Company Report: Pinduoduo Inc. (PDD US)

公司报告：拼多多 (PDD US)

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Profit Schedule Remains Unchanged Despite Surprising Earnings in 2Q2021

尽管2021年第2季度盈利令人意外，但盈利时间表维持不变

- **China's e-commerce GMV growth was solid in 1M-7M2021.** According to data published by the National Bureau of Statistics of China, China's e-commerce GMV in 1M-7M2021 reached RMB7,110.8 bn, up 21.9% yoy, while the percentage of online purchasing in terms of physical goods was 23.6%, down 1.4 ppts yoy.

- **Key points: 1) Pinduoduo Inc. ("PDD", or the "Company") delivered mixed results for 2Q2021.** PDD unveiled the "10 billion agriculture initiative", with plans to allocate profits from 2Q2021 and any potential profits in future quarters into this initiative. **2) PDD's revenues climbed 89.0% yoy to RMB23,046.2 mn in 2Q2021, missing expectations. 3) We have lifted our gross margin estimations for 2021 to 2023.** The merchandise sales business is expected to contribute a very small portion of total GMV, which will help gross margin perform better than our expectations. **4) We maintain our total operating expenses ratio forecasts to trend lower in 2021 to 2023, but it might be higher than we previously expected.** The "10 billion agriculture initiative" might further push research and development expenses higher. **5) The Company will turn profitable on non-GAAP basis from 2022; this view hasn't changed.**

- **Reduce target Price to US$120.00, but maintain investment rating as "Accumulate".** The cost reduction from downsizing merchandise sales business might offset the negative impacts from increasing operating expenses and the launch of the new initiative. Our TP represents 15.1x 2021F EV/GP or 9.2x 2021F PS.

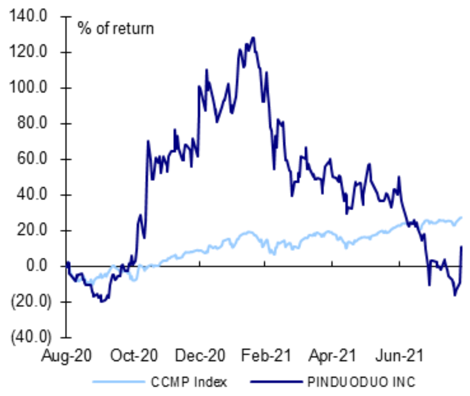
- **中国电商交易总额于 2021 年 1 月至 7 月稳定增长。**根据中国国家统计局发布的数据，2021 年 1 月至 7 月中国电商交易总额达人民币 71,108 亿元，同比增长 21.9%，而网购实物商品百分比达到 23.6%，同比降 1.4 个百分点。

- **要点：1)拼多多公司("拼多多"或"公司")2021 年第二季度的业绩表现不一。**拼多多宣布推出"百亿农研专项"，计划将 2021 年第二季度的利润和未来几个季度的任何潜在利润分配到该计划中。**2)拼多多的收入在 2021 年第二季度同比增长 89.0%至人民币 23,046.2 百万元，低于预期。3)我们上调 2021 年至 2023 年的毛利率预测。**商品销售业务预计在总 GMV 中的贡献很小，这将助力毛利率表现好于我们的预期。**4)我们维持对 2021 年至 2023 年总运营费用率的预测，但其可能会高于我们此前的预期。**"百亿农研专项"可能会进一步推高研发费用。**5)公司将从 2022 年开始实现非 GAAP 盈利；这个观点没有改变。**

- **下调目标价至 120.00 美元，但维持投资评级为"收集"。**商品销售业务缩减所节省的成本可能会抵消运营费用增加和新举措推出的负面影响。我们的目标价相当于 15.1 倍 2021 年预测 EV/GP 或 9.2 倍 2021 年预测市销率。

Rating:	**Accumulate** Maintained
评级：	**收集** (维持)
6.18m TP 目标价:	**US$120.00**
Revised from 原目标价:	US$148.00
ADS price ADS价格:	US$94.980

Stock performance
股价表现



Change in ADS Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	3.7	(23.9)	6.5
Rel. % to NASDAQ Index 相对纳指变动 %	(0.4)	(35.0)	(24.0)
Avg. ADS price(US$) 平均股价（美元）	88.1	106.7	126.4

Source: Bloomberg, Guotai Junan International.

