

Company Report: JD.com Inc (JD US)

公司报告: 京东 (JD US)

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Penetration into Lower-Tier Cities on Track , "Accumulate"

下线城市渗透有序推进, "收集"

- **Stable growth of China e-commerce GMV in 10M2019.** According to data published by the National Bureau of Statistics of China, China e-commerce GMV in 1M2019-10M2019 reached RMB8,230.7 bn, up 16.7% yoy; growth rate was down 9.1 ppts yoy.
- **Jingdong ("JD" or the "Company") reported stronger-than-expected 3Q19 results.** Net revenues increased by 28.7% yoy to RMB134,843 mn, above our expectations by 4.6%. Non-GAAP net income attributable to ordinary shareholders reached RMB3,086 mn, up 160.6% yoy, far exceeding our expectations and market consensus.
- **Key points: 1) Resilience in growth of annual active customer accounts boosted net revenues growth during 3Q2019.** Net product revenues and net service revenues were RMB118,854 mn and RMB15,988 mn, respectively, which accounted for 88.1% and 11.9% of total net revenues, respectively. 2) **We have cut our total expense ratio estimates in 2019 to 2021.** In 2019, the total expense ratio was not higher than gross margin, reflecting the Company's strict control on its expenses, therefore resulting in eventual margin expansion. 3) **We raise our bottom-line forecasts in 2019 to 2021.** 4) **JD Health completed its series of A preferred share financing in November 2019.** 5) **Total transaction volume was RMB204.4 bn for the 11-day sales event in November, setting a new record high.**
- **We have slightly raised target price to US\$36.00 and maintained investment rating as "Accumulate".** Our TP represents 0.64x 2019F P/S.
- **2019年10月中国电子商务交易量稳定增长。**根据中国统计局公布的数据,中国电子商务交易量于2019年1月至10月达到人民币82,307亿元,同比上升16.7%,增长率同比下降9.1个百分点。
- **京东("公司")2019年第三季度业绩好于预期。**净收入同比增长28.7%至人民币134,843百万元,高于我们预期4.6%。非GAAP股东净利达到人民币3,086百万元,同比上升160.6%,远高于我们预期和市场预期。
- **要点: 1) 年度活跃客户账户增长的恢复推动了2019年第三季度的净收入增长。**净产品收入和净服务收入分别为人民币118,854百万元和人民币15,988百万元,分别占总净收入的88.1%和11.9%。2) **我们下调了2019年至2021年的总费用比率预测。**在2019年,总费用比率不高于毛利率,反映了公司严格控制开支,因此最终实现了利润率扩张。3) **我们将2019年至2021年的利润预测上调。**4) **京东健康于2019年11月完成其A轮优先股融资。**5) **为期11天的11月销售活动的总交易额为人民币2,044亿元,创历史新高。**
- **轻微上调目标价至36.00美元,并维持"收集"投资评级。**目标价相当于0.64倍的2019年预测市销率。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6.18m TP 目标价:

US\$36.00

Revised from 原目标价:

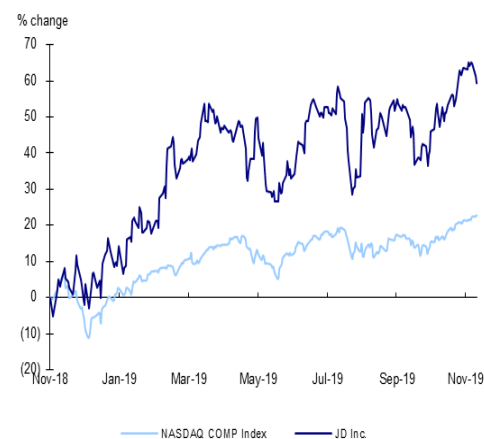
US\$35.00

ADS price ADS价格:

US\$32.440

Stock performance

股价表现



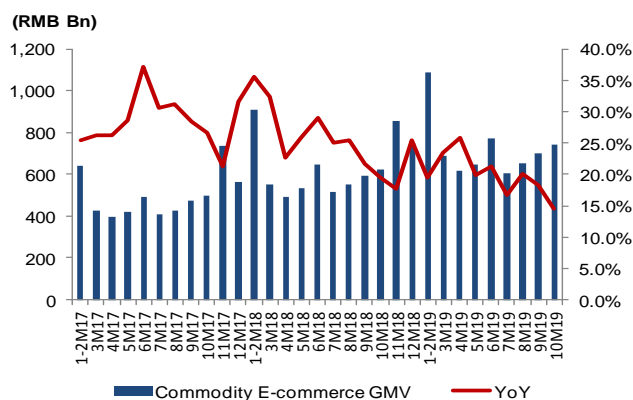
| Change in ADS Price | 1 M | 3 M | 1 Y |
|---------------------------------|------|-------|------|
| 股价变动 | 1 个月 | 3 个月 | 1 年 |
| Abs. % 绝对变动 % | 8.4 | 3.2 | 66.4 |
| Rel. % to NASDAQ Index 相对纳指变动 % | 2.4 | (4.6) | 42.4 |
| Avg. ADS price(US\$) 平均股价 (美元) | 32.3 | 30.8 | 27.8 |

Source: Bloomberg, Guotai Junan International.

