

China
ADD (no change)

Consensus ratings*: Buy 45 Hold 6 Sell 0

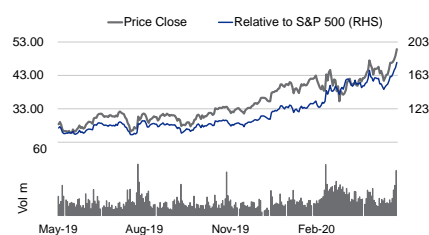
Current price:	US\$50.85
Target price:	US\$61.00 ▲
Previous target:	US\$50.20
Up/downside:	20.0%
CGI / Consensus:	21.3%

Reuters:	JD.O
Bloomberg:	JD US
Market cap:	US\$74,680m
Average daily turnover:	US\$762.8m
Current shares o/s:	89,023m
Free float:	50.0%

*Source: Bloomberg

Key changes in this note

- FY20F EPS increased by 5.0%.
- FY21F EPS increased by 2.9%.
- FY22F EPS increased by 2.3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	14	21.2	67
Relative (%)	11.1	36.4	66.6

Major shareholders	% held
Tencent	21.3
Qiangdong Liu	20.0
Walmart	10.8

JD.com Inc

Robust 1Q20 results despite the pandemic

- JD reported 1Q20 revenue of Rmb146bn, up 20.7% yoy, and a non-GAAP operating margin of 2.2%, up 0.6%pt yoy, above our expectations, mainly because of a stronger GPM. Its annual number of active customers increased by 24.8% yoy.
- We now expect JD's topline to grow by 25.0% yoy in 2Q20 and 23.4% yoy in FY20F and its non-GAAP OPM to drop by 0.3%pt yoy in 2Q20 and 0.2%pt yoy in FY20F.
- Reiterate Add with a new DCF-based TP of US\$61.0.

1Q20 results beat our expectations

JD reported 1Q20 revenue of Rmb146bn, up 20.7% yoy, above our expectation by 19.1%. Fulfillment expenses for the quarter increased by 29.0% yoy, as customers bought more FMCG products, which have a higher fulfillment expenses ratio, than electronics and home appliances amid the COVID-19 pandemic. Offset by better control in other cost categories, JD's non-GAAP operating margin was up 0.6%pt yoy to 2.2% in 1Q20, above our expectation. Non-GAAP net income for 1Q20 was Rmb3.0bn, down 8.0% yoy. FCF in 1Q20 was impacted, as JD shortened its payable terms and offered some prepayments to support its suppliers during the COVID-19 pandemic in Feb and early Mar. JD remained fully operational during the pandemic and saw a 24.8% yoy growth in the number of annual active customer accounts in 1Q20, by both newly acquired customers and reactivated sleeping customers. Customers from lower-tier cities accounted for about 60% of total customers and contributed about 50% of total GMV.

Recovering from the impact of the pandemic

Sales of general merchandise products in 1Q20 were up 38.2%, and the growth trend has continued in Apr–May. Sales of discretionary products are recovering, as JD saw sales pick up for home appliances and fashion products during the 5.1 shopping festival. The supply of IT products was slightly impacted by the disruption in the global supply chain amid the pandemic, but JD worked closely with its suppliers to minimize the impact. The supply of baby care products, cosmetics and fashion products was not impacted in 2Q. For the upcoming 6.18 shopping festival, JD has seen unprecedented enthusiasm from merchants, who wish to leverage the opportunity to offset the negative sales impact of the pandemic in 1Q20. We now expect JD's topline to grow by 25.0% and 23.4% yoy, respectively, in 2Q20 and FY20F and its non-GAAP OPM to drop by 0.3%pt yoy (versus our previous forecast of -0.5%pt yoy) for 2Q20 and -0.2%pt yoy for FY20F.

Healthy development for the services segment

As one of the few fully functioning logistics services provider during the pandemic, JD logistics saw its net loss narrow further with single-digit gross margin in 1Q20 as orders for marketplace services grew sustainably. Its advertising business also enjoyed healthy growth in 1Q20, compared to the negative growth in the overall advertising industry, as JD provides a close loop from advertising to deal-making and receives a relatively high ROI for brands and merchants. Commission revenue was affected, as JD offered a commission subsidy to its merchants during the pandemic.

Reiterate Add with a new DCF-based TP of US\$61.0

We adjusted our FY20–22F non-GAAP EPS forecasts up by 5.0%, 2.9% and 2.3%, respectively, to reflect the higher-than-expected revenue growth in 1Q20. We reiterate our Add rating for JD, since we believe the Company has great potential to further improve its margins in the long run, along with an increase in scale. The key risks are a longer pandemic impact, and increased promotion expenses and price competition.