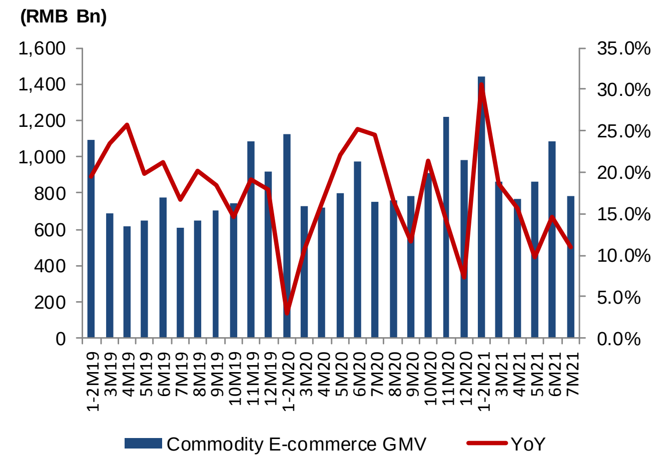
Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	Earnings/ADS 每份 ADS 净利 (RMB)	Earnings/ADS 每份 ADS 净利变动 (△%)	PER 市盈率 (x)	BV/ADS 每份 ADS 净资产 (RMB)	PBR 市净率 (x)	DP ADS 每份 ADS 股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2019A	30,142	(6,968)	(6.023)	n.a.	n.a.	21.306	31.0	0.000	0.0	(32.1)
2020A	59,492	(7,180)	(6.023)	n.a.	n.a.	50.479	12.3	0.000	0.0	(16.9)
2021F	105,366	(9,241)	(7.348)	n.a.	n.a.	47.551	12.9	0.000	0.0	(15.4)
2022F	154,884	(4,386)	(3.386)	n.a.	n.a.	51.065	12.0	0.000	0.0	(7.0)
2023F	195,807	1,055	0.791	n.a.	775.3	58.681	10.5	0.000	0.0	1.5

ADS in issue (m) 总 ADS 数 (m)	1,252.9	Major shareholder 大股东	Zheng Huang 28.1%
Market cap. (US$ m) 市值 (US$ m)	119,000.4	Free float (%) 自由流通比率 (%)	71.9%
3 month average vol. 3 个月平均成交股数 ('000)	8,389.3	FY21 Net gearing (%) FY21 净负债/股东资金 (%)	Net Cash
52 Weeks high/low (US$) 52 周高/低 (US$)	212.597 / 69.890	FY21 EV/GP FY21 企业价值/毛利	11.7

Source: the Company, Guotai Junan International.

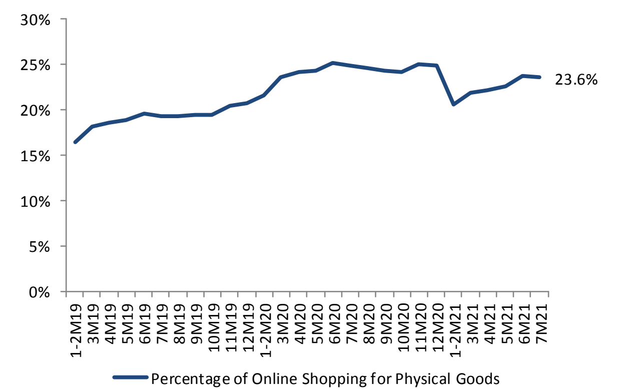
China's e-commerce GMV growth was solid in 1M-7M2021. According to data published by the National Bureau of Statistics of China (NBS), China's e-commerce GMV in 1M-7M2021 reached RMB7,110.8 bn, up 21.9% yoy, whereas total sales of consumer goods increased by 20.7% yoy in the same period; both growth rates decelerated from a few months ago. During the conference from the NBS, weaker performance in China's retail industry in the recent months was due to i) severe weather in several provinces, and ii) resurfacing of the domestic COVID-19 epidemic. By GMV breakdown in 1M-7M2021, China's commodity e-commerce GMV increased by 17.6% yoy to RMB5,813.0 bn, while China's service e-commerce GMV grew 45.8% yoy to RMB1,297.8 bn. The percentage of online consumption in terms of physical goods for 1M-7M2021 was 23.6%, down 1.4 ppts yoy. By product category, food, apparel, and household goods increased by 23.7% yoy, 21.6% yoy and 15.8% yoy, respectively. If looking at monthly performance, e-commerce GMV growth was ahead of that of total sales of consumer goods since 4M2021, improving percentage of online shopping for physical goods gradually. In addition, China's express delivery volume in 7M2021 reached 8.9 bn, up 28.7% yoy.

