

JD.com, Inc. (09618)

Tencent to distribute JD's shares as dividend
 Sell-off pressure for near-term
 China | Internet |

14 January 2022

Company Profile

JD.com, Inc. (JD) operates online retail and marketplace e-commerce businesses, as well as fulfillment services. For the online retail business, JD sells self-operated products and third-party merchant products through its own online e-commerce platform, and provides digital marketing services to online retail business suppliers, third-party merchants and other partners. JD also collaborate with Walmart on e-commerce by launching Walmart and Sam's Club Flagship Stores on its platform and providing fulfillment solutions to them. Through strategic partnership with Dada Group, JD Logistics to provide customers with on-demand and last-mile delivery services of a wide selection of grocery and other fresh products through JD-Daojia. JD also explores in the offline retail market through 7FRESH, an offline fresh food markets, experimenting on the omni-channel model.

The Third Quarter Review

In 3Q21, the revenue was RMB218.7bn, an increase of 25.5% YoY. Despite of weak consumption and tight supply chain, JD's growth rate still exceeded the guidance given previously by the management. The net product revenue during the period was RMB 186 billion, an increase of 22.9% YoY; net service revenue was RMB32.7bn, an increase of 43.3% over the same period in 2020. The overall gross profit margin decreased by 1.2ppt YoY to 14.2%, mainly because operating costs increased by 27.3% from RMB147.4bn in the 3Q21 to RMB187.6bn in the 3Q21. Net loss attributable to shareholders in the 3Q was RMB2.8bn (compared to net profit of RMB7.6 billion in the same period last year). However, the non-GAAP net profit attributable to shareholders was RMB5bn, down 9.2% from RMB5.6bn in the same period 2020, and still better than market consensus.

Increase Active Customer Accounts

Among the net product revenues, the sales of electronics and home appliances products was RMB 110.9bn, an increase of 19% YoY; Net revenues from general merchandise products was RMB 75.1bn, an increase of 29% YoY. Net revenues from general merchandise products accounted for 40% of total revenue, up from 38% in the 2Q21. The product category of revenue is more diversified.

As of September 30, 2021, JD.com had 552 million annual active users in the past 12 months, an increase of 25% YoY. Under the spread of COVID-19 pandemic, more customers switched their buying pattern from offline to online and become a habit of regular consumption. Average order frequency for all users increased 23% year-on-year, driven by both new and existing users. And total order volume sustained a year-on-year growth of about 40% in Q3; The average number of orders per user for supermarket categories continue to increase and reached its all-time highest level. Additionally, users are purchasing more high-frequency supermarket products on JD including food and beverage, fresh produce, and baby and maternity products. According to the JD's executive highlights in the earnings call, new customer accounts starting from 2020 not only increased from lower-tier cities, but also from the 45 years old and above age group, as well as the student group of 18 to 25 years old.

Neutral

CMP HKD305.2
 (Closing price as of 12 January)
 Target HKD 292(-4.3%)

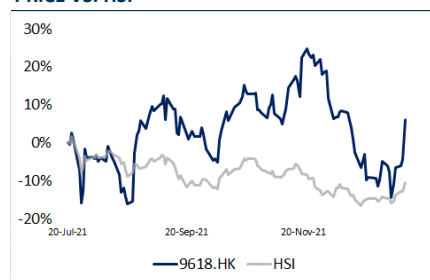
COMPANY DATA

O/S SHARES (MN) :	3,109.024
MARKET CAP (HKD MN) :	8,606.933
52 - WK HI/LO (HKD):	422.8/236.4

SHARE HOLDING PATTERN, %

Tencent (00700)	16.9%
Qiangdong Liu	14.4%
Walmart	9.3%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	576,888	745,802	962,319	1,196,337
Adj. NI	10,750	16,828	16,132	21,159
Adj. EPS	3.62	5.41	5.19	6.81
P/S ratio, x	75.4	47.3	49.3	37.6
Div. Yield (%)	NM	NM	NM	NM

Source: Company reports, Phillip Securities Est.

