



JD.com, Inc.

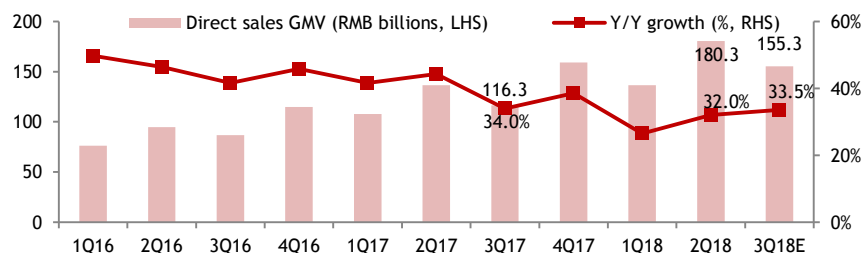
November 15, 2018

Expect Better 3Q18 Revenue but Margins Continue To Be Under Pressure from Investments; Maintain BUY

JD will report 3Q18 results on November 19th before the markets open with a 7am EST conference call. We are positive on JD's topline growth in 3Q18 and we also expect its margin to be lower than previously expected as the company continues to invest in new business initiatives. As for 4Q18 guidance, we believe it is highly likely to be in line with consensus at RMB 136.0B with no upside surprises. We attribute this to three reasons: 1) given the current stock market as well as China's political/economic situation, most companies in China are going to reset the Street's expectations by being conservative; 2) JD's CEO's personal issues caused concerns among investors, which is a negative pressure to the stock; and 3) investments in logistics is likely to put pressure on margins for a while. We maintain our Buy rating, but we are lowering our price target to \$30.00.

- **Expect 3Q18 revenue to be better** – Based on our proprietary data and calculations, we believe JD's net revenue is likely to reach RMB 109.8B in 3Q18, increase of 31.1% Y/Y, vs. 31.2% in 2Q18, better than consensus and our model at RMB 106.2B (26.8% Y/Y growth) and in line with the high end of the company's guidance (RMB 104.5B to RMB 109.0B). Online direct sales revenue is likely to increase 29.3% Y/Y to reach RMB 98.9B, vs. +29.4% Y/Y in 2Q18. Services and others revenue is likely to increase 49.8% Y/Y to reach RMB 10.9B, vs. 51.0% Y/Y in 2Q18.
- **GMV growth and composition** – Total GMV of JD is likely to grow 28.8% Y/Y to reach RMB 389.6B in 3Q18E, vs. 30.5% Y/Y in 2Q18. GMV of online direct sales business is likely to be RMB 155.3B (Figure 1), growing 33.5% Y/Y, vs. 32.0% Y/Y in 2Q18, mainly attributable to the growth of mobile handsets and other digitals at 28.1% Y/Y in 3Q18E, up from 21.1% Y/Y in 2Q18; the growth of Home appliance dropped to 12.5% Y/Y in 3Q18E, down from 28.4% Y/Y in 2Q18; and the growth of Computers was 35.0% Y/Y in 3Q18E, down from 40.2% Y/Y in 2Q18. GMV of online marketplace business is likely to increase 22.9% Y/Y, vs. 28.5% Y/Y in 2Q18 (Figure 2) mainly driven by Sports and Watches and Shoes, Bags, Jewelry and Luxury Goods. Marketplace take rate is likely to be 6.5% (Figure 3).
- **Please see page 2 for valuation and risks.**

Figure 1: Direct Sales GMV, 1Q16 – 3Q18E



Source: T.H. DATA (www.thdata.com)

JD: Buy

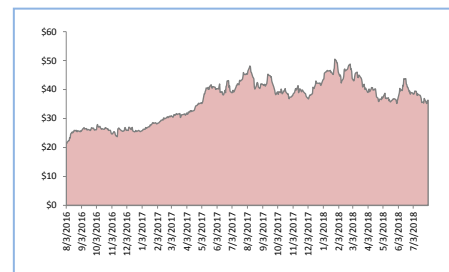
Price: \$22.76

Target Price: \$30.00 (was \$45.00)

52 Week Range:	\$21.46 - \$50.68
Market Cap:	\$32.9B
Avg. Daily Vol. (100 day):	20,374,963
3-Yr. Est. Rev. CAGR:	32%
Net cash per share:	\$1.80

