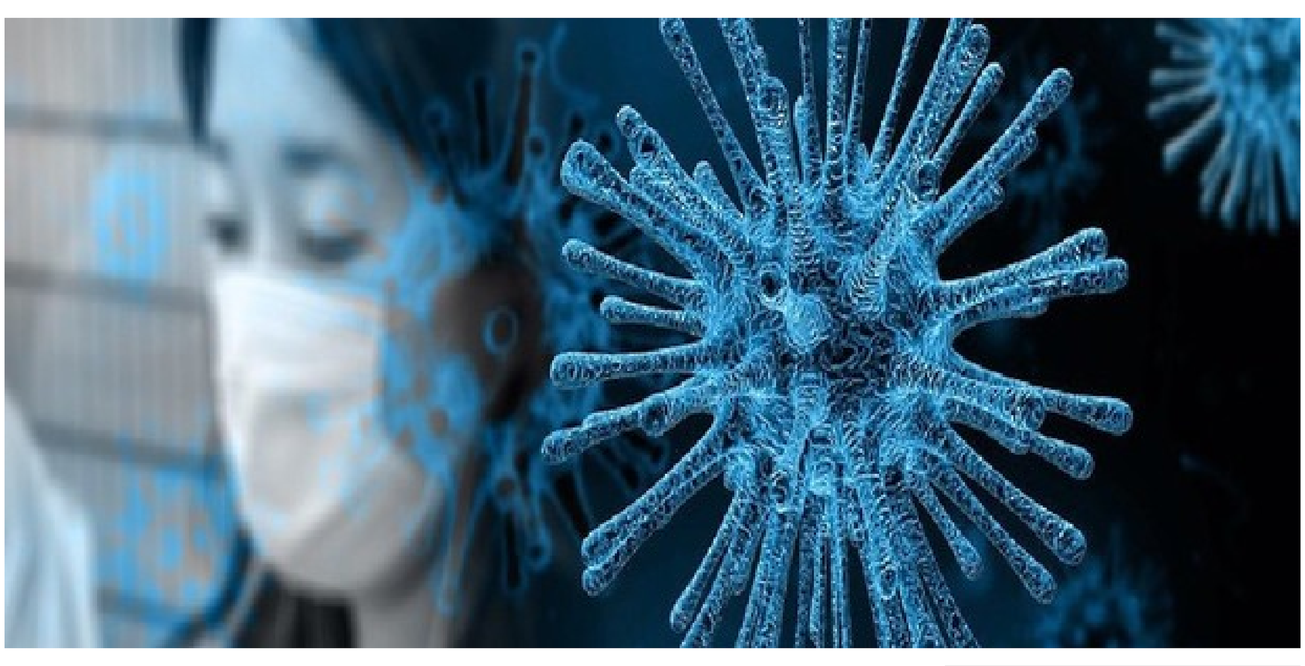
Antifragile? JD.com Thrives Amidst Coronavirus Fears

By: KS Anthony | Published: February 25, 2020 | Be the First to Comment

JD:US (/headlines/search?tags=JD%3AUS) OTCMKTS: GBTC (/headlines/search?tags=OTCMKTS%3A+GBTC) ADS:GR (/headlines/search?tags=ADS%3AGR) APPL:US (/headlines/search?tags=APPL%3AUS)



If there's one variable dampening the relative exuberance that has characterized the market for the last few months, distilling anxiety from uncertainty and slowing even the most bullish of runs, it is undoubtedly the Covid-19 coronavirus (https://www.businessinsider.com/wuhan-coronavirus-chinese-wet-market-photos-2020-1#a-group-of-researchers-from-south-china-agricultural-university-found-that-samples-of-coronaviruses-taken-from-wild-pangolins-and-those-from-infected-coronavirus-patients-were-99-identical-11) outbreak, which is thought to have originated in Wuhan, China before spreading throughout the world.

SumZero Exclusive Commentary
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The economic impact of the virus has been driven by disruptions in the supply chain, heightened trade anxiety, and the epidemiology of the virus itself, which has affected both air travel and the cruise industry as carriers aim to blunt the spread of the virus. Among those who've taken losses or lowered revenue guidance are Adidas (ADS:GR (https://sumzero.com/pro/entities#/1987/primary)), which was forced to temporarily close stores throughout China and, more disturbing to the American market, Apple (APPL: US (https://sumzero.com/pro/entities#/19/primary)), whose February 17th investor update lowered revenue estimate for the March quarter citing both production and retail slowdowns due to the quarantine. Shares of Apple dropped 2.4% (https://www.cnn.com/2020/02/18/investing/premarket-stocks-trading/index.html) – representing $34B in market cap – the next trading day.

Despite this ongoing drama, some companies are actually thriving, even in China. Foremost among them is Chinese e-commerce titan JD.com (JD:US (https://sumzero.com/pro/entities#/8486/primary)), also known as Jingdong, which has been the subject of no less than a dozen ideas – both long and short – on SumZero. JD is an economic powerhouse whose backers include TenCent (700:HK (https://sumzero.com/pro/entities#/1970/primary)), who owns 20% of the company, private equity firm Hillhouse Capital, and Walmart (WMT:US (https://sumzero.com/pro/entities#/1212/primary)), with a surprising stake of just under 11%.

