

JD.com, Inc. (NasdaqGS: JD)

Rough roads ahead, DG to SELL

- JD's post-CNY recovery is slower than expected, based on our checks. We suggest JD would face an unfavourable external environment going forward due to: 1) the comeback of offline commerce; 2) PDD's growing penetration in high-tier cities and brand products; 3) Meituan Instashopping offers faster delivery than JD.
- JD has pulled back from several key new business initiatives, such as Jingxi and overseas eCommerce, while its peers still grow these operations. Without new drivers, JD would experience more difficulties to expand its revenue.
- We trimmed our C1Q23/FY23 GMV forecasts from 8%/14% to 6%/12% and cut JD's FY23 revenue YoY growth forecast from 13% to 11%. Our top and bottom line estimates for FY23 are (3%) and (5%) below cons. Downgrade to SELL with TP of US\$48. Our TP implies 17X P/2023E.

Offline rebound affects FMCG while electronics remains weak

We suggest that JD is facing challenges in both of its major categories – FMCG and electronics, in the post-COVID era. With fewer hoarding activities and less dependency on eCommerce to shop for daily necessities post-COVID, JD's FMCG (~25% of total GMV) would be negatively impacted by the normalization of offline retail. In addition, JD was the only shopping option in some areas during lockdowns, thanks to the direct model of JD Logistics, but that is no longer the case with normalized logistics operation of other service providers. The recovery of JD's electronics (~50% of total GMV) remains slow. Meaningful sales recovery of large home appliance category is likely to lag the return of real estate. Consumer electronics is still on the declining trend as the replacement rate continues to drop.

PDD's penetration in premium market affects JD

PDD has been growing its penetration in brands and high-tier cities. As we elaborated in the previous [report](#), PDD is working with more brand merchants and distributors to offer more higher-ASP products, and brands are more willing to open “flagship store” on PDD, expanding out of BABA and JD. This trend is expected to continue as PDD keeps outperforming peers. JD, normally regarded as the go-to platform for brand products, does not have advantages over PDD in terms of pricing or customer base. PDD owns ~900mn annual active buyers, about 50% ahead of the number of JD active buyers. (TBC)

Summary financial data

Highlights	F2020A	F2021A	F2022E	F2023E	F2024E
Revenues (RMB mn)	745,802	951,592	1,048,794	1,166,737	1,311,780
Non-GAAP operating profit (RMB mn)	15,655	13,335	27,801	37,761	40,311
Non-GAAP EPADS (RMB)	10.8	11.1	15.9	18.9	20.8
GAAP EPADS (RMB)	31.7	(2.9)	6.1	12.4	14.1
P/E (non-GAAP)	33.5	32.8	22.4	18.4	16.5

Source: Bloomberg, Blue Lotus (as of Feb 15, 2023)

See the last page of the report for important disclosures

Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

BUY UR **SELL**

Target Price: US\$ 48.0	Current Price: US\$ 52.3
RIC: (NasdaqGS: JD)	BBG: JD US
Market cap (US\$ mn)	82,647.5
Average daily volume (US\$ mn)	607.0
Shares out/float (m)	1,365.7/NA

Source: Bloomberg, Blue Lotus (as of Feb 15, 2023)

Key Changes

	New	Old	Diff
BLRI Recommendation	SELL	BUY	-
BLRI Target Price	48.0	70.0	(31.4%)
2022E EPADS (US\$)	2.32	2.32	-
2023E EPADS (US\$)	2.78	3.04	(8.5%)
2024E EPADS (US\$)	3.05	3.31	(7.9%)

Source: Blue Lotus (as of Feb 15, 2023)

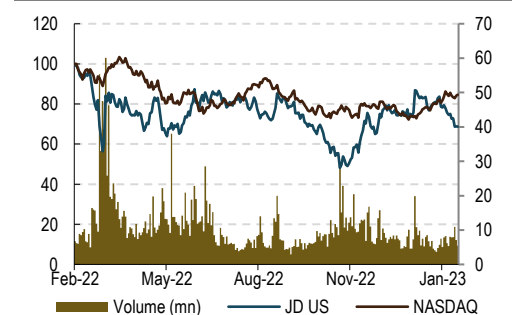
*Previous estimates rebased for FX change. RMB/USD = 6.82