Financial Summary	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (Rmbm)	462,020	576,888	711,993	820,517	945,290
Operating EBITDA (Rmbm)	8,688	12,553	17,393	25,792	34,708
Net Profit (Rmbm)	3,460	10,750	14,009	20,334	25,790
Core EPS (Rmb)	(1.69)	8.21	6.14	9.85	12.79
Core EPS Growth	(2219%)		(25%)	60%	30%
FD Core P/E (x)	NA	43.17	57.72	36.01	27.73
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	59.90	39.60	27.27	17.24	11.67
P/FCFE (x)	NA	NA	18.42	15.65	12.87
Net Gearing	(37%)	(57%)	(81%)	(100%)	(116%)
P/BV (x)	8.70	6.43	5.44	4.51	3.74
ROE	(4.5%)	17.2%	10.3%	13.9%	14.9%
% Change In Core EPS Estimates			5.0%	2.9%	2.3%
CGI/consensus EPS (x)			1.13	1.03	0.95

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Analyst
Lei Yang

T (86) 21 6162 9676

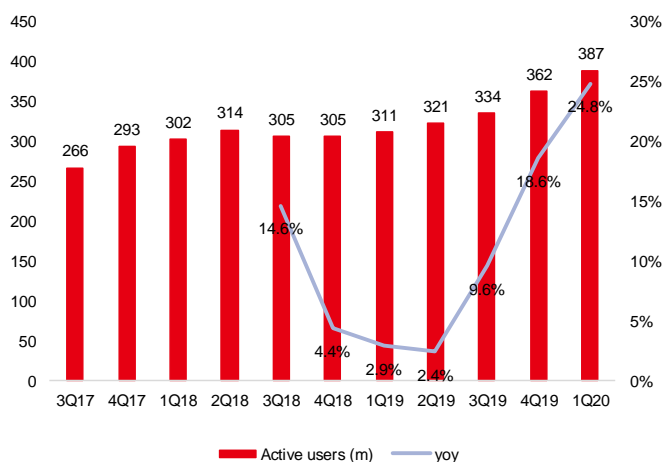
E yanglei@chinastock.com.hk

Robust 1Q20 results despite the pandemic

Figure 1: JD 1Q20 results review

(Rmb m)	1Q19	1Q20	yoy
Total revenue	121,081	146,205	20.7%
Cost of sales	-102,897	-123,670	20.2%
Gross profit	18,184	22,536	23.9%
GPM	15.0%	15.4%	0.4% pts
Fulfillment expenses	-7,964	-10,226	28.4%
As % of revenue	6.6%	7.0%	0.4% pts
Marketing expenses	-3,601	-4,252	18.1%
As % of revenue	3.0%	2.9%	-0.1% pts
Technology and content expense	-3,465	-3,550	2.5%
As % of revenue	2.9%	2.4%	-0.4% pts
General and administration expense	-963	-949	-1.5%
As % of revenue	0.8%	0.6%	-0.1% pts
Total operating expenses (non-GAAP)	-15,993	-18,978	18.7%
Operating income/(loss)	1,226	2,320	89.3%
Operating income/(loss) (non-GAAP)	1,952	3,235	65.7%
EBIT margin (Non-GAAP)	1.6%	2.2%	0.6% pts
Share-based compensation (SBC)	618	977	58.0%
Amortisation of intangible assets	444	147	-66.8%
Total other income	6,294	-937	-114.9%
Net income/(loss) (GAAP)	7,319	1,073	-85.3%
Net income/(loss) to shareholders (Non-GAAP)	3,294	2,972	-9.8%
NPM (Non-GAAP)	2.7%	2.0%	-0.7% pts

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: JD annual active customer accounts growth


SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 3: JD 1Q20 revenue growth

(Rmb m)	1Q19	1Q20	yoy
Electronics and home appliance products	70,702	77,631	9.8%
General merchandise	37,950	52,462	38.2%
Total product revenue	108,651	130,093	19.7%
Marketplace and advertising	8,144	9,527	17.0%
Logistics and others	4,286	6,585	53.6%
Total service revenue	12,430	16,112	29.6%
Total revenue	121,081	146,205	20.7%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 4: JD earnings revisions

