

JD.com (JD US)

Entering into a clean base for growth

JD.com (JD) reported (16 May) better-than-expected 1Q24 results: revenue was RMB260.0bn, up 7% YoY, 1% ahead of Bloomberg consensus; non-GAAP net income was RMB8.9bn, ahead of consensus estimates of RMB7.4bn thanks to better-than-feared gross profit margin aided by scale effect. Management noted that general merchandise category has entered clean base since 1Q24, and commission revenue growth has also entered clean base since 2Q24 since the impact from enhancing merchant support has reached the full-year milestone. JD is staying vigilant in industry competition, although industry competition seems more benign than market expectation given that all the industry peers are focusing on driving growth in an efficient way by targeting more on core user base operation. The enhancement in shareholder return should provide support for JD's valuation, in our view, and increase in revenue contribution from high-margin platform business should provide support for profitability under current competition pattern. Our DCF-based TP is largely unchanged at US\$51.9 (was US\$52.0). Maintain BUY.

- GMR has bottomed out in 1Q24.** JD's net product revenue was RMB208.5bn in 1Q24 (80.2% of total revenue), up 6.6% YoY (1Q23: -4.3%), among which electronics and home appliance (E&HA) revenue was up 5.3% YoY (1Q23: -1.2%), and general merchandise revenue (GMR) was up 8.6% YoY (3Q/4Q23: -2.3/+0.2%). Management highlighted that growth of GMR has bottomed out as business adjustment impact wanes, and expects GMR to be an important driver for revenue growth in 2024E.
- Commission revenue growth also faces a clean base starting from 2Q24.** In 1Q24, net services revenue was RMB51.5bn (19.8% of total revenue), up 8.8% YoY, among which marketplace and ads revenue was up 1.2% YoY, mainly driven by advertising revenue growth, while logistics and other services revenue was up 13.8% YoY. Management highlighted that commission revenue is facing a clean base starting from 2Q given that impact from enhancing merchant support has reached the full-year milestone.
- JDR: better-than-feared operating profit generation aided by scale effect.** JD Retail (JDR) inked revenue of RMB226.8bn in 1Q24, up 7% YoY, inline with consensus, while OPM of JDR was 4.1% in 1Q24, 0.4pp better than consensus, which in our view can be attributed to better-than-expected gross margin expansion across categories aided by growing scale effect. Although JD may stay vigilant in industry competition, the potential increase in revenue contribution from third-party business, as well as enlarging scale effect could provide support for overall profitability, in our view. We estimate JD to record RMB36.6bn non-GAAP net profit in 2024E, translating into 3.2% non-GAAP NPM, flat YoY.
- Enhancement in shareholder return should provide support for valuation.** During 1 Jan to 15 May 2024, JD has repurchased a total of 49.2mn ADS at a total of US\$1.3bn, which amounted to 3.1% of ordinary shares outstanding as of end-2023. The remaining amount under JD's current share repurchase program was US\$2.3bn, which will be effective until Mar 2027.
- Key catalysts:** 1) roll out of home appliance trade-in initiative nationwide; and 2) better-than-expected margin expansion aided by more benign-than-expected industry competition and increase in revenue contribution from third-party business.

BUY (Maintain)

Target Price **US\$51.90**
 (Previous TP) US\$52.00
Up/Downside **54.4%**
Current Price **US\$33.62**

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Stock Data

Mkt Cap (US\$ mn)	53,304.5
Avg 3 mths t/o (US\$ mn)	218.8
52w High/Low (US\$)	41.31/21.44
Total Issued Shares (mn)	1585.5

Source: FactSet

Shareholding Structure

Richard Qiangdong Liu	13.8%
Max Smart Limited	13.3%

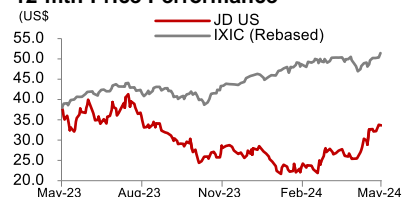
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	34.2%	27.1%
3-mth	38.8%	30.8%
6-mth	19.7%	0.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	1,046,236	1,084,662	1,160,996	1,226,443	1,281,843
YoY growth (%)	9.9	3.7	7.0	5.6	4.5
Net profit (RMB mn)	10,380.0	24,167.0	31,340.7	37,285.1	41,403.6
Adjusted net profit (RMB mn)	28,220.0	35,200.0	36,588.4	41,787.1	46,162.1
EPS (Adjusted) (RMB)	11.75	22.20	23.08	26.36	29.12
Consensus EPS (RMB)	na	22.17	21.76	24.70	27.39
P/E (x)	36.6	15.8	12.2	10.2	9.2

