

JD.com (09618.HK)

Effective initial results of platform ecosystem construction, while low prices and subsidies remain strategic focal points

China | E-commerce | Internet

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Company profile

JD.com (09618.HK) is a company that started as an e-commerce platform and has evolved into a leading technology and service provider with a core focus on self-operated business models. It has expanded its operations into various sectors, including retail, technology, logistics, and healthcare. The group's subsidiaries include JD Health, JD Logistics, Dada Group, and others. In the current environment of moderate economic recovery, consumers continue to be highly sensitive to product prices, and the e-commerce industry is fiercely competitive. The company adopts a strategy of low prices and market penetration while also emphasizing quality and service to enhance the shopping experience and frequency of use for its core users.

Overall performance in 2Q24 exceeded market expectations with growing shareholder returns

In 2Q24, JD.com reported a year-on-year revenue growth of 1.2% to 291 billion yuan, mainly driven by the growth of service revenue. In terms of category, product revenue (1P) reached 234 billion yuan, while service revenue (3P) reached 58 billion yuan, with a 6.3% YoY increase. Breaking it down by business segment, JD Retail's revenue grew by 1.5% YoY to 257 billion yuan, and JD Logistics' revenue grew by 7.7% YoY to 44 billion yuan. Overall, the company's Non-GAAP operating profit increased by 33.7% YoY to 12 billion yuan, with an operating profit margin of 4.0%, primarily driven by the beyond-expectation performance of JD logistics. The Non-GAAP net profit attributable to ordinary shareholders of the listed company was 15 billion yuan, a 69.0% YoY increase. In terms of shareholder returns, as of June 30, 2024, the company has cumulatively repurchased US\$3.3 billion, representing approximately 7.1% of the total outstanding common shares as of the end of 2023.

JD Retail: Platform ecosystem continues to show healthy improvement, and low prices and subsidies remain strategic focal points in the context of macroeconomic recovery

In the second quarter of 2024, JD.com achieved retail revenue of 257 billion yuan, representing a year-on-year growth of 1.5%, primarily driven by the growth in active users and order volume. Both purchase frequency and order volume achieved double-digit year-on-year growth this quarter, with third-party merchant order volume increasing by 20% year-on-year, reaching a new high in the past two years. Operating profit reached 10.1 billion yuan, with an operating profit margin of 3.9%, an increase of 0.7 percentage points year-on-year, mainly influenced by the reduction in free shipping thresholds and increased promotional marketing expenses. In terms of the breakdown by revenue category:

Product Revenue (1P): According to data from the National Bureau of Statistics, the total retail sales of consumer goods in the second quarter of 2024 amounted to 12105 billion yuan, a year-on-year decrease of 1.8%. In terms of online consumption, the online retail sales of physical goods reached 3176 billion yuan, a 10.2% increase, surpassing the overall growth rate of offline retail. Considering the government's new round of "trade-in" policies that will release pent-up demand and the expected continued recovery of the real estate market, we anticipate that revenue from JD.com's core categories such as 3C electronics will continue to grow, with year-on-year growth rates of 5%, 6%, and 6% in 2024, 2025, and 2026, respectively. At the same time, revenue from daily department stores will continue to benefit from platform improvements, and we predict a stable growth rate of 5%, 7%, and 7% year-on-year in 2024, 2025, and 2026, respectively.

Hold

CMP HKD 155

(Closing price as of 21 Oct)

Target HKD 155 (+0%)

COMPANY DATA

O/S SHARES (MN) :	3,183.43
MARKET CAP (HKD BN) :	453.55
52 - WK HI/LO (HKD):	192.30/81.60

SHARE HOLDING PATTERN, %

Max Smart Limited	9.60%
Walmart	4.55%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY22	FY23	FY24E	FY25E
Revenue	1,046,236	1,084,662	1,143,847	1,221,638
Shareholders Net profit	10,380	24,167	30,485	34,882
Diluted EPS	3.2	7.6	9.6	11.0
P/E ratio, x	59.9	13.4	13.0	11.2
Dividend Yield, %	1.1%	2.6%	1.9%	2.1%

Source: Company reports, Phillip Securities Est.

