

## JD.com, Inc. (NasdaqGS: JD/SEHK: 9618)

### Short-term demand doesn't indicate a long-term trend

- Trading at only 30% the market cap of PDD and 20% of BABA, JD.com is undervalued, in our opinion. Logistics, brand reputation and supply chain knowhow in several key industries are JD.com's salient strength;
- We acknowledge JD's premium pricing in today's weak consumption environment to be a mismatch. We also do not endorse JD's strategy to compete in the low-priced segment in China;
- We cut TP from US\$ 32 to US\$ 29 and upgrade JD to BUY.

### Yes, JD's fundamentals are at its weakest point in history

Since taking the initiative to spin off key subsidiaries in 2020 and 2021, JD has fallen behind in innovations, in our view. Its falling behind in overseas footprint vs. what BABA and PDD have done is indicative as such. Over the same time, similar premium retailer Coupang successfully penetrated the Taiwanese market, suggesting that the business model of merchandise selection and specialized logistics can find global appeal.

### Yes, JD's focusing on domestic low pricing is a wrong strategy

We do not think JD's brand reputation can sit well with a low-priced strategy in the same geography. Consumption downgrade is here to stay and consumers are willing to sacrifice quality for price. If JD cannot uproot BABA and PDD in China, then trying to be for-all is a meaningless exercise.

### But, JD's unique strength hasn't changed

JD today is still led by its original founder which has proven his business acumen and execution ability again and again. It is led by a capable management working together for a long time with clearly defined responsibilities. JD's unique strength in logistics, brand reputation and supply chain knowhow in key industries are valuable and unmatched. Management has guided for more than double digit revenue growth in 2024, meaningfully higher than consensus.

### Upgrade JD for valuation and long-term potential

We notice that periodic adjustment in strategy and organization happened before, each time leading to a rebound. We believe this time is no exception. We further will turn more positive if JD starting to apply its strength overseas.

#### Summary financial data

Highlights	F2021A	F2022A	F2023E	F2024E	F2025E
Revenues (RMB mn)	951,592	1,046,236	1,076,362	1,160,402	1,224,013
Non-GAAP operating profit (RMB mn)	13,335	27,583	38,091	46,313	46,056
Non-GAAP EPADS (RMB)	11.1	16.9	21.2	23.7	24.6
GAAP EPADS (RMB)	(2.9)	6.1	16.7	19.4	20.0
P/E (non-GAAP)	17.8	11.4	9.0	7.9	7.5

Source: JD.com, Inc., Bloomberg, Blue Lotus (as of October 16, 2023); Note: P/E based on last close and USD/RMB = 7.17.

See the last page of the report for important disclosures.

Blue Lotus Capital Advisors Limited

BUY

UR

SELL

<b>Target Price: US\$ 29.0</b>	<b>Current Price: US\$ 27.05</b>
RIC: (NasdaqGS: JD/SEHK: 9618)	BBG: (JD US/9618 HK)
Market cap (US\$ mn)	42,509.3
Average daily volume (US\$ mn)	426.5
Shares out/float (m)	1,378.3/NA

Source: Bloomberg, Blue Lotus (as of October 16, 2023)

#### Key Changes

	New	Old	Diff
BLRI Recommendation	BUY	SELL	-
BLRI Target Price	29.0	32.0	(9.4%)
2023E EPADS (US\$)	2.95	2.99	(1.2%)
2024E EPADS (US\$)	3.30	3.42	(3.3%)
2025E EPADS (US\$)	3.43	3.61	(5.1%)

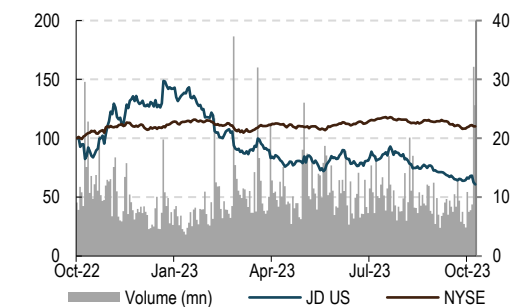
Source: Blue Lotus (as of October 16, 2023); Note: Prior EPS estimates rebased for FX rate of USD/RMB 7.17.

