

FUNDAMENTAL VIEW <sup>1</sup>

As of 28 May 2024

- We maintain our Market perform recommendation on JD (Baa1/A-/NR) post its largely in-line 1Q24 revenue. Growth accelerated on a pick up of general merchandise sales, marketing and logistic service revenues. Gross/EBITDA margin improved and FOCF narrowed on lower capex. Net cash position shrank as the company used internal cash to fund share buybacks. We expect the intense competition among Chinese eCommerce platforms to cap revenue upside and pressure EBITDA margin in FY24; we expect continued strong positive FOCF, but the bulk would be used for shareholder rewards, resulting in flat Total debt/EBITDA and net cash position. We continue to prefer Alibaba and Tencent (especially the 10-20Y part) among A-rated China tech. We think JD's 2050 is relatively more attractive.

## RISKS &amp; CATALYSTS

As of 28 May 2024

- While Chinese regulators have adopted a friendlier stance towards tech companies, any regulatory clampdowns may still adversely affect the business of JD (e.g. antitrust rules, data security & personal data protection laws).
- Intensifying competition amongst Chinese eCommerce platforms with the entrance of new live-streaming/short-form video platforms and group buying discount platforms may result in slower topline growth and weaker EBITDA margins for JD as its increase its user/merchant incentives and promotional activities to defend its market share.
- There are regulatory risks involving the use of variable interest entities (VIEs) to circumvent China's restrictions on foreign ownership of Internet Content Providers (ICPs). Specifically, VIE transactions involving "change in control" will be subject to antitrust regulatory processes.
- JD cooperates with 3rd party logistics cos to help deliver products to buyers. Failure to provide reliable delivery services or unexpected logistics bottleneck may materially affect the business.

CREDIT QUALITY SCORE (CQS)<sup>2</sup>

As of 04 Jul 2024

## CURRENT CQS

53

CQS OUTLOOK <sup>3</sup>

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)<sup>4</sup> VS CQS

## KEY METRICS

As of 28 May 2024

RMB MN	FY20	FY21	FY22	FY23	LTM 1Q24
Debt to Book Cap	12.5%	12.2%	19.2%	18.8%	19.6%
Debt/Total Equity	14.2%	13.8%	23.7%	23.1%	24.3%
Debt/Total Assets	7.5%	6.9%	10.9%	10.9%	11.6%
Gross Leverage	1.4x	1.8x	1.9x	1.5x	1.5x
Interest Coverage	20.1x	16.1x	16.3x	15.5x	16.3x
EBITDA Margin	3.0%	2.0%	3.3%	4.1%	4.3%

Note: Difference between reported EBITDA and adjusted EBITDA mainly due to operating lease costs. JD held a net cash position since FY17.

## BUSINESS DESCRIPTION

As of 28 May 2024

- JD is one of China's leading e-commerce and retail infrastructure service providers.
- JD has a large fulfillment infrastructure which includes over 1,600 warehouses operated by the company, and and 2,000 cloud warehouses operated by third-party warehouse owner-operators under JD Logistics Open Warehouse Platform. Its warehouse network had an aggregate gross floor area of approximately over 32 mn square meters, as of 31 December 2023.
- JD has 4 operating segments, namely JD Retail, JD Logistics, Dada and New businesses. Dada began reporting as a standalone segment with effect from 28 February 2022.
- New businesses mainly include JD Property, Jingxi business group, CNLP, overseas businesses and technology initiatives.
- JD had a market capitalization of RMB 335.6 bn as of 28 May 2024.

## GLOSSARY

<sup>1</sup> The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

<sup>2</sup> The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

<sup>3</sup> The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

<sup>4</sup> The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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