

Company Report

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

JD.com (JD US)

3Q22 beat again on solid margin improvement

■ 3Q22 revenue growth sequentially improved to +11% yoy, inline; NG NP surpassed RMB10.0bn, +99% yoy, 41% above, strong beat

■ Conservative on 4Q22 top line growth amid macro headwinds, but margin improvement to continue driven by effective cost control

■ Upbeat on JD's well positioned logistics strengths, market share gain, and profitability potential; BUY, TP slightly up to USD73

3Q22 bottom line solid beat on effective cost control

JD 3Q22 revenue +11% yoy (vs +5% yoy in 2Q22) to RMB243.5bn, inline, a sequential improvement driven by 3P and logistics segments' substantial recovery from +22% yoy in 2Q22 to +42% yoy in 3Q22, with mitigation of logistics issues. 1P business revenue +6% yoy (vs +3% yoy in 2Q22), driven by robust growth recovery from electronic and home appliance category, but partly offset by slower growth in general merchandise due to: 1) Structural change with some categories' business model adjustment from 1P to 3P to improve profitability, and 2) Softer growth of discretionary products during lockdown. JD's bottom line recorded an historical quarterly high and surpassed RMB10.0bn, +99%/+55% yoy/qoq, 41% above consensus, mainly driven by cost control in fulfillment and marketing expenses, and loss reduction on new business. JD's financials are solid with net cash of RMB171.6n (net cash/equity of 63%), and generated RMB9.2bn of OCF and RMB2.3bn of FCF in 2Q22.

Conservative on 4Q22, while looking forward to 2023 recovery

Mgmt. remains conservative on 4Q22 top line growth in consideration of: 1) Macro uncertainties and consumption sentiment weakness; 2) COVID resurgence led logistics issue recurrence, for example, JD noticed that c.17% of last mile locations were impacted by lockdown from Sept to date. We forecast JD 4Q22 revenue to grow 10% yoy, slightly slower than 3Q22's 11% yoy, but still resilient and faster than peers, inline with its Double 11 GMV performance. Mgmt. also highlighted smartphones' sales recovery in 4Q22 thanks to release of new models. On margin side, we expect JD's bottom line to maintain improving trend, and estimate 4Q22 NG NPM +0.7ppt yoy to 2.0%, driven by 1) Efficiency push; 2) Mix change (3P growth outpacing 1P); 3) Bargaining power increase; 4) Loss-narrowing from new businesses; 5) JD logistics breakeven trend for FY22E.

BUY: TP slightly revised up to USD73

We fine-tuned our forecast from the results, revised revenue -1%/-2%/-2% in FY22/23/24E, and revised NG NPM +0.4ppt/ +0.1ppt/+0.1ppt, driving NG NP revision of +17%/+3%/+2%. We are upbeat on JD's well positioned logistics strengths, ability to gain market share, and profitability potential. We nudged DCF-TP to USD73 from USD72 from better margins and FX changes. Our TP implies 24x/17x FY23/24E P/E. **Key Risks:** 1) Macro/Consumption; 2) Logistic issues; 3) Regulation; 4) Competition.

Financials

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	745,802	951,592	1,053,820	1,286,689	1,527,430
Growth	29.3%	27.6%	10.7%	22.1%	18.7%
Non-GAAP net profit	16,828	17,206	26,648	32,553	45,745
Growth	56.5%	2.3%	54.9%	22.2%	40.5%
Non-GAAP EPADS (USD)	1.67	1.66	2.51	3.05	4.29
P/E (US)	33.6	33.8	22.3	18.4	13.1
ROE	12.5%	8.7%	12.2%	13.4%	16.3%

Note: Closing price as of Nov. 18, 2022; Sources: Bloomberg, Company, CMS (HK) estimates

Tommy WONG

+852 3189 6634

tommywong@cmschina.com.hk

Kaia ZHANG

+852 3189 6176

kaiazhang@cmschina.com.hk

Crystal LI, CFA

+852 3189 6122

crystall@cmschina.com.hk

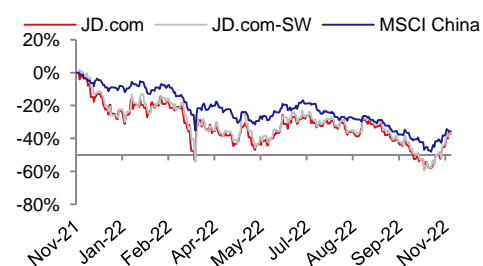
WHAT'S NEW

3Q22 results briefing; Earnings/TP revision

BUY

Previous	BUY
Price (Nov. 18, 2022)	USD56.1 HKD218
12-month Target Price (Potential up/downside)	USD73 (+30.2%) HKD287 (+27.5%)
Previous	USD72 HKD282

Price Performance



Source: Bloomberg

%	1m	6m	12m
JD US	33.0	7.5	(37.2)
9618 HK	34.6	3.0	(36.7)
MSCI China	11.4	(12.8)	(35.7)

Sector: Technology, Media & Telecom

Hang Seng Index (Nov. 18, 2022)	17,993
MSCI China (Nov. 18, 2022)	59

Key Data

52-week range (USD/HKD)	33 -90/139-357
Market cap (USD bn)	87.6
Avg. daily volume US/HK (mn)	11.29/12.39
FY22E NG EPADS/EPADS (USD/HKD)	2.51/9.74

