



JD.com Inc Buy Pitch

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Consumer Discretionary

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Recommendation

"We want to initiate a 2.07% position in JD at a price target of \$55.76, representing a 39.43% potential upside from current market price"

Recommendation		
Total Shares		220
TD #1 (Unrestricted) Shares		72
TD #2 (Endowment) Shares		148
Market Price	\$	39.99
Price Target	\$	55.76
Potential Upside		39.43%
Cost Basis	\$	8,797.80
% of Portfolio		2.07%

Section I. Company Overview



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Company Overview

Summary

- JD.com Inc. was founded by Liu Qiangdong on June 18, 1998, and its retail platform went online in 2004.
- JD.com, Inc., through its subsidiaries, operates as an e-commerce company and retail infrastructure service provider in the People's Republic of China.
- It operates in two segments, JD Retail and New Businesses.
- The current owner, and CEO of JD.com Inc. is Liu Qiangdong
- JD.com Inc.'s headquarters are in Beijing, China

Q3 Earnings

- Revenue was up 28.7% YoY
- Launched *Jingxi*, social e-commerce platform as a part of its strategy to penetrate into lower-tier cities.
- JD Logistics also expanded its box recycling initiative across China w/ customer incentives.
- Net revenues for the 4th quarter of 2019 are expected to grow YoY somewhere between 21% and 25%
- Next earnings report is expected 2/27