Figure-1: China's Commodity E-Commerce GMV



Source: National Bureau of Statistics of China, Guotai Junan International.

Figure-2: Percentage of Online Shopping for Physical Goods



Source: National Bureau of Statistics of China, Guotai Junan International.

Table-1: PDD Core Indicator Matrix and Quarterly Projection

Quarterly Results		2Q20	3Q20	4Q20	1Q21	2Q21	2Q21 yoy	3Q21F	4Q21F
Total revenues	mn RMB	12,193.3	14,209.8	26,547.7	22,167.1	23,046.2	89.0%	25,845.8	34,306.7
Gross profit	mn RMB	9,531.2	10,949.6	15,021.6	11,421.0	15,148.3	58.9%	14,344.4	19,445.1
Profit/ (loss) from operations	mn RMB	(1,639.6)	(1,294.7)	(2,047.8)	(4,147.0)	1,997.5	n.a.	(5,297.9)	(4,740.9)
Net Income to PDD	mn RMB	(899.3)	(819.2)	(1,376.4)	(2,905.4)	2,414.6	n.a.	(4,751.0)	(3,999.0)
Non GAAP operating profit	mn RMB	(725.1)	(338.8)	(1,114.5)	(3,174.1)	3,185.2	n.a.	(4,134.4)	(3,433.8)
Non GAAP Net Income	mn RMB	(77.2)	431.9	(184.5)	(1,890.3)	4,125.3	n.a.	(2,980.6)	(2,615.9)
Active buyers	mn	683.2	731.3	788.4	823.8	849.9	24.%	859.3	873.5

Source: the Company, Guotai Junan International.

Pinduoduo Inc. ("PDD", or the "Company") delivered mixed results for 2Q2021. The Company's revenues increased by 89.0% yoy to RMB23,046.2 mn, missing our expectations by 13.9%. Non-GAAP net income attributable to ordinary shareholders amounted to RMB4,125.3 mn, turning profitable from the non-GAAP net loss of RMB77.2 mn from 2Q2020. Active buyers reached 849.9 mn, representing yoy growth of 24.4%. Gross margin was 65.7%, down 12.4 ppts yoy, 15.7 ppts above our expectations. Total operating expenses reached RMB13,150.9 mn, up 17.7% yoy. Overall, the results seem mixed; the top line was lower than our expectations, but the bottom line surprised the market. In our view, much lower-than-expected merchandise sales revenue was the key, which led to consensus-missing revenue with surprising profitability. Due to the 1P business model of merchandise sales business and lower sales and marketing expenses ratio, both helped the Company to deliver surprising profitability in 2Q2021. However, the Company added that the sales and marketing ratio stayed at a low level in 2Q2021, which was a one-off seasonality reason; it expects to be back at a high level starting from the next quarter. At the same time, the Company announced to unveil the "10 billion agriculture initiative", planning to allocate profits from 2Q2021 and any potential profits in future quarters into this initiative. The "10 billion agriculture initiative" strives to facilitate the advancement of agri-tech, promote digital inclusion, and provide agri-tech talents and workers with greater motivation and a sense of achievement. According to the management, this initiative will undoubtedly impact the short-term earnings per share for shareholders, thus the surprising profitability in 2Q2021 is not sustainable.