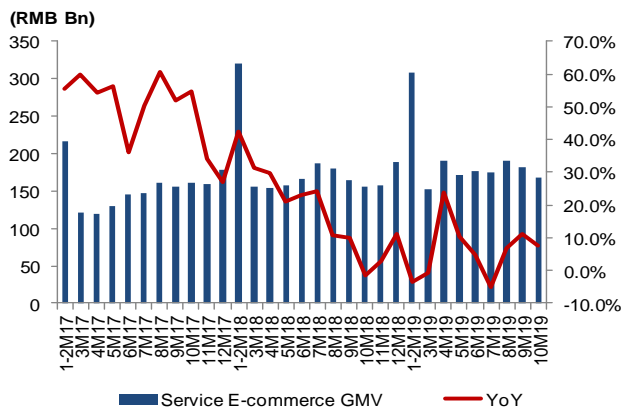
| Year End | Turnover | Net Profit | Earnings/ADS | Earnings/ADS | PER | BV/ADS | PBR | DP ADS | Yield | ROE |
|---|----------|------------|--------------|-----------------|--|------------|-----|-----------|-------------------|--------|
| 年结 | 收入 | 股东净利 | 每份 ADS 净利 | 每份 ADS 净利变动 | 市盈率 | 每份 ADS 净资产 | 市净率 | 每份 ADS 股息 | 股息率 | 净资产收益率 |
| 12/31 | (RMB m) | (RMB m) | (RMB) | (Δ %) | (x) | (RMB) | (x) | (RMB) | (%) | (%) |
| 2017A | 362,332 | 117 | 0.080 | n.a. | 2,638.5 | 36.831 | 5.7 | 0.000 | 0.0 | 0.2 |
| 2018A | 462,020 | (2,492) | (1.732) | (2,265.0) | n.a. | 42.299 | 5.3 | 0.000 | 0.0 | (4.5) |
| 2019F | 574,071 | 8,920 | 6.131 | n.a. | 37.4 | 47.774 | 4.8 | 0.000 | 0.0 | 13.9 |
| 2020F | 680,293 | 11,176 | 7.569 | 23.5 | 30.3 | 54.465 | 4.2 | 0.000 | 0.0 | 15.0 |
| 2021F | 757,348 | 12,908 | 8.612 | 13.8 | 26.6 | 62.119 | 3.7 | 0.000 | 0.0 | 15.0 |
| ADS in issue (m) 总 ADS 数 (m) | | | | 1,454.5 | Major shareholder 大股东 | | | | Richard Liu 15.4% | |
| Market cap. (US\$ m) 市值 (US\$ m) | | | | 47,184.0 | Free float (%) 自由流通比率 (%) | | | | 84.6% | |
| 3 month average vol. 3 个月平均成交股数 ('000) | | | | 11,396.0 | FY19 Net gearing (%) FY19 净负债/股东资金 (%) | | | | Net Cash | |
| 52 Weeks high/low (US\$) 52 周高/低 (US\$) | | | | 35.430 / 19.210 | FY19 PS FY19 市销率 | | | | 0.6 | |

Source: the Company, Guotai Junan International.

Stable growth of China e-commerce GMV in 10M2019. According to data published by the National Bureau of Statistics of China, China e-commerce GMV in 1M2019-10M2019 reached RMB8,230.7 bn, up 16.4% yoy; growth rate was down 9.1 ppts yoy. In October 2019, China commodity e-commerce GMV reached RMB739.5 bn, up 14.6% yoy, and China service e-commerce GMV reached RMB167.5 bn, up 7.7% yoy. Both reported mom growth decline, mainly due to seasonality and low season for the upcoming largest annual Double Eleven Shopping Festival in November. China's express delivery volume in 10M2019 reached 5.8 bn, up 22.7% yoy, while China's express delivery revenue reached RMB65.8 bn, up 23.2% yoy.

Figure-1: China Commodity E-commerce GMV


Source: National Bureau of Statistics of China, Guotai Junan International.

Figure-2: China Service E-commerce GMV


Source: National Bureau of Statistics of China, Guotai Junan International.

Jingdong ("JD" or the "Company") reported stronger-than-expected 3Q19 results. Net revenues increased by 28.7% yoy to RMB134,843 mn, above our expectations by 4.6%. Non-GAAP net income attributable to ordinary shareholders reached RMB3,086 mn, up 160.6% yoy, far exceeding our expectations and market consensus. Gross margin declined to 14.9%, down 0.5 ppts yoy, and non-GAAP net margin was 2.3%, up 1.2 ppts yoy. Annual active customer accounts grew 9.6% yoy to 334.4 mn. 4Q19 revenue guidance was between RMB163 bn and RMB168 bn, representing yoy growth rate of 21% to 25%.

