

JD.com (JD US)

More proactively driving growth amid improving sentiment

JD.com (JD) reported (14 Nov) 3Q24 results: revenue was RMB260.4bn, up 5.1% YoY (3Q23: 1.7%; 2Q24: 1.2%), in line with Bloomberg consensus; non-GAAP NP was RMB13.2bn, up 24% YoY, and was 16% ahead of consensus, thanks to a 6% beat on JD Retail's (JDR) OP aided by stronger-than-expected scale effect, and strong profitability improvement of JD Logistics (JDL). Management highlighted an improving trend in consumption sentiment in 3Q24, driven by nationwide home appliance trade-in program and new product launches for smartphones, with YoY revenue growth of Electronics and Home Appliance (E&HA) seeing sequential improvement on a MoM basis, and this trend continued in Oct. JD is marginally shifting its emphasis from ROI and cost control to more on GMV and revenue growth amid improving sentiment, while quality and sustainable earnings growth of core business as well as enhancement of shareholder return remain key stock price drivers, in our view. Our DCF-based TP is fine-tuned to US\$53.2, translating into 13x 25E PE (non-GAAP); BUY.

- Home appliance trade-in program aided sequential recovery in revenue growth.** JD's net product revenue was RMB204.6bn in 3Q24 (78.6% of total revenue), up 4.8% YoY (3Q23: -0.9%; 2Q24: 0.0%) and 1% better than consensus, among which E&HA revenue was up 2.7% YoY (2Q24: -4.6%), thanks to the wearing off of high-base effect, and the nationwide implementation of home-appliance trade-in program starting from the second half of 3Q24. General merchandise revenue for the quarter was up 8.0% YoY (3Q23/2Q24: -2.3%/+8.7%), and JD highlighted that revenue for supermarket category continued to deliver >10% YoY growth.
- Growth of commission revenue turned positive as expected.** In 3Q24, net services revenue was RMB55.8bn (21.4% of total revenue), up 6.5% YoY, among which marketplace and ads revenue was up 6.3% YoY (2Q24: 4.1%; 3Q23: 3.0%), and logistics and other services revenue was up 6.5% YoY to RMB35.0bn. Within marketplace and ads segment, ads revenue growth of JDR sustained double-digit growth YoY in 3Q24, and commission revenue returned to mid-to-high single-digit YoY growth range as expected, and we are expecting a further sequential improvement in YoY segment revenue growth in 4Q24.
- JDR: stronger-than-expected GPM expansion buffers incremental investment to increase user activity.** JD Retail (JDR) inked revenue of RMB225.0bn in 3Q24, up 6.1% YoY, inline with consensus, while its OP of RMB11.6bn was 6% ahead of consensus. OPM of JDR was 5.2%, flat YoY, which in our view was driven by the mixed impact from better-than-expected GPM expansion aided by improving scale effect, mix shift to relatively high margin categories, and increase in revenue contribution from services revenue, while partly offset by incremental sales and marketing investment to drive user activity improvement. JD's marketing expense was RMB10.0bn in 3Q24 (consensus: RMB9.1bn), up 26% YoY. OP of JDL reached RMB2.1bn (3Q23: RMB288mn), which strongly contributed to the RMB2.7bn YoY (or 30% YoY) expansion in GAAP OP of JD.
- Pace of buyback slows but management remains committed to enhancing shareholder return.** The total number of shares repurchased by JD for the 3/9 months ended 30 Sep 2024 amounted to c. 1.1%/8.1% of its ordinary shares outstanding as of 30 Jun 2024/31 Dec 2023.

BUY (Maintain)

Target Price **US\$53.20**
 (Previous TP) US\$53.50
Up/Downside **49.1%**
Current Price **US\$35.69**

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Stock Data

Mkt Cap (US\$ mn)	56,586.5
Avg 3 mths t/o (US\$ mn)	221.2
52w High/Low (US\$)	47.08/21.44
Total Issued Shares (mn)	1585.5

Source: FactSet

Shareholding Structure

Richard Qiangdong Liu	13.8%
Max Smart Limited	13.3%

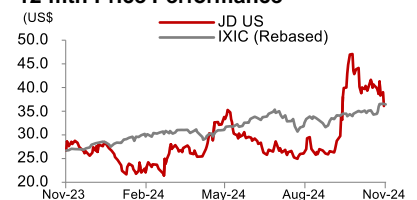
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-19.1%	-22.2%
3-mth	37.8%	23.2%
6-mth	7.0%	-8.1%

