

JD Logistics (02618)

Leading technology-driven supply chain solutions and logistics services provider in China

Hong Kong | Logistics | Initial Coverage Research Report

2 December 2021

Company Profile

JD Logistics (JDL) is the leading technology-driven supply chain solutions and logistics services provider in China. Began with the establishment of JD Group's in-house logistics department in 2007, JDL have then opened up own solutions and services to external customers since 2017, and offer a full spectrum of supply chain solutions and high-quality logistics services enabled by technology, ranging from warehousing to distribution, spanning across manufacturing to end-customers, covering regular and specialized items. In 2020, JDL served more than 190,000 corporate customers across a wide array of industries, such as fast moving consumer goods (FMCG), apparel, home appliances, home furniture, 3C, automotive and fresh produce, among others.

2020 Interim & Third Quarter Business Performance

In 1H2021, JDL total revenue increased by 53.7% YoY to RMB48.5 billion, with gross profit dropped 56.4% YoY to RMB1.8 billion for the six months ended June 30, 2021. Gross profit margin to decrease to 3.7% (-9.2ppt) and primarily due to the reduction in benefits from COVID-19 related government support and in the second half of 2020 JDL's efforts in enhancing and expanding logistics networks including increases in headcount of operational personnel, warehouse space, line-haul routes and other logistics infrastructure. As a result of the foregoing, JDL generated a loss of RMB15.2 billion for the six months ended June 30, 2021. non-IFRS (loss) RMB1.5 billion for the period (profit RMB1.982 over a year ago), which is excluding share-based payments, listing expense, amortization of intangible assets resulting from acquisitions, fair value changes of financial assets at fair value through profit or loss, and fair value changes of convertible redeemable preferred shares. The results for the three months ended 30 September 2021, JDL recorded an operating loss of RMB727 million during the period, against the operating profit of RMB83.549 million over a year ago. 3Q21 revenue grew by 43.34% YoY to RMB25.75 billion.

Logistics network create moat

Logistics infrastructure and Networks is the foundation and core competitive advantage of JDL. As of June 30, 2021, JDL's warehouse network covered nearly all counties and districts in China, consisting of approximately 1,200 (vs. 900 in December 31, 2020) self-operated warehouses and over 1,600 (vs. 1400 in December 31, 2020) owner-operator cloud warehouses under JDL's Open Warehouse Platform. JDL's warehouse network has an aggregate GFA of approximately 23 million square meters (vs. 21 million square meters in December 31, 2020).

From the perspective of operational efficiency, JDL able to directly transport and store customers' inventory in the warehouses nearest to the end consumers, systematically shortening the fulfillment time to ensure speedy delivery. In 2020, approximately 90% of the total online retail orders processed for JD Group through JDL's network delivered on the same day or the day after the order was placed, with over 60% of the total online retail orders covered by the 211 program (deliver any orders received by the morning deadline 11:00 a.m. on the same day, and any orders received by the evening deadline 11:00 p.m. by 3:00 p.m. on the following day).

Buy (Initial)

CMP HKD 24.75
(Closing price as of 30 November)
Target HKD 41.55 (+67.9%)

COMPANY DATA

O/S SHARES (MN) :	6,182.98
MARKET CAP (HKD MN) :	1749.784
52 - WK HI/LO (HKD):	24.55/48.15

SHARE HOLDING PATTERN, %

JD.com, Inc.	63.46%
--------------	--------

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	73,375	102,479	128,686	162,719
Adj. NI	1,604	(3,554)	93	1,301
Adj. EPS	0.29	(0.57)	0.02	0.21
P/S ratio, x	1.6	1.2	1.0	0.8
Div. Yield (%)	NM	NM	NM	NM

Source: Company reports, Phillip Securities Est.