BLRI vs. The Street

No. of Bloomberg Recommendations	47
Target price vs. Bloomberg mean	(41.6%)
1-year-fwd EPS vs. Bloomberg mean	(1.0%)
Bloomberg recommendation	4.84

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY) (as of Feb 15, 2023)

Price performance and volume data



Source: Bloomberg (as of Feb 15, 2023)

Research team



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JD.com, Inc.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

(RMB mn)	F2021A	F2022E	F2023E
Net revenues	951,592	1,048,794	1,166,737
Cost of revenues	(822,525)	(901,052)	(992,345)
Gross profit	129,067	147,742	174,391
Fulfillment cost	(59,055)	(63,413)	(70,510)
Marketing cost	(38,743)	(38,868)	(47,222)
Technology & content	(16,332)	(16,789)	(18,279)
G&A cost	(11,562)	(10,334)	(11,153)
Operating profit GAAP	3,374	18,339	27,227
Share based compensation	9,134	7,796	9,334
Operating profit non-GAAP	13,335	27,801	37,761
Finance cost/income	(531)	(1,900)	(2,090)
Other income/cost	318	(246)	16
Pre-tax profit, GAAP	(2,581)	14,232	25,137
Income tax	(1,887)	(4,501)	(5,119)
Net income, GAAP	(4,467)	9,731	20,018
Net income, non-GAAP	17,207	25,210	30,568
Number of ADS, diluted (mn)	1,554	1,591	1,615
EPADS, GAAP (RMB)	(2.88)	6.12	12.40

Source: JD.com, Inc. (as of Feb 15, 2023)

Exhibit 2. Balance sheet

(RMB mn)	F2021A	F2022E	F2023E
Cash and cash equivalent	76,692	81,956	89,859
ST investment	114,564	114,564	114,564
Accounts receivable	11,900	13,115	14,590
Inventory, net	75,601	80,350	85,773
Prepayments and others	16,955	18,126	19,545
Total current asset	299,672	315,841	333,705
Property and equipment	32,944	36,727	41,133
Construction in progress	5,817	1,959	2,306
Land use rights	5,837	-	820
Intangibles, goodwill and others	105,404	129,814	148,624
Total assets	496,507	524,527	566,773
Account payables	140,484	144,594	145,457
Advance from customers	29,106	32,079	35,686
Accrued expense and others	41,013	43,035	52,860
Short term debt	11,033	11,033	11,033
Total current liabilities	221,636	230,740	245,036
Long term debt	28,087	29,113	30,255
Additional paid in capital	182,578	182,578	182,578
Statutory reserves	(1,382)	(1,382)	(1,382)
Accumulated deficit	33,805	41,590	58,408
Accumulated other comprehensive loss	(6,089)	(6,983)	3,007
Total equity	208,912	215,803	242,611
Total liabilities and equity	496,507	524,527	566,773

Source: JD.com, Inc. (as of Feb 15, 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)	F2021A	F2022E	F2023E
Net income	(4,467)	9,731	20,018
Adjusted for			
Depreciation & amortization	6,232	7,740	8,858
Share based compensation	9,134	7,796	9,334
Allowance for doubtful accounts	708	4,151	4,734
One-time write-offs	6,577	-	-
Changes in			
Account receivable	(5,632)	(1,216)	(1,475)
Inventory	(16,697)	(4,749)	(5,422)
Account payables	32,585	4,110	863
Advance to customers and to suppliers	8,595	2,569	3,117
Accrued liabilities and deferred revenues	(38)	851	8,405
Cash from operations	36,997	30,984	48,432
Capex, PPE	(14,430)	(12,214)	(14,254)
Capex, land and bldg.	(7,825)	(200)	(200)
Purchase of intangibles	(23.0)	0.0	0.0
Purchase of short-term investments	(41,157)	-	-
Cash paid for equity investment	(11,169)	(11,576)	(11,576)
Purchase/issuance of company shares	28,768	-	-
Purchase/redemption of debt and others	(9,265)	500	500
Cash from financing	19,503	500	500
Change in cash	(13,943)	5,264	7,902
Cash at beginning	90,635	76,692	81,956
Cash at end	76,692	81,956	89,859