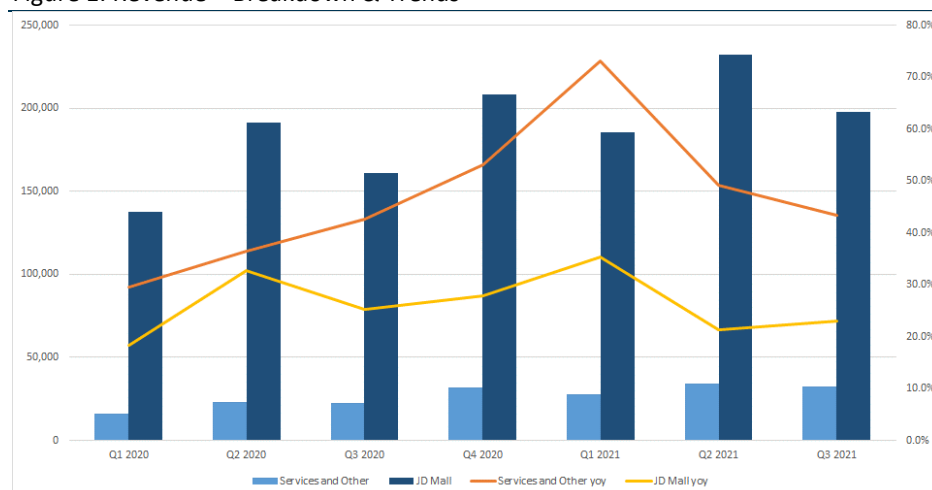
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Leverage the healthier competition and development environment of the industry, more 3P merchants that re-joined JD's platform. Total number of merchants and items accelerated YoY and QoQ growth. The number of third party merchants joined JD in Q3 tripled that of Q1 and Q2 combined, with apparel and home categories leading the growth.

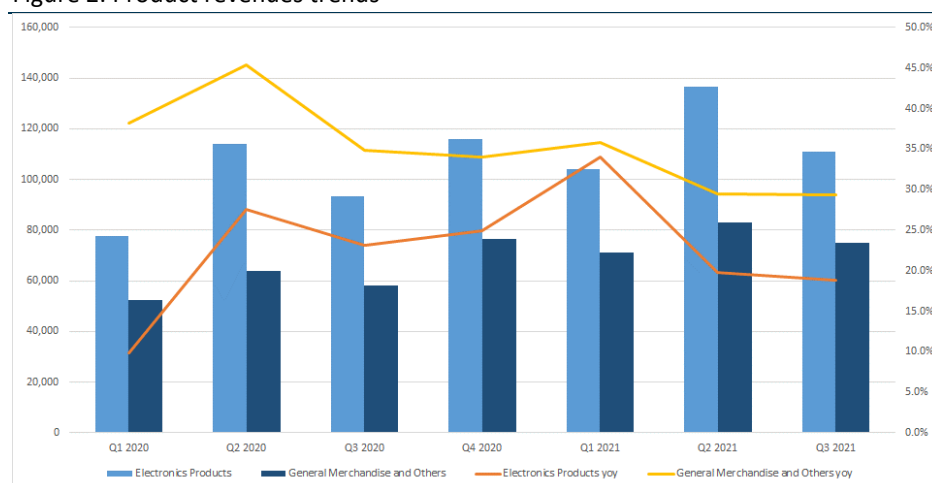
Figure 1: Revenue – Breakdown & Trends



Source: Company, PSHK

In Q3, GMV of JD's omni-channel business grew by nearly 100% YoY. Through further analysis of online and offline comprehensive data, JD would continue to provide differentiated products that best suit the needs of potential customers of various offline franchise stores, and provide customers with a more dynamic and interactive integrated omni-channel shopping experience.

Figure 2: Product revenues trends

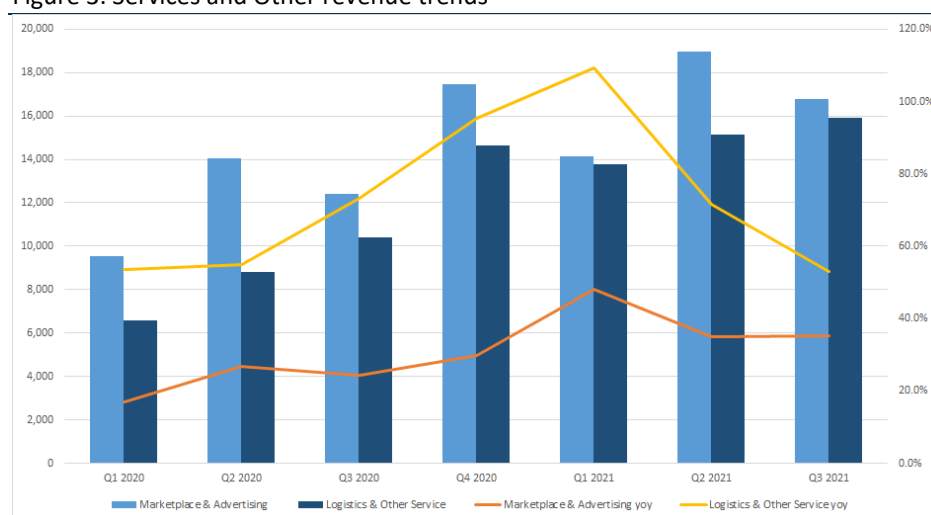


Source: Company, PSHK

In 3Q21, fulfillment expenses increased by 23.2% YoY to RMB14.3bn, and the fulfillment expense as % of net revenue was decreased by 0.2ppt YoY to 6.5%. In addition, the management expense ratio was 1.39%, an increase of 0.5ppt YoY, mainly due to the increase in SBC expenses; the research and development expense ratio was 1.83%, a YoY decrease of 0.5ppt; the sales expense ratio was 3.55%, an increase of YoY 0.4ppt. The fulfilled gross margin was 7.7%, down 1ppt YoY, mainly due to margin drag from logistics and new business.

