

JD.com (JD US)

Expecting an upbeat bottom line for 2Q results

Although the high base in air conditioner category and industrywide soft performance of PC category are likely to weigh on JD's revenue growth on electronic and home appliance (E&HA) in 2Q24E, its strategies to focus on ROI and quality growth may drive a beat on earnings. We forecast JD has logged 2Q24E revenue of RMB290.9bn (up 1.0% YoY), and non-GAAP net income of RMB9.9bn, which translates into non-GAAP net margin of 3.4% and was 16% better than Bloomberg consensus. With a normalization in revenue growth of both E&HA and platform business, we expect YoY revenue growth for JD to reaccelerate in 3Q24E, and the GMV growth of JD Retail (JDR) can still outperform that of total retail sales in 2024E. Amid fierce industry competition, the steady profitability and enhancement of shareholder return could provide support for JD's valuation, while further rerating may hinge on consumption recovery, and JD's ability to prove the market that its core category could maintain stable market share over the medium to long term. Maintain BUY with unchanged DCF-based TP of US\$51.9.

- JD Retail: remains committed to drive for user growth.** We estimate JD Retail (JDR) inked revenue of RMB254.2bn in 2Q24, up 0.3% YoY, 5.8% short of Bloomberg consensus, owing to the soft performance of E&HA revenue due to a high base in air conditioner category, as well as an industrywide soft performance of PC category. However, driven by the high ROI target and the strategy to drive for revenue growth in an efficient way, we estimate JDR has recorded non-GAAP operating profit of RMB9.2bn, up 12% YoY, and was 1% better than Bloomberg consensus, translating into non-GAAP OPM of 3.6% (2Q23: 3.2%).
- 2Q24 results preview: expecting an upbeat bottom line.** For 2Q24E, we estimate JD logged revenue of RMB290.9bn, up 1.0% YoY, 5% shy of consensus estimates. However, we forecast JD to have recorded non-GAAP net income of RMB9.9bn, 16% better than Bloomberg consensus estimates, due to more stringent than expected cost control when driving for business development. Our non-GAAP net income forecast implies a non-GAAP net margin of 3.4% in 2Q24E (2Q23: 3.0%).
- Revision in revenue and earnings forecast.** We revise down 2024-2026E revenue forecast by 0.6-0.9%, driven by a lowered forecast for E&HA revenue, while we lift non-GAAP net income forecast by 4-5% thanks to likely more efficient than expected spending in driving for revenue growth. JD's current valuation of 8/7x 2024/2025E non-GAAP PE is not demanding versus 11% non-GAAP earnings CAGR over 2023-2026E, in our view. Key catalysts include: 1) further enhancement of shareholder return; and 2) consumption recovery to drive a better outlook in revenue and earnings growth.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	1,046,236	1,084,662	1,150,566	1,217,581	1,274,194
YoY growth (%)	9.9	3.7	6.1	5.8	4.6
Net profit (RMB mn)	10,380.0	24,167.0	33,209.0	39,307.0	43,150.0
Adjusted net profit (RMB mn)	28,220.0	35,200.0	38,456.6	43,812.8	47,894.4
EPS (Adjusted) (RMB)	11.75	22.20	24.26	27.63	30.21
Consensus EPS (RMB)			21.82	24.36	26.74
P/E (x)	29.3	12.7	9.2	7.8	7.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$51.90**
 Up/Downside **93.9%**
 Current Price **US\$26.76**

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	42,428.0
Avg 3 mths t/o (US\$ mn)	87.1
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%

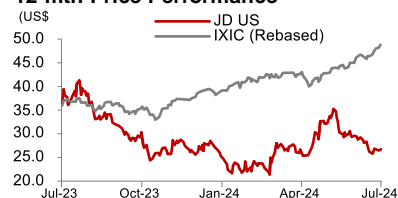
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.0%	-15.4%
3-mth	-0.9%	-12.6%
6-mth	5.4%	-15.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Revision in financial forecast with target price unchanged at US\$51.9