Source: FactSet

12-mth Price Performance



Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	1,046,236	1,084,662	1,135,785	1,202,495	1,258,512
YoY growth (%)	9.9	3.7	4.7	5.9	4.7
Net profit (RMB mn)	10,380.0	24,167.0	39,412.8	43,074.1	46,448.0
Adjusted net profit (RMB mn)	28,220.0	35,200.0	45,054.3	46,015.6	49,554.9
EPS (Adjusted) (RMB)	11.75	22.20	28.42	29.02	31.26
Consensus EPS (RMB)	na	na	26.90	29.16	32.22
P/E (x)	38.8	16.8	10.3	9.4	8.7

Source: Company data, Bloomberg, CMBIGM estimates

Business forecasts update and valuation

Figure 1: JD: quarterly financial results

(RMBbn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	3Q24 Consensus	Diff%
Revenue breakdown by product and services revenue									
Net product revenues	195.6	233.9	195.3	246.5	208.5	233.9	204.6	203.5	0.5%
YoY growth (%)	-4.3%	3.5%	-0.9%	3.7%	6.6%	0.0%	4.8%		
Electronics and home appliance revenues	117.0	152.1	119.3	150.4	123.2	145.1	122.6	121.6	0.8%
YoY growth (%)	-1.2%	11.4%	0.0%	6.1%	5.3%	-4.6%	2.7%		
General merchandise revenues	78.6	81.7	76.0	96.1	85.3	88.8	82.1	82.7	-0.7%
YoY growth (%)	-8.7%	-8.6%	-2.3%	0.2%	8.6%	8.7%	8.0%		
Net services revenues	47.4	54.1	52.4	59.6	51.5	57.5	55.8	56.7	-1.6%
YoY growth (%)	34.5%	30.1%	12.7%	3.0%	8.8%	6.3%	6.5%		
Marketplace and advertising revenues	19.1	22.5	19.5	23.6	19.3	23.4	20.8	21.2	-1.9%
YoY growth (%)	7.8%	8.5%	3.0%	-4.0%	1.2%	4.1%	6.3%		
Logistics and other service revenues	28.3	31.6	32.9	36.0	32.3	34.1	35.0	35.5	-1.4%
YoY growth (%)	61.3%	51.5%	19.3%	8.1%	13.8%	7.9%	6.5%		
Revenue breakdown by business segment									
JD Retail	212.4	253.3	212.1	267.6	226.8	257.1	225.0	224.3	0.3%
YoY growth (%)	-2.4%	4.9%	0.1%	3.4%	6.8%	1.5%	6.1%		
JD Logistics	36.7	41.0	41.7	47.2	42.1	44.2	44.4		
YoY growth (%)	34.3%	31.2%	16.5%	9.7%	14.7%	7.7%	6.6%		
New businesses (including Dada)	6.0	7.1	6.7	6.8	4.9	4.6	5.0		
YoY growth (%)	-6.5%	16.6%	-9.4%	-8.9%	19.2%	35.0%	25.7%		
Intersegment elimination	-12.2	-13.5	-12.7	-15.6	-13.8	-14.5	-14.0		
Total revenue	243.0	287.9	247.7	306.1	260.0	291.4	260.4	259.7	0.3%
YoY growth (%)	1.4%	7.6%	1.7%	3.6%	7.0%	1.2%	5.1%		
Gross profit	36.0	41.4	38.8	43.5	39.8	45.9	45.0	41.9	7.5%
Operating profit	6.4	8.3	9.3	2.0	7.7	10.5	12.0	11.0	9.7%
JD Retail operating profit	9.8	8.1	11.0	6.9	9.3	10.1	11.6	11.0	5.6%
New businesses (ex. Gain on sale of property)	-0.6	0.1	-0.1	-1.7	-0.3	-0.5	-0.4		
Non-GAAP net profit	7.6	8.6	10.6	8.4	8.9	14.5	13.2	11.4	15.8%
YoY growth (%)	88.3%	31.9%	5.9%	9.9%	17.2%	69.0%	23.9%		
Margin profile									
GPM (%)	14.8%	14.4%	15.6%	14.2%	15.3%	15.8%	17.3%	16.1%	1.2 ppt
OPM (%)	2.6%	2.9%	3.8%	0.7%	3.0%	3.6%	4.6%	4.2%	0.4 ppt
									0.3 ppt
JD Retail	4.6%	3.2%	5.2%	2.6%	4.1%	3.9%	5.2%	4.9%	ppt
Adjusted NPM (%)	3.1%	3.0%	4.3%	2.7%	3.4%	5.0%	5.1%	4.4%	0.7 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	1,135.8	1,202.5	1,258.5	1,138.9	1,204.8	1,260.1	-0.3%	-0.2%	-0.1%
Gross profit	180.4	194.8	205.9	174.3	186.7	196.1	3.5%	4.3%	5.0%
Non-GAAP net profit	45.1	46.0	49.6	42.3	43.8	47.6	6.6%	5.0%	4.0%
Gross Margin	15.9%	16.2%	16.4%	15.3%	15.5%	15.6%	0.6 ppt	0.7 ppt	0.8 ppt
Non-GAAP net margin	4.0%	3.8%	3.9%	3.7%	3.6%	3.8%	0.3 ppt	0.2 ppt	0.2 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	1,135.8	1,202.5	1,258.5	1,136.0	1,203.4	1,272.0	0.0%	-0.1%	-1.1%
Gross Profit	180.4	194.8	205.9	175.4	189.3	202.4	2.8%	2.9%	1.8%
Non-GAAP net profit	45.1	46.0	49.6	42.2	45.0	49.1	6.9%	2.3%	0.9%
Gross Margin	15.9%	16.2%	16.4%	15.4%	15.7%	15.9%	0.4 ppt	0.5 ppt	0.5 ppt
Non-GAAP net margin	4.0%	3.8%	3.9%	3.7%	3.7%	3.9%	0.3 ppt	0.1 ppt	0.1 ppt