#### BLRI vs. The Street

No. of Bloomberg Recommendations	51
Target price vs. Bloomberg mean	(41.2%)
1-year-fwd EPS vs. Bloomberg mean	(1.9%)
Bloomberg recommendation	4.55

Source: Bloomberg, Blue Lotus (1=SELL,5=BUY) (as of October 16, 2023)

#### Price performance and volume data



Source: Bloomberg, Blue Lotus (as of October 16, 2023)

#### Research team



**Tianli Wen**

Head of Research

[research@blue-lotus.cn](mailto:research@blue-lotus.cn)

# JD.com, Inc.: Financial Summary

Fiscal year ends-31-Dec

## Exhibit 1. Income statement

(RMB mn)	F2022A	F2023E	F2024E
Net revenues	1,046,236	1,076,362	1,160,402
Cost of revenues	(899,163)	(915,118)	(987,219)
Gross profit	147,073	161,245	173,183
Fulfilment cost	(63,011)	(63,372)	(62,118)
Marketing cost	(37,772)	(40,857)	(45,576)
Technology & content	(16,893)	(16,046)	(17,402)
G&A cost	(11,053)	(10,361)	(12,234)
Operating profit GAAP	18,344	30,609	35,852
Share based compensation	7,548	5,724	8,703
Operating profit non-GAAP	27,583	38,091	46,313
Finance cost/income	(2,106)	(2,649)	(2,649)
Other income/cost	(866)	4,223	4,503
Pre-tax profit, GAAP	13,867	34,531	39,774
Income tax	(4,176)	(7,476)	(7,955)
Net income, GAAP	9,691	27,054	31,819
Net income, non-GAAP	26,920	34,286	38,922
Number of ADS, diluted (mn)	1,589	1,618	1,643
EPADS, GAAP (RMB)	6.10	16.72	19.37

Source: JD.com, Inc., Blue Lotus (as of October 16, 2023)

## Exhibit 2. Balance sheet

(RMB mn)	F2022A	F2023E	F2024E
Cash and cash equivalent	85,115	87,184	124,200
ST investment	141,095	141,095	141,095
Accounts receivable	20,576	15,303	24,711
Inventory, net	77,949	76,825	80,173
Prepayments and others	21,298	21,734	22,952
Total current asset	351,074	347,293	398,591
Property and equipment	55,080	41,133	45,767
Construction in progress	11,161	2,306	2,634
Land use rights	9,139	817	-
Intangibles, goodwill, and others	136,416	138,622	153,759
Total assets	595,250	568,619	636,164
Account payables	160,607	157,186	175,637
Advance from customers	33,713	32,922	35,493
Accrued expense and others	52,335	48,773	52,275
Short term debt	19,906	19,834	19,834
Total current liabilities	266,561	258,715	283,238
Long term debt	54,566	55,962	57,002
Additional paid in capital	182,578	182,578	182,579
Statutory reserves	(1,382)	(1,382)	(1,382)
Accumulated deficit	41,550	15,928	47,747
Accumulated other comprehensive loss	(6,983)	(3,940)	6,222
Total equity	215,763	193,184	235,167
Total liabilities and equity	595,250	568,619	636,164

Source: JD.com, Inc., Blue Lotus (as of October 16, 2023)

## Company Description

JD.com is China's largest direct B2C retailer, second largest B2C retailer, and China's 2nd largest retailer by GMV. In 2021, 570mn (+20.6% YoY) customers placed 3,370mn orders (+10.5% YoY) on JD.com, generating gross GMV of RMB 3,296 bn (+26% YoY).

## Industry View

We estimate China's eCommerce market to grow by 13% in 2023, after growing ~10% in 2022. We estimate traditional eCommerce and social eCommerce sub-sectors to grow at 3-year CAGR of 10% and 50%, respectively, and we expect the total online retail market to grow at 11%-12% CAGR from 2022 to 2024.

