



## Company Report: JD-SW (09618 HK)

公司报告：京东集团-SW (09618 HK)

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# Unleashed Profitability; Results Well Above Expectations

盈利能力释放；业绩大超预期

- **Enhanced efficiency lifted profitability, exceeding expectations.** We expect that the valuation of JD-SW ("JD", or the "Company") will recover on the back of improvement in i) liquidity, ii) policy, and iii) fundamentals. We set TP at HK\$258.00; "Accumulate". Our TP represents 25.0x 2023F PE.
- **Overall retail decelerated; business consolidation and strength in fulfillment continued to fuel growth of logistics business.** Suffering from softened shopping demand, logistics challenges, and increasing rate of returned goods, this led to weak performance of retail business. On the other side, we think that the strong performance of logistics and services business also demonstrated the logistics strength of JD Logistics. In terms of the supermarket business, we are concerned about its revenue deceleration, and we believe that the negative impacts of price hikes will continue in the long run.
- **Efficiency enhancement unleashed profitability, beating expectations; we think that there is still room for improvement.** Most e-commerce players are focused on i) high-quality growth, ii) increasing efficiency, and iii) lower costs, resulting in upgraded profitability in 3Q2022. Similarly, by adopting industry practices, JD's 3Q2022 results and profitability surprised the market, of which JD's quarterly non GAAP profit was the highest in its history. On the back of increasing scale effect and continuous efficiency improvement, we expect that JD's profitability will continue to upgrade and be sustainable.
- **Risk factors:** Intensified industry competition may drag profit margins; decelerated economic growth may negatively impact consumption.
- **提效释放盈利能力超预期。** 我们预计京东集团-SW（“京东”或“公司”）将受益于 i) 流动性，ii) 政策及 iii) 基本面预期回暖，估值有望修复。我们目标价为 258.00 港元，“收集”。我们目标价相当于 2023 年 25.0 倍市盈率。
- **整体零售增速放缓；并表及履约优势支撑物流高增长。** 零售饱受需求疲软、履约受限和退货率提升拖累。另一方面，物流和服务的强劲表现体现出京东物流的履约能力优势。商超业务方面，增速的趋势性放缓值得关注，中长期我们认为京东的优质履约物价并不能抵消部分品类上的价格劣势。
- **提效释放利润超预期，预计降本增效可持续。** 大部分电商平台聚焦于 i) 高质量增长，ii) 增效及 iii) 降本，以在 2022 年第三季度增强盈利能力。同样地，借鉴行业惯常做法，京东 2022 年第三季度的业绩和盈利能力都让市场感到意外，其中京东的非 GAAP 季度盈利能力创历史新高。在规模效应增强和效率持续提升的背景下，我们预计京东的盈利能力提升具备持续性。
- **风险提示：** 行业竞争加剧影响利润率，经济增速放缓影响消费。

Rating:

**Accumulate**

Maintained

评级:

收集 (维持)

6.18m TP 目标价:

**HK\$258.00**

Revised from 原目标价:

HK\$290.00

Share price 股价:

HK\$197.600

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	22.7	(9.5)	(42.2)
Rel. % to HS Index 相对恒指变动 %	14.7	0.7	(13.2)
Avg. share price (HK\$) 平均股价 (港元)	177.4	199.8	235.9

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2020A	745,802	49,405	15.884	290.9	12.6	71.254	4.8	0.000	0.0	26.3
2021A	951,592	(3,560)	(1.144)	(107.0)	n.a.	79.332	3.5	0.000	0.0	(1.7)
2022F	1,063,517	10,294	3.296	n.a.	60.6	75.493	2.7	4.204	1.9	5.1
2023F	1,216,219	12,885	4.125	25.2	48.4	79.202	2.5	0.000	0.0	6.0
2024F	1,349,818	19,253	6.164	49.4	32.4	84.152	2.4	0.000	0.0	8.3
Shares in issue (m) 总股数 (m)				3,132.1	Major shareholder 大股东					Richard Liu 12.4%
Market cap. (HK\$ m) 市值 (HK\$ m)				618,903.0	Free float (%) 自由流通比率 (%)					87.6%
3 month average vol. 3 个月平均成交股数 ('000)				9,818.9	FY22 Net gearing (%) FY22 净负债/股东资金 (%)					Net Cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				349.470 / 138.900	FY22 Non GAAP PE FY22 非 GAAP 市盈率					22.2

Source: the Company, Guotai Junan International.

**Enhanced efficiency lifted profitability, exceeding expectations.** We expect that the valuation of JD-SW ("JD", or the "Company") will recover on the back of improvement in i) liquidity, ii) policy, and iii) fundamentals. We forecast the Company's non-GAAP net profit forecasts for 2022 to 2024 to be RMB24.5 bn/ RMB29.2 bn/ RMB36.7 bn, respectively, whereas adjusted EBITDA for the forecasted period is RMB25.0 bn/ RMB29.2 bn/ RMB40.7 bn, respectively. We set TP at HK\$258.00; "Accumulate". Our TP represents 25.0x 2023F PE, which is equivalent to expected market capitalization of RMB730.0 bn or HK\$805.9 bn.