In net service and other income, marketplace & marketing revenues was RMB16.8bn, an increase of 35.1% YoY; revenues from logistics and other services was RMB 15.9bn, an increase of 53.1% YoY. In 3Q21, the proportion of external customer revenue of JD Logistics continued to exceed 50%, and reached a new high in this quarter. Due to the increase in the penetration rate of logistics services to third-party merchants and other third parties, coupled with high commission rates categories such as general merchandise (FMCG) and clothing has increased, making the revenue growth rate of this category higher than that of 1P-operated business.

Figure 3: Services and Other revenue trends



Source: Company, PSHK

New business (e.g. community purchase and oversea ops) revenue reached RMB5.7bn, an increase of 33% YoY, operating loss from narrowed to RMB 2bn from RMB 3bn last quarter. JD's new business income mainly includes Jingxi Pinpin, overseas business and technological innovation, etc. The reason for the loss is believed to be mainly from community purchase. JD changed its strategy for Jingxi Pinpin from scale growth to quality growth, by focusing on 10 key provinces since July, this helped JD lowered order fulfillment cost by 50%. In addition, the logistics business recorded a loss of RMB720 million in 3Q21 while it earned RMB83.5 million in the same period in 2020.

Non-GAAP NPM was 2.3%, down 0.9ppt from 3Q20, still above market consensus. 4Q21 revenue growth momentum would continue, as double 11 transaction volume in 2021 reached RMB349.1bn, an increase of 28.6% compared with 2020 record of RMB271.5bn.

Company valuation

The competition with other e-commerce platforms such as Alibaba (09988) has intensified. However, based on the fact that JD's 3Q21 performance exceeded the previous guidance given, the management also expects that revenue growth would sustain into 4Q21. Therefore, we expect JD's full-year revenue to grow 29% YoY in 2021, which is similar to the first three quarters in 2020. Tencent (00700) recently announced that it will distribute most of its holdings of JD (more than 100bn JD shares, its stake will drop from 16.9% to 2.3%) as special interim dividend to Tencent's shareholders. It is expected that Tencent's decision (distributing JD shares in late March) will cause JD's share price to suffer technically in the next few months. Thus, JD's share price has been geared more toward the downside rather than outperform the market, but we believe there will be no structural damage to JD's long-term fundamentals.

Based on a SOTP (sum-of-the-parts) valuation methodology, given a "Neutral" rating and our Jun-22 PT of HK\$292. Our assumptions include:

JD Retail: we assign a fair value of HKD\$213 per share, based on a 2022E non-GAAP P/E of 25.0x (the peers average is 35.0x).

Other investments (including JD Digits and various investments in other listed or non-listed companies): we assign a fair value of HKD\$79 per share, based on their last round of funding or a 30% discount to the market value for listed companies.

Risk factors

1) Weak domestic growth and consumer spending; 2) Tencent provides Level 1/2 access points to JD, will be expired after May 2022, the renewal has an uncertainty; and 3) Slower-than-expected GMV/revenue growth.

* The analyst has a financial interest in the listed corporation covered in this report.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY18	FY19	FY20	FY21E	FY22E
Revenue	462,020	576,888	745,802	962,319	1,196,337
COGS	(396,066)	(492,467)	(636,694)	(823,834)	(1,004,705)
Gross Profit	65,954	84,421	109,108	138,485	191,632
SG&A	(24,396)	(27,724)	(33,565)	(48,723)	(59,097)
Fulfillment expenses	(32,010)	(36,968)	(48,700)	(64,968)	(80,767)
Research and development	(12,144)	(14,619)	(16,149)	(22,046)	(27,408)
Operating Profit	(2,619)	8,995	12,343	2,747	24,359
Operating Profit, Adj.	1,890	8,868	15,337	11,668	32,375
Depreciation & amortization	(5,560)	(5,828)	(6,068)	(7,154)	(7,163)
Net interest inc./(exp)	1,263	1,061	1,628	1,380	1,333
Profit before tax	(2,374)	13,693	50,819	3,627	17,192
Income tax	(427)	(1,802)	(1,482)	(1,705)	(4,814)
Net profit	(2,492)	12,184	49,405	2,687	13,143
Net Profit, Adj.	3,460	10,750	16,828	16,132	21,159
Reported EPS	(0.87)	4.11	15.89	0.86	4.23
EPS, Adj.	1.20	3.62	5.41	5.19	6.81
DPS	-	-	-	-	-
Payout ratio	-	-	-	-	-
Shares outstanding	2878	2967	3109	3109	3109