Source: Bloomberg, CMBIGM estimates

DCF-based target price of US\$53.2

Our target price is US\$53.2, based on DCF valuation methodology (WACC of 11.8% and terminal growth of 1.5%; both unchanged). Our target price translates into 13x 2025E PE (non-GAAP). We fine-tune USD:RMB exchange rate to 1:7.2 (was 1:7.0) to reflect the latest change in global macro environment.

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	1,136	1,202	1,259	1,303	1,338	1,366	1,387
NPV of FCF	214	216					
Discounted terminal value	274	307					
Total equity valuation	590	671					
No. of shares (diluted, mn)	1,586	1,586					
Valuation per share (USD)	51.4	58.5					
TP per share (USD)	53.2						

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 expect; 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	1,135,785	1,202,495	1,258,512
Cost of goods sold	(822,525)	(899,163)	(924,958)	(955,362)	(1,007,729)	(1,052,597)
Gross profit	129,067	147,073	159,704	180,422	194,766	205,915
Operating expenses	(124,926)	(127,350)	(132,663)	(141,292)	(147,185)	(152,657)
Selling expense	(38,743)	(37,772)	(40,133)	(46,340)	(48,701)	(50,592)
Admin expense	(11,562)	(11,053)	(9,710)	(8,746)	(9,019)	(9,313)
R&D expense	(16,332)	(16,893)	(16,393)	(17,605)	(18,037)	(18,626)
Others	(58,288)	(61,632)	(66,427)	(68,601)	(71,428)	(74,126)
Operating profit	4,141	19,723	27,041	39,131	47,581	53,258
Other gains/(losses)	(590)	(1,555)	7,496	12,000	9,200	9,200
Share of (losses)/profits of associates/JV	(4,918)	(2,195)	1,010	0	0	0
EBIT	(1,367)	15,973	35,547	51,131	56,781	62,458
Interest income	(1,213)	(2,106)	(2,881)	(2,656)	(1,845)	(1,534)
Others	0	0	(1,016)	1,771	1,771	0
Pre-tax profit	(2,581)	13,867	31,650	50,246	56,706	60,924
Income tax	1,887	4,176	8,393	8,542	11,341	12,185
After tax profit	(4,467)	9,691	23,257	41,704	45,365	48,739
Minority interest	(924)	(697)	(910)	2,291	2,291	2,291
Discontinued operations	0	0	0	0	0	0
Others	(16)	(8)	0	0	0	0
Net profit	(3,560)	10,380	24,167	39,413	43,074	46,448
Adjusted net profit	17,207	28,220	35,200	45,054	46,016	49,555
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	299,672	351,074	307,810	358,836	413,102	472,382
Cash & equivalents	70,767	78,861	71,892	110,870	159,383	213,763
Restricted cash	5,926	6,254	7,506	7,506	7,506	7,506
Account receivables	11,900	20,576	20,302	24,894	26,356	27,584
Inventories	75,601	77,949	68,058	75,403	79,536	83,078
Prepayment	11,456	15,156	15,639	15,639	15,639	15,639
Other current assets	124,023	152,278	124,413	124,524	124,682	124,813
Non-current assets	196,835	244,176	321,148	326,695	334,612	341,528
PP&E	32,944	55,080	70,035	75,582	83,499	90,415
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	685,531	747,714	813,909
Current liabilities	221,636	266,561	265,650	271,969	283,159	292,701
Short-term borrowings	4,368	12,146	5,034	5,034	5,034	5,034
Account payables	140,484	160,607	166,167	168,758	178,008	185,933
Tax payable	2,568	5,926	7,313	7,313	7,313	7,313
Other current liabilities	33,083	37,624	35,848	39,576	41,517	43,133
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	78,694	80,428	82,354
Long-term borrowings	9,386	10,224	10,411	22,177	23,911	25,837
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	350,662	363,587	375,055
Share capital	0	0	0	0	0	0
Capital surplus	208,912	213,366	231,858	232,705	240,660	248,939
Retained earnings	0	0	0	37,642	78,945	125,393
Other reserves	1,212	590	614	614	614	614
Total shareholders equity	210,124	213,956	232,472	270,961	320,219	374,946
Minority interest	36,661	60,167	63,908	63,908	63,908	63,908
Total equity and liabilities	496,507	595,250	628,958	685,531	747,714	813,909