Phillip (HK) Research Team:

(852) 2277-6514

research@phillip.com.hk

JDL employed approximately 200,000 in-house delivery personnel and operated approximately 7,800 delivery stations covering 32 provinces and municipalities and 445 districts in different cities and municipalities in China. The vast majority of JDL's delivery stations are self-operated to ensure high-quality service. During JD Group's 618 Grand Promotion, i.e. the shopping festival from June 1 to June 18, JDL provided outstanding delivery experiences to the customers, with delivery within minutes of order placement in over 200 cities across the country and same- or next-day delivery covering 92% of districts and counties and 84% of townships in China.

For cold chain logistics network, JDL had over 100 temperature-controlled cold storage warehouses designated for fresh, frozen and refrigerated products with an operation area of more than 600,000 square meters. In addition, as of June 30, 2021, JDL operated 23 warehouses designated for pharmaceuticals and medical instruments with an operation area of 160,000 square meters.

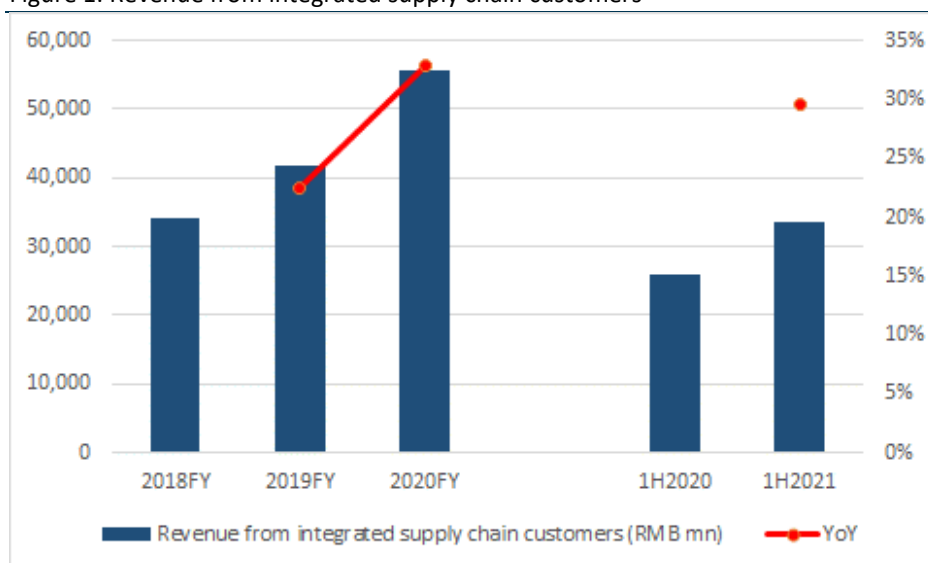
For cross-border logistics network, in the second quarter of 2021, JDL flew inaugural flights on two brand-new charter flight routes, from China to Thailand and from China to the U.S. The China-Thailand route enables next-day delivery from China to Thailand, deliveries within Thailand and from Thailand to China as fast as same-day, and door-to-door within 48 hours.

Integrated supply chain business model

JDL categorize their customers based on whether they have utilized the warehouse or inventory management related services, and customers who have utilized JDL warehouse or inventory management related services in the recent past are classified as integrated supply chain customers. In fact, JDL primarily serve corporate customers, including JD Group. JDL provides supply chain solutions and logistics services to customers across a wide range of industries, such as FMCG, apparel, home appliances, home furniture, 3C, automotive and fresh produce.

In 1H2021, JDL revenue from integrated supply chain customers grew 29.6% YoY to RMB33.6 billion, of which the revenue from external integrated supply chain customers reached to RMB11.7 billion, representing 65.6% YoY growth. The number of external integrated supply chain customers reached 59,067, expanding 58.7% YoY. ARPC was RMB197,339 in the 1H2021.