Key Financial Data

Dec Y/E	FY18	FY19	FY20	FY21E	FY22E
Valuation Ratio					
P/S ratio, x	1.7	1.4	1.1	0.8	0.7
Adj. P/E ratio, x	223.0	75.4	47.3	49.3	37.6

Per share data (RMB)

EPS	(0.87)	4.11	15.89	0.86	4.23
EPS, Adj.	1.20	3.62	5.41	5.19	6.81
BVPS	20.77	27.59	60.32	61.19	65.41

Growth & Margin

Growth					
Revenue Growth	27.5%	24.9%	29.3%	29.0%	24.3%
Gross Profit Growth	29.8%	28.0%	29.2%	26.9%	38.4%
Adj. Operating Profit Growth	-2.8%	369.2%	72.9%	-23.9%	177.5%
Adj. EBITDA Growth	-8.0%	144.7%	49.7%	-13.5%	121.0%
Adj. Net Profit Growth	-30.4%	210.7%	56.5%	-4.1%	31.2%
Margin					
Gross Profit Margin	14.3%	14.6%	14.6%	14.4%	16.0%
Adj. Operating Profit Margin	0.4%	1.5%	2.1%	1.2%	2.7%
Adj. Net Profit Margin	0.7%	1.9%	2.3%	1.7%	1.8%

Key Ratios

ROE	6.2%	15.2%	12.5%	8.5%	10.8%
ROA	1.7%	4.1%	4.0%	3.3%	4.0%

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY18	FY19	FY20	FY21E	FY22E
Non Current Asset					
PPE	21,083	20,654	22,597	24,303	25,898
Right-of-use assets	10,476	10,892	11,125	11,437	11,750
Intangible assets	5,012	4,110	6,463	6,375	6,441
Others	67,739	84,973	147,302	161,332	174,438
Total Non Current Assets	104,309	120,629	187,487	203,448	218,526
Current Asset					
Inventory	44,030	57,932	58,933	88,251	106,270
Trade and other receivables	11,110	6,191	7,112	9,752	11,766
Bank balance and cash	34,262	36,971	86,085	93,809	94,029
Others	15,453	38,000	82,672	89,808	102,847
Total Current Assets	104,856	139,095	234,801	281,619	314,912
Total Assets	209,165	259,724	422,288	485,068	533,438
Non Current Liabilities					
Unsecured senior notes	6,786	6,912	9,595	16,398	23,202
Other long term liabilities	4,689	12,170	17,057	17,057	17,057
Total Non-current Liabilities	11,475	19,082	26,652	33,456	40,259
Current Liabilities					
Trade payables	79,985	90,428	106,818	151,954	179,454
Others	40,877	49,589	67,198	75,352	76,275
Total Current Liabilities	120,862	140,017	174,017	227,306	255,729
Equity					
Shareholders' equity	59,771	81,856	187,543	190,231	203,374
Non-controlling interests	17,057	18,768	34,076	34,076	34,076
Total equity	76,828	100,624	221,619	224,306	237,450
Total Liabilities and Equity	209,165	259,724	422,288	485,068	533,438

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY18	FY19	FY20	FY21E	FY22E
CFO					
Net profit	(2,801)	11,890	49,337	2,687	13,143
D&A add-back	5,560	5,828	6,068	7,154	7,163
Others	5,766	(703)	(31,539)	8,905	9,042
Net (inc)/dec working capital	12,356	7,766	18,678	17,964	12,129
Net cash flow from operating activities	20,881	24,781	42,544	36,711	41,477
CFI					
Purchase of PP&E	(9,743)	(2,597)	(3,370)	(7,688)	(7,739)
Others	(16,336)	(22,752)	(54,440)	(27,916)	(28,568)
Net cash flow from investing activities	(26,079)	(25,349)	(57,811)	(35,604)	(36,306)
CCF					
Proceeds from issuance of ordinary shares	3,532	-	31,342	-	-
Others	7,688	2,572	39,730	2,183	(4,951)
Net cash flows from financing activities	11,220	2,572	71,072	2,183	(4,951)
Net Change in Cash	6,022	2,004	55,805	3,290	220
Cash and CE at Y/E	37,502	39,912	90,519	93,809	94,029

Current Price as of: January 12

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

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