Shareholding Structure

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

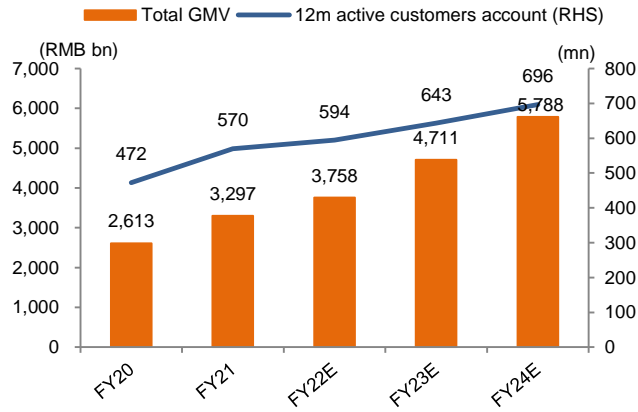
Sources: Wind, Bloomberg, CMS (HK) research

Related Research

1. JD (JD US) - Resilient in the face of headwinds (BUY) (Oct. 11, 2022)
2. JD (JD US) - Solid results, short term growth headwinds remain (BUY) (Aug 24, 2022)
3. JD (JD US) - Sequential pickup from 2Q trough (BUY) (July 12, 2022)
4. JD (JD US) - Renewed strategic cooperation with Tencent (BUY) (June 30, 2022)