Figure 1: JD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	1,150.6	1,217.6	1,274.2	1,161.0	1,226.4	1,281.8	-0.9%	-0.7%	-0.6%
Gross profit	173.6	186.1	196.1	173.6	185.9	196.7	0.0%	0.1%	-0.3%
Non-GAAP net profit	38.5	43.8	47.9	36.6	41.8	46.2	5.1%	4.8%	3.8%
Gross margin	15.1%	15.3%	15.4%	15.0%	15.2%	15.3%	0.1 ppt	0.1 ppt	0.0 ppt
Non-GAAP net margin	3.3%	3.6%	3.8%	3.2%	3.4%	3.6%	0.2 ppt	0.2 ppt	0.2 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	1,150.6	1,217.6	1,274.2	1,162.6	1,237.3	1,313.0	-1.0%	-1.6%	-3.0%
Gross profit	173.6	186.1	196.1	174.6	187.8	201.6	-0.6%	-0.9%	-2.7%
Non-GAAP net profit	38.5	43.8	47.9	37.0	40.7	44.4	4.0%	7.7%	7.9%
Gross margin	15.1%	15.3%	15.4%	15.0%	15.2%	15.4%	0.1 ppt	0.1 ppt	0.0 ppt
Non-GAAP net margin	3.3%	3.6%	3.8%	3.2%	3.3%	3.4%	0.2 ppt	0.3 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

DCF-based target price of US\$51.9

Our target price is US\$51.9, based on DCF valuation methodology (WACC of 11.8% and terminal growth of 1.5%; both unchanged). Our target price translates into 15x 2024E PE (non-GAAP).

Figure 3: JD: DCF valuation (WACC of 11.8% and terminal growth of 1.5%)

(RMBbn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	1,151	1,218	1,274	1,320	1,356	1,385	1,408
NPV of FCF	212	211					
Discounted terminal value	266	298					
Total equity valuation	575	648					
No. of shares (diluted, mn)	1,586	1,586					
Valuation per share (USD)	50.3	56.6					
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

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	951,592	1,046,236	1,084,662	1,150,566	1,217,581	1,274,194
Cost of goods sold	(822,525)	(899,163)	(924,958)	(976,998)	(1,031,450)	(1,078,126)
Gross profit	129,067	147,073	159,704	173,569	186,131	196,068
Operating expenses	(124,926)	(127,350)	(132,663)	(134,616)	(140,996)	(146,405)
Selling expense	(38,743)	(37,772)	(40,133)	(40,845)	(43,224)	(44,979)
Admin expense	(11,562)	(11,053)	(9,710)	(8,629)	(9,741)	(10,194)
R&D expense	(16,332)	(16,893)	(16,393)	(16,108)	(16,437)	(16,947)
Others	(58,288)	(61,632)	(66,427)	(69,034)	(71,594)	(74,286)
Operating profit	4,141	19,723	27,041	38,952	45,135	49,663
Other gains/(losses)	(590)	(1,555)	7,496	6,796	6,796	6,796
Share of (losses)/profits of associates/JV	(4,918)	(2,195)	1,010	0	0	0
EBIT	(1,367)	15,973	35,547	45,748	51,931	56,459
Interest income	(1,213)	(2,106)	(2,881)	(2,463)	(1,754)	(1,478)
Others	0	0	(1,016)	(730)	0	0
Pre-tax profit	(2,581)	13,867	31,650	42,555	50,178	54,981
Income tax	1,887	4,176	8,393	8,511	10,036	10,996
After tax profit	(4,467)	9,691	23,257	34,044	40,142	43,985
Minority interest	(924)	(697)	(910)	835	835	835
Discontinued operations	0	0	0	0	0	0
Others	(16)	(8)	0	0	0	0
Net profit	(3,560)	10,380	24,167	33,209	39,307	43,150
Adjusted net profit	17,207	28,220	35,200	38,457	43,813	47,894
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	299,672	351,074	307,810	355,762	405,303	458,514
Cash & equivalents	70,767	78,861	71,892	105,744	149,375	197,541
Restricted cash	5,926	6,254	7,506	7,506	7,506	7,506
Account receivables	11,900	20,576	20,302	25,218	26,687	27,928
Inventories	75,601	77,949	68,058	77,111	81,409	85,092
Prepayment	11,456	15,156	15,639	15,639	15,639	15,639
Other current assets	124,023	152,278	124,413	124,544	124,688	124,808
Non-current assets	196,835	244,176	321,148	317,187	326,203	334,153
PP&E	32,944	55,080	70,035	66,074	75,090	83,040
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	672,948	731,506	792,667
Current liabilities	221,636	266,561	265,650	276,027	287,426	297,151
Short-term borrowings	4,368	12,146	5,034	5,034	5,034	5,034
Account payables	140,484	160,607	166,167	172,579	182,198	190,443
Tax payable	2,568	5,926	7,313	7,313	7,313	7,313
Other current liabilities	33,083	37,624	35,848	39,812	41,593	43,073
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	78,128	79,731	81,480
Long-term borrowings	9,386	10,224	10,411	21,611	23,214	24,963
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	354,155	367,158	378,632
Share capital	0	0	0	0	0	0
Capital surplus	208,912	213,366	231,858	220,332	226,580	233,117
Retained earnings	0	0	0	33,939	73,246	116,396
Other reserves	1,212	590	614	614	614	614
Total shareholders equity	210,124	213,956	232,472	254,885	300,440	350,127
Minority interest	36,661	60,167	63,908	63,908	63,908	63,908
Total equity and liabilities	496,507	595,250	628,958	672,948	731,506	792,667