Source: Company data, Bloomberg, CMBIGM estimates

Business forecasts update and valuation

Figure 1: JD: quarterly financial results

(RMBbn)	1Q23	2Q23	3Q23	4Q23	1Q24	1Q24 Consensus	Diff%
Revenue breakdown by product and services revenue							
Net product revenues	195.6	233.9	195.3	246.5	208.5	206.3	1.1%
YoY growth (%)	-4.3%	3.5%	-0.9%	3.7%	6.6%		
Electronics and home appliance revenues	117.0	152.1	119.3	150.4	123.2	123.5	-0.3%
YoY growth (%)	-1.2%	11.4%	0.0%	6.1%	5.3%		
General merchandise revenues	78.6	81.7	76.0	96.1	85.3	82.7	3.1%
YoY growth (%)	-8.7%	-8.6%	-2.3%	0.2%	8.6%		
Net services revenues	47.4	54.1	52.4	59.6	51.5	51.3	0.5%
YoY growth (%)	34.5%	30.1%	12.7%	3.0%	8.8%		
Marketplace and advertising revenues	19.1	22.5	19.5	23.6	19.3	19.4	-0.4%
YoY growth (%)	7.8%	8.5%	3.0%	-4.0%	1.2%		
Logistics and other service revenues	28.3	31.6	32.9	36.0	32.3	31.9	1.0%
YoY growth (%)	61.3%	51.5%	19.3%	8.1%	13.8%		
Revenue breakdown by business segments							
JD Retail	212.4	253.3	212.1	267.6	226.8	226.5	0.1%
YoY growth (%)	-2.4%	4.9%	0.1%	3.4%	6.8%		
JD Logistics	36.7	41.0	41.7	47.2	42.1		
YoY growth (%)	34.3%	31.2%	16.5%	9.7%	14.7%		
Dada	2.6	2.8	2.9	3.1	2.5		
YoY growth (%)	274.4%	23.2%	20.5%	14.0%	-4.8%		
New businesses	3.5	4.3	3.8	3.7	2.4		
YoY growth (%)	-40.1%	-31.1%	-23.6%	-21.8%	-29.9%		
Intersegment elimination	-12.2	-13.5	-12.7	-15.6	-13.8		
Total revenue	243.0	287.9	247.7	306.1	260.0	258.3	0.7%
YoY growth (%)	1.4%	7.6%	1.7%	3.6%	7.0%		
Gross profit	36.0	41.4	38.8	43.5	39.8	38.4	3.4%
Operating profit	6.4	8.3	9.3	2.0	7.7	6.6	16.9%
JD Retail operating profit	9.8	8.1	11.0	6.9	9.3	8.3	12.3%
New businesses (ex. Gain on sale of property)	-0.6	0.1	-0.1	-1.7	-0.3	-0.4	
Non-GAAP net profit	7.6	8.6	10.6	8.4	8.9	7.4	20.1%
YoY growth (%)	88.3%	31.9%	5.9%	9.9%	17.2%		
Margin profile							
GPM (%)	14.8%	14.4%	15.6%	14.2%	15.3%	14.9%	0.4 ppt
OPM (%)	2.6%	2.9%	3.8%	0.7%	3.0%	2.5%	0.4 ppt
JD Retail	4.6%	3.2%	5.2%	2.6%	4.1%	3.7%	0.4 ppt
Adjusted NPM (%)	3.1%	3.0%	4.3%	2.7%	3.4%	2.9%	0.6 ppt

Source: Bloomberg, Company data, CMBIGM

Figure 2: JD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	1,161.0	1,226.4	1,281.8	1,160.3	1,225.4	1,280.6	0.1%	0.1%	0.1%
Gross Profit	173.6	185.9	196.7	173.6	185.8	196.6	0.0%	0.1%	0.1%
Non-GAAP net profit	36.6	41.8	46.2	36.1	41.2	45.8	1.5%	1.4%	0.8%
Gross Margin	15.0%	15.2%	15.3%	15.0%	15.2%	15.3%	0.0 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	3.2%	3.4%	3.6%	3.1%	3.4%	3.6%	0.0 ppt	0.0 ppt	0.0 ppt