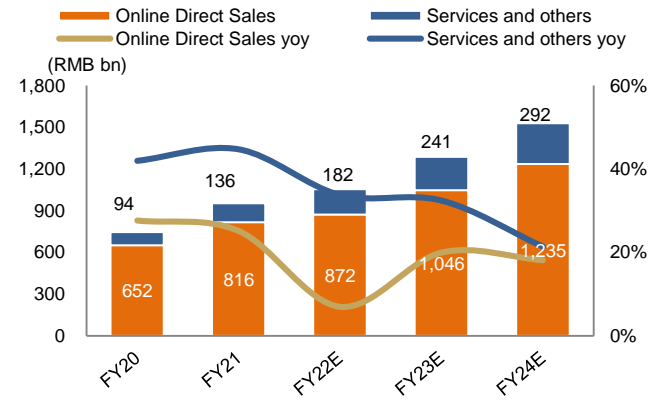
Focus charts

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



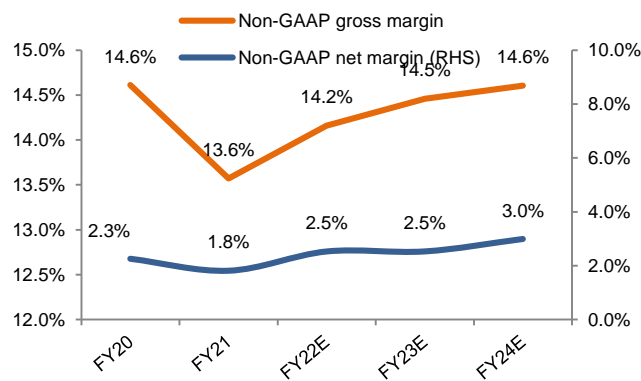
Sources: Company, CMS (HK) estimates

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



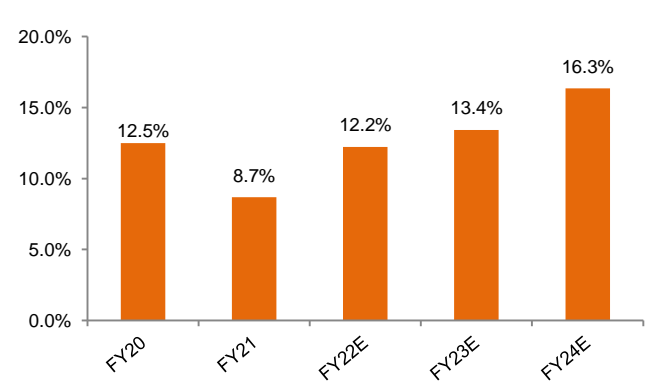
Sources: Company, CMS (HK) estimates

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



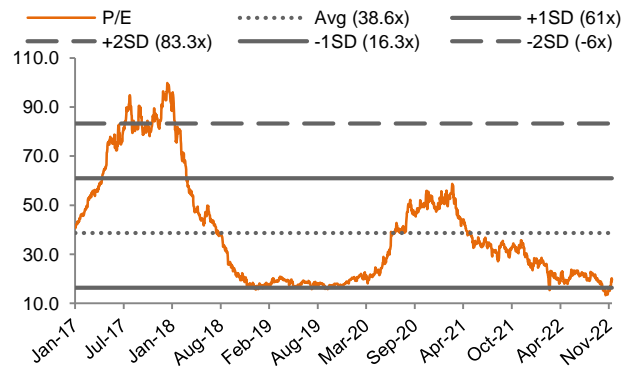
Sources: Company, CMS (HK) estimates

Figure 4: Non-GAAP ROE



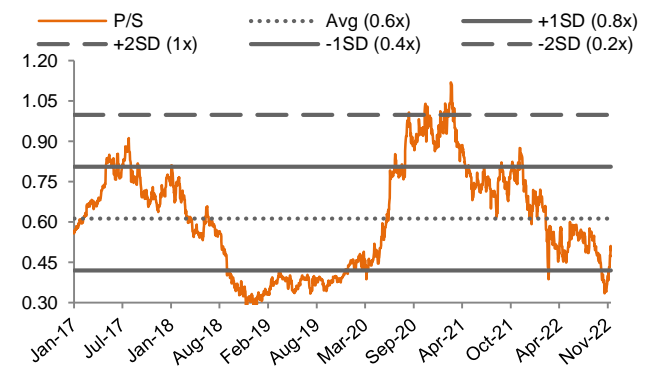
Sources: Company, CMS (HK) estimates

Figure 5: P/E range



Sources: Bloomberg, Company, CMS (HK) estimates

Figure 6: P/S range



Sources: Bloomberg, Company, CMS (HK) estimates

Figure 7: 3Q22 results table

RMB mn	3Q21	2Q22	3Q22	2Q22 yoy	3Q22 yoy	2Q22 qoq	3Q22 qoq	CMS	Actual	Consensus	Actual vs
								forecasts	vs CMS		Consensus
								3Q22E		3Q22E	3Q22E
Total net revenues	218,708	267,600	243,535	5%	11%	12%	-9%	243,367	0%	243,070	0%
Online direct sales	186,008	226,020	197,027	3%	6%	11%	-13%	202,749	-3%		
Services and others	32,700	41,580	46,508	22%	42%	18%	12%	40,618	15%		
Marketplace and advertising	16,775	20,742	18,954	9%	13%	17%	-9%	19,291	-2%		
Logistics and other service	15,925	20,838	27,554	38%	73%	19%	32%	21,327	29%		
JD Retail	198,080	241,557	211,923	4%	7%	11%	-12%	218,167	-3%		
JD Logistics	25,749	31,272	35,771	20%	39%	14%	14%	31,414	14%		
Dada	0	2,281	2,380	n.a.	n.a.	232%	4%	2,530	-6%		
New businesses	5,733	6,265	4,997	-10%	-13%	9%	-20%	4,873	3%		
Inter-segment	(11,003)	(13,775)	(11,536)	16%	5%	18%	-16%	(13,617)	-15%		
Total segment net revenues	218,559	267,600	243,535	5%	11%	12%	-9%	243,367	0%		
Cost of revenues	(187,616)	(231,706)	(207,339)	4%	11%	12%	-11%	(206,862)	0%		
Gross profit	31,093	35,894	36,196	13%	16%	7%	1%	36,505	-1%	35,889	1%
Non-GAAP gross profit	31,115	36,049	36,349	14%	17%	7%	1%	36,646	-1%		
Fulfillment	(14,276)	(16,308)	(14,354)	11%	1%	5%	-12%	(15,514)	-7%		
Marketing	(7,769)	(9,477)	(7,605)	-11%	-2%	9%	-20%	(8,653)	-12%		
Research and development	(4,004)	(4,027)	(4,116)	9%	3%	-8%	2%	(3,946)	4%		
General and administrative	(3,050)	(2,324)	(2,622)	-9%	-14%	-6%	13%	(2,134)	23%		
Operating profit	2,572	3,758	8,728	1150%	239%	56%	132%	6,257	39%	5,499	59%
Non-GAAP operating profit	4,563	5,753	9,926	128%	118%	20%	73%	8,007	24%		
Non-GAAP EBITDA	5,863	7,175	11,463	92%	96%	16%	60%	10,281	11%		
Interest and others, net	(4,136)	2,665	149	48%	n.a.	n.a.	-94%	(119)	n.a.		
Income/(loss) before tax	(2,616)	5,256	7,710	402%	n.a.	n.a.	47%	6,138	26%	5,473	41%
Income tax expense	(653)	(1,227)	(1,751)	116%	168%	103%	43%	(921)	90%		
NCI	(462)	(347)	(4)	10%	-99%	-34%	-99%	(47)	-91%		
Net income	(2,807)	4,376	5,963	451%	n.a.	n.a.	36%	5,265	13%	4,857	23%
Non-GAAP net income	5,048	6,489	10,040	40%	99%	56%	55%	7,094	42%	7,120	41%
OCF	14,448	33,667	9,151	17%	-37%	n.a.	-73%				
FCF	4,156	30,009	2,339	2%	-44%	n.a.	-92%				
Total cash	196,217	206,787	218,238								
ST debt	7,028	13,754	17,996								
LT debt	12,493	24,659	28,613								
Net cash (debt)	176,696	168,374	171,629								
Total equity	247,939	251,461	270,547								
Net cash/equity	71%	67%	63%								
Key operating data & Margin analysis											
Fulfillment cost as % of revenue	6.5%	6.1%	5.9%	0.3ppt	-0.6ppt	-0.4ppt	-0.2ppt	6.4%	-0.5ppt		
12m Active customers account (mn)	552	581	588	9%	7%	0%	1%	587	169.2ppt		
Non-GAAP margins											
GM	14.2%	13.5%	14.9%	1.0ppt	0.7ppt	-0.6ppt	1.5ppt	15.1%	-0.1ppt	14.8%	0.2ppt
OPM	2.1%	2.1%	4.1%	1.2ppt	2.0ppt	0.2ppt	1.9ppt	3.3%	0.8ppt	2.3%	1.8ppt
EBITDA margin	2.7%	2.7%	4.7%	1.2ppt	2.0ppt	0.1ppt	2.0ppt	4.2%	0.5ppt		
Net margin attributable to ordinary shareholders	2.3%	2.4%	4.1%	0.6ppt	1.8ppt	0.7ppt	1.7ppt	2.9%	1.2ppt	2.9%	1.2ppt

Sources: Company, Bloomberg, CMS (HK) estimates

Segment 3Q22 results, outlook and adjustment

JD retail

3Q22 results: revenue +7%/-12% yoy/qoq (vs +4%/+11% yoy/qoq in 2Q22), 3% below our expectation. AAC +7%/+1% yoy/qoq to 589mn. **1P** grew +6% yoy, sequentially improved from +3% yoy in 2Q22. In terms of categories, electronic and home appliance grew +8% yoy, vs flat yoy in 2Q22, while general merchandize revenue slowed down to +3% yoy vs +8% yoy in 2Q22. Mgmt. explained the revenue slowdown is mainly due to: 1) Structural change with some categories' business model adjustment from 1P to 3P to improve profitability; 2) Softer growth of discretionary products during lockdown; 3) Jingxi Pinpin's scale reduction.

