. General merchandise's revenue declined 9% yoy (1Q23: -9%) primarily due to soft performance of the supermarket category and a high base. Management expects supermarket growth to recover in 2H23 and believes this category will remain as one of the key growth drivers going forward. Marketplace and ad revenue expanded 9% (1Q23: +8%) as revenue growth of 3P merchants has continued to accelerate from 1Q23. 3P merchants more than doubled yoy in 2Q23, with 3P revenue growing at double digits, outpacing 1P revenue growth. Average GMV per user increased high-single digit yoy, while the number of JD Plus users rose 20% yoy to reach 36m.
- Cautiously optimistic on 3Q23 performance,** given lukewarm consumer sentiment and weaker seasonality. We forecast 3Q23 revenue growth at 8% yoy as we believe the reinvestment in merchant ecosystem and new user acquisition will contribute to top-line growth in 2H23. We estimate revenue growth of 7% yoy in 2023, with JD Retail revenue growth at 2.5% 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. Management expects 2H23 net margin to be better than that of 1H23.

KEY FINANCIALS

Year to 31 Dec (RMBm)	2021	2022	2023F	2024F	2025F
Net turnover	951,592.2	1,046,236.0	1,114,333.5	1,207,660.8	1,303,482.0
EBITDA	(720.7)	684.2	53,063.0	62,205.9	76,684.0
Operating profit	4,141.0	18,344.0	33,721.3	41,661.4	54,758.2
Net profit (rep./act.)	(3,543.2)	9,009.0	26,355.1	30,699.2	40,643.9
Net profit (adj.)	17,223.5	28,570.0	34,365.7	38,463.7	47,031.3
EPS (Fen)	553.7	899.0	1,082.4	1,176.2	1,396.3
PE (x)	23.7	14.6	12.1	11.1	9.4
P/B (x)	1.9	1.9	1.7	1.6	1.4
EV/EBITDA (x)	n.m.	623.0	8.0	6.9	5.6
Dividend yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(0.4)	0.9	2.4	2.5	3.1
Net debt/(cash) to equity (%)	(20.9)	(11.9)	(21.0)	(32.1)	(42.0)
Interest cover (x)	n.a.	0.3	n.a.	24.6	38.8
ROE (%)	n.a.	4.2	11.6	12.0	13.9
Consensus net profit	-	-	31,945	37,520	44,663
UOBKH/Consensus (x)	-	-	1.08	1.03	1.05

Source: JD.com, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$140.60
Target Price	HK\$199.00
Upside	+41.5%
(Previous TP)	HK\$216.00)

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):	2,793.3
Market cap (HK\$m):	447,062.3
Market cap (US\$m):	57,104.1
3-mth avg daily t'over (US\$m):	166.7

Price Performance (%)

52-week high/low	HK\$251.40/HK\$125.90			
1mth	3mth	6mth	1yr	YTD
(6.6)	(4.2)	(33.9)	(36.4)	(36.1)

Major Shareholders

Major Shareholders	%
Walmart Inc	10.5
Vanguard Group Inc	3.3
BlackRock Inc	3.1
FY23 NAV/Share (RMB)	75.80
FY23 Net Cash/Share (RMB)	15.89

PRICE CHART



Source: Bloomberg

ANALYST(S)

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

Soong Ming San
+603 21471912
mingsan@uobkayhian.com

STOCK IMPACT

- Uncertain outlook for 3Q23.** The soft e-commerce industry growth is reflected in the 5% yoy growth in physical goods as of Jul 23. As stated by management, 3Q will not only be influenced by macro environment consumption trends but also seasonality, given the bringing forward of consumer demand during the 618 Shopping Festival. In 3Q23, JD expects to achieve a positive turnaround for the supermarket category, with a more favourable growth in 2H23 than in 1H23. 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 of expansion for the long term.
- Margin overview.** Non-GAAP operating margin expanded 86bp yoy to 3%, mainly driven by optimisation of product mix and sales channels in 2Q23. EBIT margins of the JD Retail/JD Logistics/new business segments came in at +3.2%/+1.2%/24.6%, improving from +3.4%/+0.1%/-32.4% in 2Q22 given improved operational efficiency.
- Improving user engagement; remarkable triple-digit growth in the number of merchants during 2Q23.** This can be attributed to the continuous efforts including: a) expansion merchant base and simplification of the onboarding process, reduction of barriers and facilitation of smoother integration onto the platform, b) on the merchant side, JD's focus is to establish an equitable competitive landscape for all participants. This competition extends beyond the distinction between the 1P and 3P merchants, and c) fostering competition among the top-tier merchants.
- Rebranding effort for community group-purchasing service, transforming Jingxi Pinpin to JD Pinpin.** The company intends to rejuvenate growth for this segment, which has been facing financial challenges. For Pinpin, the group buying venture and its dedicated team have remained consistently active. Following last year's business optimisation, Pinpin has shifted its primary focus to Beijing and the surrounding areas. The team is dedicated to exploring a localised short-term supply chain model, focusing particularly on fresh products.