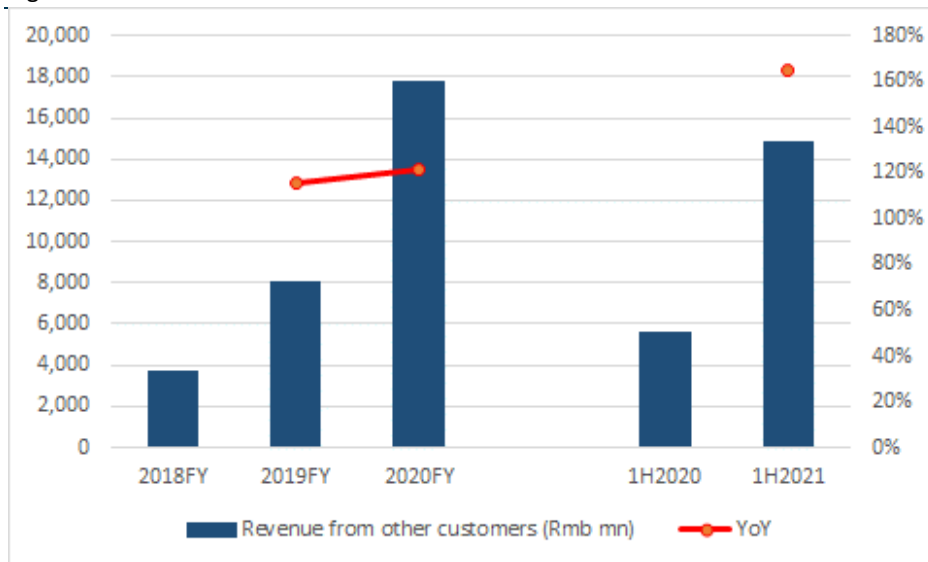
Figure 1: Revenue from integrated supply chain customers



Source: Company, PSHK

Revenue from other customers increased by 164.8% YoY in the 1H2021 to RMB14.9 billion, driven by an increase in the number of customers served. Standard products such as express delivery and freight delivery services not only help JDL expand customer pool but also serve as a gateway for integrated supply chain logistics services.

Figure 2: Revenue from other customers

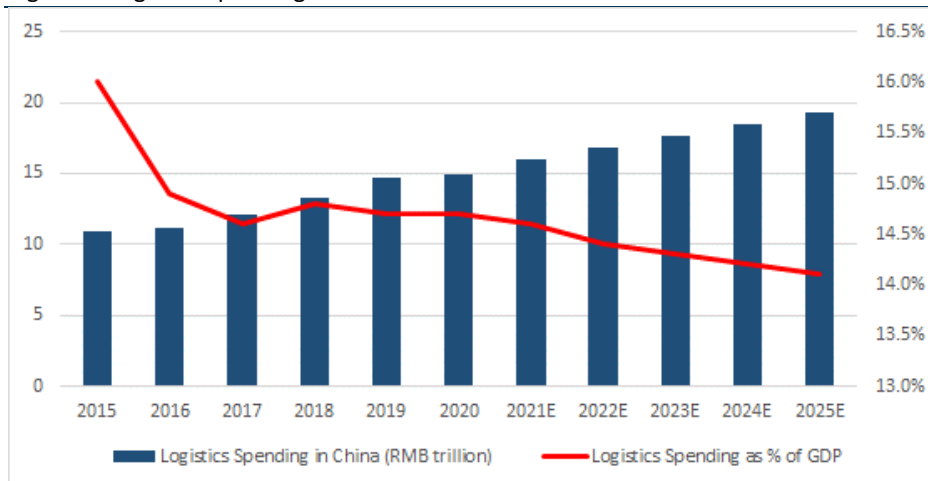


Source: Company, PSHK

Integrated supply chain poised structural growth

China is the largest logistics market in the world in terms of logistics spending. China's total logistics spending reached RMB14.9 trillion in 2020, and is expected to grow at a CAGR of 5.3% from 2020 to 2025. China's logistics spending is generally in line with the growth in GDP, which is expected to grow at a rate of 6.2% from 2020 to 2025 as domestic consumption and trade activities continue to increase, leading to additional logistics demands.