Table-1: JD Core Indicator Matrix and Quarterly Projection

| Quarterly Results | | | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 3Q19 Growth | |
|---------------------------|--------|----------|-----------|-----------|-----------|-----------|--------|-------------|-----------|
| | | | | | | | | yoy | 4Q19F |
| Net revenues | mn RMB | 104,768 | 134,833 | 121,081 | 150,281 | 150,281 | 28.7% | 167,867 | 140,123 |
| Net product revenues | mn RMB | 93,890 | 120,232 | 108,651 | 133,516 | 133,516 | 26.6% | 147,163 | 122,718 |
| Net service revenues | mn RMB | 10,878 | 14,601 | 12,430 | 16,764 | 16,764 | 47.0% | 20,703 | 17,404 |
| Cost of revenues | mn RMB | (88,659) | (115,661) | (102,897) | (128,156) | (128,156) | 29.4% | (143,526) | (118,617) |
| Profit from operations | mn RMB | (651) | (939) | 1,226 | 2,267 | 2,267 | n.a | 1,628 | 2,821 |
| Net Income | mn RMB | 2,877 | (4,877) | 7,240 | 546 | 546 | -80.9% | 298 | 2,584 |
| Non Controlling Interests | mn RMB | (124) | (73) | (79) | (73) | (73) | n.a | (71) | (66) |
| Net Income to JD | mn RMB | 3,001 | (4,805) | 7,319 | 619 | 619 | -79.6% | 369 | 2,650 |
| Non GAAP gross profit | mn RMB | 15,888 | 18,958 | 17,965 | 21,908 | 21,908 | 25.5% | 24,101 | 21,256 |
| Non GAAP operating profit | mn RMB | 638 | 313 | 1,972 | 3,217 | 3,217 | 366.1% | 2,621 | 3,632 |
| Non GAAP EBITDA | mn RMB | 1,673 | 1,475 | 3,201 | 4,429 | 4,429 | 151.9% | 2,657 | 3,665 |
| Non GAAP Net Income | mn RMB | 1,184 | 750 | 3,294 | 3,559 | 3,559 | 160.6% | 2,126 | 3,316 |

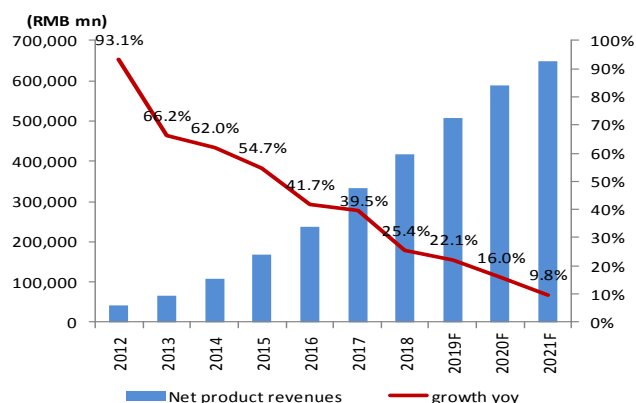
Source: the Company, Guotai Junan International.

Resilience in the growth of annual active customer accounts boosted net revenue growth during 3Q2019. In 3Q2019, total net revenues exceeded our expectations by 4.6%, in which net product revenues and net service revenues were RMB118,854 mn and RMB15,988 mn, respectively, which accounted for 88.1% and 11.9% of total net revenues, respectively. Moreover, the growth of annual active customer accounts was resilient driven by WeChat ecosystem and penetration into lower-tier cities. According to the Company, over 70% of new customers came from lower-tier cities during the period of 3Q2019. Meanwhile, the Company launched a new social e-commerce platform (Jingxi) in late October, which helped the Company to reach users from lower-tier cities more efficiently. Jingxi is available to consumers across multiple channels including the standalone Jingxi app, Jingxi mini program and a WeChat first-level entry point. The resilience of annual active customer accounts not only creates a positive driving force in net product revenues, but also introduces some new users and merchants to enjoy paid services offered by the Company. During the earnings conference call, the management told investors that they would further increase revenue contribution from the net service, and the technology services have achieved triple-digit percentage growth this year. More specifically, revenue from marketplace and advertising business grew 28.8% yoy to