Outlook and adjustment: Looking ahead, Mgmt. remains conservative on 4Q22 JDR's revenue growth due to continued macro uncertainties and logistics issue recurrence. We forecast JDR 4Q22 revenue to grow 6% yoy, vs, slightly slower than 3Q22's 7% yoy, but still resilient and faster than peers, which can also be testified in JD's double 11 GMV performance. Mgmt. also highlighted smartphones' recovery in 4Q22 driven by key new products' release. We revised down FY22/23/24E JDR revenue 3%/4%/4%.

JD logistics

3Q22 results: revenue +39%/+14% yoy/qoq (vs +20%/+14% yoy/qoq in 2Q22), 14% above our estimates, mainly driven by consolidated of Deppon Group (德邦集团, JDL stake holding c.72%), which accounted c.16% of JDL total revenue in 3Q22. If we exclude Deppon revenue, JDL organic revenue +16% yoy, still resilient amid macro headwinds. Revenue from external clients recorded fast growth at 68% yoy, vs. 27% yoy in 2Q22, making its revenue contribution increased from 58.3% in 2Q22 to 69.5%. Revenue from JD maintained flat yoy. As of 3Q22, JDL operated 1,500+ warehouses. On Sept, JDL established a partnership with Douyin Ecommerce in Yinxuda business (音需达).

Outlook and adjustment: Looking ahead, we estimate JDL 4Q22 revenue to grow +40% yoy, driven by: 1) Incremental revenue contribution from Deppon (3-mo consolation in 4Q22, vs. 2-mo in 3Q22); 2) Robust JDL organic growth of +17% yoy, vs. 16% yoy in 3Q22, driven by fast growth from external clients. Company sticks to the strategy of providing services to industry top tier clients and then standardizing the experience and solution to apply to other mid/small clients. We revised up FY22/23/24E JDL revenue +7%/+8%/+8%.

Dada and new business

Dada's 3Q22 revenue +4% qoq. New business's 3Q22 revenue -13%/-20% yoy/qoq (vs -10%/+9% yoy/qoq in 2Q22) due to JD exiting Jingxi Pinpin business. We maintained our forecast largely unchanged.

Figure 8: Revision summary

RMB mn	Revised			Previous			Difference		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	1,053,820	1,286,689	1,527,430	1,062,812	1,308,046	1,556,688	-1%	-2%	-2%
Online direct sales	871,997	1,045,872	1,235,152	893,674	1,095,011	1,297,990	-2%	-4%	-5%
Services and others	181,823	240,817	292,278	169,138	213,035	258,698	7%	13%	13%
Marketplace and advertising	82,947	102,079	123,822	83,728	103,017	124,948	-1%	-1%	-1%
Logistics and other service	98,877	138,738	168,455	85,410	110,018	133,750	16%	26%	26%
JD Retail	935,542	1,128,721	1,337,422	959,829	1,178,848	1,399,121	-3%	-4%	-4%
JD Logistics	136,908	176,632	213,394	128,461	163,364	198,088	7%	8%	8%
Dada	8,194	13,344	17,347	8,547	13,839	17,990	-4%	-4%	-4%
New businesses	23,588	23,230	25,553	21,822	23,181	27,817	8%	0%	-8%
Inter-segment	(50,412)	(55,238)	(66,286)	(55,847)	(71,185)	(86,328)	-10%	-22%	-23%
Total segment net revenues	1,053,820	1,286,689	1,527,430	1,062,812	1,308,046	1,556,688	-1%	-2%	-2%
Gross profit	148,566	185,237	222,134	150,176	188,585	226,717	-1%	-2%	-2%
Operating profit	17,476	20,276	32,748	15,768	22,513	35,613	11%	-10%	-8%
Non-GAAP EBITDA	32,500	41,244	55,789	31,462	40,738	55,422	3%	1%	1%
Net income (to shareholders)	10,412	20,354	31,473	9,438	22,241	33,890	10%	-8%	-7%
Non-GAAP net income (to shareholders)	26,648	32,553	45,745	22,805	31,690	44,922	17%	3%	2%
Key ratio and margin									
Non-GAAP gross margin	14.2%	14.5%	14.6%	14.2%	14.5%	14.6%	0.0pp	0.0pp	0.0pp
Non-GAAP operating margin	2.5%	2.5%	3.1%	2.3%	2.4%	3.0%	0.2pp	0.1pp	0.1pp
Non-GAAP EBITDA margin	3.1%	3.2%	3.7%	3.0%	3.1%	3.6%	0.1pp	0.1pp	0.1pp
Non-GAAP net margin (to shareholders)	2.5%	2.5%	3.0%	2.1%	2.4%	2.9%	0.4pp	0.1pp	0.1pp
yoy									
Revenue	11%	22%	19%	12%	23%	19%	-0.9pp	-1.0pp	-0.3pp
Online direct sales	7%	20%	18%	10%	23%	19%	-2.7pp	-2.6pp	-0.4pp
Services and others	34%	32%	21%	24%	26%	21%	9.3pp	6.5pp	-0.1pp
Marketplace and advertising	15%	23%	21%	16%	23%	21%	-1.1pp	0.0pp	0.0pp
Logistics and other service	55%	40%	21%	34%	29%	22%	21.1pp	11.5pp	-0.2pp
Gross profit	15%	25%	20%	16%	26%	20%	-1.2pp	-0.9pp	-0.3pp
Operating profit	322%	16%	62%	281%	43%	58%	41.2pp	-26.8pp	3.3pp
Non-GAAP EBITDA	74%	27%	35%	68%	29%	36%	5.6pp	-2.6pp	-0.8pp
Non-GAAP net income (to shareholders)	55%	22%	41%	33%	39%	42%	22.3pp	-16.8pp	-1.2pp

