

COMPANY UPDATE

JD.com (9618 HK)

3Q24 Results Preview: Promising Outlook; Benefitting From Trade-In Programme

JD's top-line growth is guided to be solid at 4.8% yoy for 3Q24, on par with JD Retail's growth and in line with our expectation. JD also saw resilient user growth and GMV growth in 3Q24 as it is well positioned to benefit from a gradual consumption recovery in 2H24 on the back of the government stimulus and trade-in programme. We also expect the 11.11 campaign that kicked off on 14 Oct 24 to boost consumption demand. Maintain BUY with a higher target price of HK\$197.00 (US\$49.00).

WHAT'S NEW

- **Top-line growth momentum to pick up in 3Q24.** JD.com's (JD) 3Q24 revenue is guided to grow 4.8% yoy to Rmb260b (vs 1.2% in 1Q24), underpinned by a 5% yoy growth from JD Retail, driven by high single-digit yoy growth in gross merchandise value (GMV), outpacing revenue growth. On a monthly basis, both GMV and revenue were stable in July and August, which outperformed GMV growth in June. Meanwhile, JD saw GMV and revenue growth accelerating meaningfully in September, bolstered by the trade-in programme launched in late-July to early-September. By category, 3C electronics goods revenue from 1P improved from a negative 4-5% in 2Q24 to low single-digit growth in 3Q24, anchored by trade-in subsidies and strong performance from the launch of iPhone 16. Overall, JD saw 3Q24 GMV growth ranging between high single digits and 8%, sustaining from prior quarters. Meanwhile, the supermarket category continued to deliver double-digit yoy growth in 3Q24. Commission revenue growth turned positive in 3Q24 from a slight negative growth in 2Q24 with advertising revenue improving sequentially.
- **Solid user growth stemming from execution of user-centric strategy.** In 3Q24, daily active users (DAU) grew by nearly 20%, surpassing user growth in 2Q24, according to QuestMobile data. This aligns with JD's commitment to invest more in user acquisition as unveiled by the company in the beginning of 2024. In addition, merchant growth remains stable, with some merchants experiencing nearly triple-digit revenue growth, and active merchants also seeing double-digit growth.
- **JD as a key proxy to benefit from trade-in programme.** Several Chinese provinces have implemented trade-in subsidies for electronics, particularly home appliances, benefitting JD as one of the largest sales channels in this category. Beijing announced its trade-in programme on 24 August, with JD as the exclusive e-commerce partner. It was announced on 26 August that more than 7,000 products from eight types of home appliances such as TVs, air-conditioners and computers sold on JD's platform can enjoy subsidies. While predicting demand remains challenging as it is still at the early stage, the attractive subsidy levels (up to 20%) could positively impact JD's performance if demand continues to grow. As such, we forecast JD Electronics' revenue to grow 1% yoy in 3Q24, improving from a 5% yoy decline in 2Q24. As of 16 Sep 24, JD's home appliance trade-in subsidy covered a wide range of areas, including Beijing, Guangdong, Zhejiang, Qingdao and other regions.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	1,046,236	1,084,662	1,133,138	1,201,257	1,267,758
EBITDA	684	16,285	60,671	74,092	81,144
Operating profit	18,344	25,204	37,497	50,705	57,265
Net profit (rep./act.)	9,009	23,346	36,127	40,512	43,619
Net profit (adj.)	28,570	37,433	43,363	46,248	47,826
EPS (Fen)	899.0	1,178.2	1,404.2	1,497.7	1,533.4
PE (x)	16.3	12.5	10.5	9.8	9.6
P/B (x)	2.2	2.0	1.6	1.4	1.3
EV/EBITDA (x)	719.2	30.2	8.1	6.6	6.1
Dividend yield (%)	2.4	3.2	1.8	2.0	2.2
Net margin (%)	0.9	2.2	3.2	3.4	3.4
Net debt/(cash) to equity (%)	(11.9)	(2.5)	(17.7)	(29.9)	(40.2)
Interest cover (x)	0.3	n.a.	n.a.	n.a.	60.4
ROE (%)	4.2	10.5	14.4	14.0	13.1
Consensus net profit	-	-	35,488.1	38,968.3	43,403.7
UOBKH/Consensus (x)	-	-	1.22	1.19	1.10

Source: JD.com, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$160.40
Target Price	HK\$197.00
Upside	+22.8%
(Previous TP	HK\$190.00)

COMPANY DESCRIPTION

JD.com is the leading online direct sales player in China.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	9618 HK
Shares issued (m):	2,917.2
Market cap (HK\$m):	519,754.8
Market cap (US\$m):	66,917.5
3-mth avg daily t'over (US\$m):	285.1

Price Performance (%)