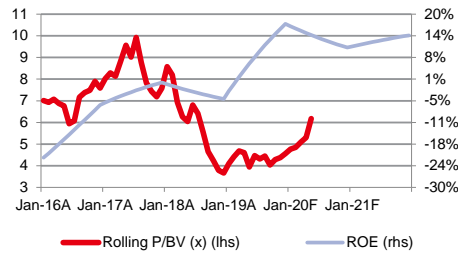
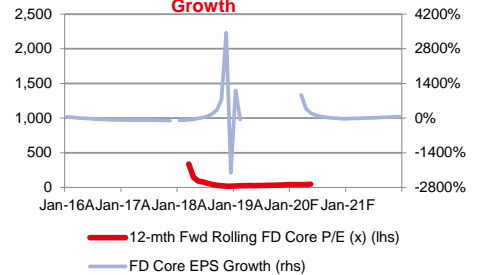
Rmb m	FY20F			FY21F			FY22F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales	682,463	711,993	4.3%	786,486	820,517	4.3%	906,084	945,290	4.3%
GP margin	14.9%	15.9%	1.0%	15.1%	16.1%	1.0%	15.4%	16.4%	0.9%
Operating margin (Non-GAAP)	1.4%	1.5%	0.0%	2.3%	2.2%	0.0%	2.9%	2.8%	-0.1%
Net income (Loss) (GAAP)	8,722	9,387	7.6%	14,924	15,497	3.8%	20,152	20,729	2.9%
Net income (Loss) (Non-GAAP)	13,343	14,009	5.0%	19,760	20,334	2.9%	25,214	25,790	2.3%
EPS (GAAP) (Rmb)	2.91	3.13	7.6%	4.83	5.02	3.8%	6.33	6.51	2.9%
EPS (Non-GAAP) (Rmb)	4.45	4.67	5.0%	6.39	6.58	2.9%	7.92	8.10	2.3%

SOURCES: CGIS RESEARCH, COMPANY REPORTS

Figure 5: JD DCF Valuation

DCF computation (Rmb m)	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F
EBIT (non-GAAP)	10,505	18,383	26,802	37,856	50,228	63,353	75,779	85,729	91,455	91,695	86,082	75,347	61,192
Taxes	-1,043	-1,722	-2,303	-3,930	-5,468	-7,218	-9,018	-10,637	-11,811	-12,306	-11,989	-10,876	-9,143
NOPAT	9,462	16,661	24,499	33,926	44,759	56,135	66,761	75,092	79,644	79,389	74,093	64,471	52,049
NOPAT growth		76.1%	47.0%	38.5%	31.9%	25.4%	18.9%	12.5%	6.1%	-0.3%	-6.7%	-13.0%	-19.3%
D&A	6,489	7,010	7,506	7,731	7,963	8,202	8,448	8,701	8,962	9,231	9,508	9,793	10,087
Funds from operation	15,950	23,670	32,005	41,657	52,722	64,336	75,209	83,794	88,607	88,620	83,601	74,264	62,136
Change in net working Capital	20,817	21,569	26,302	27,091	27,904	28,741	29,603	30,491	31,406	32,348	33,319	34,318	35,348
Cash flow from operation	36,767	45,239	58,307	68,748	80,626	93,078	104,812	114,285	120,013	120,968	116,920	108,583	97,484
Capex	-5,654	-5,981	-6,475	-6,701	-6,936	-7,178	-7,430	-7,690	-7,959	-8,237	-8,526	-8,824	-9,133
Free cash flow from operation	31,113	39,258	51,832	62,047	73,691	85,899	97,382	106,595	112,054	112,731	108,394	99,759	88,351
FCF growth		26.2%	32.0%	19.7%	18.8%	16.6%	13.4%	9.5%	5.1%	0.6%	-3.8%	-8.0%	-11.4%
Terminal free cash flow	873,004	WACC Assumptions											
Total discounted free cash flow	433,142	Cost of equity										13%	
Present value of terminal free cash flow	173,368	Risk free rate										4%	
		Market Risk Premium										8%	
Total present value of forecasted free cash flows	606,510	Beta										1.24	
Less: Net Debt	-73,770	Cost of debt										6%	
Equity Value	680,280	Kd (after tax)										5%	
No. of ADS (millions)	1,528	Target Equity / (Debt + Equity)										100%	
Per ADS Equity Value (Rmb)	445.2	WACC										13%	
Exchange rate	7.3	Terminal growth										3%	
Target price (US\$)	61.00												

SOURCES: CGIS RESEARCH, COMPANY REPORTS

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(Rmbm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Net Revenues	462,020	576,888	711,993	820,517	945,290
Gross Profit	71,309	89,414	119,974	139,295	162,315
Operating EBITDA	8,688	12,553	17,393	25,792	34,708
Depreciation And Amortisation	(5,356)	(4,992)	(6,489)	(7,010)	(7,506)
Operating EBIT	3,332	7,561	10,905	18,783	27,202
Financial Income/(Expense)	1,263	912	1,650	1,650	1,650
Pretax Income/(Loss) from Assoc.	(1,113)	(2,634)	(2,503)	(2,377)	(2,259)
Non-Operating Income/(Expense)	95	6,420	5,000	4,000	1,500
Profit Before Tax (pre-EI)	3,578	12,258	15,052	22,055	28,093
Exceptional Items					
Pre-tax Profit	3,578	12,258	15,052	22,055	28,093
Taxation	(427)	(1,802)	(1,043)	(1,722)	(2,303)
Exceptional Income - post-tax					
Profit After Tax	3,151	10,456	14,009	20,334	25,790
Minority Interests	309	294	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,460	10,750	14,009	20,334	25,790
Recurring Net Profit	(2,492)	12,184	9,387	15,497	20,729
Fully Diluted Recurring Net Profit	(2,492)	12,184	9,387	15,497	20,729