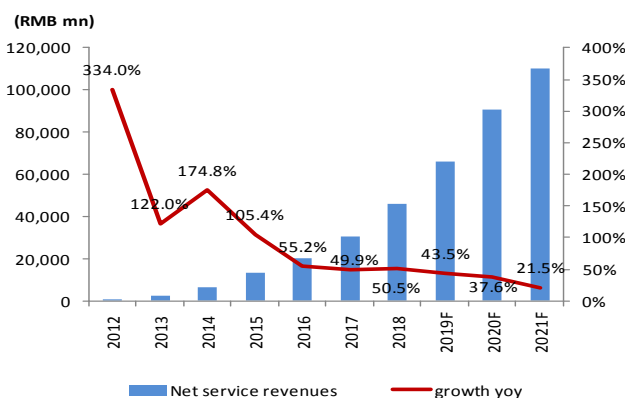
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RMB9,986 mn in 3Q2019, whereas logistics and other services contributed RMB6,002 mn, surging 92.0% yoy. At the same time, JD Logistic continued to expand its 3rd party businesses in 3Q2019, and external revenues accounted for nearly 40% of total logistics revenues during the same period. JD logistic is expected to further open its service to 3rd party, thus fuel the growth of net service revenues going forward. Meanwhile, the Company is ramping up its efforts on penetration into lower-tier cities, which is driving growth momentum of a number of its customers. We think it is positive to the revenue growth if the Company if more users can be lured successfully; however it is still questionable whether it is sustainable growth in the future. Given the stronger-than-expected 4Q2019 revenue guidance, we have slightly adjusted our revenue forecast of the Company for 2019 to 2021 by 2.0%/ 4.4%/ 3.9% to RMB574,071 mn, RMB680,293 mn, and RMB757,348 mn, respectively, representing yoy growth of 24.3%, 18.5%, and 11.3%, respectively.

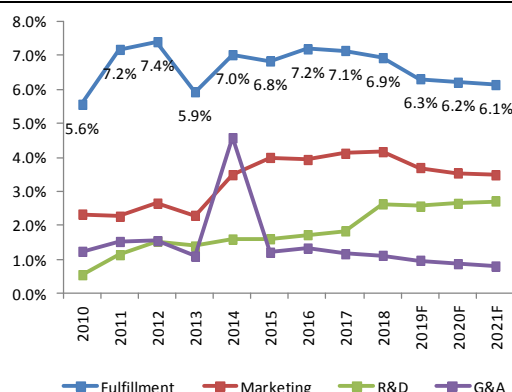
Figure-3: JD's Net Product Revenues Estimates


Source: the Company, Guotai Junan International.

Figure-4: JD's Net Service Revenues Estimates


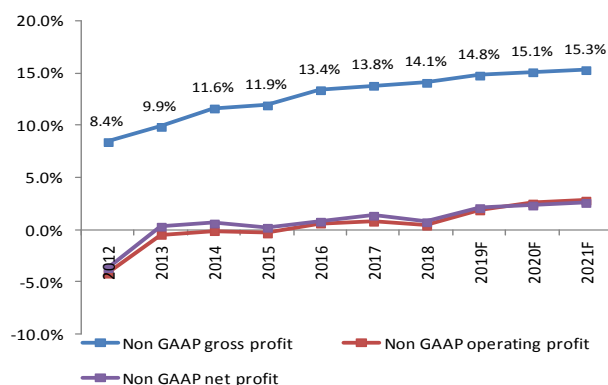
Source: the Company, Guotai Junan International.

We have cut our total expense ratio estimates in 2019 to 2021. During 3Q19, the total expense ratio was 13.4%, down 2.6 ppts yoy, below our estimates by 1.6 ppts. Total operating expense was RMB18,128 mn, 5.9% below our estimations. Looking at 1Q2019 to 3Q2019, the total expense ratio was slightly lower than gross margin, showing the different trend of that in 1Q2018 to 4Q2018. For the period from 1Q2018 to 4Q2018, the gross margin was 14.1%, 13.5%, 15.4% and 14.2%, respectively, whereas the total expense ratio was 14.1%, 14.3%, 16.0%, and 14.9%, respectively. In 2019, this trend has changed, we observed that total expense ratio has no longer higher than gross margin from 1Q2019 to 3Q2019, reflecting the Company's strict control on its expenses, therefore resulting in eventual margin expansion. Thanks to increasing economies of scale, we expect that the Company is likely to sustain its operating efficiency improvement. As a result, we have fine-tuned our total expense ratio estimates for 2019 to 2021 down by 0.6 ppts/ 0.8 ppt/ 0.7 ppts to 13.5%, 13.3%, and 13.1%, respectively.

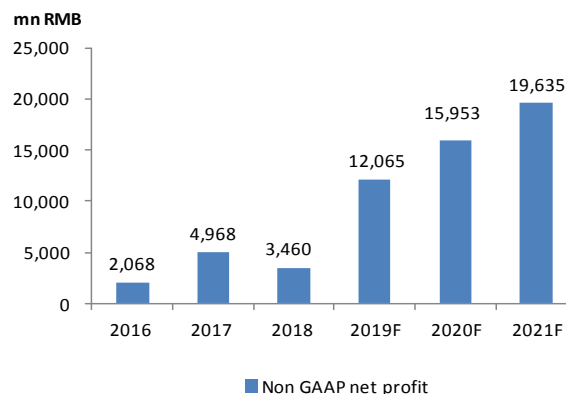
Figure-5: JD's Expense Ratios Estimates


Source: the Company, Guotai Junan International.