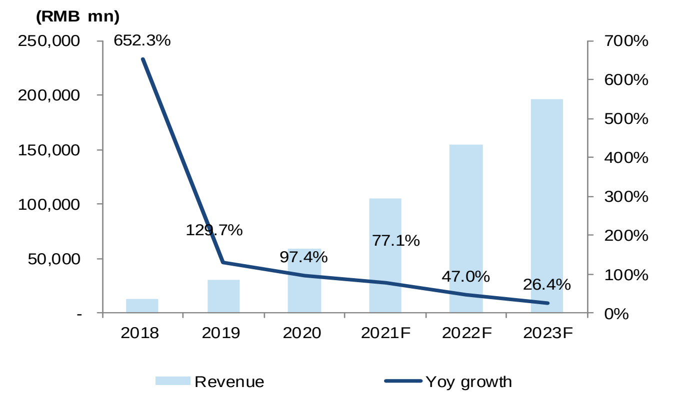
PDD's revenues climbed 89.0% yoy to RMB23,046.2 mn in 2Q2021, missing expectations. During 2Q2021, online marketing services revenues reached RMB18,080.4 mn, up 63.6% yoy, accounting for 78.5% of total revenues. Transaction services revenues contributed 13.1% of total revenues, amounting to RMB2,033.5 mn. Merchandise sales business generated revenues of RMB1,958.2 mn, down 61.8% qoq; the management mentioned that merchandise business would be the temporary replenishment of specific goods by 1P business model, the brand mix or the product mix might change quarterly subject to a different situation, leading to unpredictable and inconsistent results. Due to downsizing merchandise sales revenue in 2Q2021, the Company's top line missed. If excluding merchandise sales revenues, the Company's online marketing services revenues and transaction services revenues aggregately contributed RMB21,088.1 mn, meeting our expectations. Also, the Company's active customers still grew over 20% yoy in 2Q2021, amounting to 849.9 mn, 1.8% above our estimations. In our view, the Company's user expansion is still ongoing, however, growth is very likely to decelerate when the user and geographical location both have high penetration in China. We keep our active buyers estimations for 2021 to 2022, but slightly raise for 2023. We expect active buyers to reach 873.6 mn/ 927.3 mn/ 955.1 mn, respectively, equivalent to 10.8%/ 6.2%/ 3.0% active buyer yoy growth. In terms of merchandise sales revenues, we have cut our estimations for 2021 to 2023 by 36.4%/ 26.8%/ 19.2% to RMB14.144.6 mn/ RMB18,275.1 mn/ RMB21,794.7 mn, respectively, accounting for 0.16%/ 0.15%/ 0.15% of our GMV forecasts. Due to trimmed down merchandise sales revenues, our GMV forecasts for 2021 to 2023 have been revised down by 7.4%/ 3.8%/ 0.7% to RMB2,294.4 bn/ RMB3,121.2 bn/ RMB3,807.5 bn, respectively. Meanwhile, we have raised our take rate assumption for 2021 to 2023 to 4.59%/ 4.96%/ 5.14%, respectively, showing efficiency improvement amid a more mature approach to new business development such as Duo Duo Grocery. After all adjustments we have made, our revenues forecasts have been adjusted by -5.8%/ 2.8%/ 5.5% to RMB105.365.9 mn/ RMB154,883.9 mn/ RMB195,807.3 mn, respectively.