Cash Flow

(Rmbm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
EBITDA	8,688	12,553	17,393	25,792	34,708
Cash Flow from Inv. & Assoc.					
Change In Working Capital	12,356	7,766	20,817	21,569	26,302
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(163)	4,462	2,362	788	(2,196)
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
Cashflow From Operations	20,881	24,781	40,572	48,149	58,814
Capex	(17,102)	(7,919)	(5,161)	(5,512)	(6,029)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(8,977)	(17,430)	(6,005)	(6,970)	(8,133)
Cash Flow From Investing	(26,079)	(25,349)	(11,166)	(12,482)	(14,163)
Debt Raised/(repaid)	2,870	(166)	0	0	0
Proceeds From Issue Of Shares	3,532	0	0	0	0
Shares Repurchased	(206)	(131)	0	0	0
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	5,024	2,869	4,451	4,674	4,907
Cash Flow From Financing	11,220	2,572	4,451	4,674	4,907
Total Cash Generated	6,022	2,004	33,858	40,340	49,559
Free Cashflow To Equity	(2,328)	(734)	29,407	35,666	44,652
Free Cashflow To Firm	(5,198)	(568)	29,407	35,666	44,652

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	39,538	64,515	103,294	149,538	206,183
Total Debtors	16,720	11,916	12,126	12,403	12,750
Inventories	44,030	57,932	63,725	70,098	77,108
Total Other Current Assets	4,568	4,731	4,823	4,920	5,024
Total Current Assets	104,856	139,095	183,968	236,959	301,065
Fixed Assets	21,083	20,654	18,772	16,220	13,030
Total Investments	47,258	56,993	57,563	58,138	58,720
Intangible Assets	22,131	21,645	20,972	20,252	19,488
Total Other Non-Current Assets	13,837	21,337	23,855	26,935	30,735
Total Non-current Assets	104,309	120,629	121,162	121,545	121,973
Short-term Debt	4,545	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	93,003	106,507	129,416	153,049	181,341
Other Current Liabilities	23,314	33,510	38,289	43,786	50,113
Total Current Liabilities	120,862	140,017	167,705	196,835	231,455
Total Long-term Debt	6,786	6,912	6,912	6,912	6,912
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,689	12,170	12,170	12,170	12,170
Total Non-current Liabilities	11,475	19,082	19,082	19,082	19,082
Total Provisions	0	0	0	0	0
Total Liabilities	132,337	159,099	186,787	215,918	250,537
Shareholders' Equity	59,771	81,856	99,574	123,819	153,732
Minority Interests	17,057	18,768	18,768	18,768	18,768
Total Equity	76,828	100,624	118,342	142,587	172,500

Key Ratios

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	27.5%	24.9%	23.4%	15.2%	15.2%
Operating EBITDA Growth	7.2%	44.5%	38.6%	48.3%	34.6%
Operating EBITDA Margin	1.88%	2.18%	2.44%	3.14%	3.67%
Net Cash Per Share (Rmb)	19.6	39.6	64.3	92.3	125.2
BVPS (Rmb)	41.54	56.21	66.38	80.14	96.60
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	11.9%	14.7%	6.9%	7.8%	8.2%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	10.85	5.47	3.10	2.55	2.10
Inventory Days	40.04	38.17	37.61	35.85	34.31
Accounts Payables Days	72.08	63.80	61.50	62.79	63.37
ROIC (%)	28%	125%	(605%)	(80%)	(59%)
ROCE (%)	5.6%	8.7%	10.8%	14.9%	17.5%
Return On Average Assets	0.96%	4.07%	4.38%	5.63%	6.18%

Key Drivers

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	26.1%	-44.8%	22.1%	13.9%	13.8%
No. of POS (main prod/serv)	N/A	N/A	N/A	N/A	N/A
SSS grth (% , main prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	34.0%	-41.4%	29.7%	21.0%	20.9%
No. of POS (2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
SSS grth (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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811 companies under coverage for quarter ended on 31 Mar 2020		
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Add	60.8%	0.1%
Hold	27.6%	0.0%
Reduce	11.6%	0.0%

Spitzer Chart for stock being researched (2 year data)

JD.com Inc (JD US)

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