We raise our bottom-line forecasts in 2019 to 2021. Due to the mixed effect of higher expected revenue growth and lower expected expense ratio, non-GAAP net margin forecasts for 2019 to 2021 have been revised up by 0.4 ppts/ 0.3 ppt/ 0.3 ppt to 2.1%/ 2.3%/ 2.6%, respectively. At the same time, we raise our bottom-line forecasts in 2019 to 2021 due to improving operating efficiency and increasing economies of scale effect. We revise up our non-GAAP net profit to ordinary shareholders forecasts for 2019 to 2021 by 26.1%/ 21.6%/ 12.1% to RMB12,065 mn/ RMB15,953 mn/ RMB19,635 mn, respectively.

Figure-6: JD's Margin Estimates


Source: the Company, Guotai Junan International.

Figure-7: JD's Non GAAP Net Profit Forecasts


Source: the Company, Guotai Junan International.

JD Health completed its series of A preferred share financing in November 2019. After the financing, JD Health's valuation reached approximately US\$7 bn. Under the disclosure from the Company in May, JD Health is expected to raise over US\$1 bn, representing over of 14.5% of equity interest of JD Health on a fully diluted basis. JD will remain the majority shareholder of JD Health after the completion of the transaction. According to the Company, "JD Pharmacy" already is China's largest online pharmacy in terms of revenue, as "JD Pharmacy" is one business unit under JD Health. JD Health aims to become the most trusted "chief health manager" for customers, hence it is not surprising for JD Health to strengthen its capital to build a comprehensive ecosystem. Over the past few years, JD Health has been providing pharmaceutical and healthcare products, internet healthcare, health management and intelligent healthcare solutions to its customers. In our view, "Internet + healthcare" has huge potential to grow in China, since the increasing awareness of the aging problem and inefficiency of the current healthcare system in China. However, restructuring of the healthcare system in China is still in the early stages; we expect JD Health not only to benefit from the digitalization of healthcare system in China, but also collect more healthcare data going forward, hence driving growth of JD Health. Moreover, JD Health demonstrated its strong results during 2019 Singles Day Shopping Festival, indicating the synergy effect between the Company and JD Health.

Total transaction volume was RMB204.4 bn for the 11-day sales event in November, setting a new record high. Compared to the event last year, total transaction volume increased by 27.9% yoy, growth increased by 2.2 ppts. According to the Company, the key highlight of 2019 Singles Day Shopping Festival was lower-tier cities, with more than 70% of new customers from lower-tier cities. These new customers from lower-tier cities not only boosted transaction volume of FMCG categories, but also drove growth of new customers. Furthermore, JD Plus membership accounts ("PLUS") exceeded 15 mn. During the Singles Day sales period, the average consumption volume by PLUS members was four times that of non-PLUS members, in which one member's purchasing amount reached RMB467,000. Generally speaking, loyal customers will have higher shopping frequency and higher purchasing amount than normal customers; therefore it is an effective way to boost GMV growth by luring more loyal customers, which may in turn to attract more merchants as well.

Raise target Price to US\$36.00, and maintain investment rating as "Accumulate". We slightly raise target price to US\$36.00, reflecting consensus-beating results and operating efficiency improvement. Our TP represents 0.64x 2019F P/S. Risk factors: failure in long-term margin expansion, lower-than-expected revenue growth, sharp RMB depreciation and annual active buyer retreat.