FY (Dec)	2017A	2018E	2019E
Q1	76,226A	100,128A	123,117E
Q2	93,202A	122,291A	151,186E
Q3	83,746A	106,178E	130,809E
Q4	110,165A	135,664E	167,887E
FY Net Rev.	362,332A	464,412E	572,999E
Q1	1.01A	0.72A	1.37E
Q2	0.67A	0.33A	0.96E
Q3	1.52A	0.73E	2.12E
Q4	0.31A	0.18E	1.08E
FY EPS*	3.51A	1.95E	5.53E
P/E	42.2x	77.1x	27.3x

*Non-GAAP EPS
All figures in RMB millions unless otherwise noted



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- **Valuation and price target** – We maintain our Buy rating but we lower our price target to \$30.00, which is based on a 42.2X PE multiple to consensus 2019E non-GAAP EPS of RMB 4.91 or US\$0.71. Our prior price target of \$45.00 was based on a 39.5X PE multiple to consensus 2019E non-GAAP EPS at RMB 7.75. The consensus EPS has been adjusted downward in the past several months.
- **Risks** – One major headwind for JD is the concentration of its SKU categories. Three major categories including Computer, Digital/Mobile Handsets and Home Appliance account for about 74% of total 1P GMV. The mobile handset turnover as well as total volume growth is slowing down as the advanced hardware has been widely adopted by mobile OEMs. Also, China’s property market is showing meaningful slowdown in terms of transaction volumes, which impacts home appliance sales, while computer sales have already been slowing down. In addition to that, there can be some risks that we would like to point out:
 - 1) Slowdown in China’s e-commerce environment; 2) Competition from Alibaba (BABA, \$150.44, Buy) and from Pinduoduo (PDD, \$19.15, Not Rated); 3) Expansion on logistics is likely to put pressure on margins; 4) Unsuccessful acquisitions; 5) Finance business may experience high default rate; and 6) Government regulation on finance and ecommerce; ecommerce law will take effect on January 1, 2019.

Figure 2: Marketplace GMV, 1Q16 – 3Q18E

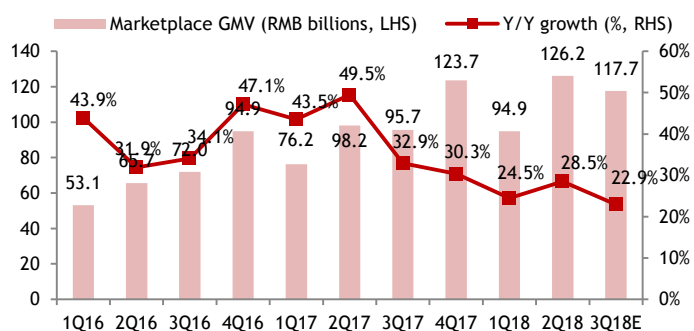
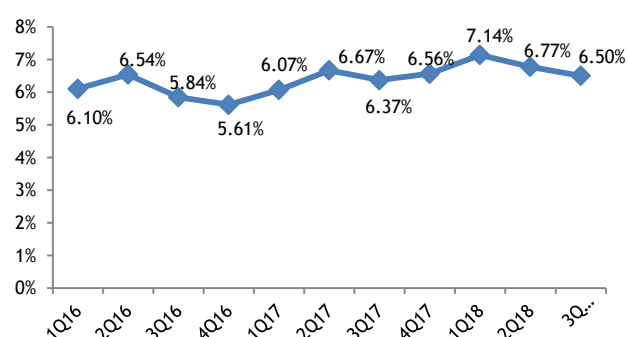
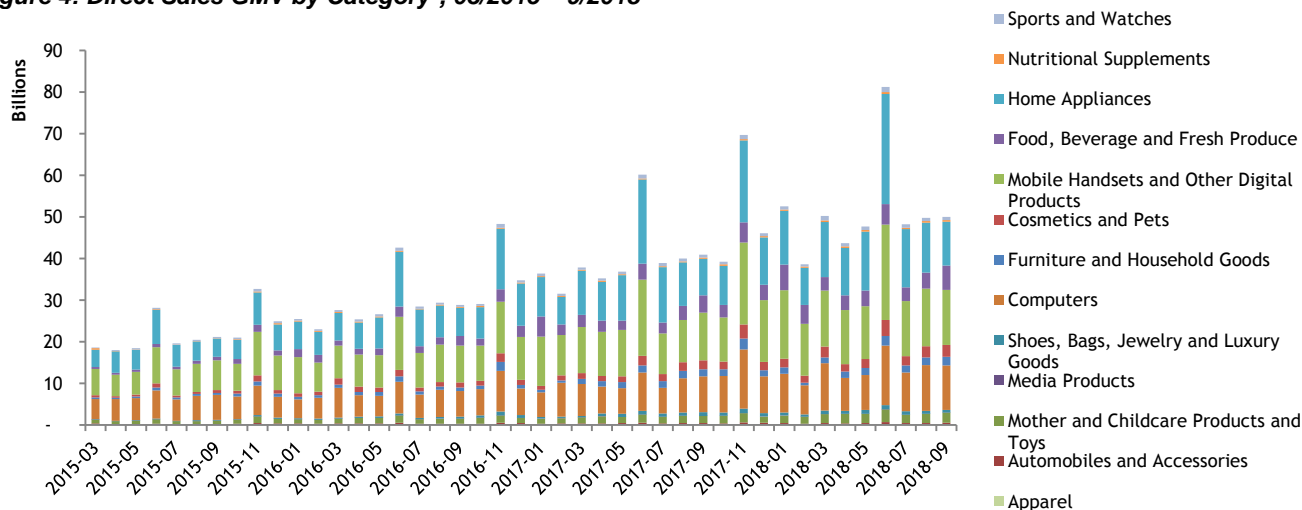