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	1,053,820	1,286,689	1,527,430	1,063,355	1,239,482	1,414,108	-1%	4%	8%
GM (%)	14.1	14.4	14.5	14.0	14.3	14.6	0.1pp	0.1pp	-0.1pp
Operating profit	17,476	20,276	32,748	15,045	24,448	34,944	16%	-17%	-6%
PBT	13,597	23,711	36,791	11,650	23,601	34,748	17%	0%	6%
GAAP NP	10,412	20,354	31,473	9,002	20,200	27,948	16%	1%	13%
Non-GAAP NP	26,648	32,553	45,745	23,432	30,557	39,813	14%	7%	15%

Note: consensus data as of Nov. 19, 2022; Sources: Bloomberg, Company, CMS (HK) estimates

Figure 10: DCF valuation

RMB mn	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Revenue	1,286,689	1,527,430	1,741,270	1,985,048	2,223,254	2,445,579	2,690,137	2,959,151	3,255,066	3,580,573
EBIT	20,276	32,748	39,075	46,530	54,337	62,216	71,128	81,200	92,575	105,413
NOPAT	16,720	27,230	33,213	39,550	46,186	52,884	60,459	69,020	78,689	89,601
Depreciation & Amortization	12,503	15,420	17,413	19,850	22,233	24,456	26,901	29,592	32,551	35,806
Share-based Compensation Expense	10,482	12,443	14,186	16,172	18,112	19,923	21,916	24,107	26,518	29,170
Chg in OWC	16,741	15,366	17,413	19,850	22,233	24,456	26,901	29,592	32,551	35,806
CAPEX	(21,874)	(25,966)	(26,119)	(29,776)	(31,126)	(34,238)	(37,662)	(38,469)	(42,316)	(46,547)
FCF	34,572	44,493	56,105	65,647	77,638	87,481	98,515	113,841	127,992	143,835
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
DCF	30,011	33,526	36,698	37,274	38,266	37,428	36,588	36,701	35,818	34,941
PV of DCF	357,250									
Perpetual growth	3.0%									
Terminal value	1,214,332									
PV of terminal value	294,991									
Total PV	652,242									
Net cash (by 23YE)	210,036									
Minority interest	35,533									
PV of equity (RMB mn)	826,745									
No. of ADS (by 23YE)	1,591									
PV per ADS (RMB)	520									
CNYUSD	7.12									
Value per ADS (USD)	73									
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%									
WACC	15.2%									
USD HKD	7.85									
TP (HKD)	287									

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%	74	73	72	71	70	69	68
	2.5%	75	74	73	72	71	70	69
	3.0%	77	75	74	73	72	71	70
	3.5%	78	77	76	74	73	72	71
	4.0%	80	78	77	76	74	73	72