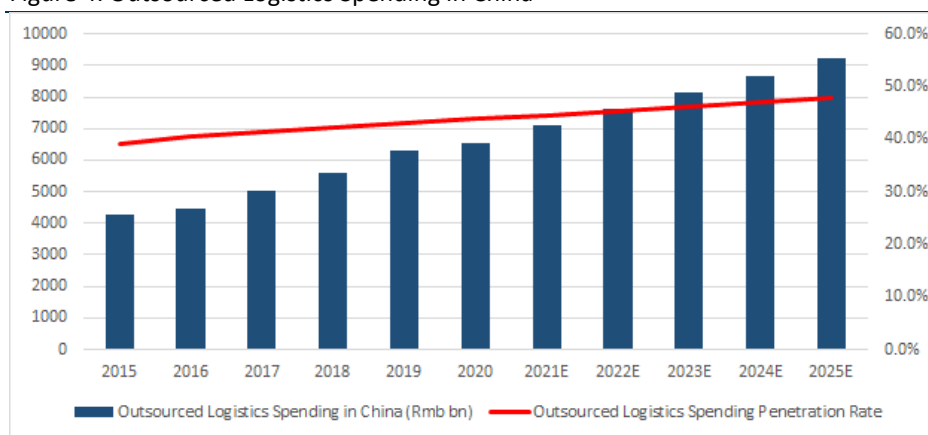
Figure 3: Logistics Spending in China



Source: CIC, Company, PSHK

As businesses grow, buyers or sellers face more sophisticated customer needs, making it more challenging for them to handle the increasing volume and complexity in customer demands. Also, due to constraints in logistics infrastructure and resources, 1PL often fail to achieve the same level of efficiency compared to the services offered by professional third-party logistics service providers who have best-in-class infrastructure and operational know-how. In addition, by outsourcing logistics services to third-party service providers, enterprises can focus on their core businesses without the need to deal with the complex and resource consuming logistics planning process. As a result, the outsourced logistics services market in China has grown rapidly and is expected to grow from RMB6.5 trillion in 2020 to RMB9.2 trillion in 2025, representing a CAGR of 7.1%, which is faster than the growth in total logistics spending during the same period, which is 5.3%.

Figure 4: Outsourced Logistics Spending in China

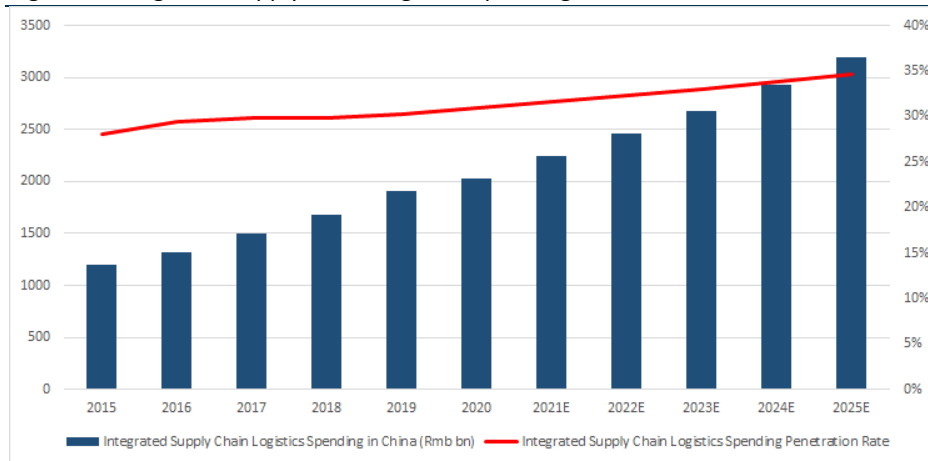


Source: CIC, Company, PSHK

Integrated supply chain logistics service providers possess the competencies of providing a full spectrum of logistics services, ranging from express delivery, full truckload and less-than-truckload transportation, last-mile delivery, warehousing, and other value-added services (such as home installation and aftersales services), which are offered to customers in the form of integrated solutions tailored to their varied needs. Despite the fact that the majority of demand for third-party logistics services comes from single logistics services, demands from enterprises for outsourced supply chain logistics services have gradually transitioned from homogeneous to manifold, leading to the integrated supply chain logistics services market outgrowing the outsourced logistics service market in general.