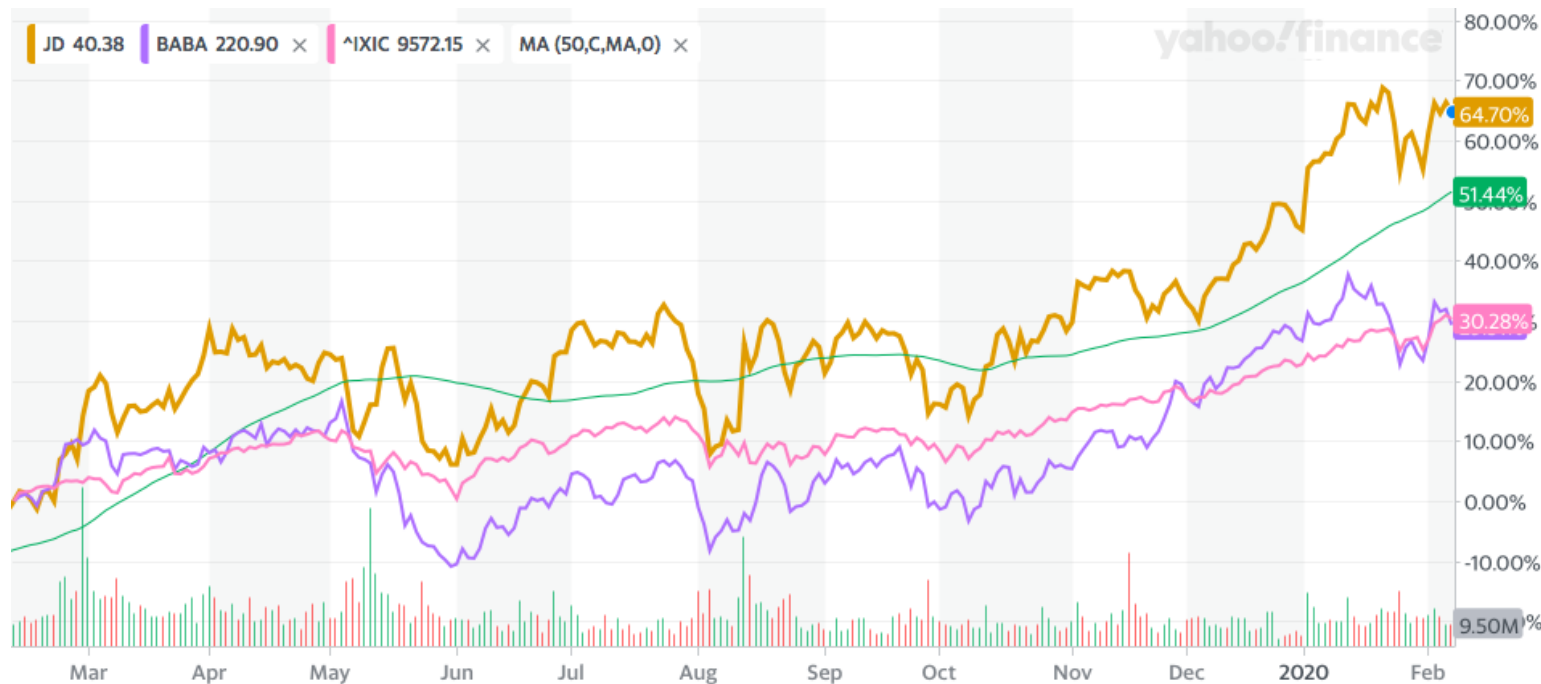
Financials Snapshot

JD.com Inc. (USD\$)				
Current Price (USD\$/Share)	\$		39.99	
Dividend Yield			N/A	
52-Week High	\$		42.00	
52-Week Low	\$		23.65	
Diluted Shares Outstanding (mm)			1,238.70	
Market Cap (mm)	\$		58,391.80	
Add: Total Debt (mm)			2,257.4	
Add: Value of Preferred Shares			2,493	
Add: Minority Interest			-	
Less: Cash & ST Investments (mm)			7,916.5	
Enterprise Value	\$		55,226	
Financial Summary				
	2016	2017	2018	2019 (Estimate)
Revenue	\$38,895.30	\$53,768.1	\$69,899.9	\$78,696.0
YOY Growth	42.50%	40.30%	30.00%	12.58%
EBITDA	\$768.30	\$509.1	\$434.0	\$1,260.3
YOY Growth	2%	1%	-17%	66%
EV/Revenue	0.94x	1.07x	0.43x	0.71x
EV/EBITDA	47.6x	112x	67.1x	43.8x