Table-2: PDD's Key Performance Indicators Projection Changes between 2021 and 2023

	Units	New			Old		
		2021	2022	2023	2021	2022	2023
Active buyers	Mn	873.6	927.3	955.1	873.6	927.3	945.8
ARPU	RMB	2,626.6	3,366.0	3,986.5	2,836.7	3,499.3	4,054.7
GMV	RMB bn	2,294.4	3,121.2	3,807.5	2,478.0	3,244.8	3,835.0
% of merchandise sales GMV	%	0.16	0.15	0.15	0.24	0.20	0.18
Take rate	%	4.59	4.96	5.14	4.51	4.64	4.84

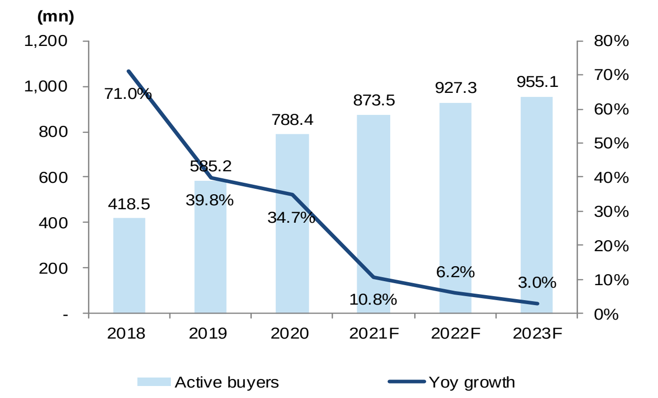
Source: the Company, Guotai Junan International.

Figure-3: PDD's Revenues Estimates



Source: the Company, Guotai Junan International.

Figure-4: PDD's Active Buyers Estimates



Source: the Company, Guotai Junan International.

Table-3: PDD's Revenue Projection Changes By Segment

	New			Old		
	2021	2022	2023	2021	2022	2023
Online marketplace services*	91,221	136,609	174,013	89,628	125,689	158,692
Merchandise sales	14,145	18,275	21,795	22,226	24,972	26,969
Total revenues	105,366	154,884	195,807	111,853	150,661	185,661

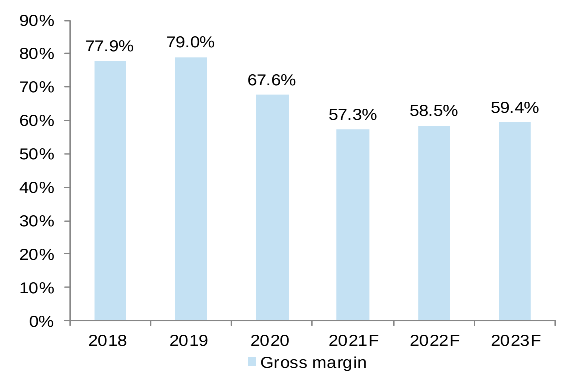
Source: the Company, Guotai Junan International.
**Online marketplace services consist of online marketplace services and transaction services.*

We have lifted our gross margin estimations for 2021 to 2023. Total cost of revenues were RMB7,897.9 mn, surged 196.7%

yoy, while the Company's gross margin was 65.7%, dropping by 12.5 ppts yoy. The cost of revenues for 2Q2021 were far below our estimations, this was due to an unexpected downsize of merchandise sales revenues. Due to 1P business model operated by merchandise sales business, its revenue scale will have significant impact on the gross margin outlook, this was proved in the past few quarters. During this quarter, merchandise sales revenues declined 61.8% qoq and missed our expectations by 64.0%, leading to gross margin having performed much better than our expectations and market consensus. The merchandise sales business is the temporary solution to maintain some products/ brands with no stable supply from third parties, PDD will continue to shift all products/ brands to the online marketplace model as much as possible while the online marketplace model is still the core business model of the Company, thus the merchandise sales business is expected to contribute a very small portion of total GMV going forward. As we mentioned above, we have cut our estimation on GMV percentage of the Company's merchandise sales business for 2021 to 2023, resulting in a higher gross margin estimation for the mentioned period. To conclude, our gross margin estimates for 2021 to 2023 have been lifted by 3.6 ppts/ 2.9 ppts/ 2.6 ppts to 57.3%/ 58.5%/ 59.4%, respectively, while gross profit forecasts have been revised up by 0.5%/ 8.3%/ 10.2% in 2021 to 2023, amounting to RMB60,358.9 mn/ RMB90,617.7 mn/ RMB116,278.6 mn, respectively.

