

Company Overview

JD.com, Inc. is a leading online direct sales company based in China. The Company engages in the sale of electronics and home appliance products and general merchandise products (including audio, video products and books) sourced from manufacturers, distributors and publishers in China through its website and mobile application. It also offers an online marketplace that enables third-party sellers to sell their products to customers.

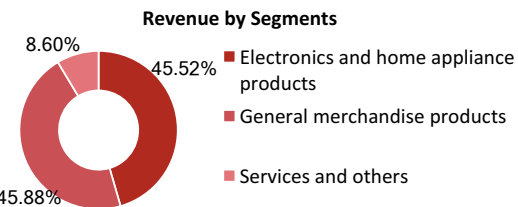


Figure 1: Breakdown of JD.com Revenue in 2016

	RMB ('000)			
	FY2016A	FY2017E	FY2018E	FY2019E
Sales	260,121,645	286,133,810	309,024,514	327,565,985
Cost of sales	(220,698,727)	(234,629,724)	(253,400,102)	(262,052,788)
Gross profit	39,422,918	51,504,086	55,624,413	65,513,197
Selling and admin expenses	(41,567,815)	(45,724,597)	(49,382,564)	(52,345,518)
EBITDA	(2,144,897)	5,779,489	6,241,848	13,167,679
EBITDA %	-0.82%	2.02%	2.02%	4.02%
Other income	450,405	450,405	450,405	450,405
Other expenses	(259,657)	(60,972)	(60,972)	(60,972)
Other gains (losses)	1,474,055	435,900	435,900	435,900
Income (loss) before income taxes	(480,094)	6,604,822	7,067,181	13,993,012
Income tax (expense) benefit	(179,500)	(1,681,691)	(1,797,281)	(3,528,739)
Profit for the year	(300,594)	4,923,131	5,269,900	10,464,273

Figure 2: JD.com Financial Figures from 2016-2019

Investment Thesis

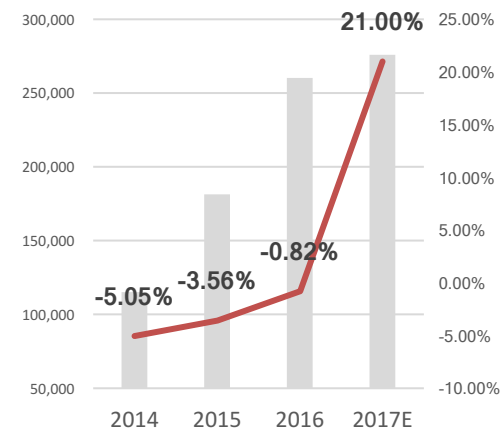


Figure 3: Revenue (RMB m) & EBITDA margin evolution

- Portfolio expansion;** JD.com is entering the high-end market to tap on the accelerating mainland luxury goods market that will grow by more than 4% this year. The 500mm JV with Central Group in Thailand will become a key revenue driver and a regional hub to service SEA.
- Reorganization of internal units;** spinoff of loss-making JD Finance and the reclassification of JD Logistics as its own business unit. The new money from the sale will help JD strengthen its core e-commerce business and improve EBITDA margins while JD Logistics' 3rd party services will drive revenue growth.
- Strategic Partnerships;** By leveraging on user data from major online platforms Tencent, Toutiao and Baidu, JD will be able to better execute brand and product marketing and boost revenue through targeted sales.

Chinese E-commerce Outlook

a. Rising incomes of middle-class population

Rising disposable income is expected to drive demand for household products and electronics in the both physical and online retail space. Disposable income per capita in China has been increasing at an 11% annual pace since 2010, alongside a swelling middle class, causing consumption expenditure to increase.

b. Increasing focus on logistics efficiency to tap into lower-tier cities

Efficient logistics remain an important tool for e-commerce companies to reach more consumers in different regions in a shorter time. China's two largest e-commerce giants Alibaba and JD.com have committed nearly US\$330 million to strengthening their parcel delivery efficiency. Additionally, in April, JD.com announced the creation of a new business unit, JD logistics, vowing to invest further in automated warehouses and drone delivery to improve efficiency.

c. Increased mobile usage and Internet penetration

China's internet penetration, at 54.3% of total population, has risen 1.1 percentage points from 2016, giving a total of 700 million plus Internet users in China. China has also seen rapid increase in the usage of smartphones for online shopping and payments over the past five years. Some 63% and 68% of Chinese consumers surveyed use their mobile phones for online shopping and online payment respectively.

Indicative Valuation

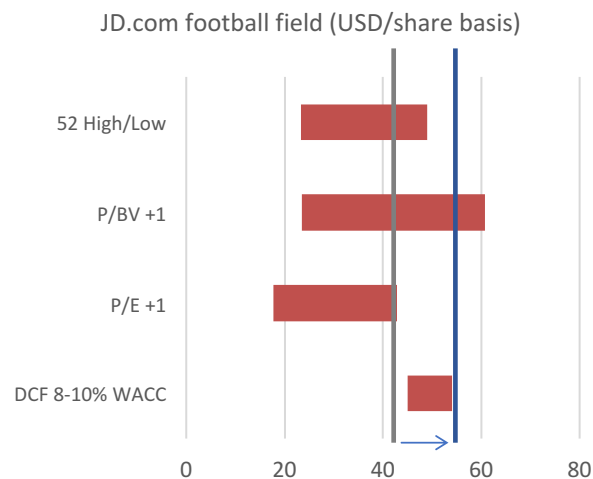


Figure 4: JD.com valuation football field diagram

The 12 month target price from the date of coverage is USD \$44.80, representing 11.1% upside. Long-term growth rate is given a very conservative 0.6%, and the exit multiple stands at 5.4X.

Given that JD.com has reached a watershed year in 2017 as key figures turn positive, and new market strategy and partnerships will continue providing firm support to the P&L, we tend to give higher weightage to the DCF valuation method and focus on the intrinsic valuation of the entity.

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