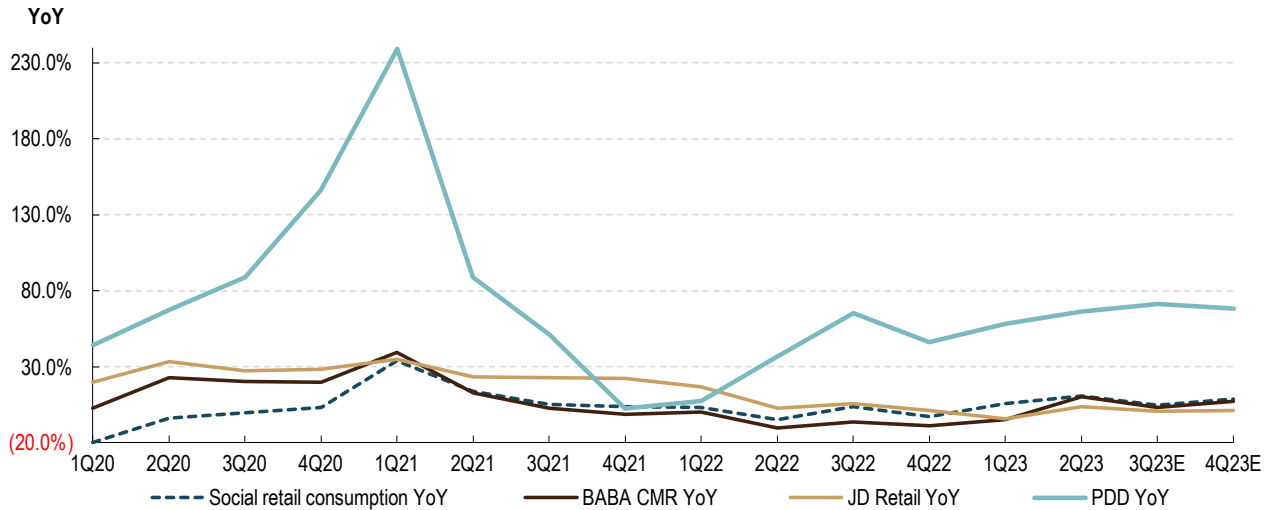
## Exhibit 3. Cash flow statement

(RMB mn)	F2022A	F2023E	F2024E
Net income	9,691	27,054	31,819
Adjusted for			
Depreciation & amortization	7,740	8,858	10,959
Share based compensation	7,548	5,724	8,703
Allowance for doubtful accounts	4,140	4,367	4,824
One-time write-offs	-	-	-
Changes in			
Account receivable	(8,676)	5,273	(9,408)
Inventory	(2,348)	1,124	(3,348)
Account payables	20,123	(3,421)	18,451
Advance to customers and to suppliers	4,728	(901)	2,262
Accrued liabilities and deferred revenues	9,685	(3,998)	2,284
Cash from operations	52,631	44,080	66,546
Capex, PPE	(12,214)	(14,254)	(16,298)
Capex, land, and bldg.	(200)	(200)	(499)
Purchase of intangibles	0.0	0.0	0.0
Purchase of short-term investments	(26,531)	-	-
Cash paid for equity investment	(11,576)	(11,576)	(11,576)
Purchase/issuance of company shares	7,778	-	1
Purchase/redemption of debt and others	(6,598)	500	500
Cash from financing	1,180	500	501
Change in cash	8,463	2,069	37,016
Cash at beginning	76,693	85,115	87,184
Cash at end	85,115	87,184	124,200

Source: JD.com, Inc., Blue Lotus (as of October 16, 2023)

See the last page of the report for important disclosures.