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,581)	13,867	31,650	42,555	50,178	54,981
Depreciation & amortization	6,232	7,236	5,257	5,751	6,203	6,704
Tax paid	(1,887)	(4,176)	(8,393)	(8,511)	(10,036)	(10,996)
Change in working capital	18,948	22,119	20,639	(3,722)	5,489	4,680
Others	21,588	18,773	10,368	5,777	5,413	5,702
Net cash from operations	42,301	57,819	59,521	41,850	57,246	61,071
Investing						
Capital expenditure	(19,057)	(38,165)	(16,270)	(16,108)	(15,220)	(14,653)
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)	(16,108)	(15,220)	(14,653)
Financing						
Net borrowings	(2,975)	7,027	(6,925)	11,200	1,604	1,749
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)	11,200	1,604	1,749
Net change in cash						
Cash at the beginning of the year	87,376	73,550	82,013	76,308	113,250	156,881
Exchange difference	(1,382)	3,490	125	0	0	0
Cash at the end of the year	73,550	82,013	76,308	113,250	156,881	205,047
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	27.6%	9.9%	3.7%	6.1%	5.8%	4.6%
Gross profit	18.3%	14.0%	8.6%	8.7%	7.2%	5.3%
Operating profit	(55.0%)	376.3%	37.1%	44.0%	15.9%	10.0%
EBIT	na	na	122.5%	28.7%	13.5%	8.7%
Net profit	na	na	132.8%	37.4%	18.4%	9.8%
Adj. net profit	25.7%	64.0%	24.7%	9.3%	13.9%	9.3%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	13.6%	14.1%	14.7%	15.1%	15.3%	15.4%
Operating margin	0.4%	1.9%	2.5%	3.4%	3.7%	3.9%
Adj. net profit margin	1.8%	2.7%	3.2%	3.3%	3.6%	3.8%
Return on equity (ROE)	(1.7%)	4.9%	10.8%	13.6%	14.2%	13.3%
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)	(27.1)	(28.0)	(28.2)
Payable turnover days	(54.9)	(61.1)	(64.5)	(63.3)	(62.8)	(63.1)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	29.3	12.7	9.2	7.8	7.1
P/E (diluted)	ns	29.8	12.8	9.3	7.9	7.2
P/B	1.4	1.4	1.3	1.2	1.0	0.9

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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