Table-2: Peers Comparison

| Company | Stock Code | Currency | Last price | Market Cap | Adjusted PE | | | Price/Sales | | | EV/EBITDA | | | PEG |
|--------------------------------|------------|----------|------------|-------------|-------------|-------|-------|-------------|-------|-------|-----------|-------|---------|----------|
| | | | | mn HKD | FY19F | FY20F | FY21F | FY19F | FY20F | FY21F | FY19F | FY20F | FY21F | FY19-21F |
| E-commerce | | | | | | | | | | | | | | |
| Alibaba Group Holding-Sp Adr** | BABA US | USD | 185.25 | 3,785,990.5 | 34.7 | 25.3 | 21.2 | 9.1 | 6.6 | 5.1 | 28.2 | 28.2 | 20.7 | 1.2 |
| Ebay Inc | EBAY US | USD | 35.06 | 223,266.0 | 12.7 | 12.1 | 10.8 | 2.6 | 2.6 | 2.4 | 7.2 | 7.2 | 7.2 | 1.5 |
| Amazon.Com Inc | AMZN US | USD | 1752.79 | 6,802,580.4 | 55.9 | 44.8 | 30.8 | 3.1 | 2.6 | 2.3 | 21.0 | 21.0 | 16.8 | 1.6 |
| Z Holdings Corp** | 4689 JT | JPY | 377 | 131,152.4 | 23.0 | 21.7 | 20.0 | 1.9 | 1.8 | 1.7 | 7.1 | 7.1 | 8.1 | 1.9 |
| Rakuten Inc | 4755 JT | JPY | 978 | 101,211.9 | 25.4 | 50.6 | 26.8 | 1.1 | 1.0 | 0.9 | 7.0 | 7.0 | 9.6 | (9.3) |
| Jd.Com Inc-Adr | JD US | USD | 32.44 | 369,212.1 | 32.6 | 23.5 | 17.6 | 0.6 | 0.5 | 0.4 | 22.0 | 22.0 | 14.5 | 0.9 |
| 58.com Inc-Adr | WUBA US | USD | 57.20 | 66,569.5 | 16.9 | 16.6 | 14.8 | 3.9 | 3.4 | 2.9 | 15.0 | 15.0 | 11.9 | 2.4 |
| Vipshop Holdings Ltd - Adr | VIPS US | USD | 12.26 | 64,203.0 | 13.1 | 10.7 | 10.0 | 0.6 | 0.6 | 0.6 | 9.5 | 9.5 | 7.2 | 0.9 |
| Pinduoduo Inc -Adr | PDD US | USD | 40.72 | 370,499.0 | n.a. | 90.3 | 35.0 | 11.0 | 6.7 | 4.8 | n.a. | n.a. | 1,047.8 | n.a. |
| Trip.Com Group Ltd-Adr** | TCOM US | USD | 31.61 | 145,586.8 | 24.7 | 20.3 | 16.4 | 3.7 | 3.2 | 2.8 | 25.2 | 25.2 | 18.9 | 1.1 |
| Simple Average | | | | | 26.6 | 31.6 | 20.3 | 3.8 | 2.9 | 2.4 | 15.8 | 15.8 | 116.3 | 0.3 |
| Weighted Average | | | | | 44.6 | 38.0 | 26.6 | 5.1 | 3.9 | 3.1 | 22.1 | 22.1 | 49.3 | 1.3 |
| Internet Conglomerate | | | | | | | | | | | | | | |
| Tencent Holdings Ltd | 700 HK | HKD | 336 | 3,209,561.1 | 30.8 | 25.4 | 20.9 | 7.6 | 6.2 | 5.1 | 22.0 | 22.0 | 17.9 | 1.4 |
| Baidu Inc - Spon Adr | BIDU US | USD | 115.69 | 313,788.6 | 22.1 | 17.3 | 13.2 | 2.6 | 2.4 | 2.1 | 15.6 | 15.6 | 9.4 | 0.7 |
| Alphabet Inc-CI C | GOOG US | USD | 1315.46 | 7,094,566.5 | 24.6 | 21.6 | 18.5 | 6.8 | 5.7 | 4.9 | 13.8 | 13.8 | 11.3 | 1.6 |
| Microsoft Corp | MSFT US | USD | 150.39 | 8,980,804.0 | 32.8 | 27.9 | 24.8 | 9.2 | 8.2 | 7.3 | 20.3 | 20.3 | 17.4 | 2.0 |
| Facebook Inc-A | FB US | USD | 199.32 | 4,449,400.6 | 21.8 | 18.9 | 16.4 | 8.1 | 6.6 | 5.5 | 13.2 | 13.2 | 11.1 | 1.4 |
| Softbank Group Corp* | 9984 JT | JPY | 4248 | 640,416.0 | 7.4 | 9.4 | 15.1 | 0.9 | 0.9 | 0.9 | 7.2 | 7.2 | 8.2 | (0.6) |
| Simple Average | | | | | 23.2 | 20.1 | 18.1 | 5.9 | 5.0 | 4.3 | 15.3 | 15.3 | 12.6 | 1.1 |
| Weighted Average | | | | | 27.4 | 23.5 | 20.6 | 7.8 | 6.7 | 5.8 | 17.0 | 17.0 | 14.2 | 1.6 |
| Simple Average | | | | | 25.2 | 27.3 | 19.5 | 4.5 | 3.7 | 3.1 | 15.6 | 15.6 | 77.4 | 0.6 |
| Weighted Average | | | | | 33.0 | 28.3 | 22.6 | 6.9 | 5.8 | 4.9 | 18.7 | 18.7 | 25.7 | 1.5 |

Source: Bloomberg, Guotai Junan International.

Note: * All figures based on fiscal year, ** these companies' fiscal year is FY2020 now since year end as at March of each year.