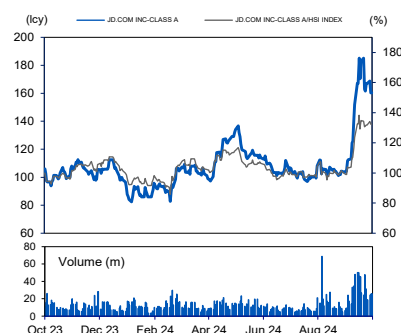
52-week high/low	HK\$192.3/HK\$79.32				
1mth	3mth	6mth	1yr	YTD	
53.0	49.6	55.9	57.5	45.9	

Major Shareholders

	%
Vanguard Group Inc	3.7
BlackRock Inc	3.7
Tencent	2.5

FY24 NAV/Share (RMB)	89.54
FY24 Net Cash/Share (RMB)	15.85

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Jul-Aug 24 NBS data overview.** NBS' Aug 24 retail sales data of physical goods remained solid at +4.1% yoy (implying a 7% two-year CAGR), from +8.1%/-1.4%/-3.8% yoy in Jul 24/Jun 24/2Q24 respectively. By category, communication equipment, home appliances and cosmetics delivered strong growths of 14.8%/3.4%/-6.1%yoy respectively in Aug 24, which benefitted JD.
- Margin overview in 3Q24.** We forecast operating profit to grow 22% yoy to Rmb11.3b, and operating margin at 4.4%/2.5% in 3Q24/4Q24, respectively. We expect margin improvement to be driven by opex or procurement optimisation and benefits from an uptick in 3P revenue mix. We estimate JD's 3Q24 adjusted net profit to grow 6% yoy to Rmb11.3b, with net margin remaining stable yoy at 4.3%. 4Q24 net profit is guided to come in at Rmb7b-8b.
- JD's 11.11 shopping festival kicked off on 14 October, 8 p.m,** with discounts, subsidies, and cross-store promotions. The event will feature over 1b new products and services aimed at providing an affordable and high-quality shopping experience. JD plans to recruit at least 10,000 buyers in the next three years to source quality products globally, aiming to ensure affordability and business growth for brands. Key promotional efforts include: a) Rmb50 discounts on purchases over Rmb300 across various categories, b) daily Rmb60 subsidies for users, and c) red envelope giveaways. For its Rmb10b subsidy programme, products will be discounted to as low as Rmb11, with extra live-streaming discounts. Starting 14 October at 8 p.m, JD introduced additional offers including 50% off on brand products, up to Rmb2,000 off on 3C items, and 20% appliance discounts through government subsidies. Multiple packaged sales on premium items will also be available. Along with trade-in subsidies, we believe bigger ticket items like appliances and smartphones could be the focus of discounts and potentially help foster GMV growth.
- Potential implications of collaboration with Taobao.** JD's decision to open its logistics services to Taobao is likely to generate incremental long-term revenue for its logistics division. However, the impact is expected to take 1-2 quarters to materialise. While some investors express concerns that JD's competitive advantage in logistics may be diluted, JD is confident that its robust and comprehensive supply chain capabilities make it difficult for competitors to replicate, ensuring the company retains a strong edge in this area.

EARNINGS REVISION/RISK

- We keep our 3Q24/2024 revenue estimates largely unchanged, representing revenue growths of 4.8%/4.5% yoy respectively. We lower our non-GAAP net profit forecast for 4Q24 by 14% but raise non-GAAP net profit for 2024 by 3%, after factoring in the heightened investment for 11.11. We expect JD's adjusted net margin for 3Q24/2024 to be 4.3%/3.8% respectively.
- Risks:** a) Consumption and logistics disruption from the pandemic in the coming quarters, b) intensified competition in the fresh produce and FMCG segments from peers, and c) consumption downgrade.

VALUATION/RECOMMENDATION

- We maintain BUY with a higher target price of HK197.00 (US\$49.00).** Our target price implies 12x 2025F PE. JD is trading at 10.7x 2025F PE, 1SD below its historical mean. We remain optimistic on JD's top-line growth visibility in 3Q24, bolstered by trade-in subsidies.

SHARE PRICE CATALYST

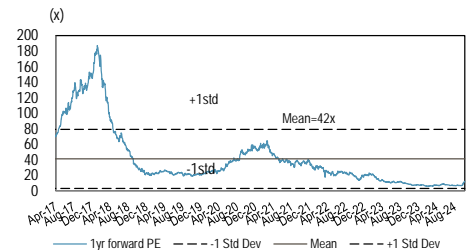
- Strong growth, continued new user margin expansion with improved operating efficiency and further extension of logistics services to internal and external customers.