JD.com shows a remarkable ability to optimize its position despite the adverse conditions presented by the spread of Covid-19. In a recent blog post (https://jdcorporateblog.com/jd-launches-drone-disinfection-in-inner-mongolia/), the company announced its deployment of drones to disinfect areas of inner Mongolia, part of the government-led effort to contain the virus, the significance of which will be clarified momentarily. In fact, JD.com's founder Liu Qiangdong attributes some of the company's success to the 2003 SARS epidemic, telling the Financial Times (https://www.ft.com/content/142f39ac-aff1-11e8-8d14-6f049d06439c) that he "wouldn't have entered ecommerce hadn't it been for Sars." The timing on this entry and the past 17 years of industry domination in the sector have been exceptionally fortuitous. In the words of Steven Gart, a Managing Director at John Locke Capital Management who wrote a long thesis (https://sumzero.com/pro/research/ideas/13984) on the company for SumZero in 2017, **"JD has become the Amazon of China."**

Among those who've identified JD's antifragility is ShawSpring Partners (https://sumzero.com/pro/members/profiles/6562#/) CEO and SumZero author Dennis Hong, whose long position in JD has been regularly updated and documented in one of SumZero's most widely-read ideas (https://sumzero.com/pro/research/ideas/10493) on the company. In a February comment, Hong details how JD is enjoying increased business thanks to the opportunities presented by the virus outbreak and support from the Chinese government.

"JD is operating at pretty full capacity - other express players don't really have too much capacity to go around, so the Chinese government is leveraging China Post and JD's logistics assets to help deliver during the Chinese New Year period

The Chinese government has released two videos praising what JD has done - probably significant because it's virtually unheard of for the government to applaud a private company at all, let alone twice. Seems like JD has built a strong relationship with the government."

In contrast, statements from JD's major competitor AliBaba (BABA:US) have been decidedly grim, with the company's Chief Executive David Zhang candidly telling the Wall Street Journal (https://www.wsj.com/articles/alibabas-revenue-rose-38-in-latest-quarter-11581595914) last week that BABA is "being tested" with its logistics arm operating at 20% of capacity, customers experiencing major delivery delays, and waning retail confidence in the form of "a reduced willingness from consumers to make (apparel and electronics) purchases at the height of the epidemic." In contrast, Hong points to a Financial Times article (https://www.ft.com/content/8a1a3d82-4e5c-11ea-95a0-43d18ec715f5) that reports **"Alibaba's struggles to muster its workforce have benefited its competitor JD.com, which controls its own logistics and has maintained deliveries."** Just as in 2003, the company has actually been made stronger by a global viral outbreak. As Hong comments,

"Overall, JD stands as a beneficiary of the coronavirus, especially because JD's vertically-integrated 1P delivery network has allowed them to capitalize on inventory issues faced by offline competition and JD Fresh/Hema will likely deepen penetration as people avoid wet markets."

Moreover, the coronavirus outbreak also saw the company launch a free online health consultation platform (https://jdcorporateblog.com/in-depth-report-jd-brings-healthcare-into-the-digital-age/) through subsidiary JD Health in January, quickly expanding its scope to include "all diseases." Patients submit symptoms and are diagnosed or advised by 30,000 doctors from hospitals across China who've partnered with the company. The service apparently excels in efficiency: the company claims that "90% of patients who choose quick online medical inquiry service can get answers within three minutes."

Supporting those opportunities, however, is JD's fundamental value to China's growing consumer base following what Hong called a "transformation into a technology-driven, consumption-based economy" in a 2018 interview with SumZero (https://www.forbes.com/sites/lukeschiefelbein/2018/07/25/is-jd-com-the-future-of-chinese-e-commerce/#4ef2688c737d). A recent article on Investor Place (https://investorplace.com/2020/02/3-reasons-jd-stock-is-brushing-aside-coronavirus-fears/) notes that the company is in a prime position to leverage the massive surge in the Chinese middle class, which has, according to McKinsey & Company research, adopted western consumer habits and attitudes and is forecast by Statista Research to grow to 700 million in 2020 (https://www.statista.com/statistics/875874/middle-class-population-in-china/). That value includes incredible delivery speeds – over 90% of JD's direct retail orders are delivered in 24 hours – and expanded, differentiated product lines, including bespoke tailor-made clothes (https://www.scmp.com/tech/e-commerce/article/3024006/e-commerce-player-jdcom-allows-users-tailor-make-clothes-pushing) via its in-house brand J. Zao. This diversity of products has long been a cornerstone of the business, whose offerings, Hong writes, include **"home appliances, electronics, apparel, wine and alcohol, fresh food, airplane tickets, and automobiles. A consumer can purchase almost any product that he/she is looking for on JD.com."**

Hong is not alone in his perception of value in the company. Among those with significant holdings in JD is New York City-based investment fund Tiger Global Management which holds a $1.86B stake in the company (https://whalewisdom.com/filer/tiger-global-management-llc#tabholdings_tab_link), representing just over 10% of its AUM valued at $36B as of 12/31/19. Tiger's stake is followed in size by Blackrock, with $1.5B in JD stock (https://whalewisdom.com/filer/blackrock-inc) as part of its massive holdings.

With anxiety over Covid-19 and the potential for other pandemics to shape headlines and investment decisions, smart investors will look to opportunities in robust sectors and companies. For Hong and others with long positions, JD represents an even better opportunity, affording not only stability, but antifragility amidst the rising challenges of epidemics and other global threats.

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