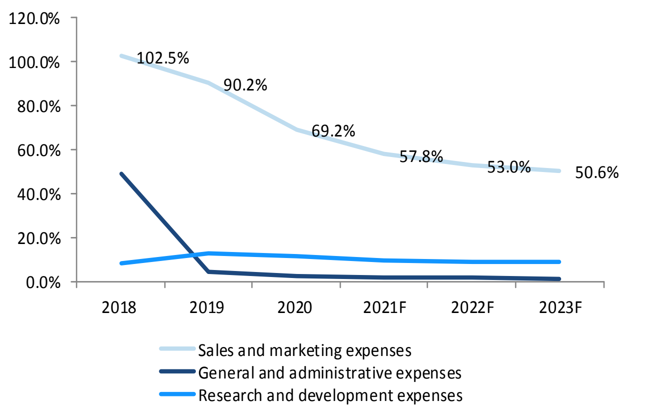
We maintain our total operating expenses ratio forecasts to trend lower in 2021 to 2023, but it might be higher than we previously expected. In 1Q2021, the Company posted 57.1% of total operating expenses ratio, 9.1 ppts below our expectations. Marketing expense ratio remained as the largest expense within all operating expenses, accounting for 45.1% of total revenues, but missing our estimations by 9.9 ppts. It is not the general practice to have a lower marketing expense ratio in the e-commerce industry's peak season; the Company's 2Q2021 marketing expense ratio was even lower than that in 1Q2021. The management explained that it was the one-off seasonality reason that resulted in lower marketing expense ratio in 2Q2021, and higher marketing expense ratio will continue as the Company will adopt the normal practice in this future. To recall from their 1Q2021 earnings call, the Company said they would continue to roll out its RMB10 bn subsidy program, thus we believe that most marketing expenses will be incurred in 2H2021, particularly with a relatively lower marketing ratio in 2Q2021. Meanwhile, the Company's active buyer scale is much bigger, thus it might spend more on user acquisition as well as user retention. Therefore, we have raised our marketing expense ratio for 2021 to 2023 by 3.8 ppts /2.9 ppts/ 1.2 ppts to 57.8%/ 53.0%/ 50.6%, respectively. At the same time, the Company unveiled a new program for the development of the agricultural sector and rural areas, namely the "10 billion agriculture initiative". This initiative aims to face and address critical needs in the agricultural sector and rural areas; we expect that technology innovation will be one of the key focuses of this initiative. During the 1Q2021 earnings call, the Company had already said to increase investment for rethinking logistics systems and infrastructure. If adding the investment of "10 billion agriculture initiative", this might further push research and development expenses higher. As such, we have revised up our research and development expenses ratio for 2021 to 2023 by 0.2 ppts/ 0.4 ppts/ 1.6 ppts to 9.4%/ 9.2%/ 9.1%, respectively. We also raise our estimations on general and administrative expenses ratio for 2021 to 2023, reflecting that more general and administrative expenses will be incurred along with enlarging business scale. Our general and administrative expenses ratio for 2021 to 2023 amounts to 1.7%/ 1.5%/ 1.3%, up by 0.2 ppts/ 0.1 ppt/ 0.1 ppt from our previous estimations. Overall, our total operating expenses ratio forecasts for 2021 to 2023 are 68.9%/ 63.7%/ 61.0%, respectively, while total operating expenses will grow 46.3%/ 36.0%/ 21.1% in the mentioned period.

Figure-5: PDD's Gross Margin Estimates



Source: the Company, Guotai Junan International.

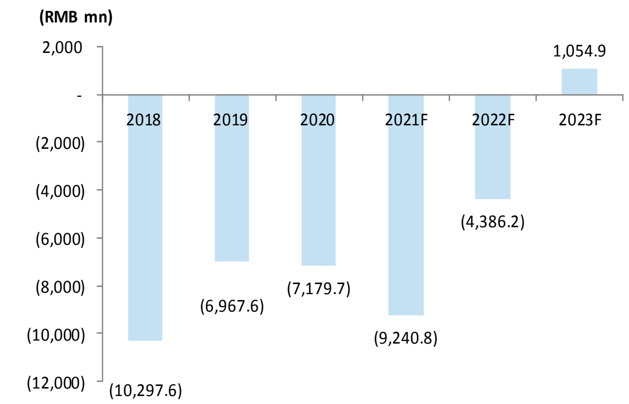
Figure-6: PDD's Operating Expenses Ratio Estimates



Source: the Company, Guotai Junan International.