Company Overview

1Y Price Chart

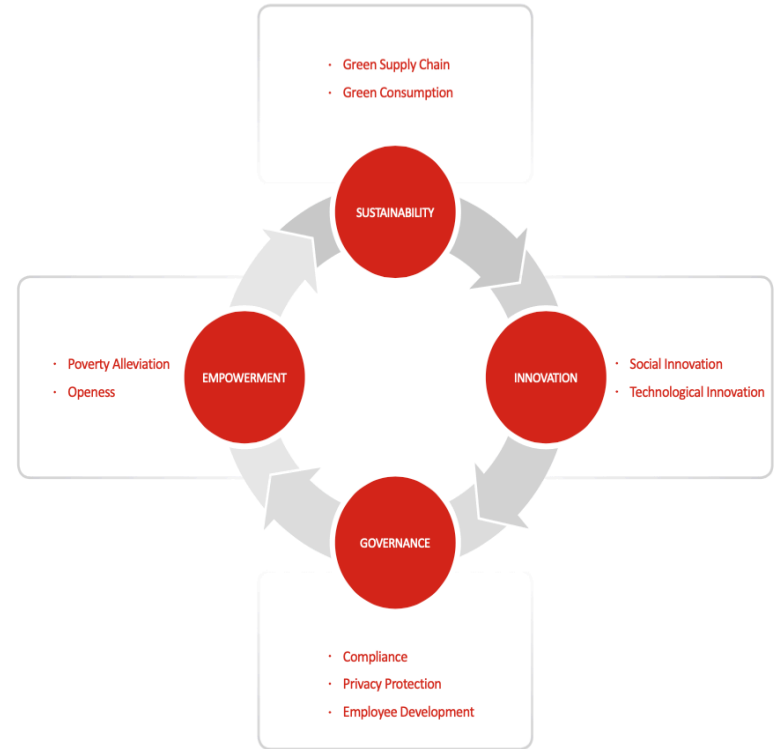


Company Overview

- JD.com is China's second- largest e-commerce company after Alibaba in terms of transaction volume, offering a wide selection of authentic products at competitive prices, with speedy and reliable delivery
- As of December 31, 2018, JD.com, Inc. operated fulfillment centers in 7 cities; and 550 warehouses in 81 cities covering various counties and districts, with over 200,000 employees.
- Link
 - <https://www.youtube.com/watch?v=EtaU647BdmU>
 - <https://www.jd.com/> <https://www.joybuy.com>
- On their online e-commerce site, they sell a large variety of goods and services.
 - In terms of goods, JD.com sells anything from home and mobile appliances, to apparel and cosmetics, fitness equipment, automobiles and accessories, toys, musical instruments, food and beverage, entertainment, and much more.
 - In terms of services, they provide online marketing services, supply chain and logistic services, consumer finance services, online and in-person payment options and customer services, and the distribution of its products through its mobile app.

ESG Overview

- Environment Responsibility
 - Social Responsibility
 - Governance
-
- Coronavirus Outbreak Support
 - Creating special channels to support Hubei Province
 - Reducing fees and providing additional services to the general public
 - Providing medical supplies and safety protections for couriers



ESG Overview



Section II. Industry Overview

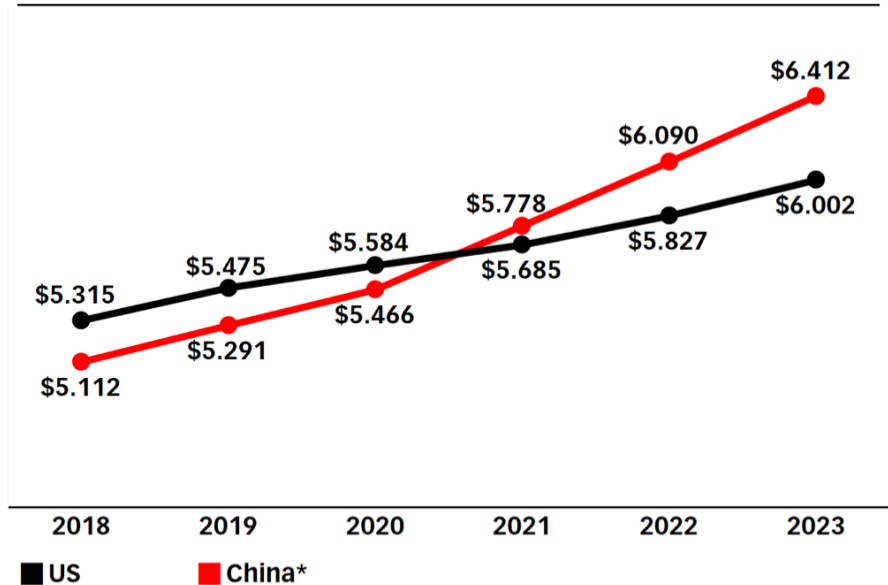


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Industry Overview - Online Retail

- Chinese ecommerce sales largely unaffected by trade war
- China retail sales expected to surpass US in 2021 (by \$93 billion)
- Chinese retail sales will grow 3.5% in 2019 to \$5.291 trillion
- China has 21.1% share of Online retail world, US – 21.9%
- Chinese online retail sales grow 27.3% in 2019 to \$1.935 trillion
- China 54.7% of world's ecommerce, US only 16.6%

Total Retail Sales in China* and the US, 2018-2023
trillions



Industry Overview – Online Retail

- Spending cycle upcoming for internet: increased long-term investments, data centers, logistic expansion
- Ad demand to remain strong for Online retail with both Olympics/Elections Upcoming
- Internet end-markets poised for steady growth with cloud, e-commerce, ads sustaining double-digit expansion
- Long-term internet outlook includes A.I., augmented and virtual reality, location-based advertising
- In event of US Recession, large-tech recover quickly before it ends, results in lower losses
- Online retail could potentially increase online retail sales
- Performance-based ads to help online retailers because they're more measurable
- Restaurants closing operations due to virus, increasing likelihood of online orders
- Higher levels of boredom due to lockdown could increase traffic on Chinese websites
 - Online music, entertainment and other sales all could increase with online reading and organization largely affected