VALUATION

2025F	Revenue (Rmbm)	EBITDA (Rmbm)	EV/EBITDA (x)	To JD (HK\$)	JD stake	To JD(10% discount)	HK\$/share	of TP value
JD Retail	1,044,824	48,062	9	432,557	Majority	389,302	123	62%
JD Logistics (mkt cap)				85,100	81%	62,038	20	10%
JD Digital/Industrial/Real estate				70,470	37%	23,467	8	4%
JD Health (mkt cap)			3x (PS)	65,268	67%	39,356	12	6%
Key Investments						31,712	10	5%
Net cash				109,631		109,631	24	12%
SOTP value				763,025		655,504	197	

Source: JD.com, UOB Kay Hian

12-MONTH FORWARD PE BAND



Source: JD.com, UOB Kay Hian

12-MONTH FORWARD EV/SALES BAND



Source: JD.com, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
Net turnover	1,084,662.0	1,133,138.3	1,201,257.0	1,267,757.7
EBITDA	16,285.0	60,671.3	74,091.9	81,143.9
Deprec. & amort.	(8,919.0)	23,174.4	23,387.1	23,879.1
EBIT	25,204.0	37,496.8	50,704.8	57,264.7
Total other non-operating income	1,010.0	412.0	(0.0)	0.0
Net interest income/(expense)	4,615.0	7,423.0	260.5	(1,342.6)
Pre-tax profit	30,829.0	45,331.8	50,965.3	55,922.2
Tax	(8,393.0)	(8,019.4)	(10,453.8)	(12,302.9)
Minorities	910.0	(1,185.0)	0.0	0.0
Net profit	23,346.0	36,127.5	40,511.6	43,619.3
Net profit (adj.)	37,433.0	43,362.8	46,248.3	47,826.5

BALANCE SHEET

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
Fixed assets	70,035.0	69,523.3	70,161.3	71,637.4
Other LT assets	251,113.0	251,113.0	251,113.0	251,113.0
Cash/ST investment	71,892.0	110,521.7	152,289.5	198,598.5
Other current assets	235,918.0	239,102.2	247,329.8	255,622.7
Total assets	628,958.0	670,260.3	720,893.6	776,971.6
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	265,650.0	272,839.8	286,161.6	301,820.3
LT debt	65,964.0	62,764.0	59,564.0	56,364.0
Other LT liabilities	964.0	964.0	964.0	964.0
Shareholders' equity	232,472.0	269,784.5	310,296.0	353,915.3
Minority interest	63,908.0	63,908.0	63,908.0	63,908.0
Total liabilities & equity	628,958.0	670,260.3	720,893.6	776,971.6

CASH FLOW

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
Operating	59,521.0	56,986.5	68,993.0	74,864.2
Profit for the year	30,829.0	45,331.8	50,965.3	55,922.2
Tax	(8,393.0)	(8,019.4)	(10,453.8)	(12,302.9)
Deprec. & amort.	(8,919.0)	23,174.4	23,387.1	23,879.1
Associates	0.0	0.0	0.0	0.0
Working capital changes	13,795.0	(3,500.4)	5,094.3	7,365.7
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	32,209.0	0.0	0.0	(0.0)
Investing	(59,543.0)	(22,662.8)	(24,025.1)	(25,355.2)
Capex (growth)	(6,036.0)	(22,662.8)	(24,025.1)	(25,355.2)
Investment	56,746.0	56,746.0	56,746.0	56,746.0
Others	(110,254.0)	(56,748.0)	(56,749.0)	(56,750.0)
Financing	(5,808.0)	(3,200.0)	(3,200.0)	(3,200.0)
Dividend payments	1.0	2.0	3.0	4.0
Proceeds from borrowings	12,362.0	(3,200.0)	(3,200.0)	(3,200.0)
Loan repayment	1.0	2.0	3.0	4.0
Others/interest paid	(18,172.0)	(4.0)	(6.0)	(8.0)
Net cash inflow (outflow)	(5,830.0)	31,123.7	41,767.8	46,309.0
Beginning cash & cash equivalent	78,861.0	71,892.0	110,521.7	152,289.5
Changes due to forex impact	125.0	0.0	0.0	0.0
Ending cash & cash equivalent	73,156.0	103,015.7	152,289.5	198,598.5

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	1.5	5.4	6.2	6.4
Pre-tax margin	2.8	4.0	4.2	4.4
Net margin	2.2	3.2	3.4	3.4
ROA	3.8	5.6	5.8	5.8
ROE	10.5	14.4	14.0	13.1
Growth				
Turnover	3.7	4.5	6.0	5.5
EBITDA	2,280.3	272.6	22.1	9.5
Pre-tax profit	146.9	47.0	12.4	9.7
Net profit	159.1	54.7	12.1	7.7
Net profit (adj.)	31.0	15.8	6.7	3.4
EPS	31.1	19.2	6.7	2.4
Leverage				
Debt to total capital	18.2	15.8	13.7	11.9
Debt to equity	28.4	23.3	19.2	15.9
Net debt/(cash) to equity	(2.5)	(17.7)	(29.9)	(40.2)
Interest cover (x)	n.a.	n.a.	n.a.	60.4

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