EARNINGS REVISION/RISK

- We raise our 3Q23/2023 revenue forecasts marginally by 2%/1.2%, factoring in the better-than-expected recovery pace given solid demand across electronics and home appliances products. We trim our 3Q23/2023 Non-GAAP net profit by 1%/1%. For full-year 2023, we forecast a 7% yoy revenue growth and adjusted net margin of 3.1% (2022: 2.7%).
- Risks:** Intensified competition from PDD in the fresh produce and the fast-moving consumer goods segment, and slowing GMV growth and weaker consumption sentiment.

VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$199.00 (US\$53.00) as we rolled our valuation base forward to the next 12 months.** Our target price implies 15.6x 12-month forward PE. JD is trading at 10.6x 12-month forward PE.

SHARE PRICE CATALYST

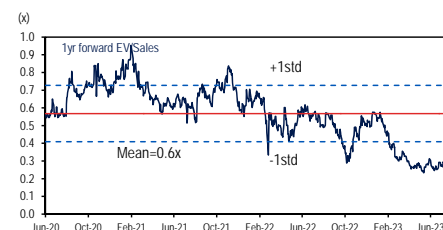
- a) Strong new user growth, b) continued margin expansion with improved operating efficiency, and c) further extension of logistics services to internal and external customers.

SOTP 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	977,031	36,150	6	216,901	Majority	216,901	68	34%
JD Logistics (mkt cap)				92,136	81%	59,704	19	9%
JD Digital/Industrial/Real estate				117,450	37%	34,765	14	7%
JD Health (mkt cap)				62,810	67%	33,666	11	5%
Key Investments						30,067	9	5%
Net cash				231,176		231,176	79	40%
SOTP value				720,472		606,279	199	

Source: UOB Kay Hian

EV/SALES BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Net turnover	1,046,236	1,114,333	1,207,661	1,303,482
EBITDA	684	53,063	62,206	76,684
Deprec. & amort.	(17,660)	19,342	20,545	21,926
EBIT	18,344	33,721	41,661	54,758
Total other non-operating income	(3,438)	86	0	0
Net interest income/(expense)	(2,418)	1,354	(2,526)	(1,974)
Pre-tax profit	12,488	35,162	39,135	52,784
Tax	(4,176)	(8,527)	(8,436)	(12,140)
Minorities	697	(280)	0	0
Net profit	9,009	26,355	30,699	40,644
Net profit (adj.)	28,570	34,366	38,464	47,031

CASH FLOW

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Operating	57,819	41,514	60,695	70,093
Pre-tax profit	12,488	35,162	39,135	52,784
Tax	(4,176)	(8,527)	(8,436)	(12,140)
Deprec. & amort.	(17,660)	19,342	20,545	21,926
Associates	2	3	4	5
Working capital changes	28,477	(4,463)	9,451	7,523
Other operating cashflows	38,688	(3)	(4)	(5)
Investing	(54,026)	(22,287)	(24,153)	(26,070)
Capex (growth)	(4,476)	(22,287)	(24,153)	(26,070)
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	(37,432)	33,342	40,823
Beginning cash & cash equivalent	70,767	78,861	47,232	80,574
Changes due to forex impact	8,924	0	0	0
Ending cash & cash equivalent	78,861	47,232	80,574	121,397

BALANCE SHEET

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Fixed assets	55,080	58,025	61,634	65,777
Other LT assets	189,096	189,096	189,096	189,097
Cash/ST investment	78,861	47,232	80,574	121,397
Other current assets	272,213	279,529	291,428	303,823
Total assets	595,250	573,882	622,732	680,094
ST debt	0	0	0	0
Other current liabilities	266,561	269,414	290,765	310,682
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	240,591	271,290	311,935
Minority interest	60,167	60,167	60,167	60,167
Total liabilities & equity	595,250	573,882	622,732	680,094

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	0.1	4.8	5.2	5.9
Pre-tax margin	1.2	3.2	3.2	4.0
Net margin	0.9	2.4	2.5	3.1
ROA	1.7	4.5	5.1	6.2
ROE	4.2	11.6	12.0	13.9
Growth				
Turnover	9.9	6.5	8.4	7.9
EBITDA	n.a.	7,655.9	17.2	23.3
Pre-tax profit	n.a.	181.6	11.3	34.9
Net profit	n.a.	192.5	16.5	32.4
Net profit (adj.)	65.9	20.3	11.9	22.3
EPS	62.4	20.4	8.7	18.7
Leverage				
Debt to total capital	16.3	(1.1)	(2.0)	(2.6)
Debt to equity	25.0	(1.3)	(2.4)	(3.1)
Net debt/(cash) to equity	(11.9)	(21.0)	(32.1)	(42.0)
Interest cover (x)	0.3	n.a.	24.6	38.8

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