**Exhibit 4. Low social consumption spending growth impacts JD.com**



Source: Alibaba Group Holdings Limited, JD.com, PDD Holdings Inc., National Bureau of Statistics, Blue Lotus (as of October 16, 2023)

**Exhibit 5. JD.com C3Q23 Earnings Preview Table**

(RMB mn)	C3Q23E	C3Q23C	E vs. Cons	C2Q23A	QoQ	C3Q22A	YoY	C4Q23E	C4Q23C
<b>Net revenues</b>	<b>245,563</b>	<b>251,033</b>	<b>(2.2%)</b>	<b>287,931</b>	<b>(14.7%)</b>	<b>243,535</b>	<b>0.8%</b>	<b>299,912</b>	<b>308,217</b>
Net product revenues	197,228			233,855	(15.7%)	197,027	0.1%	241,149	
Net service revenues	48,335			54,076	(10.6%)	46,508	3.9%	58,763	
Cost of revenues	(208,783)			(246,498)	(15.3%)	(207,339)	0.7%	(252,899)	
<b>Gross profit</b>	<b>36,781</b>	<b>38,308</b>	<b>(4.0%)</b>	<b>41,433</b>	<b>(11.2%)</b>	<b>36,196</b>	<b>1.6%</b>	<b>47,013</b>	<b>45,462</b>
<b>Gross margin</b>	<b>15.0%</b>	<b>15.3%</b>	<b>(0.28ppt)</b>	<b>14.4%</b>	<b>0.59ppt</b>	<b>14.9%</b>	<b>0.12ppt</b>	<b>15.7%</b>	<b>14.8%</b>
Operating costs & exp.	28,612	29,285		33,163	(13.7%)	27,468	4.2%	37,788	38,032
- Fulfillment cost	(14,286)			(16,679)	(14.3%)	(14,354)	(0.5%)	(17,036)	
- Marketing cost	(8,370)			(11,063)	(24.3%)	(7,605)	10.1%	(13,419)	
- Technology	(3,646)			(4,072)	(10.5%)	(4,116)	(11.4%)	(4,142)	
- G&A	(2,311)			(2,358)	(2.0%)	(2,622)	(11.9%)	(3,191)	
GAAP operating profit	8,168	9,023	(9.5%)	8,270	(1.2%)	8,728	(6.4%)	9,225	7,430
<b>Non-GAAP operating profit</b>	<b>10,079</b>	<b>10,316</b>	<b>(2.3%)</b>	<b>8,676</b>	<b>16.2%</b>	<b>9,926</b>	<b>1.5%</b>	<b>11,462</b>	<b>8,988</b>
-Non-GAAP operating margin	4.10%	4.11%	(0.01ppt)	3.01%	1.09ppt	4.08%	0.03ppt	3.82%	2.92%
Interest income, net	(637)			(654)	(2.6%)	(579)	10.0%	(768)	
Other income	1,000			2,118	(52.8%)	(439)	NM	-	
<b>Pretax profit</b>	<b>8,531</b>	<b>9,321</b>	<b>(8.5%)</b>	<b>9,734</b>	<b>(12.4%)</b>	<b>7,710</b>	<b>10.7%</b>	<b>8,457</b>	<b>6,254</b>
Income tax	(1,365)			(2,811)	(51.4%)	(1,751)	(22%)	(1,691)	
GAAP net profit	7,166	6,820	5.1%	6,581	8.9%	5,963	20.2%	6,766	5,560
GAAP net margin	2.92%	2.72%	0.20ppt	2.29%	0.63ppt	2.45%	0.47ppt	2.26%	1.80%
<b>Non-GAAP net profit</b>	<b>9,217</b>	<b>9,383</b>	<b>(1.8%)</b>	<b>8,557</b>	<b>7.7%</b>	<b>10,040</b>	<b>(8.2%)</b>	<b>9,142</b>	<b>8,290</b>
<b>Non-GAAP net margin</b>	<b>3.75%</b>	<b>3.74%</b>	<b>0.02ppt</b>	<b>2.97%</b>	<b>0.78ppt</b>	<b>4.12%</b>	<b>(0.37ppt)</b>	<b>3.05%</b>	<b>2.69%</b>
EPADS non-GAAP, diluted (RMB)	5.82	6.01	(3.2%)	5.41	7.7%	6.31	(7.8%)	5.78	5.32
EPADS GAAP, diluted (RMB)	4.53	4.37	3.6%	4.16	8.9%	3.75	20.7%	4.27	3.57

Source: JD.com, Inc., Blue Lotus (as of October 16, 2023)

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