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
Platform																		
Tencent	700 HK	HKD	BUY	287.8	430.0	352.5	12.3	10.1	20.5	16.8	3.9	4.2	16.7	13.5	15.7	4.6	5.3	7.5
Alibaba	BABA US	USD	BUY	80.5	143.0	213.1	3.1	2.9	9.8	10.4	n.a.	1.6	10.6	15.2	13.7	8.0	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	160.4	261.0	126.9	n.a.	49.3	n.a.	n.a.	n.a.	3.8	n.a.	n.a.	8.4	24.9	n.a.	n.a.
Baidu	BIDU US	USD	NR	96.0	n.a.	33.2	6.3	5.4	12.5	10.7	2.1	1.9	8.8	6.1	7.5	6.0	5.9	23.7
Alphabet	GOOGL US	USD	NR	97.4	n.a.	1,263.5	10.7	9.8	17.9	15.9	1.3	5.4	12.9	25.1	25.7	5.1	13.8	18.9
Facebook	FB US	USD	NR	112.1	n.a.	297.1	5.7	5.9	11.2	12.9	n.a.	2.6	6.4	19.4	17.9	6.5	n.a.	n.a.
Naver	035420 KS	KRW	NR	185,500.0	n.a.	22.7	17.5	15.7	31.7	23.8	n.a.	3.7	21.3	4.0	5.1	16.0	n.a.	3.2
China Mean							6.2	14.1	13.2	12.1	3.0	2.6	11.7	12.5	11.8	10.3	5.6	15.6
Global Mean							11.3	10.5	20.3	17.5	1.3	3.9	13.5	16.2	16.2	9.2	13.8	11.0
Cloud																		
Chinasoft	354 HK	HKD	BUY	6.6	10.0	2.6	8.6	8.6	12.8	10.8	1.1	0.8	45.8	10.7	11.5	21.7	11.7	4.5
Tencent	700 HK	HKD	BUY	287.8	430.0	352.5	12.3	10.1	20.5	16.8	3.9	4.2	16.7	13.5	15.7	4.6	5.3	7.5
Alibaba	BABA US	USD	BUY	80.5	143.0	213.1	3.1	2.9	9.8	10.4	n.a.	1.6	10.6	15.2	13.7	8.0	n.a.	n.a.
Kingsoft	3888 HK	HKD	BUY	25.9	34.0	4.5	10.6	8.4	n.a.	n.a.	n.a.	4.3	n.a.	n.a.	2.1	19.1	n.a.	26.5
Kingdee	268 HK	HKD	NR	14.5	n.a.	6.4	n.a.	n.a.	n.a.	n.a.	n.a.	9.1	n.a.	n.a.	n.a.	22.7	n.a.	n.a.
Mingyuan Cloud	909 HK	HKD	NR	6.0	n.a.	1.5	n.a.	n.a.	n.a.	n.a.	n.a.	5.1	n.a.	n.a.	n.a.	6.0	n.a.	n.a.
KC Cloud	KC US	USD	NR	3.0	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	8.9	n.a.	n.a.
Microsoft	MSFT US	USD	NR	241.2	n.a.	1,798.2	19.4	17.4	27.3	25.0	n.a.	n.a.	22.3	42.9	36.7	n.a.	n.a.	n.a.
Alphabet	GOOGL US	USD	NR	97.4	n.a.	1,263.5	10.7	9.8	17.9	15.9	1.3	5.4	12.9	25.1	25.7	5.1	13.8	18.9
Amazon	AMZN US	USD	NR	94.1	n.a.	960.4	14.9	12.7	47.5	28.9	n.a.	1.9	19.8	0.0	12.7	14.9	n.a.	17.3
Salesforce	CRM US	USD	NR	148.0	n.a.	148.0	33.4	15.0	n.a.	30.7	n.a.	6.2	27.3	0.9	7.9	n.a.	n.a.	n.a.
Oracle	ORCL US	USD	NR	79.7	n.a.	215.0	22.1	11.8	35.4	16.2	n.a.	5.6	24.9	n.a.	n.a.	n.a.	n.a.	n.a.
VMware	VMW US	USD	NR	116.6	n.a.	49.5	17.5	11.5	30.1	18.1	n.a.	4.3	12.6	32.2	n.a.	n.a.	n.a.	n.a.
Dropbox	DBX US	USD	NR	22.3	n.a.	8.1	10.3	9.9	14.2	13.5	1.3	3.5	9.9	n.a.	n.a.	11.4	10.9	38.9
China Mean							8.7	7.5	14.4	12.7	2.5	3.7	24.4	13.1	10.8	13.0	8.5	12.8
Global Mean							18.3	12.6	28.7	21.2	1.3	4.5	18.5	20.2	20.8	10.4	12.3	25.0
Social network & pan-entertainment																		
Tencent	700 HK	HKD	BUY	287.8	430.0	352.5	12.3	10.1	20.5	16.8	3.9	4.2	16.7	13.5	15.7	4.6	5.3	7.5
Bilibili	BILI US	USD	BUY	14.7	31.0	5.9	n.a.	n.a.	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	20.8	n.a.	n.a.
China Literature	772 HK	HKD	HOLD	27.1	68.0	3.5	13.6	10.7	18.9	15.7	1.3	3.0	15.6	6.4	7.9	3.4	14.5	n.a.
Kuaishou	1024 HK	HKD	NR	54.3	n.a.	29.9	n.a.	46.8	n.a.	n.a.	n.a.	2.3	n.a.	n.a.	n.a.	16.3	n.a.	n.a.
Tencent Music	TME US	USD	NR	22.3	n.a.	9.8	10.4	9.1	14.7	13.7	n.a.	2.5	20.4	6.8	6.6	n.a.	n.a.	15.0
Weibo	WB US	USD	NR	14.4	n.a.	3.4	5.5	5.0	6.7	6.2	n.a.	1.8	9.0	7.6	11.1	n.a.	n.a.	n.a.
iQiyi	IQ US	USD	NR	2.8	n.a.	2.4	22.0	10.4	n.a.	19.0	n.a.	0.6	4.9	8.0	8.7	n.a.	n.a.	n.a.
YY	YY US	USD	NR	28.1	n.a.	2.0	n.a.	n.a.	14.1	11.6	0.3	0.8	9.7	1.2	2.6	4.5	41.2	95.9
Momo	MOMO US	USD	NR	5.5	n.a.	1.1	0.1	0.1	4.5	4.2	n.a.	0.6	4.4	13.1	13.0	n.a.	n.a.	n.a.
Huya	HUYA US	USD	NR	2.5	n.a.	0.6	8.8	12.3	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	1.3	n.a.	0.4	20.1	n.a.	n.a.	36.7	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Meta	FB US	USD	NR	112.1	n.a.	297.1	5.7	5.9	11.2	12.9	n.a.	2.6	6.4	19.4	17.9	6.5	n.a.	n.a.
Netflix	NFLX US	USD	NR	288.0	n.a.	128.2	22.3	19.8	25.2	23.7	n.a.	4.1	n.a.	24.7	20.6	12.1	4.1	6.7
Snapchat	SNAP US	USD	NR	10.5	n.a.	17.0	n.a.	26.9	n.a.	n.a.	n.a.	3.7	n.a.	n.a.	n.a.	15.6	n.a.	n.a.
Spotify	SPOT US	USD	NR	77.0	n.a.	14.9	n.a.	n.a.	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	15.9	n.a.	n.a.
China Mean							11.6	13.0	13.2	15.5	1.8	1.7	11.5	8.1	9.4	11.7	20.3	39.5
Global Mean							14.0	17.5	18.2	18.3	n.a.	2.9	6.4	22.1	19.2	12.5	4.1	6.7