Section III. Investment Thesis



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Investment Thesis – JD.com

▪ **Nationwide Distribution Network**

- Since 2004, JD.com's online retail has drawn loyal customers.
- As JD grows, the logistics network becomes more efficient as more revenue gets spread out across the entire network.
- JD's market share of online retail has significantly increased every year, while Tmall's growth slowed down and Taobao has been decreasing.

▪ **Attractive User-base**

- Due to their high disposable income, JD is an attractive destination for third-party merchants.
- Luxury online market's demand is increasing at a healthy pace.
- Lower-tier consumer base continues to rise since JD launched its social e-commerce platform Jingxi.

▪ **Strong Fulfillment Capacity**

- JD.com has spent years investing in buying up warehouses and last mile delivery, and cutting down on outsourcing.
- Due to the time and detail spent on last-mile delivery, JD.com gains an advantage in delivery service quality and aftersales service.
- Starting April 2017, the logistics business became an independent business unit that will open its services to third parties.



Section IV. Risk & Catalysts



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Risks and Catalysts

Risks

- Coronavirus
 - Lockdown cities
 - Face-to-face deliveries
- Growing competition in Chinese e-commerce
- China is considering tightening up on regulations regarding online retail and e-commerce in their country

Growing uncertainty and misinformation about the spread of coronavirus might negatively affect sales which with growing competition and potential regulations is an important thing to notice.

Catalysts

- Coronavirus has resulted in a significant increase of online orders
- Use of drones and robot deliveries
- Pioneering in developing autonomous delivery technologies
- Chinese e-commerce expected to reach 63% of global sales
- Recent partnership and investments by Google, Walmart, Tencent

The use of pioneer autonomous delivery technologies during coronavirus outbreak and significant increase of sales creates perfect opportunity for demonstrating their competitive advantage.

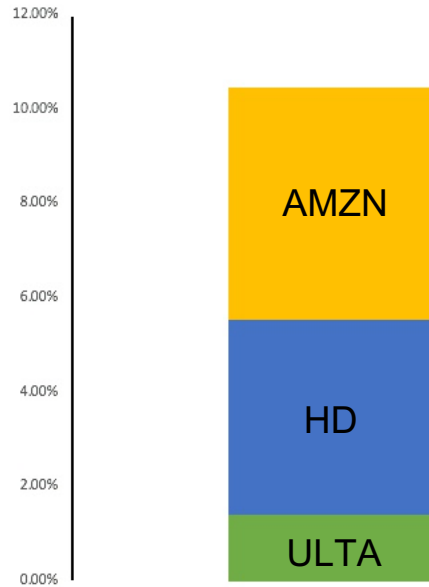
Section V. Valuation



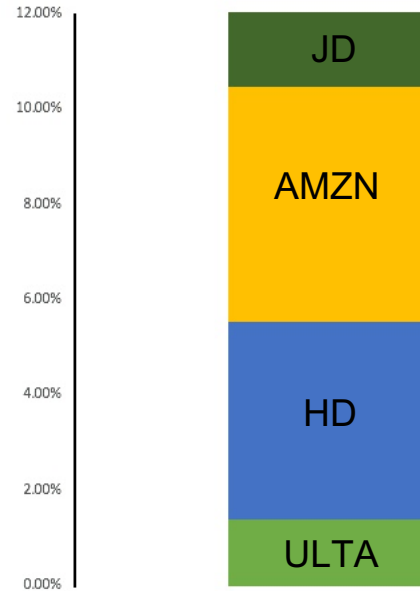
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Sector Holdings

Current



Addition of JD



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