

Stock Pitch: JD.com

- . Ticker: JD
- . Price: \$40.35
- . Recommendation: Buy

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BUSINESS ANALYSIS



Overview:

- Fortune 500 company,
- Annual revenue of \$US 67.2 billion
- 305.3 million customers
- Selling authentic products: electronics, clothing, accessories



Growth:

- Steady and sustained company growth
- increased its net service revenues by 50.5% in 2018
- Increased margins and operational efficiency

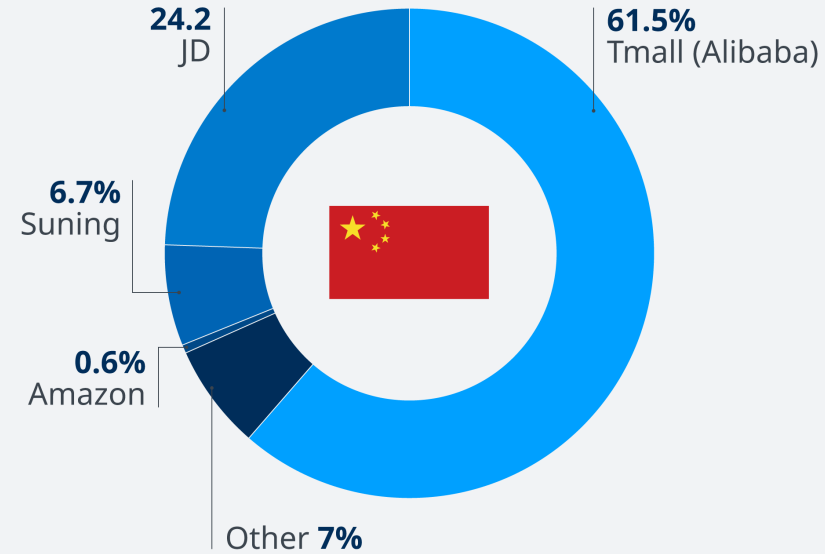


Future:

- Strong synergies with Walmart, Google and Tencent
- Moving towards a 100% autonomous operation through drone deliveries and 'robot-run warehouses

INDUSTRY ANALYSIS AND TRENDS

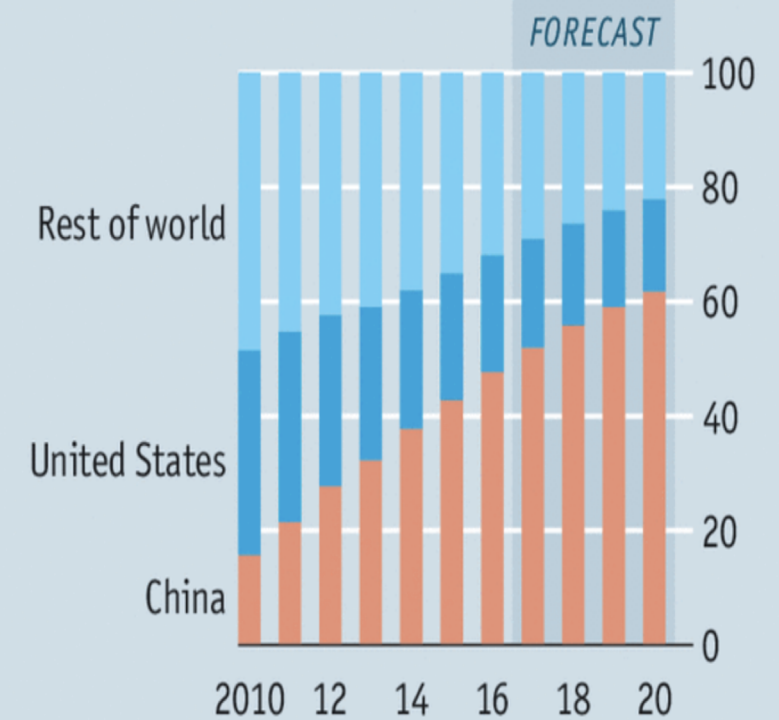
China consumer e-commerce market
share 2018 Q4



Source: Analysys China research group

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Retail e-commerce sales, worldwide
Share of total, %



China is the **world's largest eCommerce market** (<50%)

Cross-border e commerce is becoming increasingly popular.