**3Q2022 results summary:** The Company's revenue reached RMB243.535 mn, up 11.4% yoy. The Company's GAAP net profit was RMB5,963 mn, and non GAAP net profit surged 98.9% yoy to RMB10,040 mn. JD's adjusted EBITDA was RMB11,463 mn, up 95.5% yoy.

**Overall retail decelerated; business consolidation and strength in fulfillment continued to fuel growth of logistics business.** Impacted by local Covid resurgences, 17% of JD's orders suffered from fulfillment disruption, therefore we view that JD's revenue deceleration is reasonable amid the local logistics challenges, meeting expectations. Performance of the Company's business lines was mixed during 3Q2022. Suffering from softened shopping demand, logistics challenges, and increasing rate of returned goods, this led to weak performance of retail business. On the other side, adding the positive impact of business consolidation, revenue from logistics and services business grew by 42% in the same period. We think that strong performance of logistics and services business also demonstrated logistics strength of JD Logistics. In terms of the supermarket business, we are concerned about revenue deceleration, particularly that 3Q2022 growth rate was lower than that in 2Q2022; the lowest growth rate since 4Q2021. We think that the underperforming supermarket business was due to the adjustments in JD's KPIs. The Company has increased profitability in the short term and decided to hike prices in some categories within supermarket business. As a result, the growth potential of supermarket business has weakened. In the medium-to-long run, we tend to believe that the negative impacts of price hikes will continue against the backdrop of consumers becoming more price sensitive. Even though JD's logistics have a good reputation, good service quality, and competitive pricing of their service offering, it seems that the negative impacts can't be helped nor completely offset.

**Efficiency enhancement unleashed profitability, beating expectations; we expect that there is still room for improvement.** The Company's adjusted net profit margin delivered qoq improvement of 1.7 ppts, far above market consensus (+0.6 ppts qoq). Also, the Company's fulfillment expense ratio declined by 0.6 ppts yoy; we believe that the Company's profitability can still be upgraded thanks to scale effect of JD Logistics. Looking at the e-commerce industry, most e-commerce players are disciplined in their spending in sales and marketing (S&M), general and administrative (G&A), and research and development (R&D). Cost optimization has become an industry practice. Most e-commerce players are focused on i) high-quality growth, ii) increasing efficiency, and iii) lower costs, resulting in upgraded profitability. Under the new industry practice, we have observed that JD has been experienced a contraction in S&M expenses and significant losses narrowed from new business. By ramping up efforts on increasing efficiency and reducing operating costs, JD's 3Q2022 results and profitability surprised the market, of which JD's quarterly non GAAP net profit and non GAAP net profit margin both are the highest in its history. On the back of increasing scale effect and continuous efficiency improvement, we expect that JD's profitability will continue to upgrade and be sustainable.

**Risk factors:** Intensified industry competition may drag profit margins; decelerated economic growth may negatively impact consumption.

**Table-1: JD Quarterly Core Indicator Matrix**

Quarterly Results	3Q21	4Q21	1Q22	2Q22	3Q22	Consensus	Beat/ Meet/ Miss
Total Revenue (RMB mn)	218,708	275,907	239,655	267,600	243,535	243,126	Beat
Yoy (%)	25.5%	23.0%	18.0%	5.4%	11.4%	11.2%	
Net Profit	(2,807)	(5,165)	(2,991)	4,376	5,963	4,673	Beat
Net Margin (%)	-137.1%	-121.2%	-182.7%	450.9%	-312.5%	-266.5%	
Non GAAP EBITDA (RMB mn)	5,863	4,162	6,066	7,175	11,463	8,722	Beat
Yoy (%)	-11.2%	56.2%	22.8%	91.5%	95.5%	48.8%	
Non GAAP EBITDA Margin (%)	2.7%	1.5%	2.5%	2.7%	4.7%	3.6%	
Non GAAP Net Income (RMB mn)	5,048	3,565	4,032	6,489	10,040	7,101	Beat
Yoy (%)	-9.2%	49.4%	1.6%	40.3%	98.9%	40.7%	
Non GAAP Net Margin (%)	2.3%	1.3%	1.7%	2.4%	4.1%	2.9%	
<b>Efficiency Indicators</b>							
Gross Margin	14.2%	13.5%	14.0%	13.4%	14.9%		
Fulfillment Expense Ratio	6.5%	5.9%	6.5%	6.1%	5.9%		
S&M Expense Ratio	3.6%	4.8%	3.6%	3.5%	3.1%		
G&A Expense Ratio	1.4%	1.4%	1.0%	0.9%	1.1%		
R&D Expense Ratio	1.8%	1.5%	1.8%	1.5%	1.7%		
Operating Margin	1.2%	-0.1%	1.0%	1.4%	3.6%		
Non GAAP Operating Margin	2.1%	1.0%	1.9%	2.1%	4.1%		
<b>Segment Performance</b>							
<b>JD Retail</b>							
Revenue (RMB mn)	198,080	249,869	217,524	241,557	211,923		
Profit (RMB mn)	7,942	5,344	7,891	8,173	10,926		
Margin (%)	4.0%	2.1%	3.6%	3.4%	5.2%		
<b>JD Logistics</b>							
Revenue (RMB mn)	25,749	30,472	27,351	31,272	35,771		
Profit (RMB mn)	(727)	730	-661	36	253		
Margin (%)	-2.8%	2.4%	-2.4%	0.1%	0.7%		
<b>DADA</b>							
Revenue (RMB mn)			688	2,281	2,380		
Profit (RMB mn)			-191	-424	-300		
Margin (%)			-27.8%	-18.6%	-12.6%		
<b>New Business</b>							
Revenue (RMB mn)	5,732	8,213	5,756	6,265	4,997		
Profit (RMB mn)	(2,073)	(3,224)	(2,386)	(2,032)	276		
Margin (%)	-36.2%	-39.3%	-41.5%	-32.4%	5.5%		
Product Revenue (RMB mn)	186,008	234,675	204,416	226,020	204,647	201,297	Beat
Yoy (%)	22.9%	2.1%	16.6%	2.9%	10.0%	8.2%	
Service Revenue (RMB mn)	32,700	41,232	35,239	41,580	46,508	40,322	Beat
Yoy (%)	43.3%	28.3%	26.3%	21.9%	42.2%	23.3%	