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
Online Gaming																		
Netease	NTES US	USD	BUY	67.4	113.0	44.3	8.4	7.6	13.5	13.8	2.0	3.3	12.6	23.0	19.3	10.8	6.7	14.2
Tencent	700 HK	HKD	BUY	287.8	430.0	352.5	12.3	10.1	20.5	16.8	3.9	4.2	16.7	13.5	15.7	4.6	5.3	7.5
Bilibili	BILI US	USD	BUY	14.7	31.0	5.9	n.a.	n.a.	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	20.8	n.a.	n.a.
Kingsoft	3888 HK	HKD	BUY	25.9	34.0	4.5	10.6	8.4	n.a.	n.a.	n.a.	4.3	n.a.	n.a.	2.1	19.1	n.a.	26.5
iDreamSky	1119 HK	HKD	BUY	4.2	4.4	0.8	23.9	12.1	n.a.	n.a.	n.a.	1.8	n.a.	n.a.	3.4	15.8	n.a.	64.3
XD	2400 HK	HKD	NR	5.4	n.a.	0.5	5.5	3.0	11.1	6.1	n.a.	2.6	n.a.	18.0	27.7	50.6	n.a.	30.5
Netdragon	777 HK	HKD	NR	15.7	n.a.	1.1	2.7	2.4	6.7	5.3	0.3	0.9	4.0	14.6	16.7	16.5	25.9	9.9
CMGE	302 HK	HKD	NR	1.7	n.a.	0.6	7.1	4.9	9.0	6.5	0.9	1.2	9.5	7.4	10.2	8.1	10.1	7.3
IGG	799 HK	HKD	NR	2.7	n.a.	0.4	n.a.	13.4	n.a.	13.0	n.a.	0.6	n.a.	n.a.	5.3	2.5	n.a.	n.a.
Archosaur Game	9990 HK	HKD	NR	4.0	n.a.	0.4	n.a.	2.4	n.a.	22.1	n.a.	2.9	n.a.	n.a.	3.8	52.6	n.a.	n.a.
SEA	SE US	USD	NR	56.9	n.a.	32.0	n.a.	n.a.	n.a.	n.a.	n.a.	2.6	n.a.	n.a.	n.a.	26.8	n.a.	n.a.
Nintendo	7974 JP	JPY	NR	5,920.0	n.a.	54.8	9.0	10.2	14.3	16.4	n.a.	4.0	23.6	27.0	21.6	n.a.	n.a.	n.a.
Activision Blizzard	ATVI US	USD	NR	74.1	n.a.	58.0	17.4	13.1	24.4	19.0	4.1	7.3	25.1	11.4	13.0	9.0	6.0	6.5
Electronic Arts	EA US	USD	NR	130.1	n.a.	35.9	23.5	13.3	n.a.	17.8	n.a.	5.7	21.0	11.5	20.2	n.a.	n.a.	n.a.
Take-Two	TTWO US	USD	NR	98.8	n.a.	16.6	26.3	19.3	44.0	24.2	n.a.	5.2	n.a.	n.a.	3.4	n.a.	n.a.	n.a.
Nexon	3659 JP	JPY	NR	2,822.0	n.a.	17.4	15.9	12.4	22.0	21.4	n.a.	6.8	22.9	12.9	12.7	13.6	n.a.	14.3
Ncsoft	036570 KS	KRW	NR	451,000.0	n.a.	7.4	11.6	11.0	19.1	18.8	2.1	3.8	14.7	15.7	14.7	5.3	9.1	20.9
Zynga	ZNGA US	USD	NR	8.2	n.a.	9.3	16.3	14.8	26.0	20.6	n.a.	3.3	15.5	n.a.	n.a.	8.4	n.a.	54.2
Netmarble	251270 KS	KRW	NR	51,900.0	n.a.	3.3	32.8	16.6	n.a.	29.7	n.a.	1.6	(18.0)	n.a.	2.6	5.9	n.a.	2.5
China Mean							9.9	7.2	12.4	12.2	1.8	2.4	11.1	16.6	12.4	19.3	11.0	21.8
Global Mean							19.1	13.9	25.0	21.0	3.1	4.5	15.0	15.7	12.6	11.5	7.5	19.7
E-commerce																		
JD.com	JD US	USD	BUY	56.1	73.0	87.6	13.7	10.8	22.3	18.4	0.6	0.6	21.5	12.2	13.4	16.3	35.8	46.2
Alibaba	BABA US	USD	BUY	80.5	143.0	213.1	3.1	2.9	9.8	10.4	n.a.	1.6	10.6	15.2	13.7	8.0	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	160.4	261.0	126.9	n.a.	49.3	n.a.	n.a.	n.a.	3.8	n.a.	n.a.	8.4	24.9	n.a.	n.a.
Pinduoduo	PDD US	USD	NR	70.2	n.a.	88.7	18.6	14.9	21.8	17.5	0.4	5.1	15.6	27.5	25.8	27.4	54.8	99.8
Beike	BEKE US	USD	NR	14.8	n.a.	18.7	41.4	16.6	n.a.	26.3	2.3	2.1	n.a.	2.0	6.2	n.a.	38.7	14.2
Vipshop	VIPS US	USD	NR	9.4	n.a.	5.9	3.6	3.4	7.1	6.8	n.a.	0.4	6.2	14.0	12.8	n.a.	n.a.	0.4
Baozun	BZUN US	USD	NR	4.2	n.a.	0.2	6.3	4.4	8.7	4.1	0.2	0.2	5.5	1.1	5.4	5.2	45.2	9.2
Amazon	AMZN US	USD	NR	94.1	n.a.	960.4	14.9	12.7	47.5	28.9	n.a.	1.9	19.8	0.0	12.7	14.9	n.a.	17.3
eBay	EBAY US	USD	NR	45.7	n.a.	24.8	8.5	8.7	11.6	11.4	1.6	2.6	9.2	31.5	47.1	1.0	7.3	0.2
China Mean							14.3	14.1	15.3	14.5	0.8	1.8	13.5	12.0	12.4	16.3	42.0	36.0
Global Mean							11.7	10.7	29.5	20.1	1.6	2.2	14.5	15.8	29.9	7.9	7.3	8.7
Vertical																		
trip.com	TCOM US	USD	NR	28.4	n.a.	18.2	n.a.	22.9	n.a.	19.6	n.a.	6.5	34.1	0.4	3.9	21.7	n.a.	n.a.
Autohome	ATHM US	USD	NR	28.4	n.a.	3.6	2.1	1.8	12.5	11.7	n.a.	3.7	11.8	8.1	8.3	0.6	n.a.	n.a.
Tongcheng-Elong	780 HK	HKD	NR	16.1	n.a.	4.6	26.4	13.7	39.6	21.2	1.1	4.7	33.1	3.8	7.6	9.9	35.6	17.0
Expedia	EXPE US	USD	NR	98.3	n.a.	15.3	6.8	6.0	14.1	10.6	n.a.	1.3	4.2	37.0	40.2	28.3	n.a.	66.5
China Mean							11.8	11.1	22.1	15.8	1.1	4.1	20.8	12.3	15.0	15.1	35.6	41.7