Financial Statements and Ratios

| Income Statement | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Year end 31 Dec (RMB m) | 2017A | 2018A | 2019F | 2020F | 2021F |
| Total Revenue | 362,332 | 462,020 | 574,071 | 680,293 | 757,348 |
| Online direct sales | 331,824 | 416,109 | 508,185 | 589,652 | 647,230 |
| Services and others | 30,507 | 45,911 | 65,886 | 90,641 | 110,117 |
| Cost of revenues | (311,517) | (396,066) | (489,307) | (577,596) | (641,483) |
| Gross profit | 50,815 | 65,954 | 84,764 | 102,697 | 115,865 |
| Fulfillment | (25,865) | (32,010) | (36,213) | (42,215) | (46,471) |
| Marketing | (14,918) | (19,237) | (21,227) | (24,069) | (26,377) |
| Technology and content | (6,652) | (12,144) | (14,721) | (17,995) | (20,558) |
| General and administrative | (4,215) | (5,160) | (5,580) | (5,930) | (6,081) |
| Gain on disposals of long-lived assets | 0 | 0 | 3,070 | 600 | 400 |
| Impairment of goodwill and intangible assets | 0 | (22) | 0 | 0 | 0 |
| Operating Profit | (835) | (2,619) | 10,094 | 13,088 | 16,778 |
| Share of results of equity investees | (1,927) | (1,113) | (1,460) | (1,340) | (1,341) |
| Net interest income and other, net | 2,883 | 1,359 | 1,882 | 1,543 | (10) |
| Profit Before Tax | 121 | (2,374) | 10,516 | 13,292 | 15,427 |
| Income Tax | (140) | (427) | (1,882) | (2,369) | (2,750) |
| Net income-Dis. Operations, net of tax | 7 | 0 | 0 | 0 | 0 |
| Profit After Tax | (12) | (2,801) | 8,634 | 10,923 | 12,677 |
| Non-controlling Interest | (135) | (309) | (285) | (254) | (230) |
| Non-controlling interest-Dis. operations | 276 | 0 | 0 | 0 | 0 |
| Shareholders' Profit / Loss | 117 | (2,492) | 8,920 | 11,176 | 12,908 |
| Basic Earnings Per ADS | 0.080 | (1.732) | 6.131 | 7.569 | 8.612 |
| Diluted Earnings Per ADS | 0.080 | (1.732) | 6.131 | 7.569 | 8.612 |
| Weighted average ADS outstanding | | | | | |
| Basic mn ADS | 1,422 | 1,439 | 1,455 | 1,477 | 1,499 |
| Diluted mn ADS | 1,456 | 1,439 | 1,455 | 1,477 | 1,499 |
| Non GAAP gross profit | 50,006 | 65,069 | 84,821 | 102,697 | 115,865 |
| Non GAAP operating profit | 2,885 | 1,913 | 10,785 | 17,284 | 21,325 |
| Non GAAP EBITDA | 6,137 | 6,601 | 14,502 | 17,418 | 21,453 |
| Non GAAP net income | 4,968 | 3,460 | 12,065 | 15,953 | 19,635 |

Cash Flow Statement

| Year end 31 Dec (RMB m) | 2017A | 2018A | 2019F | 2020F | 2021F |
|--|----------|----------|----------|----------|----------|
| Operating activities | | | | | |
| Net loss | (12) | (2,801) | 8,634 | 10,923 | 12,677 |
| (Income)/loss from discontinued operation, net of income tax | (7) | 0 | 0 | 0 | 0 |
| DD&A | 4,193 | 5,560 | 11,232 | 11,728 | 12,192 |
| Share-based compensation | 2,780 | 3,660 | 3,692 | 4,330 | 4,675 |
| Other non cash gains or loss | 1,582 | 2,106 | 2,613 | 2,744 | 2,606 |
| Chges in operating assets and liabilities: | 20,806 | 12,356 | 3,500 | 9,116 | (1,510) |
| Cash from Operating Activities | 29,342 | 20,881 | 29,672 | 38,841 | 30,641 |
| Investing activities | | | | | |
| Capital expenditure | (11,716) | (21,369) | (16,425) | (17,418) | (18,341) |
| Investment | (19,829) | (26,306) | (36,506) | (21,401) | (24,970) |
| Disposals of investments and PPE | 203 | 1,924 | 2,405 | 2,646 | 3,307 |
| Others | 9,398 | 19,673 | 8,034 | 5,061 | 2,936 |
| Cash from Investing Activities | (21,944) | (26,079) | (42,491) | (31,111) | (37,068) |
| Financing activities | | | | | |
| Proceeds from issuance of shares | 873 | 3,326 | 2,274 | 2,451 | 2,926 |
| Net borrowing | 3,954 | (9,388) | 19,056 | 7,195 | 7,722 |
| Others | 353 | 17,282 | (3,274) | (13,387) | (2) |
| Cash from Financing Activities | 5,180 | 11,220 | 18,056 | (3,741) | 10,646 |
| Net cash used by dis. operations | (6,302) | 0 | 0 | 0 | 0 |
| Effect of exchg rate changes on cash | (642) | 1,681 | (4,254) | (1,244) | (1,115) |
| Net Changes in Cash | 5,635 | 7,704 | 983 | 2,744 | 3,105 |
| Cash at Beg of Year | 24,164 | 29,799 | 37,502 | 38,485 | 41,229 |
| Cash at End of Year | 29,799 | 37,502 | 38,485 | 41,229 | 44,334 |

Source: the Company, Guotai Junan International.