The market size of the integrated supply chain logistics services industry in China reached RMB2,026 billion in 2020, and is expected to further increase to RMB3,190 billion by 2025, growing at a CAGR of 9.5%. Integrated supply chain logistics services penetration, as defined by integrated supply chain logistics services spending divided by outsourced logistics services spending, is also expected to increase from 31.0% in 2020 to 34.6% in 2025.

Figure 5: Integrated Supply Chain Logistics Spending in China



Source: CIC, Company, PSHK

Company valuation

JDL is one of the largest integrated supply chain logistics service providers in China. We forecast a revenue CAGR of 30% in 2020 - 2025 (while JDL past revenue growth was 42%), driven by: 1) the growth of China's logistics spending in line with GDP growth, which increase the penetration of outsourcing logistics service, and growing demand for outsourcing supply chain logistics services has led to the structural growth of the integrated supply chain logistics service; 2) JDL market-share gains continue through its highly integrated logistics infrastructure, technology capabilities, industry know-how, and significant revenue by serving JD Group and external customers.

We expect JDL to breakeven next year, and our PT of HK\$41.55 is based on 2022E revenue and P/S multiple of 1.65x, which is basically in line with SF Holding (SZ.002352).

Risk factors

1) Slow down in domestic growth and consumer spending; 2) Unexpected drop in GMV growth of JD.com, in which significant revenue contribution for 54% of JDL's revenue in 2020; and 3) Higher than expected increase in staff and outsourcing costs, as these two cost factors have significant impact on JDL's earnings.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	49,848	73,375	102,479	128,686	162,719
COGS	(46,415)	(67,081)	(98,380)	(119,678)	(149,702)
Gross Profit	3,432	6,294	4,099	9,008	13,018
SG&A	(2,821)	(3,495)	(5,341)	(6,418)	(8,297)
R&D expense	(1,678)	(2,054)	(3,159)	(3,785)	(4,901)
Other gains and losses	-	-	-	-	-
Operating Profit	(1,595)	1,287	(4,565)	(822)	(75)
Operating Profit, Adj.	(1,067)	745	(4,401)	(1,195)	(181)
Depreciation & amortization	(3,934)	(5,196)	(7,672)	(9,374)	(12,018)
Net interest inc./exp	(44)	(190)	(178)	(279)	(318)
Income/(loss) from associates	(69)	(64)	(115)	(129)	(173)
Profit before tax	(2,160)	(4,049)	(17,997)	(1,608)	(1,040)
Income tax	(77)	12	-	-	-
Net profit	(2,233)	(4,134)	(18,094)	(1,705)	(1,137)
Net profit, Adj.	(920)	1,604	(3,554)	93	1,301
Reported EPS	(0.40)	(0.74)	(2.93)	(0.28)	(0.18)
EPS, Adj.	(0.17)	0.29	(0.57)	0.02	0.21
DPS	-	-	-	-	-
Payout ratio	0%	0%	0%	0%	0%
Shares outstanding	5,568	5,568	6,183	6,183	6,183

Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/S ratio, x	2.5	1.6	1.2	1.0	0.8

Per share data (RMB)