Figure 3: Marketplace Take Rate, 1Q16 – 3Q18E



Source: T.H. DATA (www.thdata.com)

Figure 4: Direct Sales GMV by Category*, 03/2015 – 9/2018



*Note: we reclassified JD.com SKUs into 15 categories according to JD’s official classification

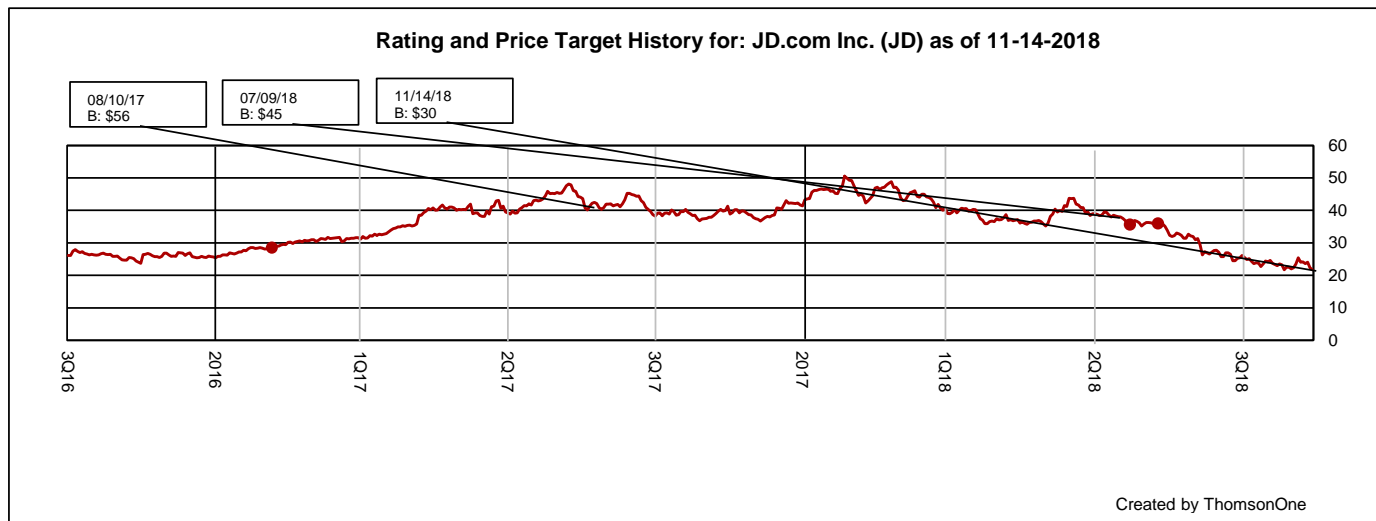
Source: T.H. DATA (www.thdata.com)

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