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Service Revenue (3P): The company has increased its efforts in building the 3P ecosystem and proactively optimizing the user experience, resulting in steady growth in monthly active users on the JD.com app. The company has implemented measures such as reducing commissions and service fees for 3P merchants, leading to a decrease in commission rates. As the 3P ecosystem is still in its early stages, the company is expected to continue investing in order to attract users from lower-tier cities through initiatives like enriching the supply of low-priced products and targeted subsidies. This may result in short-term or insignificant contributions to monetization.

However, as user experience continues to improve, user stickiness increases, and the business environment gradually improves, the monetization capabilities are expected to improve in the medium to long term. Furthermore, the growth in sales volume also brings about an increase in revenue from service-oriented businesses such as advertising placements and express logistics, as well as commission income. It also leads to efficiency improvements and lower raw material procurement costs, forming a virtuous cycle. Therefore, we anticipate that service revenue will return to healthy growth in 2024, with year-on-year growth rates of 10%, 13%, and 15% in 2024, 2025, and 2026, respectively.

Considering that the adjustment period for JD Retail's business is coming to an end and the fundamental trends are gradually improving, there is hope that this will promote the restoration of investor sentiment. In addition, the company may benefit from the implementation of the domestic "trade-in" policy. We estimate the segment value of JD Retail in 2024 to be 317 billion yuan. Based on a forecasted PE ratio of 13.0 for 2024, there is a slight premium compared to the average PE ratio of comparable companies at 9.2x.

JD Logistics: Logistics industry shows stable recovery, and self-operated supply chain revenue remains stable

According to monitoring data from the State Post Bureau, as of June 30th, the express delivery volume in China has reached 800 million parcels this year, which is 59 days earlier than in 2023, indicating a steady recovery in the industry. In the second quarter of 2024, JD Logistics' revenue increased by 15.2% year-on-year to 44 billion yuan, and the operating profit increased by 328.0% year-on-year to 200 million yuan. With the improvement of the company's global supply chain network, the economies of scale are gradually manifesting. By providing one-stop services to support Chinese brands going global, the number of customers in the integrated external supply chain may steadily increase.

Company valuation

In 2024, JD.com will focus on improving user experience and increasing market share, continuing to promote price competitiveness and platform ecosystem construction. JD Retail will continue to implement a low-price strategy, and there is still significant room for online penetration in areas such as supermarkets, sports, furniture, home decor, automobiles, and services. With the overall consumption stabilizing and improving in 2024, the growth of various categories is expected to return to a healthy pace. The company's core categories, such as consumer electronics, are expected to continue gaining market share, and the supermarket category is expected to return to positive growth. Considering the intensified competition in the e-commerce industry and the relatively insignificant short-term contribution from the monetization end of the 3P ecosystem, with the effects of ecosystem construction being gradually released in the medium to long term, we project the company's operating revenue for 2024-2026 to be 1,144 billion yuan, 1,222 billion yuan, and 1,311 billion yuan, respectively, with net profit attributable to the parent company of 31 billion yuan, 35 billion yuan, and 40 billion yuan, corresponding to diluted EPS of 9.6 yuan, 11.0 yuan, and 12.4 yuan, and a corresponding PE ratio of 13.0x, 11.2x, and 10.0x. Based on the SOTP valuation method and on the latest market value or valuation of subsidiaries and investee companies with a 30% discount, we have set a

target market value of 452 billion yuan for JD.com in 2024, corresponding to a target price of 144 yuan/155 HKD. We rate it as a "Hold" rating.