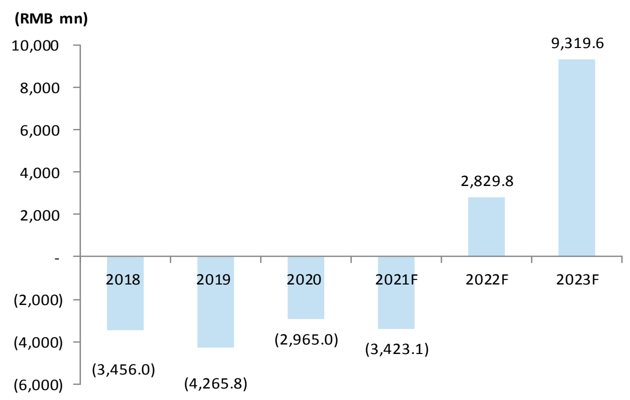
The Company will turn profitable on non-GAAP basis from 2022; this view hasn't changed. After all adjustments are made, we expect that the Company will turn profitable on GAAP basis from 2023, but non-GAAP net profit will swing into profit earlier from 2022; this view remains unchanged. Our GAAP net profit/ (loss) forecasts for 2021 to 2023 are (RMB9,240.8 mn)/ (RMB4,386.2 mn)/ RMB1,054.9 mn, respectively, with net margin of -8.8%/ -2.8%/ 0.5%. Accordingly, non-GAAP net profit/ (loss) forecasts for 2021 to 2023 are (RMB3,423.1 mn)/ RMB2,829.8 mn/ RMB9,319.6 mn, respectively, representing non-GAAP net margin of -3.2%/ 1.8%/ 4.8% for such years, respectively.

Figure-7: PDD's GAAP Net Profit Projections



Source: the Company, Guotai Junan International.

Figure-8: PDD's Non GAAP Net Profit Forecasts



Source: the Company, Guotai Junan International.

Reduce target price to US$120.00, but maintain investment rating as "Accumulate". The Company's 2Q2021 results were mixed. Lower merchandise sales revenues seem like a double-edged sword, resulting in consensus-missing revenue growth with improved profitability. Also, the lower-than-expected marketing expenses ratio in 2Q2021 further boosted profitability. However, the management told investors that they would continue to increase marketing expenses, similar to the past. At the same time, the Company's "10 Billion Agriculture Initiative" will further drive operating expenses forecasts, in our view. The cost reduction from downsizing merchandise sales business might offset the negative impacts from increasing operating expenses and the launch of the new initiative. Hence, we maintain our view on the Company that it will swing into profit on non-GAAP basis from 2022, showing profitability improvement. We maintain investment rating as "Accumulate", reflecting growth potential and the expectation of profitable business model. We cut target price to US$120.00, representing 15.1x 2021F EV/GP or 9.2x 2021F PS; this is due to policy uncertainty still surrounding Chinese internet companies and industry revaluation. Risk factors: lower-than-expected revenue growth, sharp RMB depreciation, failure in category expansion, more policy curbs in the e-commerce industry in China, active buyer retreat, and failure to uncover buyer value.