The next big opportunity for e-commerce platforms lies in **rural areas**.

INVESTMENT THESIS

Focus on rural areas will lead to rapid revenue growth as JD.com will achieve market dominance through distribution network in rural China

- Online retail grew 39% since 2017 in rural China. Rural market estimated to be worth \$426 billion.
- Drone delivery to rural areas will decrease logistical costs by 70%.
- Chinese government is incentivizing drone development in rural areas and taking steps towards technological awareness through initiatives such as the National Strategic Plan for Rural Vitalization 2018-2022
- Rural markets are under-penetrated and the effect of JD's strategies for the rural market will be evident in the upcoming quarters.

Possibility of JD.com moving into the payment processing platforms provides them with a unique opportunity to integrate their operations with the global markets.

SWOT ANALYSIS

STRENGTHS

1. Innovative B2C business model.
2. Superior logistics and distribution efficiency.
3. Collaborative work culture and innovative R & D services.

WEAKNESSES

1. Temporarily diminished corporate image after sexual assault allegations on CEO, Liu Qiangdong.
2. Difficulty with generating higher profits due to high operation costs.

JD.COM

OPPORTUNITIES

1. Strong synergies with Tencent, Walmart and Google.
2. 1st company to make the move towards complete autonomous operations

THREATS

1. Alibaba's dominance in Chinese e-commerce.
2. Strong decline in JD.com's stock over the last two quarters of 2018.
3. Long-term effect of the US-China trade war.

Vertically-integrating deeper into the supply-side enables JD to leverage its vast amounts of consumer data to manufacture products specific to its customers' preferences.

JD.com has invested heavily into AI supply chain management and predictive models to improve restocking efficiency and decrease delivery times.

DEMOGRAPHICS AND DISTRIBUTION CHANNELS

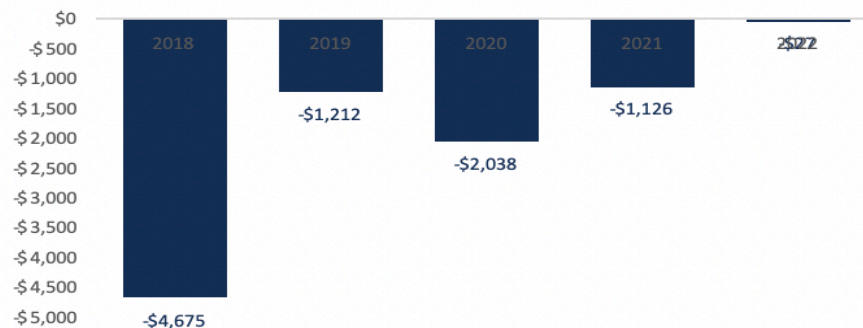


VALUATION AND DCF

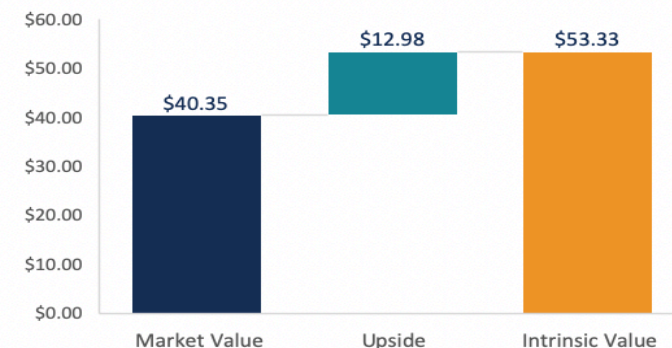
Assumptions

Tax Rate	22%
Discount Rate	10%
Perpetual Growth Rate	7%
EV/EBITDA Multiple	58.2x
Historical Year	2017-12-31
Fiscal Year End	2018-12-31
Current Price	40.35
Shares Outstanding	1,174
Debt	2,106
Cash	5,759
Capex	1,833