RMB, mn	Latest valuation	Ownership	Discount	Contribution to JD.com
JD Retail	317,201	100%	0%	317,201
JD Health (6618.HK)	82,835	68%	30%	39,429
JD Logistics (2618.HK)	89,969	63%	30%	39,676
Dada (DADA.US)	3,029	54%	30%	1,145
ATRenew (RERE.US)	4,074	32%	30%	913
Yixin Group (2858.HK)	4,788	15%	30%	503
GigaCloud (GCT.US)	7,764	10%	30%	543
Tianju Dihe (2479.HK)	3,228	15%	30%	336
JD Intelligent	49,892	75%	30%	26,193
JD Industrials	47,637	78%	30%	26,010
Total valuation				451,950
Target price, RMB				141.97
Target price, HKD				154.75

Exchange Rates: USD/RMB=7.11, RMB/HKD=1.09

Risk factors

1) The monetization capabilities of the platform ecosystem may not meet expectations; 2) increased competition in the retail and logistics industries; 3) consumer demand may recover weaker than expected.

Financials

Consolidated Statement of Profit or Loss						Consolidated Statement of Financial Position					
Dec Y/E, RMB mn	FY22	FY23	FY24E	FY25E	FY26E	Dec Y/E, RMB mn	FY22	FY23	FY24E	FY25E	FY26E
Electronics and home appliance revenues	515,945	538,799	565,739	599,683	635,654	Cash and cash equivalents	78,861	71,892	88,534	96,388	107,102
General merchandise revenues	349,117	332,425	342,398	356,084	370,337	Other short-term investments	141,095	118,254	90,371	90,371	90,371
Net product revenues	865,062	871,224	908,137	955,777	1,006,002	Total accounts receivable	45,712	40,808	42,848	33,890	44,991
Marketplace and marketing revenues	81,970	84,726	87,288	90,758	95,296	Accounts receivable and notes	20,576	20,302	17,540	17,540	17,540
Logistics and other service revenues	99,204	128,712	148,019	174,662	209,595	Other receivables	25,136	20,506	18,134	18,134	18,134
Net service revenues	181,174	213,438	235,287	265,421	304,891	Inventory	77,949	68,058	73,004	70,531	84,637
Total net revenues	1,046,236	1,084,662	1,143,423	1,221,198	1,310,893	Other current assets	7,457	8,798	8,128	8,128	8,128
Cost of revenues	-899,163	-924,958	-971,206	-1,029,478	-1,096,394	Net fixed assets	66,241	79,955	71,960	68,362	68,362
Gross profit	147,073	159,704	172,217	191,719	214,498	Equity investments	57,641	56,746	55,849	55,849	55,849
Fulfillment	-63,011	-64,558	-72,305	-81,705	-92,326	Other long-term investments	11,611	80,840	79,572	79,572	79,572
Marketing	-37,772	-40,133	-44,146	-49,002	-54,883	Goodwill and intangible assets	32,262	26,915	29,607	32,567	35,824
Research and development	-16,893	-16,393	-16,065	-15,744	-15,744	Land use rights	33,848	39,563	38,646	38,646	38,646
General and administrative	-11,053	-9,710	-9,225	-9,400	-9,130	Other non-current assets	42,573	37,129	36,321	36,321	36,321
Income from operations	19,723	26,025	30,476	36,229	42,415	Total assets	595,250	628,958	650,512	646,298	685,476
Other income	-5,856	5,625	6,027	6,780	6,429	Accounts payable and notes	160,607	166,167	174,475	165,752	174,039
Income/(loss) before tax	13,867	31,650	36,503	43,009	48,844	Taxes payable	5,926	7,313	7,313	6,582	6,582
Income tax expense	-4,176	-8,393	9,126	12,042	13,676	Current portion of short-term and long-term loans	12,146	5,034	5,267	5,267	5,267
Net income/(loss)	9,691	23,257	27,378	30,966	35,168	Other current liabilities	87,882	87,136	89,228	89,228	89,228
Net income/(loss) attributable to owners of the parent	10,380	24,167	28,518	32,256	36,633	Long-term loans	30,233	41,966	42,589	46,848	51,533
						Other non-current liabilities	24,333	24,962	25,171	26,430	27,751
						Total liabilities	321,127	332,578	344,043	340,106	354,400
						Reserves	217,408	234,978	234,978	234,978	234,978
						Treasury stock	2,493	3,409	3,409	3,409	3,409
						Other comprehensive income	-959	903	3,117	2,841	27,724
						Total common stock equity	213,956	232,472	241,504	241,228	266,111
						Equity attributable to parent company shareholders	213,956	232,472	241,504	241,228	266,111
						Minority interest	60,167	63,908	64,965	64,965	64,965
						Total shareholders' equity	274,123	296,380	306,469	306,193	331,076
						Total liabilities and shareholders' equity	595,250	628,958	650,512	646,298	685,476