Note: Restated income statement after taking JD Finance deconsolidation and JD Logistics cost reclassification.

| Balance Sheet | | | | | |
|--|---------|---------|---------|---------|---------|
| Year end 31 Dec (RMB m) | 2017A | 2018A | 2019F | 2020F | 2021F |
| Equity investments | 18,551 | 31,357 | 40,136 | 44,150 | 48,565 |
| Property, equipment and software, net | 12,574 | 21,083 | 21,676 | 22,726 | 23,957 |
| Construction in progress | 3,197 | 6,554 | 7,864 | 9,437 | 11,325 |
| Intangible assets, net | 6,693 | 5,012 | 4,761 | 4,523 | 4,297 |
| Land use rights, net | 7,051 | 10,476 | 14,016 | 17,321 | 20,578 |
| Goodwill | 6,651 | 6,644 | 6,644 | 6,644 | 6,644 |
| Other non-current assets | 14,310 | 23,185 | 36,589 | 38,826 | 41,044 |
| Total Non-current Assets | 69,026 | 104,309 | 131,686 | 143,627 | 156,409 |
| Cash & Cash Equivalents | 29,799 | 37,502 | 38,485 | 41,229 | 44,334 |
| Short-term investments | 8,588 | 2,036 | 25,445 | 33,078 | 39,694 |
| Accounts receivable, net | 16,359 | 11,110 | 10,909 | 11,457 | 9,293 |
| Advance to suppliers | 395 | 477 | 1,096 | 768 | 1,307 |
| Inventories, net | 41,701 | 44,030 | 52,854 | 55,247 | 60,949 |
| Loan receivable, net | 5,133 | 2,716 | 4,075 | 4,482 | 4,930 |
| Prepayments and other current assets | 2,259 | 3,848 | 3,740 | 5,952 | 5,668 |
| Amount due from related party | 10,797 | 3,136 | 12,545 | 12,294 | 12,048 |
| Total Current Assets | 115,029 | 104,856 | 149,148 | 164,507 | 178,222 |
| Total Assets | 184,055 | 209,165 | 280,834 | 308,134 | 334,631 |
| Short-term bank loans | 12,885 | 4,545 | 3,348 | 4,067 | 4,839 |
| Accounts payable | 74,338 | 79,985 | 96,836 | 103,485 | 102,211 |
| Advance from customers | 13,605 | 13,018 | 17,613 | 16,312 | 15,606 |
| Deferred revenues | 1,592 | 1,980 | 5,259 | 2,818 | 2,502 |
| Taxes payable | 658 | 826 | 2,707 | 5,076 | 7,826 |
| Amount due to related party | 54 | 216 | 431 | 453 | 475 |
| Accrued expenses and other current liabilities | 15,118 | 20,293 | 25,653 | 27,981 | 31,599 |
| Operating lease liabilities | 0 | 0 | 3,392 | 3,757 | 4,057 |
| Total Current Liabilities | 118,251 | 120,862 | 155,239 | 163,949 | 169,115 |
| Deferred revenues | 1,274 | 463 | 2,779 | 3,335 | 4,002 |
| Long term borrowings | 10,923 | 9,875 | 30,128 | 36,604 | 43,554 |
| Deferred tax liabilities | 882 | 828 | 1,160 | 1,218 | 1,279 |
| Other non-current liabilities | 337 | 308 | 324 | 340 | 357 |
| Operating lease liabilities | 0 | 0 | 5,740 | 5,823 | 6,289 |
| Total Non-current Liabilities | 13,416 | 11,475 | 40,131 | 47,319 | 55,480 |
| Total Liabilities | 131,667 | 132,337 | 195,370 | 211,269 | 224,595 |
| Redeemable non-controlling interests | 0 | 15,961 | 15,963 | 16,442 | 16,935 |
| Total Shareholders' Equity | 52,041 | 59,771 | 68,691 | 79,867 | 92,774 |
| Minority Interest | 348 | 1,096 | 811 | 557 | 327 |
| Total Equity | 52,389 | 60,867 | 69,501 | 80,424 | 93,101 |

Financial Ratios

| | 2017A | 2018A | 2019F | 2020F | 2021F |
|---------------------------|-------|-------|-------|-------|-------|
| Non GAAP Gross margin | 13.8% | 14.1% | 14.8% | 15.1% | 15.3% |
| Non GAAP Operating margin | 0.8% | 0.4% | 1.9% | 2.5% | 2.8% |
| Non GAAP EBITDA margin | 1.7% | 1.4% | 2.5% | 2.6% | 2.8% |
| Non GAAP Net margin | 1.4% | 0.7% | 2.1% | 2.3% | 2.6% |

Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

| Rating | | Definition |
|------------|----|---|
| Buy | 买入 | Relative Performance>15%; or the fundamental outlook of the company or sector is favorable. |
| Accumulate | 收集 | Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable. |
| Neutral | 中性 | Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral. |
| Reduce | 减持 | Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable. |
| Sell | 卖出 | Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable. |

Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

| Rating | | Definition |
|--------------|------|--|
| Outperform | 跑赢大市 | Relative Performance>5%; or the fundamental outlook of the sector is favorable. |
| Neutral | 中性 | Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral. |
| Underperform | 跑输大市 | Relative Performance<-5%; Or the fundamental outlook of the sector is unfavorable. |

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