Note: Closing prices as of Nov. 18, 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
Total net revenues	745,802	951,592	1,053,820	1,286,689	1,527,430
Cost of revenues	(636,694)	(822,525)	(905,254)	(1,101,452)	(1,305,296)
Gross profit	109,108	129,067	148,566	185,237	222,134
Fulfillment	(48,700)	(59,055)	(64,650)	(79,082)	(92,378)
Marketing	(27,156)	(38,743)	(39,640)	(52,331)	(58,713)
R&D	(16,149)	(16,332)	(17,590)	(20,981)	(24,141)
G&A	(6,409)	(11,562)	(10,440)	(12,567)	(14,153)
Impairment	0	0	0	0	0
Total operating expenses	(98,414)	(125,693)	(132,319)	(164,960)	(189,386)
Gain on disposals of long-lived assets	1,649	767	1,229	0	0
Operating profit/(loss)	12,343	4,141	17,476	20,276	32,748
Share of results of equity investees	4,291	(4,918)	(1,931)	0	0
Net interest income & other income	34,185	(1,804)	(1,948)	3,434	4,043
Income/(loss) before tax	50,819	(2,582)	13,597	23,711	36,791
Income tax expense	(1,482)	(1,887)	(4,113)	(3,557)	(5,519)
Non-controlling interest	68	908	928	200	200
Net income	49,405	(3,561)	10,412	20,354	31,473
Non-GAAP net income	16,828	17,206	26,648	32,553	45,745

Financial Ratios

	FY20	FY21	FY22E	FY23E	FY24E
yoy growth rate					
Direct sales	27.6%	25.1%	6.9%	19.9%	18.1%
Service and others	42.0%	44.7%	33.8%	32.4%	21.4%
Revenue	29.3%	27.6%	10.7%	22.1%	18.7%
Non-GAAP net income	56.5%	2.3%	54.9%	22.2%	40.5%
Profitability					
Non-GAAP gross margin	14.6%	13.6%	14.2%	14.5%	14.6%
Non-GAAP NP margin	2.3%	1.8%	2.5%	2.5%	3.0%
ROE	12.5%	8.7%	12.2%	13.4%	16.3%
ROA	4.9%	3.7%	5.1%	5.6%	6.8%
Operating efficiency					
Inventory turnover days	33.5	29.9	31.7	29.9	30.3
AR turnover days	3.3	3.6	3.9	3.3	3.4
AP turnover days	56.5	54.9	59.3	56.5	57.2
Per share ratios (RMB)					
Sales per share	479.8	612.5	666.2	809.0	960.3
Sales per share (USD)	74.0	94.2	99.4	120.7	143.3
Sales per share (HKD)	286.9	365.1	385.3	467.9	555.4
Non-GAAP EPADS	10.8	10.8	16.8	20.5	28.8
Non-GAAP EPADS (USD)	1.7	1.7	2.5	3.1	4.3
Non-GAAP EPS (HKD)	6.5	6.4	9.7	11.8	16.6
Valuation (x)					
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)	33.6	33.8	22.3	18.4	13.1
P/E (HK)	33.7	33.9	22.4	18.4	13.1

Balance Sheet

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Cash and cash equivalents	86,085	70,767	78,373	103,687	139,401
Short-term investments	60,577	114,564	114,564	120,292	126,307
Accounts receivable	7,112	11,900	10,538	12,867	15,274
Inventories	58,933	75,601	81,473	99,131	117,477
PPE	22,597	32,944	39,784	46,447	52,656
Investment in equity investees	58,501	63,222	70,222	77,222	84,222
Others	128,483	127,508	144,331	162,331	184,701
Total assets	422,288	496,507	539,285	621,977	720,039
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	153,893	187,247	221,900
Others	84,256	95,485	110,638	128,068	146,334
Total liabilities	200,669	249,723	275,137	327,194	381,539
Total shareholders' equity	187,543	208,912	227,204	258,041	301,957
Non-controlling interests	16,943	36,661	35,733	35,533	35,333
Total equity	204,486	245,572	262,937	293,573	337,289
Redeemable NCI held for sale	17,133	1,212	1,212	1,212	1,212

Cashflow Statement

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Operating cashflow	42,544	42,299	39,290	59,880	74,502
Net income/(loss)	49,337	(4,468)	9,484	20,154	31,273
Depreciation and amortization	6,068	6,232	9,888	12,503	15,420
Share-based compensation	4,156	9,134	7,881	10,482	12,443
Share of results of equity investees	(4,291)	4,918	0	0	0
Working capital chg	18,678	19,518	12,037	16,741	15,366
Others	(31,403)	6,966	(0)	0	0
CF from IA	(57,811)	(74,248)	(34,912)	(37,453)	(42,085)
Purchase of PPE and software	(3,370)	(5,562)	(10,538)	(12,867)	(15,274)
Net addition of ST investments	(35,598)	(52,557)	0	(5,728)	(6,015)
Others	(18,842)	(16,129)	(24,374)	(18,858)	(20,796)
CF from FA	71,072	19,503	3,229	2,887	3,297
Net addition of borrowing	0	0	3,229	2,887	3,297
Proceed from ordinary shares	31,342	0	0	0	0
Others	39,730	19,503	0	0	0
Net cash flow	50,723	(13,944)	7,607	25,315	35,714

Note: Closing price as of Nov. 18, 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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Hong Kong

China Merchants Securities (HK) Co., Ltd.
Address: 48/F, One Exchange Square, Central, Hong Kong
Tel: +852 3189 6888 Fax: +852 3101 0828