Consolidated Statement of Cash Flow					
Dec Y/E, RMB mn	FY22	FY23	FY24E	FY25E	FY26E
Adjusting net profit to operating cash flows:					
Net profit	10,380	24,167	27,378	30,966	35,168
Plus: Depreciation and amortization	7,248	8,304	8,304	8,304	8,304
Changes in working capital	22,229	15,879	17,467	19,214	21,135
Other non-cash adjustments	17,962	11,171	11,171	11,171	11,171
Net cash flows from operating activities	57,819	59,521	64,320	69,655	75,778
Investing activities:					
Cash received from the sale of fixed assets	1,418	130	-	-	-
Minus: Capital expenditures	22,913	20,015	22,017	24,218	26,640
Decrease in investments	249,615	301,875	301,875	301,875	301,875
Minus: Increase in investments	265,388	345,672	356,042	345,361	348,815
Net cash flows from other investing activities	(16,758)	4,139	(6,310)	(1,085)	(3,697)
Net cash flows from investing activities	(54,026)	(59,543)	(69,874)	(66,619)	(69,882)
Financing activities:					
Increase in debt	47,309	30,500	36,600	31,110	31,110
Minus: Decrease in debt	35,470	27,387	21,910	26,292	26,292
Increase in equity	1,043	33	-	-	-
Minus: Decrease in equity	1,823	2,497	-	-	-
Total dividends paid	13,087	6,741	-	-	-
Net cash flows from other financing activities	3,208	284	-	-	-
Net cash flows from financing activities	1,180	(5,808)	14,690	4,818	4,818
Net increase in cash and cash equivalents	8,422	(5,717)	9,136	7,854	10,714
Cash and cash equivalents at the beginning of the period	76,693	85,115	79,398	88,534	96,388
Cash and cash equivalents at the end of the period	85,115	79,398	88,534	96,388	107,102

Key Financial Data					
Dec Y/E, RMB mn	FY22	FY23	FY24E	FY25E	FY26E
Valuation Ratio					
P/E, x	59.9	13.4	13.0	11.2	10.0
Dividend Yield, %	1.1%	2.6%	1.9%	2.1%	2.4%
Per Share					
EPS	3.21	7.61	8.96	10.13	11.51
DPS	2.16	2.69	2.69	3.04	3.45
Growth&Margin					
Growth					
Revenue	9.9%	3.7%	5.4%	6.8%	7.3%
Gross Profit	14.0%	8.6%	7.8%	11.3%	11.9%
Net Profit	-316.9%	140.0%	17.7%	13.1%	13.6%
Margin					
Gross Profit Margin	14.1%	14.7%	15.1%	15.7%	16.4%
Net Profit Margin	0.9%	2.1%	2.4%	2.5%	2.7%
Key Ratios					
ROE	4.7%	10.8%	9.3%	10.5%	11.1%
ROA	1.8%	3.9%	4.4%	5.0%	5.3%

Current Price as of: Oct 21

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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