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	1,161.0	1,226.4	1,281.8	1,159.9	1,233.4	1,303.7	0.1%	-0.6%	-1.7%
Gross Profit	173.6	185.9	196.7	172.9	185.5	198.5	0.4%	0.2%	-0.9%
Non-GAAP net profit	36.6	41.8	46.2	36.2	39.8	44.4	1.0%	5.0%	4.0%
Gross Margin	15.0%	15.2%	15.3%	14.9%	15.0%	15.2%	0.0 ppt	0.1 ppt	0.1 ppt
Non-GAAP net margin	3.2%	3.4%	3.6%	3.1%	3.2%	3.4%	0.0 ppt	0.2 ppt	0.2 ppt

Source: Bloomberg, CMBIGM estimates

DCF-based target price of US\$51.9

Our target price is US\$51.9, based on the DCF valuation methodology (WACC of 11.8% and terminal growth of 1.5%; both unchanged). Our target price translates into 16.2x 2024E PE (non-GAAP).

Figure 4: JD: DCF valuation (WACC of 11.8% and terminal growth of 1.5%)

(RMBbn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	1,161	1,226	1,282	1,328	1,365	1,395	1,418
NPV of FCF	209	210					
Discounted terminal value	271	303					
Total equity valuation	576	647					
No. of shares (diluted, mn)	1,586	1,586					
Valuation per share (USD)	50.3	56.5					
TP per share (USD)	51.9						

Source: Bloomberg, CMBIGM estimates

Note: Our target price is based on the weighted average of 9-month target price in 2024E and 3-month target price in 2025E.

Risks

1) Consumption recovery takes longer than we expected; 2) more intensified-than-expected business competition.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	951,592	1,046,236	1,084,662	1,160,996	1,226,443	1,281,843
Cost of goods sold	(822,525)	(899,163)	(924,958)	(987,424)	(1,040,497)	(1,085,104)
Gross profit	129,067	147,073	159,704	173,572	185,946	196,739
Operating expenses	(124,926)	(127,350)	(132,663)	(138,159)	(143,003)	(147,925)
Selling expense	(38,743)	(37,772)	(40,133)	(42,144)	(43,907)	(45,249)
Admin expense	(11,562)	(11,053)	(9,710)	(9,868)	(10,425)	(10,896)
R&D expense	(16,332)	(16,893)	(16,393)	(16,254)	(16,557)	(17,049)
Others	(58,288)	(61,632)	(66,427)	(69,892)	(72,115)	(74,731)
Operating profit	4,141	19,723	27,041	35,414	42,943	48,814
Other gains/(losses)	(590)	(1,555)	7,496	6,147	4,917	3,934
Share of (losses)/profits of associates/JV	(4,918)	(2,195)	1,010	0	0	0
EBIT	(1,367)	15,973	35,547	41,560	47,860	52,748
Interest income	(1,213)	(2,106)	(2,881)	(2,154)	(1,754)	(1,494)
Others	0	0	(1,016)	(730)	0	0
Pre-tax profit	(2,581)	13,867	31,650	38,676	46,106	51,255
Income tax	1,887	4,176	8,393	7,735	9,221	10,251
After tax profit	(4,467)	9,691	23,257	30,941	36,885	41,004
Minority interest	(924)	(697)	(910)	(400)	(400)	(400)
Discontinued operations	0	0	0	0	0	0
Others	(16)	(8)	0	0	0	0
Net profit	(3,560)	10,380	24,167	31,341	37,285	41,404
Adjusted net profit	17,207	28,220	35,200	36,588	41,787	46,162
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	299,672	351,074	307,810	354,670	400,422	450,075
Cash & equivalents	70,767	78,861	71,892	103,567	143,557	188,360
Restricted cash	5,926	6,254	7,506	7,506	7,506	7,506
Account receivables	11,900	20,576	20,302	25,446	26,881	28,095
Inventories	75,601	77,949	68,058	77,934	82,123	85,643
Prepayment	11,456	15,156	15,639	15,639	15,639	15,639
Other current assets	124,023	152,278	124,413	124,578	124,716	124,832
Non-current assets	196,835	244,176	321,148	317,328	326,444	334,465
PP&E	32,944	55,080	70,035	66,215	75,331	83,352
Right-of-use assets	19,987	22,267	20,863	20,863	20,863	20,863
Deferred income tax	1,111	1,536	1,744	1,744	1,744	1,744
Investment in JVs & assos	63,222	57,641	56,746	56,746	56,746	56,746
Intangibles	5,837	9,139	6,935	6,935	6,935	6,935
Goodwill	12,433	23,123	19,979	19,979	19,979	19,979
Other non-current assets	61,300	75,390	144,846	144,846	144,846	144,846
Total assets	496,507	595,250	628,958	671,998	726,866	784,540
Current liabilities	221,636	266,561	265,650	278,289	289,376	298,680
Short-term borrowings	4,368	12,146	5,034	5,034	5,034	5,034
Account payables	140,484	160,607	166,167	174,421	183,796	191,676
Tax payable	2,568	5,926	7,313	7,313	7,313	7,313
Other current liabilities	33,083	37,624	35,848	40,233	41,944	43,370
Lease liabilities	6,665	7,688	7,755	7,755	7,755	7,755
Accrued expenses	34,469	42,570	43,533	43,533	43,533	43,533
Non-current liabilities	28,087	54,566	66,928	78,019	79,507	81,152
Long-term borrowings	9,386	10,224	10,411	21,502	22,990	24,635
Deferred income	1,297	1,107	964	964	964	964
Other non-current liabilities	17,404	43,235	55,553	55,553	55,553	55,553
Total liabilities	249,723	321,127	332,578	356,307	368,883	379,832
Share capital	0	0	0	0	0	0
Capital surplus	208,912	213,366	231,858	219,097	224,105	229,426
Retained earnings	0	0	0	32,071	69,356	110,759
Other reserves	1,212	590	614	614	614	614
Total shareholders equity	210,124	213,956	232,472	251,782	294,075	340,800
Minority interest	36,661	60,167	63,908	63,908	63,908	63,908
Total equity and liabilities	496,507	595,250	628,958	671,998	726,866	784,540