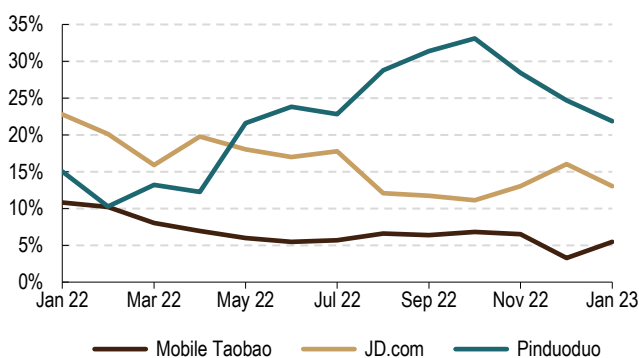
Source: JD.com, Inc. (as of Feb 15, 2023)

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Lack of growth driver after pulling back from initiatives

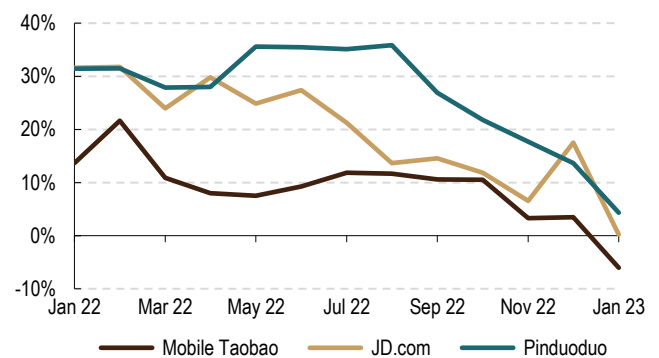
- PDD expansion in brand products affects JD (Continued):** We estimate that FMCG and electronics consist of ~20% and ~15% of total GMV of PDD, which make them ~80% and ~30% the volume of same categories of JD. PDD has already grown to be a major player in these categories, and it has increasing presence in high-tier cities. With faster user growth and strong customer recognition as low-priced platform, PDD will continue to pressure JD.
- Meituan Instashopping is taking JD customers as well:** Meituan Instashopping business is not yet a major threat to JD due to relatively limited volume. However, it caters to the needs of customers who prefer speedy delivery. JD operates under warehouse model that can provide same-day or next-day delivery, whereas Meituan Instashopping leverages its food delivery courier network and ships products from grocery stores/convenience stores to customers within an hour. With different positioning, it is hard for JD to catch up with Meituan's fast delivery. Based on our checks, there is an increasing number of JD members placing orders on Meituan Instashopping.
- Limited room for incremental growth:** According to QuestMobile, in January, JD's MAU is (48%) and (33%) below Taobao and PDD, and DAU is (69%) and (71%) below Taobao and PDD. The key for JD future growth lies in the ability to expand and narrow the gap in user base. However, JD has pulled back from community group buying, low-ASP eCommerce channel, and overseas operation, leaving limited room for user and GMV growth. Overall, without successful new initiatives, we expect the company to face challenges in both defending its position in high-tier markets and gaining customers in lower-tier markets. DG to SELL.

Exhibit 4. MAU YoY trend of Taobao, JD and PDD



Source: QuestMobile, Blue Lotus (as of Feb 15, 2023)

Exhibit 5. DAU YoY trend of Taobao, JD and PDD



Source: QuestMobile, Blue Lotus (as of Feb 15, 2023)

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