Cash Flow



Market Value vs Intrinsic Value



Discounted Cash Flow

	2017	2018	2019 (LTM)	2020	2021	2022	Exit
Date	2017-12-31	2018-12-30	2019-09-30	2020-09-30	2021-09-30	2022-09-30	2022-09-30
Time Periods	-1	0	1	2	3	4	
Year Fraction	1.00	1.00	0.75	1.00	1.00	1.00	
EBIT	(124)	(392)	649	974	1,460	2,190	
Less: Cash Taxes	-	-	140	210	315	472	
Plus: D&A	608	813	518	674	876	1,139	
Less: Capex	1,680	3,229	589	1,833	1,833	1,833	
Less: Changes in NWC	3,079	1,867	2,054	1,643	1,315	1,052	
Unlevered FCF	(4,275)	(4,675)	(1,616)	(2,038)	(1,126)	(27)	
(Entry)/Exit	(43,700)						96,311
Transaction CF	(47,975)	(4,675)	(1,212)	(2,038)	(1,126)	(27)	96,311

Terminal Value

Perpetual Growth	(974)
EV/EBITDA	193,596
Average	96,311

Intrinsic Value

Enterprise Value	58,933
Plus: Cash	5,759
Less: Debt	2,106
Equity Value	62,585

Equity Value/Share 53.33

Market Value

Market Cap	47,353
Plus: Debt	2,106
Less: Cash	5,759
Enterprise Value	43,700

Equity Value/Share 40.35

Rate of Return

Target Price Upside	32%
Internal Rate of Return (IRR)	12%

Market Value vs Intrinsic Value

Market Value	40.35
Upside	12.98
Intrinsic Value	53.33

Most figures are in millions of U.S. dollar.

POTENTIAL RISKS AND CATALYST:

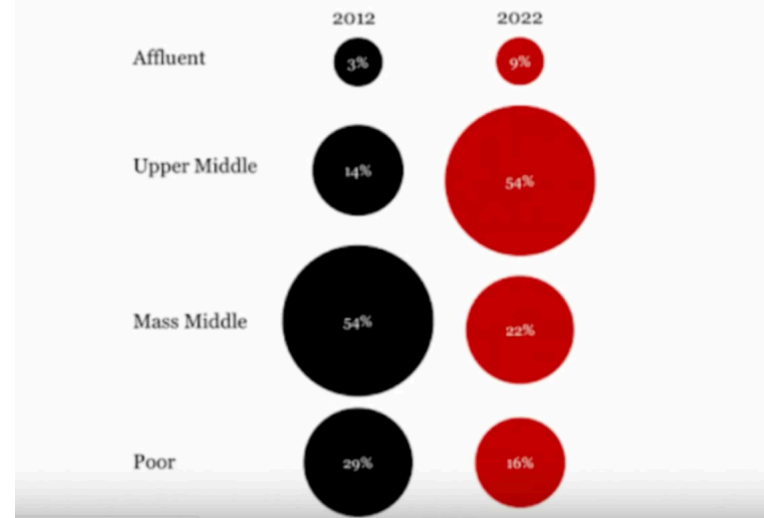
CATALYSTS:

- Increasing proportions of the Chinese middle class
- As JD Logistics begins to absorb warehouse capacity and utilization rates increase, JD's consolidated profitability should improve and JD Logistics' business model should become more clear to the market.

RISKS:

- US-China Trade War
- Sexual assault allegations on the CEO

China's Middle Class as Percent of Urban Households



CONCLUSION

PRICE TARGET: \$53.33

TARGET PRICE UPSIDE: 32%