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,581)	13,867	31,650	38,676	46,106	51,255
Depreciation & amortization	6,232	7,236	5,257	5,756	6,215	6,720
Tax paid	(1,887)	(4,176)	(8,393)	(7,735)	(9,221)	(10,251)
Change in working capital	18,948	22,119	20,639	(2,546)	5,325	4,454
Others	21,588	18,773	10,368	5,778	5,407	5,721
Net cash from operations	42,301	57,819	59,521	39,928	53,832	57,899
Investing						
Capital expenditure	(19,057)	(38,165)	(16,270)	(16,254)	(15,331)	(14,741)
Acquisition of subsidiaries/ investments	(181,916)	(184,792)	0	0	0	0
Net proceeds from disposal of short-term investments	126,934	171,853	0	0	0	0
Others	(209)	(2,922)	(43,273)	0	0	0
Net cash from investing	(74,248)	(54,026)	(59,543)	(16,254)	(15,331)	(14,741)
Financing						
Net borrowings	(2,975)	7,027	(6,925)	11,091	1,489	1,645
Proceeds from share issues	22,478	(5,847)	0	0	0	0
Others	0	0	1,117	0	0	0
Net cash from financing	19,503	1,180	(5,808)	11,091	1,489	1,645
Net change in cash						
Cash at the beginning of the year	87,376	73,550	82,013	76,308	111,073	151,063
Exchange difference	(1,382)	3,490	125	0	0	0
Cash at the end of the year	73,550	82,013	76,308	111,073	151,063	195,866
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	27.6%	9.9%	3.7%	7.0%	5.6%	4.5%
Gross profit	18.3%	14.0%	8.6%	8.7%	7.1%	5.8%
Operating profit	(55.0%)	376.3%	37.1%	31.0%	21.3%	13.7%
EBIT	na	na	122.5%	16.9%	15.2%	10.2%
Net profit	na	na	132.8%	29.7%	19.0%	11.0%
Adj. net profit	25.7%	64.0%	24.7%	3.9%	14.2%	10.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	13.6%	14.1%	14.7%	15.0%	15.2%	15.3%
Operating margin	0.4%	1.9%	2.5%	3.1%	3.5%	3.8%
Adj. net profit margin	1.8%	2.7%	3.2%	3.2%	3.4%	3.6%
Return on equity (ROE)	(1.7%)	4.9%	10.8%	12.9%	13.7%	13.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.3)	(0.2)	(0.3)	(0.4)	(0.5)
Current ratio (x)	1.4	1.3	1.2	1.3	1.4	1.5
Receivable turnover days	3.6	5.7	6.9	7.2	7.8	7.8
Inventory turnover days	(29.9)	(31.2)	(28.8)	(27.0)	(28.1)	(28.2)
Payable turnover days	(54.9)	(61.1)	(64.5)	(62.9)	(62.8)	(63.1)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	36.6	15.8	12.2	10.2	9.2
P/E (diluted)	ns	37.2	15.9	12.3	10.3	9.3
P/B	1.8	1.8	1.6	1.5	1.3	1.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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