EPS	(0.40)	(0.74)	(2.93)	(0.28)	(0.18)
EPS, Adj.	(0.17)	0.29	(0.57)	0.02	0.21
BVPS	(0.38)	(0.92)	3.56	3.28	3.10

Growth & Margin

	FY19	FY20	FY21E	FY22E	FY23E
Growth					
Revenue Growth	32%	47%	40%	26%	26%
Gross Profit Growth	218%	83%	-35%	120%	45%
Operating Profit Growth	61%	181%	-455%	82%	91%
Net Profit Growth	19.1%	-80.5%	-348.2%	90.6%	33.3%
Margin					
Gross Profit Margin	6.9%	8.6%	4.0%	7.0%	8.0%
Operating Profit Margin	-3.2%	1.8%	-4.5%	-0.6%	-0.05%
Net Profit Margin	-4.5%	-5.6%	-17.7%	-1.3%	-0.7%

Key Ratios

ROE	60.7%	-44.2%	-42.2%	0.4%	6.6%
ROA	-2.3%	2.9%	-4.9%	0.1%	1.3%

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Non Current Asset					
PPE	5,338	6,652	8,781	11,370	14,371
Right-of-use assets	8,620	12,186	16,913	23,008	30,615
Intangible assets	14	2,808	2,700	2,503	2,294
Others	42	1,515	1,767	1,569	4,994
Total Non Current Assets	15,778	25,583	33,612	43,050	54,683
Current Asset					
Inventory	260	393	564	694	863
Trade and other receivables	3,230	5,371	7,071	9,150	11,398
Bank balance and cash	9,274	6,347	12,219	9,464	7,792
Others	11,512	17,029	18,624	22,469	27,463
Total Current Assets	24,275	29,140	38,478	41,777	47,516
Total Assets	40,053	54,723	72,090	84,827	102,199
Non Current Liabilities					
Convertible redeemable preferred shares	18,070	21,918	-	-	-
Lease liabilities	5,573	7,845	7,471	12,509	15,026
Other long term liabilities	42	1,515	1,767	1,569	4,994
Total Non-current Liabilities	23,685	31,278	9,238	14,078	20,200
Current Liabilities					
Trade payables	3,957	5,812	8,455	10,328	12,892
Lease liabilities	3,104	4,619	6,416	8,079	10,202
Others	11,392	15,909	23,727	29,794	37,674
Total Current Liabilities	18,453	26,340	38,599	48,201	60,768
Equity					
Shareholders' equity	(2,117)	(5,142)	22,005	20,300	19,162
Non-controlling interests	32	2,248	2,248	2,248	2,248
Total equity	(2,085)	(2,894)	24,253	22,548	21,410
Total Liabilities and Equity	40,053	54,723	72,090	84,827	102,199

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
CFO					
Net profit	(2,237)	(4,037)	(18,094)	(1,705)	(1,137)
D&A add-back	3,933	5,196	7,672	9,374	12,018
Others	2,270	6,201	178	279	318
Net (inc)/dec working capital	(1,336)	2,841	773	(337)	147
Net cash flow from operating activities	2,630	10,201	(9,470)	7,611	11,345
CFI					
Payment for financial assets at fair value change	(390)	(5,963)	-	-	-
Purchase of PP&E	(1,746)	(3,178)	(4,014)	(5,307)	(6,542)
Others	(473)	370	-	-	-
Net cash flow from investing activities	(2,610)	(8,771)	(4,014)	(5,307)	(6,542)
CFE					
Proceeds from Issuance of ordinary shares	-	-	23,323	-	-
New borrowings	-	300	300	300	300
Repayment of borrowings	-	(986)	-	-	-
Principal portion of lease payments	(2,269)	(3,055)	(4,267)	(5,358)	(6,775)
Advances/payment to JD Group	(7,430)	(20)	-	-	-
Others	(197)	28	-	-	-
Net cash flows from financing activities	(9,895)	(3,733)	19,356	(5,058)	(6,475)
Net Change in Cash	(9,875)	(2,302)	5,872	(2,755)	(1,672)
Foreign exchange	-	-	-	-	-
Cash and CE at Y/E	9,274	6,347	12,219	9,464	7,792

Current Price as of: November 30

Source: PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2021 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

L Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm