

## Company Report

China Merchants Securities (HK) Co., Ltd.  
Hong Kong Equity Research

### JD.com (JD US)

#### Solid results, short term growth headwinds remain

■ 2Q22 revenue +5% yoy, with NG NP +40% yoy, 47% above consensus, strong beat. Margin boosted by continued focuses on efficiency push, prudent investment/cost strategy

■ Growth headwinds remain: 3Q22 revenue to grow +12% yoy, slower than last year, but still an incremental improvement

■ Robust 2Q22 results despite significant challenges are positive in our view; BUY, TP revised up to USD77

#### Solid 2Q22 driven by margin improvement

JD reported 2Q22 revenue of RMB267.6bn +5% yoy, overall inline, slowdown from 18% yoy in 1Q22. NG net income reached RMB6.5bn, +40% yoy, +56% qoq, 47% above consensus. The beat was mainly due to GPM performance, reaching 13.5%, +1.0ppt yoy, overall driving OPM and NPM expansion, crediting to efficiency push, cost control, reduction of loss-making segments (e.g. Jingxipinpin). JD's financials are solid with net cash of RMB168bn (net cash/equity of 67%), and generated RMB34bn of operating cash flow and RMB30bn of free cash flow in 2Q22.

#### Short term growth headwinds remain

JD indicates continued sales growth recovery in recent months and the trend to continue through 3Q22, though at a gradual pace given macro and COVID uncertainties still remain, with the latter at a much more stable level compared to severe logistics challenges in April and May. JD points to continued performance in general merchandise, appliance and computer products, while some discretionary products such as fashion and smartphones remain sluggish. Management also indicated NPM to maintain improving trend into 4Q as some expenses need time to cascade out, such as rental and supply chain related expenses.

#### Next catalyst to require top line growth recovery

JD ADR reacted positively to 2Q results, in our view is relatively muted given the % magnitude of the beat, which might be due to some expectation adjustments given bottom line beat from cost savings for Tencent (700 HK) and Alibaba (BABA US) results. For rest of 2022, we think the margin beat on efficiency push as a share price driver to gradually diminish, and likely return to refocus on revenue growth performance, which we think could see opportunity in 4Q22, concomitant with: 1) Consumer recovery; 2) New smartphone models launch, namely Huawei and Apple (AAPL US); 3) Traditional strong quarter from Double 11 online festival.

#### BUY: TP revised up to USD77

We fine-tuned our forecast, revised revenue +1%/-1%/-2% in FY22/23/24E, and revised NG NPM +0.3ppt/ +0.2ppt/+0.1ppt. We now forecast 3Q22 revenue growth of 12% yoy and NG NPM of 2.9%, and 4Q22 at 16% yoy and 1.6%, respectively, reiterating our view of gradual growth recovery. We change DCF-TP to USD77 from USD73, from better margins, implying 26x/18x FY23/24E P/E. **Key Risks:** 1) Macro/ Consumption recovery; 2) Regulation; 3) Competition.

#### Financials

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	745,802	951,592	1,071,498	1,318,469	1,569,034
Growth	29.3%	27.6%	12.6%	23.0%	19.0%
Non-GAAP net profit	16,828	17,207	22,950	31,919	45,262
Growth	56.5%	2.3%	33.4%	39.1%	41.8%
Non-GAAP EPADS (USD)	1.67	1.66	2.17	3.00	4.25
P/E (US)	34.2	34.5	26.4	19.1	13.4
ROE	12.5%	8.7%	10.6%	13.3%	16.3%

Note: Closing price as of Aug 23, 2022; Sources: Bloomberg, Company, CMS (HK) estimates

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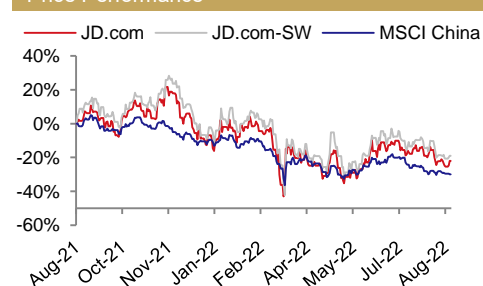
#### WHAT'S NEW

2Q22 results briefing; Earnings/TP revision

### BUY

Previous	BUY
Price (Aug 23, 2022)	USD57.2 HKD221.4
12-month Target Price (Potential up/downside)	USD77 (+35%) HKD300 (+36%)
Previous	USD73 HKD286

#### Price Performance



Source: Bloomberg

%	1m	6m	12m
JD US	(9.2)	(17.4)	(22.0)
9618 HK	(10.4)	(17.6)	(19.0)
MSCI China	(5.5)	(18.9)	(29.9)

#### Sector: Technology, Media & Telecom

Hang Seng Index (Aug 23, 2022)	19,503
MSCI China (Aug 23, 2022)	65

#### Key Data

52-week range (USD/HKD)	41-90/156-357
Market cap (USD bn)	89.3
Avg. daily volume US/HK (mn)	7.93/5.78
FY22E NG EPADS/EPS (USD/HKD)	2.2/8.4

#### Shareholding Structure

Tencent	2.6%
Liu Qiangdong	13.8%
Walmart	9.3%
Free float	74.3%

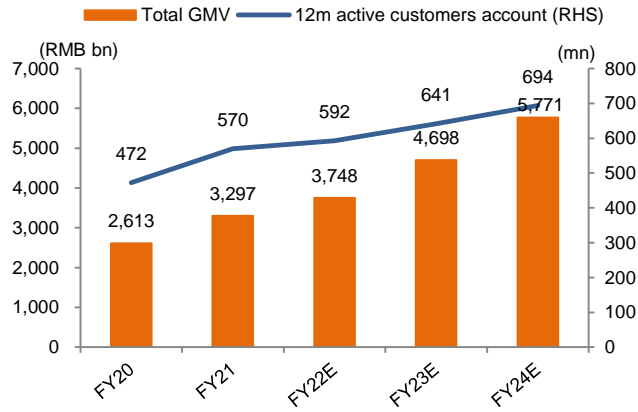
Sources: Wind, Bloomberg, CMS (HK) research

#### Related Research

1. JD (JD US) - Sequential pickup from 2Q trough (BUY) (July 12, 2022)
2. JD (JD US) - Renewed strategic cooperation with Tencent (BUY) (June 30, 2022)
3. JD (JD US) - 618 sees light at the end of the tunnel (BUY) (June 20, 2022)
4. JD (JD US) - Resilient results amid multiple headwinds (BUY) (May 18, 2022)

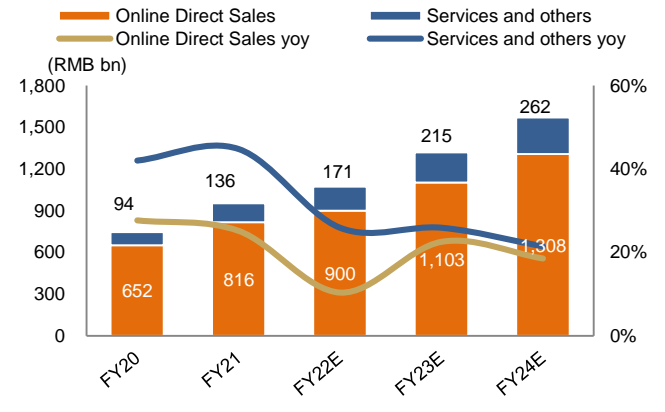
Focus charts

Figure 1: GMV\* and AAC (annual active customer accounts)



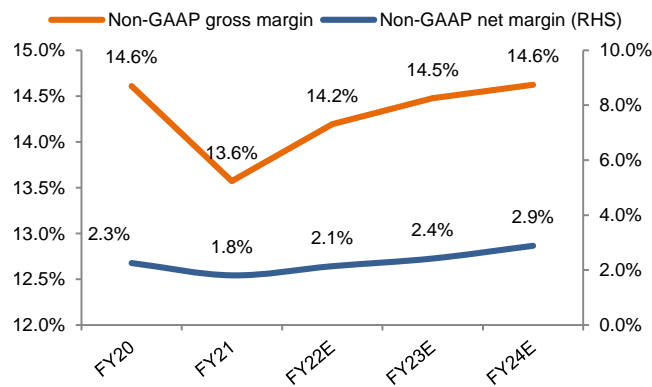
Sources: Company, CMS (HK) estimates

Figure 2: Online direct sales vs. Services and others in revenue



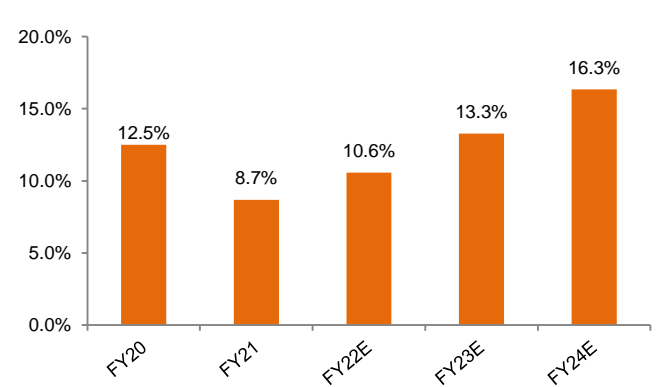
Sources: Company, CMS (HK) estimates

Figure 3: Non-GAAP GPM & Non-GAAP NPM



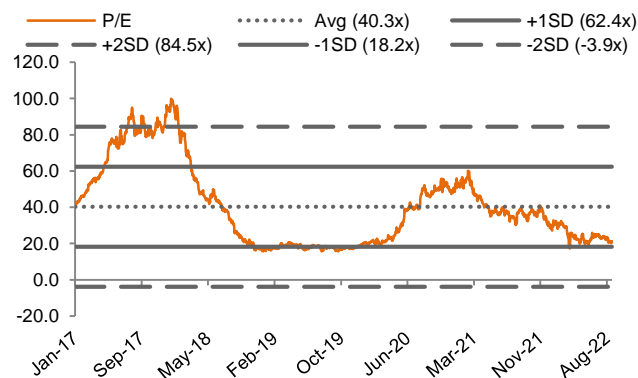
Sources: Company, CMS (HK) estimates

Figure 4: Non-GAAP ROE



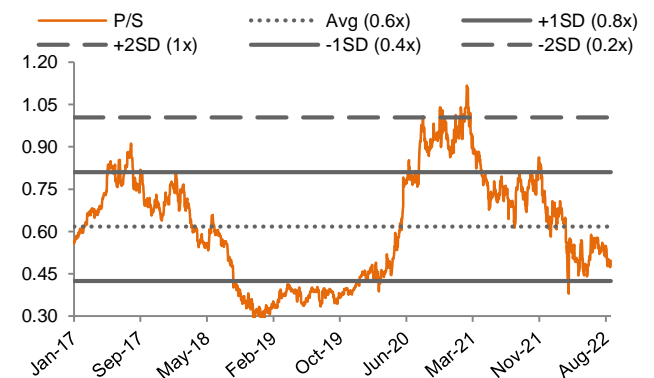
Sources: Company, CMS (HK) estimates

Figure 5: P/E range



Sources: Bloomberg, Company, CMS (HK) estimates

Figure 6: P/S range



Sources: Bloomberg, Company, CMS (HK) estimates

Figure 7: 2Q22 results table

RMB mn	2Q21	1Q22	2Q22	1Q22 yoy	2Q22 yoy	1Q22 qoq	2Q22 qoq	CMS forecasts	Actual vs CMS	Consensus	Actual vs Consensus
								2Q22E		2Q22E	
<b>Total net revenues</b>	<b>253,800</b>	<b>239,655</b>	<b>267,600</b>	<b>18%</b>	<b>5%</b>	<b>-13%</b>	<b>12%</b>	<b>260,973</b>	<b>3%</b>	<b>261,667</b>	<b>2%</b>
Online direct sales	219,690	204,416	226,020	17%	3%	-13%	11%	225,182	0%		
Services and others	34,111	35,239	41,580	26%	22%	-15%	18%	35,791	16%		
Marketplace and advertising	18,985	17,676	20,742	25%	9%	-21%	17%	18,850	10%		
Logistics and other service	15,126	17,563	20,838	28%	38%	-8%	19%	16,941	23%		
Cost of revenues	(222,071)	(206,209)	(231,706)	18%	4%	-14%	12%	(227,047)	2%		
<b>Gross profit</b>	<b>31,730</b>	<b>33,446</b>	<b>35,894</b>	<b>15%</b>	<b>13%</b>	<b>-10%</b>	<b>7%</b>	<b>33,927</b>	<b>6%</b>	<b>33,582</b>	<b>7%</b>
<b>Non-GAAP gross profit</b>	<b>31,740</b>	<b>33,612</b>	<b>36,049</b>	<b>15%</b>	<b>14%</b>	<b>-10%</b>	<b>7%</b>	<b>33,961</b>	<b>6%</b>		
Fulfillment	(14,649)	(15,486)	(16,308)	12%	11%	-5%	5%	(16,428)	-1%		
Marketing	(10,612)	(8,705)	(9,477)	24%	-11%	-35%	9%	(9,296)	2%		
Research and development	(3,693)	(4,384)	(4,027)	-3%	9%	7%	-8%	(3,845)	5%		
General and administrative	(2,561)	(2,462)	(2,324)	11%	-9%	-34%	-6%	(2,685)	-13%		
<b>Operating profit</b>	<b>301</b>	<b>2,409</b>	<b>3,758</b>	<b>45%</b>	<b>1150%</b>	<b>n.a.</b>	<b>56%</b>	<b>1,673</b>	<b>125%</b>	<b>1,811</b>	<b>107%</b>
<b>Non-GAAP operating profit</b>	<b>2,522</b>	<b>4,786</b>	<b>5,753</b>	<b>37%</b>	<b>128%</b>	<b>69%</b>	<b>20%</b>	<b>3,888</b>	<b>48%</b>		
<b>Non-GAAP EBITDA</b>	<b>3,747</b>	<b>6,200</b>	<b>7,175</b>	<b>26%</b>	<b>92%</b>	<b>49%</b>	<b>16%</b>	<b>6,163</b>	<b>16%</b>		
Interest and others, net	1,799	(4,157)	2,665	n.a.	48%	13%	n.a.	297	797%		
<b>Income/(loss) before tax</b>	<b>1,046</b>	<b>(2,915)</b>	<b>5,256</b>	<b>n.a.</b>	<b>402%</b>	<b>-43%</b>	<b>n.a.</b>	<b>1,970</b>	<b>167%</b>	<b>2,134</b>	<b>146%</b>
Income tax expense	(569)	(603)	(1,227)	26%	116%	226%	103%	(295)	315%		
NCI	(317)	(527)	(347)	n.a.	10%	242%	-34%	(45)	671%		
<b>Net income</b>	<b>794</b>	<b>(2,991)</b>	<b>4,376</b>	<b>n.a.</b>	<b>451%</b>	<b>-42%</b>	<b>n.a.</b>	<b>1,719</b>	<b>155%</b>	<b>1,673</b>	<b>162%</b>
<b>Non-GAAP net income</b>	<b>4,626</b>	<b>4,166</b>	<b>6,489</b>	<b>5%</b>	<b>40%</b>	<b>17%</b>	<b>56%</b>	<b>4,015</b>	<b>62%</b>	<b>4,406</b>	<b>47%</b>
<b>OCF</b>	<b>28,890</b>	<b>(3,485)</b>	<b>33,667</b>	<b>-54%</b>	<b>17%</b>	<b>n.a.</b>	<b>n.a.</b>				
<b>FCF</b>	<b>29,522</b>	<b>(8,797)</b>	<b>30,009</b>	<b>-10%</b>	<b>2%</b>	<b>n.a.</b>	<b>n.a.</b>				
<b>Total cash</b>	<b>178,109</b>	<b>186,102</b>	<b>206,787</b>								
ST debt	562	17,151	13,754								
LT debt	12,412	15,609	24,659								
<b>Net cash (debt)</b>	<b>165,135</b>	<b>153,342</b>	<b>168,374</b>								
<b>Total equity</b>	<b>248,203</b>	<b>254,619</b>	<b>251,461</b>								
<b>Net cash/equity</b>	<b>67%</b>	<b>60%</b>	<b>67%</b>								
<b>Key operating data &amp; Margin analysis</b>											
Fulfillment cost as % of revenue	5.8%	6.5%	6.1%	-0.3ppt	0.3ppt	0.5ppt	-0.4ppt	6.3%	-0.2ppt		
12m Active customers account (mn)	532	581	581	16%	9%	2%	0%	581	0%		
<b>Non-GAAP margins</b>											
GM	12.5%	14.0%	13.5%	-0.3ppt	1.0ppt	0.6ppt	-0.6ppt	13.0%	0.5ppt	12.8%	0.6ppt
OPM	1.0%	2.0%	2.1%	0.3ppt	1.2ppt	1.0ppt	0.2ppt	1.5%	0.7ppt	0.7%	1.5ppt
EBITDA margin	1.5%	2.6%	2.7%	0.2ppt	1.2ppt	1.1ppt	0.1ppt	2.4%	0.3ppt		
Net margin attributable to ordinary shareholders	1.8%	1.7%	2.4%	-0.2ppt	0.6ppt	0.4ppt	0.7ppt	1.5%	0.9ppt	1.7%	0.7ppt

Sources: Company, Bloomberg, CMS (HK) estimates

Figure 8: Revision summary

RMB mn	Revised			Previous			Difference		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	1,071,498	1,318,469	1,569,034	1,064,635	1,330,326	1,599,561	1%	-1%	-2%
Online direct sales	900,391	1,103,071	1,307,501	903,318	1,118,444	1,329,713	0%	-1%	-2%
Services and others	171,107	215,398	261,533	161,317	211,881	269,847	6%	2%	-3%
Marketplace and advertising	85,697	105,380	127,783	84,014	108,564	136,863	2%	-3%	-7%
Logistics and other service	85,410	110,018	133,750	77,303	103,318	132,984	10%	6%	1%
Gross profit	151,416	190,105	228,535	147,318	190,623	233,846	3%	0%	-2%
Operating profit	15,874	22,708	35,924	10,678	19,309	31,881	49%	18%	13%
Non-GAAP EBITDA	31,626	41,006	55,818	28,129	39,481	54,133	12%	4%	3%
Non-GAAP net income (to shareholders)	22,950	31,919	45,262	19,165	29,662	44,050	20%	8%	3%
<b>Key ratio and margin</b>									
Non-GAAP gross margin	14.2%	14.5%	14.6%	13.9%	14.3%	14.6%	0.3pp	0.1pp	0.0pp
Non-GAAP operating margin	2.3%	2.4%	3.0%	1.9%	2.3%	2.8%	0.4pp	0.1pp	0.2pp
Non-GAAP EBITDA margin	3.0%	3.1%	3.6%	2.6%	3.0%	3.4%	0.3pp	0.1pp	0.2pp
Non-GAAP net margin (to shareholders)	2.1%	2.4%	2.9%	1.8%	2.2%	2.8%	0.3pp	0.2pp	0.1pp
<b>yoy</b>									
Revenue	13%	23%	19%	12%	25%	20%	0.7pp	-1.9pp	-1.2pp
Online direct sales	10%	23%	19%	11%	24%	19%	-0.4pp	-1.3pp	-0.4pp
Services and others	26%	26%	21%	19%	31%	27%	7.2pp	-5.5pp	-5.9pp
Marketplace and advertising	19%	23%	21%	16%	29%	26%	2.3pp	-6.3pp	-4.8pp
Logistics and other service	34%	29%	22%	21%	34%	29%	12.7pp	-4.8pp	-7.1pp
Gross profit	17%	26%	20%	14%	29%	23%	3.2pp	-3.8pp	-2.5pp
Operating profit	283%	43%	58%	158%	81%	65%	125.5pp	-37.8pp	-6.9pp
Non-GAAP EBITDA	69%	30%	36%	50%	40%	37%	18.7pp	-10.7pp	-1.0pp
Non-GAAP net income (to shareholders)	33%	39%	42%	11%	55%	49%	22.0pp	-15.7pp	-6.7pp

Sources: Company, CMS (HK) estimates

Figure 9: CMS estimates vs consensus

RMB mn	CMS forecasts			Consensus			Diff %		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	1,071,498	1,318,469	1,569,034	1,075,169	1,273,664	1,468,567	0%	4%	7%
GM (%)	14.1	14.4	14.6	13.7	14.0	14.4	0.5pp	0.4pp	0.2pp
Operating profit	15,874	22,708	35,924	10,017	20,671	31,342	58%	10%	15%
PBT	11,810	26,136	39,956	6,720	21,165	31,563	76%	23%	27%
GAAP NP	9,528	22,404	34,151	5,082	17,060	25,191	87%	31%	36%
Non-GAAP NP	22,950	31,919	45,262	20,295	28,399	37,622	13%	12%	20%

Note: consensus data as of Aug 24, 2022; Sources: Bloomberg, Company, CMS (HK) estimates

Figure 10: DCF valuation

RMB mn	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Revenue	1,318,469	1,569,034	1,788,699	2,039,117	2,283,811	2,512,192	2,763,411	3,039,752	3,343,727	3,678,100
EBIT	22,708	35,924	42,743	50,766	59,141	67,568	77,088	87,836	99,964	113,638
NOPAT	18,787	29,931	36,331	43,151	50,270	57,433	65,525	74,661	84,969	96,593
Depreciation & Amortization	12,557	15,531	17,887	20,391	22,838	25,122	27,634	30,398	33,437	36,781
Share-based Compensation Expense	7,770	9,247	10,541	12,017	13,459	14,805	16,285	17,914	19,705	21,675
Chg in OWC	18,533	16,598	17,887	20,391	22,838	25,122	27,634	30,398	33,437	36,781
CAPEX	(22,414)	(26,674)	(26,830)	(30,587)	(31,973)	(35,171)	(38,688)	(39,517)	(43,468)	(47,815)
FCF	35,234	44,633	55,816	65,363	77,432	87,310	98,390	113,853	128,080	144,015
Discount year	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00
Discount factor	0.87	0.75	0.65	0.57	0.49	0.43	0.37	0.32	0.28	0.24
<b>DCF</b>	<b>30,585</b>	<b>33,632</b>	<b>36,509</b>	<b>37,113</b>	<b>38,164</b>	<b>37,355</b>	<b>36,541</b>	<b>36,705</b>	<b>35,843</b>	<b>34,985</b>
<b>PV of DCF</b>	<b>357,431</b>									
Perpetual growth	3.0%									
Terminal value	1,215,852									
PV of terminal value	295,360									
<b>Total PV</b>	<b>652,792</b>									
Net cash (by 23YE)	210,438									
Minority interest	35,505									
PV of equity (RMB mn)	827,725									
No. of ADS (by 23YE)	1,588									
PV per ADS (RMB)	521									
CNYUSD	6.80									
<b>Value per ADS (USD)</b>	<b>77</b>									
Pre tax cost of debt	4.50%									
Tax rate	15.00%									
After tax cost of debt	3.83%									
Risk free rate	2.8%									
Market rate of return	15.0%									
Market premium	12.2%									
Beta	1.12									
Cost of equity	16.5%									
Long-run debt-to-capital ratio	10.0%									
<b>WACC</b>	<b>15.2%</b>									

Sources: Company, CMS (HK) estimates

Figure 11: Sensitivity table on TP with different assumptions on terminal growth and WACC

TP (USD)		WACC						
		14.6%	14.8%	15.0%	15.2%	15.4%	15.6%	15.8%
Perpetual growth rate	2.0%	78	77	75	74	73	72	71
	2.5%	79	78	77	75	74	73	72
	3.0%	81	79	78	77	75	74	73
	3.5%	82	81	79	78	77	75	74
	4.0%	84	82	81	79	78	77	75

Sources: Company, CMS (HK) estimates

Valuation comparison

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (x)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E				FY22E	FY22E	FY22E	FY23E	Sales
<b>Platform</b>																		
Tencent	700 HK	HKD	BUY	312.8	459.0	383.4	14.0	11.3	23.4	18.4	3.7	4.6	17.4	10.6	12.3	7.7	6.3	8.7
Alibaba	BABA US	USD	BUY	89.8	160.0	237.8	7.2	6.7	10.9	12.2	n.a.	1.8	11.4	6.6	9.3	12.3	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	168.7	244.0	133.0	n.a.	n.a.	n.a.	n.a.	n.a.	4.1	n.a.	n.a.	n.a.	22.9	n.a.	n.a.
Baidu	BIDU US	USD	NR	134.1	n.a.	46.3	10.0	7.8	18.9	15.2	n.a.	2.5	16.6	5.1	7.2	7.6	1.0	24.1
Alphabet	GOOGL US	USD	NR	113.9	n.a.	1,491.2	12.2	10.9	20.1	17.6	1.2	5.9	15.0	26.8	27.0	4.9	17.4	20.0
Facebook	FB US	USD	NR	161.1	n.a.	433.0	7.9	7.0	14.3	12.9	2.9	3.7	8.9	21.7	22.5	8.1	4.9	4.9
Naver	035420 KS	KRW	NR	241,000.0	n.a.	29.5	22.3	18.7	35.5	25.9	n.a.	4.8	23.8	4.8	6.3	13.7	n.a.	5.4
<b>China Mean</b>							<b>9.6</b>	<b>8.2</b>	<b>16.1</b>	<b>14.5</b>	<b>3.7</b>	<b>3.0</b>	<b>14.2</b>	<b>7.2</b>	<b>9.5</b>	<b>12.6</b>	<b>3.6</b>	<b>16.4</b>
<b>Global Mean</b>							<b>14.1</b>	<b>12.2</b>	<b>23.3</b>	<b>18.8</b>	<b>2.0</b>	<b>4.8</b>	<b>15.9</b>	<b>17.8</b>	<b>18.6</b>	<b>8.9</b>	<b>11.2</b>	<b>10.1</b>
<b>Cloud</b>																		
Chinasoft	354 HK	HKD	BUY	7.1	13.1	2.8	8.0	7.7	13.3	11.2	0.9	0.8	n.a.	9.8	10.8	26.2	14.1	10.6
Tencent	700 HK	HKD	BUY	312.8	459.0	383.4	14.0	11.3	23.4	18.4	3.7	4.6	17.4	10.6	12.3	7.7	6.3	8.7
Alibaba	BABA US	USD	BUY	89.8	160.0	237.8	7.2	6.7	10.9	12.2	n.a.	1.8	11.4	6.6	9.3	12.3	n.a.	n.a.
Kingsoft	3888 HK	HKD	BUY	24.1	37.0	4.2	7.8	6.1	n.a.	24.7	n.a.	3.7	10.5	1.2	3.4	23.8	n.a.	32.9
Kingdee	268 HK	HKD	NR	15.4	n.a.	6.8	n.a.	n.a.	n.a.	n.a.	n.a.	9.2	n.a.	n.a.	n.a.	23.6	n.a.	n.a.
Mingyuan Cloud	909 HK	HKD	NR	5.8	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	4.3	n.a.	n.a.	2.6	12.9	n.a.	n.a.
Microsoft	MSFT US	USD	NR	2.8	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	13.6	n.a.	n.a.
Alphabet	GOOGL US	USD	NR	276.4	n.a.	2,061.7	21.5	18.9	30.0	27.4	n.a.	n.a.	24.5	47.2	37.4	n.a.	n.a.	n.a.
Amazon	AMZN US	USD	NR	113.9	n.a.	1,491.2	12.2	10.9	20.1	17.6	1.2	5.9	15.0	26.8	27.0	4.9	17.4	20.0
Salesforce	CRM US	USD	NR	133.6	n.a.	1,361.3	20.8	15.9	n.a.	35.5	n.a.	2.6	23.1	3.0	16.6	16.3	5.1	20.2
Oracle	ORCL US	USD	NR	176.0	n.a.	175.1	37.9	18.6	n.a.	36.4	n.a.	7.0	31.0	2.0	8.0	n.a.	n.a.	n.a.
SAP	SAP US	USD	NR	76.4	n.a.	203.6	18.8	10.9	32.2	14.5	n.a.	5.1	22.7	n.a.	n.a.	n.a.	n.a.	n.a.
VMware	VMW US	USD	NR	118.3	n.a.	49.8	17.0	12.3	29.1	18.0	n.a.	4.1	12.1	n.a.	n.a.	n.a.	n.a.	n.a.
Dropbox	DBX US	USD	NR	22.7	n.a.	8.4	11.0	10.4	15.0	13.9	1.8	3.6	10.5	n.a.	n.a.	9.7	8.5	35.2
<b>China Mean</b>							<b>9.2</b>	<b>8.0</b>	<b>15.9</b>	<b>16.6</b>	<b>2.3</b>	<b>3.5</b>	<b>13.1</b>	<b>7.0</b>	<b>7.7</b>	<b>17.1</b>	<b>10.2</b>	<b>17.4</b>
<b>Global Mean</b>							<b>19.9</b>	<b>14.0</b>	<b>25.3</b>	<b>23.3</b>	<b>1.5</b>	<b>4.7</b>	<b>19.8</b>	<b>19.7</b>	<b>22.3</b>	<b>10.3</b>	<b>10.3</b>	<b>25.1</b>
<b>Social network &amp; pan-entertainment</b>																		
Tencent	700 HK	HKD	BUY	312.8	459.0	383.4	14.0	11.3	23.4	18.4	3.7	4.6	17.4	10.6	12.3	7.7	6.3	8.7
Bilibili	BILI US	USD	BUY	23.7	43.0	9.3	n.a.	n.a.	n.a.	n.a.	n.a.	2.7	n.a.	n.a.	n.a.	23.8	n.a.	n.a.
China Literature	772 HK	HKD	NEUTRAL	31.0	68.0	4.0	15.3	11.9	20.2	16.8	1.4	3.2	14.6	6.6	7.9	5.2	14.6	n.a.
Kuaishou	1024 HK	HKD	NR	75.1	n.a.	41.1	n.a.	n.a.	n.a.	n.a.	n.a.	3.0	n.a.	n.a.	n.a.	19.0	n.a.	n.a.
Tencent Music	TME US	USD	NR	4.4	n.a.	7.5	8.3	7.7	12.5	11.6	n.a.	1.8	13.4	6.6	6.6	n.a.	n.a.	n.a.
Weibo	WB US	USD	NR	18.3	n.a.	4.3	6.0	5.0	7.6	6.6	n.a.	2.1	6.6	11.1	13.1	4.4	n.a.	0.3
iQiyi	IQ US	USD	NR	3.4	n.a.	3.0	10.8	24.8	n.a.	27.0	n.a.	0.7	n.a.	n.a.	5.4	n.a.	n.a.	n.a.
YY	YY US	USD	NR	27.1	n.a.	1.9	n.a.	n.a.	17.7	10.7	0.5	0.8	n.a.	1.1	3.0	4.1	39.0	79.8
Momo	MOMO US	USD	NR	4.5	n.a.	0.9	1.8	1.6	4.4	3.9	n.a.	0.5	4.8	10.7	11.1	n.a.	n.a.	n.a.
Huya	HUYA US	USD	NR	3.1	n.a.	0.7	7.7	14.2	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Douyu	DOYU US	USD	NR	1.2	n.a.	0.4	35.5	n.a.	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Meta	FB US	USD	NR	161.1	n.a.	433.0	7.9	7.0	14.3	12.9	2.9	3.7	8.9	21.7	22.5	8.1	4.9	4.9
Netflix	NFLX US	USD	NR	224.6	n.a.	99.9	17.4	15.5	20.8	17.8	n.a.	3.2	n.a.	24.3	21.3	9.7	2.8	5.6
Snapchat	SNAP US	USD	NR	10.6	n.a.	17.5	n.a.	37.4	n.a.	n.a.	n.a.	3.8	n.a.	n.a.	n.a.	16.1	n.a.	n.a.
Spotify	SPOT US	USD	NR	108.0	n.a.	20.8	n.a.	n.a.	n.a.	n.a.	n.a.	1.8	n.a.	n.a.	n.a.	12.9	n.a.	n.a.
<b>China Mean</b>							<b>12.4</b>	<b>10.9</b>	<b>14.3</b>	<b>13.6</b>	<b>1.9</b>	<b>1.9</b>	<b>11.4</b>	<b>7.8</b>	<b>8.5</b>	<b>12.6</b>	<b>19.9</b>	<b>29.6</b>
<b>Global Mean</b>							<b>12.6</b>	<b>20.0</b>	<b>17.5</b>	<b>15.4</b>	<b>2.9</b>	<b>3.1</b>	<b>8.9</b>	<b>23.0</b>	<b>21.9</b>	<b>11.7</b>	<b>3.9</b>	<b>5.2</b>

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (X)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)			2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E				FY22E	FY22E	FY22E	FY22E	FY23E	Sales
<b>Online Gaming</b>																			
Netease	NTES US	USD	BUY	87.6	120.0	57.5	10.9	10.1	17.4	17.1	2.5	4.0	16.9	18.6	16.2	10.8	7.0	15.4	
Tencent	700 HK	HKD	BUY	312.8	459.0	383.4	14.0	11.3	23.4	18.4	3.7	4.6	17.4	10.6	12.3	7.7	6.3	8.7	
Bilibili	BILI US	USD	BUY	23.7	43.0	9.3	n.a.	n.a.	n.a.	n.a.	n.a.	2.7	n.a.	n.a.	n.a.	23.8	n.a.	n.a.	
Kingsoft	3888 HK	HKD	BUY	24.1	37.0	4.2	7.8	6.1	n.a.	24.7	n.a.	3.7	10.5	1.2	3.4	23.8	n.a.	32.9	
iDreamSky	1119 HK	HKD	BUY	4.5	4.4	0.8	30.4	14.0	45.9	18.4	n.a.	1.8	n.a.	3.4	7.3	29.2	n.a.	52.0	
XD	2400 HK	HKD	NR	18.5	n.a.	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	2.4	39.1	n.a.	3.2	28.1	n.a.	n.a.	
Netdragon	777 HK	HKD	NR	15.3	n.a.	1.1	2.2	2.0	5.7	5.0	0.2	0.9	4.3	15.2	15.4	11.3	23.0	7.0	
CMGE	302 HK	HKD	NR	1.9	n.a.	0.7	5.3	4.3	6.6	5.3	0.3	1.0	9.3	11.4	12.5	18.2	20.2	13.7	
IGG	799 HK	HKD	NR	3.2	n.a.	0.5	n.a.	7.9	n.a.	16.7	n.a.	0.7	n.a.	n.a.	6.4	n.a.	n.a.	n.a.	
Archosaur Game	9990 HK	HKD	NR	4.0	n.a.	0.4	n.a.	4.7	n.a.	8.5	n.a.	1.9	7.0	0.4	14.3	65.7	n.a.	n.a.	
SEA	SE US	USD	NR	63.4	n.a.	35.6	n.a.	n.a.	n.a.	n.a.	n.a.	2.8	n.a.	n.a.	n.a.	31.2	n.a.	n.a.	
Nintendo	7974 JP	JPY	NR	59,400.0	n.a.	56.5	8.6	10.1	14.2	17.0	n.a.	4.0	23.3	26.2	21.0	n.a.	n.a.	n.a.	
Activision Blizzard	ATVI US	USD	NR	79.3	n.a.	62.1	18.5	13.8	27.5	20.5	n.a.	7.8	26.5	11.9	13.3	6.6	4.4	5.8	
Electronic Arts	EA US	USD	NR	126.7	n.a.	35.2	21.8	12.4	47.6	17.6	n.a.	5.4	19.8	11.7	19.5	n.a.	n.a.	n.a.	
Take-Two	TTWO US	USD	NR	124.4	n.a.	20.7	30.8	26.2	n.a.	26.1	n.a.	6.3	n.a.	2.4	6.2	n.a.	n.a.	n.a.	
Nexon	3659 JP	JPY	NR	2,751.0	n.a.	18.2	15.9	12.3	23.1	20.8	n.a.	7.1	23.4	12.7	13.0	12.7	n.a.	16.0	
Ncsoft	036570 KS	KRW	NR	363,500.0	n.a.	6.0	9.5	9.0	17.2	15.6	2.8	3.1	12.5	14.2	14.5	4.0	6.0	16.3	
Zynga	ZNGA US	USD	NR	8.2	n.a.	9.3	15.7	14.2	25.0	19.7	n.a.	3.2	14.9	n.a.	n.a.	8.4	n.a.	54.2	
Netmarble	251270 KS	KRW	NR	63,200.0	n.a.	4.1	23.3	14.3	234.9	25.1	n.a.	1.9	109.3	0.0	3.6	6.3	n.a.	16.5	
<b>China Mean</b>							<b>11.6</b>	<b>7.8</b>	<b>19.4</b>	<b>14.6</b>	<b>1.9</b>	<b>2.5</b>	<b>15.2</b>	<b>9.9</b>	<b>10.7</b>	<b>22.9</b>	<b>12.7</b>	<b>20.7</b>	
<b>Global Mean</b>							<b>18.0</b>	<b>14.1</b>	<b>55.6</b>	<b>20.3</b>	<b>2.8</b>	<b>4.6</b>	<b>32.8</b>	<b>11.3</b>	<b>13.0</b>	<b>11.5</b>	<b>5.2</b>	<b>21.8</b>	
<b>E-commerce</b>																			
<b>JD.com</b>	<b>JD US</b>	<b>USD</b>	<b>BUY</b>	<b>57.2</b>	<b>77.0</b>	<b>89.3</b>	<b>16.0</b>	<b>12.4</b>	<b>26.4</b>	<b>19.1</b>	<b>0.8</b>	<b>0.6</b>	<b>23.5</b>	<b>10.6</b>	<b>13.3</b>	<b>17.7</b>	<b>34.5</b>	<b>45.8</b>	
Alibaba	BABA US	USD	BUY	89.8	160.0	237.8	7.2	6.7	10.9	12.2	n.a.	1.8	11.4	6.6	9.3	12.3	n.a.	n.a.	
Meituan	3690 HK	HKD	BUY	168.7	244.0	133.0	n.a.	n.a.	n.a.	n.a.	n.a.	4.1	n.a.	n.a.	n.a.	22.9	n.a.	n.a.	
Pinduoduo	PDD US	USD	NR	50.5	n.a.	63.9	21.8	14.4	24.0	17.1	0.7	4.0	18.9	16.9	19.4	20.6	36.9	66.4	
Beike	BEKE US	USD	NR	16.8	n.a.	21.3	n.a.	20.3	n.a.	31.7	n.a.	2.3	n.a.	1.0	6.0	0.2	31.4	12.2	
Vipshop	VIPS US	USD	NR	10.5	n.a.	6.7	4.3	4.2	7.9	7.3	n.a.	0.4	6.5	13.6	12.8	n.a.	n.a.	n.a.	
Baozun	BZUN US	USD	NR	7.8	n.a.	0.5	11.6	7.4	15.8	7.7	0.3	0.4	13.9	1.6	5.9	5.4	51.6	7.6	
Amazon	AMZN US	USD	NR	133.6	n.a.	1,361.3	20.8	15.9	n.a.	35.5	n.a.	2.6	23.1	3.0	16.6	16.3	5.1	20.2	
eBay	EBAY US	USD	NR	45.4	n.a.	25.0	8.6	8.5	11.0	11.1	1.4	2.6	9.3	20.0	53.5	0.8	7.9	0.0	
<b>China Mean</b>							<b>12.8</b>	<b>11.1</b>	<b>18.6</b>	<b>16.3</b>	<b>0.6</b>	<b>1.8</b>	<b>16.2</b>	<b>8.7</b>	<b>11.4</b>	<b>13.8</b>	<b>37.8</b>	<b>35.6</b>	
<b>Global Mean</b>							<b>14.7</b>	<b>12.2</b>	<b>11.0</b>	<b>23.3</b>	<b>1.4</b>	<b>2.6</b>	<b>16.2</b>	<b>11.5</b>	<b>35.1</b>	<b>8.5</b>	<b>6.5</b>	<b>10.1</b>	
<b>Vertical</b>																			
trip.com	TCOM US	USD	NR	26.9	n.a.	17.3	n.a.	22.8	n.a.	22.1	n.a.	6.3	n.a.	0.2	3.9	22.7	n.a.	n.a.	
Autohome	ATHM US	USD	NR	34.8	n.a.	4.4	4.0	3.1	15.1	13.4	n.a.	4.3	12.2	7.9	8.5	2.1	n.a.	n.a.	
Tongcheng-Elong	780 HK	HKD	NR	16.8	n.a.	4.8	22.1	12.7	31.6	18.9	0.7	4.6	19.3	4.5	8.3	12.9	44.9	21.8	
Expedia	EXPE US	USD	NR	106.0	n.a.	16.7	8.0	6.7	15.0	11.0	n.a.	1.4	4.4	33.2	35.7	26.8	n.a.	66.5	
<b>China Mean</b>							<b>11.4</b>	<b>11.3</b>	<b>20.6</b>	<b>16.4</b>	<b>0.7</b>	<b>4.2</b>	<b>12.0</b>	<b>11.4</b>	<b>14.1</b>	<b>16.1</b>	<b>44.9</b>	<b>44.1</b>	

Note: Closing prices as of Aug 23, 2022 for all listed companies; For future estimates of NR Co.s, BBG consensus used; Sources: BBG, Company, CMS (HK) estimate

## Financial Summary

### Profit & Loss

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
<b>Total net revenues</b>	<b>745,802</b>	<b>951,592</b>	<b>1,071,498</b>	<b>1,318,469</b>	<b>1,569,034</b>
Cost of revenues	(636,694)	(822,525)	(920,082)	(1,128,364)	(1,340,499)
<b>Gross profit</b>	<b>109,108</b>	<b>129,067</b>	<b>151,416</b>	<b>190,105</b>	<b>228,535</b>
Fulfillment	(48,700)	(59,055)	(66,803)	(82,152)	(96,200)
Marketing	(27,156)	(38,743)	(41,445)	(53,462)	(60,164)
R&D	(16,149)	(16,332)	(17,560)	(20,769)	(23,925)
G&A	(6,409)	(11,562)	(9,734)	(11,014)	(12,322)
Impairment	0	0	0	0	0
<b>Total operating expenses</b>	<b>(98,414)</b>	<b>(125,693)</b>	<b>(135,542)</b>	<b>(167,397)</b>	<b>(192,611)</b>
Gain on disposals of long-lived assets	1,649	767	0	0	0
<b>Operating profit/(loss)</b>	<b>12,343</b>	<b>4,141</b>	<b>15,874</b>	<b>22,708</b>	<b>35,924</b>
Share of results of equity investees	4,291	(4,918)	(4,289)	0	0
Net interest income & other income	34,185	(1,804)	225	3,428	4,032
<b>Income/(loss) before tax</b>	<b>50,819</b>	<b>(2,581)</b>	<b>11,810</b>	<b>26,136</b>	<b>39,956</b>
Income tax expense	(1,482)	(1,886)	(3,250)	(3,920)	(5,993)
Non-controlling interest	68	908	968	188	188
<b>Net income</b>	<b>49,405</b>	<b>(3,560)</b>	<b>9,528</b>	<b>22,404</b>	<b>34,151</b>
<b>Non-GAAP net income</b>	<b>16,828</b>	<b>17,207</b>	<b>22,950</b>	<b>31,919</b>	<b>45,262</b>

### Financial Ratios

	FY20	FY21	FY22E	FY23E	FY24E
<b>yoy growth rate</b>					
Direct sales	27.6%	25.1%	10.4%	22.5%	18.5%
Service and others	42.0%	44.7%	25.9%	25.9%	21.4%
Revenue	29.3%	27.6%	12.6%	23.0%	19.0%
Non-GAAP net income	56.5%	2.3%	33.4%	39.1%	41.8%
<b>Profitability</b>					
Non-GAAP gross margin	14.6%	13.6%	14.2%	14.5%	14.6%
Non-GAAP NP margin	2.3%	1.8%	2.1%	2.4%	2.9%
ROE	12.5%	8.7%	10.6%	13.3%	16.3%
ROA	4.9%	3.7%	4.4%	5.5%	6.7%
<b>Operating efficiency</b>					
Inventory turnover days	33.5	29.9	31.4	29.8	30.3
AR turnover days	3.3	3.6	3.9	3.3	3.4
AP turnover days	56.5	54.9	58.9	56.3	57.1
<b>Per share ratios (RMB)</b>					
Sales per share	479.8	612.5	677.9	830.3	988.1
Sales per share (USD)	74.0	94.2	101.2	123.9	147.5
Sales per share (HKD)	286.9	365.1	392.1	480.2	571.5
Non-GAAP EPADS	10.8	10.8	14.5	20.1	28.5
Non-GAAP EPADS (USD)	1.7	1.7	2.2	3.0	4.3
Non-GAAP EPS (HKD)	6.5	6.4	8.4	11.6	16.5
<b>Valuation (x)</b>					
P/S (US)	0.8	0.6	0.6	0.5	0.4
P/S (HK)	0.8	0.6	0.6	0.5	0.4
P/E (US)	34.2	34.5	26.4	19.1	13.4
P/E (HK)	34.2	34.5	26.4	19.0	13.4

### Balance Sheet

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Cash and cash equivalents	86,085	70,767	78,162	104,186	140,099
Short-term investments	60,577	114,564	114,564	120,292	126,307
Accounts receivable	7,112	11,900	10,715	13,185	15,690
Inventories	58,933	75,601	82,807	101,553	120,645
PPE	22,597	32,944	39,947	46,878	53,398
Investment in equity investees	58,501	63,222	70,222	77,222	84,222
Others	128,483	127,508	144,577	162,796	185,452
<b>Total assets</b>	<b>422,288</b>	<b>496,507</b>	<b>540,995</b>	<b>626,112</b>	<b>725,814</b>
Short-term borrowing	0	4,368	0	0	0
Long-term borrowing	9,595	9,386	10,606	11,879	13,304
Non-recourse securitization debt	0	0	0	0	0
Accounts payable	106,818	140,484	156,414	191,822	227,885
Others	84,256	95,485	111,878	130,329	149,334
<b>Total liabilities</b>	<b>200,669</b>	<b>249,723</b>	<b>278,898</b>	<b>334,030</b>	<b>390,523</b>
Total shareholders' equity	187,543	208,912	225,192	255,366	298,763
Non-controlling interests	16,943	36,661	35,693	35,505	35,317
<b>Total equity</b>	<b>204,486</b>	<b>245,572</b>	<b>260,885</b>	<b>290,871</b>	<b>334,080</b>
<b>Redeemable NCI held for sale</b>	<b>17,133</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>

### Cashflow Statement

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
<b>Operating cashflow</b>	<b>42,544</b>	<b>42,300</b>	<b>39,460</b>	<b>61,076</b>	<b>75,338</b>
Net income/(loss)	49,337	(4,467)	8,560	22,216	33,963
Depreciation and amortization	6,068	6,232	9,903	12,557	15,531
Share-based compensation	4,156	9,134	6,753	7,770	9,247
Share of results of equity investees	(4,291)	4,918	0	0	0
Working capital chg	18,678	19,518	14,244	18,533	16,598
Others	(31,403)	6,966	(0)	0	0
<b>CF from IA</b>	<b>(57,811)</b>	<b>(74,248)</b>	<b>(35,336)</b>	<b>(37,994)</b>	<b>(42,792)</b>
Purchase of PPE and software	(3,370)	(5,562)	(10,715)	(13,185)	(15,690)
Net addition of ST investments	(35,598)	(52,557)	0	(5,728)	(6,015)
Others	(18,842)	(16,129)	(24,621)	(19,081)	(21,087)
<b>CF from FA</b>	<b>71,072</b>	<b>19,503</b>	<b>3,272</b>	<b>2,941</b>	<b>3,367</b>
Net addition of borrowing	0	0	3,272	2,941	3,367
Proceed from ordinary shares	31,342	0	0	0	0
Others	39,730	19,503	0	0	0
<b>Net cash flow</b>	<b>50,723</b>	<b>(13,943)</b>	<b>7,395</b>	<b>26,024</b>	<b>35,914</b>

Note: Closing price as of Aug 23, 2022;

Sources: Bloomberg, Company, CMS (HK) estimates

## Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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