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,581)	13,867	31,650	50,246	56,706	60,924
Depreciation & amortization	6,232	7,236	8,292	6,753	7,114	7,557
Tax paid	(1,887)	(4,176)	(8,393)	(8,542)	(11,341)	(12,185)
Change in working capital	18,948	22,119	16,547	(5,730)	5,438	4,642
Others	21,588	18,773	11,425	3,476	3,893	5,988
Net cash from operations	42,301	57,819	59,521	46,203	61,811	66,926
Investing						
Capital expenditure	(19,057)	(38,165)	(15,050)	(15,901)	(15,031)	(14,473)
Acquisition of subsidiaries/ investments	(181,916)	(184,792)	(194,987)	0	0	0
Net proceeds from disposal of short-term investments	126,934	171,853	225,889	0	0	0
Others	(209)	(2,922)	(75,395)	0	0	0
Net cash from investing	(74,248)	(54,026)	(59,543)	(15,901)	(15,031)	(14,473)
Financing						
Net borrowings	(2,975)	7,027	1,562	11,766	1,734	1,926
Proceeds from share issues	22,478	(5,847)	(7,370)	0	0	0
Others	0	0	0	0	0	0
Net cash from financing	19,503	1,180	(5,808)	11,766	1,734	1,926
Net change in cash						
Cash at the beginning of the year	87,376	73,550	82,013	76,308	118,376	166,889
Exchange difference	(1,382)	3,490	125	0	0	0
Cash at the end of the year	73,550	82,013	76,308	118,376	166,889	221,269
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	27.6%	9.9%	3.7%	4.7%	5.9%	4.7%
Gross profit	18.3%	14.0%	8.6%	13.0%	8.0%	5.7%
Operating profit	(55.0%)	376.3%	37.1%	44.7%	21.6%	11.9%
EBIT	na	na	122.5%	43.8%	11.1%	10.0%
Net profit	na	na	132.8%	63.1%	9.3%	7.8%
Adj. net profit	25.7%	64.0%	24.7%	28.0%	2.1%	7.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	13.6%	14.1%	14.7%	15.9%	16.2%	16.4%
Operating margin	0.4%	1.9%	2.5%	3.4%	4.0%	4.2%
Adj. net profit margin	1.8%	2.7%	3.2%	4.0%	3.8%	3.9%
Return on equity (ROE)	(1.7%)	4.9%	10.8%	15.7%	14.6%	13.4%
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	1.5	1.6
Receivable turnover days	3.6	5.7	6.9	7.3	7.8	7.8
Inventory turnover days	(29.9)	(31.2)	(28.8)	(27.4)	(28.1)	(28.2)
Payable turnover days	(54.9)	(61.1)	(64.5)	(64.0)	(62.8)	(63.1)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	38.8	16.8	10.3	9.4	8.7
P/E (diluted)	ns	39.5	16.9	10.4	9.5	8.8
P/B	1.9	1.9	1.7	1.5	1.3	1.1

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

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OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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