Source: the Company, Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Year end 31 Dec (RMB mn)	2020A	2021A	2022F	2023F	2024F
<b>Income Statement</b>					
Net revenues	745,802	951,592	1,063,517	1,216,219	1,349,818
Net product revenues	651,879	815,655	890,081	1,001,073	1,096,683
Net service revenues	93,923	135,937	173,436	215,145	253,135
Cost of revenues	(636,694)	(822,525)	(912,635)	(1,042,299)	(1,154,094)
Profit from operations	12,343	4,141	19,273	19,460	29,696
Net Income	49,337	(4,467)	9,416	12,267	18,452
Non-Controlling Interests	(68)	(907)	(878)	(618)	(801)
Net Income to JD	49,405	(3,560)	10,294	12,885	19,253
Non GAAP Operating Profit	15,337	13,419	27,641	29,082	40,651
Non GAAP Net Income	16,828	18,047	27,784	29,716	37,196
<b>Balance Sheet</b>					
Cash & Restricted Cash	90,635	76,692	50,014	68,135	86,615
Short Term Investments	60,577	114,564	118,001	123,901	130,096
Accounts Receivable	7,112	11,900	13,372	15,711	16,509
Inventories, net	58,933	75,601	71,329	74,085	61,955
Other	17,544	20,915	27,014	29,554	32,303
Current Asset	234,801	299,672	279,730	311,386	327,478
Fixed Asset	30,503	38,761	50,968	58,456	63,824
Equity Investments	58,501	63,222	66,384	68,375	70,426
Intangible Asset	28,492	32,598	58,889	75,256	88,423
Others	69,991	62,254	70,374	74,583	79,086
Non Current Asset	187,487	196,835	246,615	276,670	301,759
Total Asset	422,288	496,507	=526,345	588,057	629,237
Short Term Borrowings	3,260	4,368	16,444	16,477	27,364
Accounts Payable	106,818	140,484	138,031	174,115	163,996
Others	63,939	76,784	84,872	96,410	101,720
Current Liabilities	174,017	221,636	239,347	287,002	293,080
Long Term Borrowings	12,531	9,386	26,267	26,320	43,712
Others	14,121	18,701	24,928	27,348	29,597
Non Current Liabilities	26,652	28,087	51,195	53,668	73,309
Total Liabilities	200,669	249,723	290,542	340,670	366,390
Minority Interest	16,943	36,661	34,755	32,565	30,060
Total Shareholders' Equity & Redeemable	204,677	210,124	201,048	214,822	232,787
Total Equity & Redeemable non-controlling	221,619	246,784	235,803	247,387	262,847
<b>Statement of Cash Flow</b>					
Cash from Operating Activities	42,544	42,301	18,008	90,709	62,201
Cash from Investing Activities	(57,811)	(74,248)	(38,592)	(44,453)	(42,807)
Cash from Financing Activities	71,072	19,503	(4,408)	(26,169)	1,644
Net Changes in Cash	50,723	(13,943)	(26,678)	18,121	18,480
<b>Operational Metric</b>					
Annual Active Customer (bn)	0.47	0.57	0.59	0.62	0.64
ARPU (RMB)	5,427	5,578	6,023	6,643	7,209
<b>Financial Ratios</b>					
ROE	26.3%	(1.7%)	5.1%	6.0%	8.3%
ROA	11.7%	(0.7%)	2.0%	2.2%	3.1%
Non GAAP Operating margin	2.1%	1.4%	2.6%	2.4%	3.0%
Non GAAP Net margin	2.3%	1.8%	2.6%	2.4%	2.8%

Source: the Company, Guotai Junan International.

Note: the financial statements and estimations are based on the Company's A-share Reports.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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