Table-4: Peers Comparison

Company	Stock Code	Currency	Last price	Market Cap mn HKD	Adjusted PE FY21F	Adjusted PE FY22F	Adjusted PE FY23F	Price/Sales FY21F	Price/Sales FY22F	Price/Sales FY23F	EV/GP FY21F	EV/GP FY22F	EV/GP FY23F	PEG FY21-23
E-commerce														
Alibaba Group-SW **	9988 HK	HKD	158.20	3,440,127.7	17.0	14.2	11.8	3.1	2.5	2.1	7.0	5.5	4.3	0.9
Ebay Inc	EBAY US	USD	77.55	392,551.9	20.1	17.4	15.8	4.8	4.6	4.4	6.9	6.2	5.7	1.6
Amazon.Com Inc	AMZN US	USD	3421.57	13,493,309.3	48.2	39.7	29.7	3.6	3.1	2.6	9.1	7.7	6.6	1.8
Z Holdings Corp**	4689 JT	JPY	694.6	380,448.5	61.9	46.1	37.8	3.5	3.3	3.0	n.a.	n.a.	n.a.	2.2
Rakuten Inc	4755 JT	JPY	1114	127,026.7	n.a.	n.a.	122.7	1.1	1.0	0.9	n.a.	n.a.	n.a.	n.a.
Jd.Com-SW	9618 HK	HKD	298.40	930,402.4	47.8	29.5	19.6	0.8	0.7	0.6	5.3	4.1	3.3	0.9
Vipshop Holdings Ltd - Adr	VIPS US	USD	14.30	75,297.7	9.4	8.2	7.2	0.5	0.4	0.4	1.8	1.3	0.9	0.7
Pinduoduo Inc-Adr	PDD US	USD	94.98	926,932.1	n.a.	198.7	55.2	7.0	5.0	3.8	10.9	7.4	5.1	n.a.
Trip.Com Group Ltd-Adr	TCOM US	USD	28.59	141,915.3	57.6	19.6	14.9	4.9	3.3	2.8	7.5	4.7	3.5	0.6
Simple Average					37.4	46.7	35.0	3.3	2.7	2.3	6.9	5.3	4.2	1.2
Weighted Average					39.8	41.4	27.6	3.6	3.0	2.5	8.3	6.8	5.8	1.5
Internet Conglomerate														
Tencent Holdings Ltd	700 HK	HKD	465.8	4,471,820.5	27.7	22.8	18.7	6.4	5.4	4.6	14.3	11.8	9.7	1.3
Baidu Inc - Spon Adr	BIDU US	USD	153.18	415,163.5	15.8	14.3	11.8	2.7	2.4	2.1	3.6	2.9	1.8	1.0
Alphabet Inc-Cl C	GOOG US	USD	2909.39	15,061,087.4	25.0	22.7	19.0	9.3	8.0	6.9	12.9	11.0	9.3	1.7
Microsoft Corp	MSFT US	USD	303.59	17,765,390.7	39.0	34.6	30.2	13.7	11.9	10.5	19.4	16.8	14.6	2.3
Facebook Inc-Class A	FB US	USD	380.66	8,357,288.5	23.7	20.6	18.1	9.0	7.5	6.4	10.3	8.4	6.8	1.6
Softbank Group Corp**	9984 JT	JPY	6152	740,694.5	5.8	7.5	7.1	1.7	1.7	1.6	9.4	8.9	8.3	(0.6)
Simple Average					22.8	20.4	17.5	7.2	6.1	5.3	11.7	10.0	8.4	1.2
Weighted Average					30.0	26.6	22.8	10.5	9.0	7.8	14.9	12.7	10.8	1.8
Simple Average					30.7	35.4	28.0	4.8	4.1	3.5	9.1	7.4	6.1	1.2
Weighted Average					32.9	31.0	24.2	8.4	7.2	6.2	12.9	11.0	9.3	1.7

Source: Bloomberg, Guotai Junan International.
*Note: ** these companies' year end as at March of each year, the figures represent FY2022/ FY2023/ FY2024.*

Financial Statements and Ratios

Income Statement

Year end 31 Dec (RMB m)	2019A	2020A	2021F	2022F	2023F
Total Revenue	30,142	59,492	105,366	154,884	195,807
Cost of revenues	(6,339)	(19,279)	(45,007)	(64,266)	(79,529)
Gross profit	23,803	40,213	60,359	90,618	116,279
Sales and marketing expenses	(27,174)	(41,195)	(60,854)	(82,097)	(99,039)
General and administrative expenses	(1,297)	(1,507)	(1,765)	(2,368)	(2,572)
Research and development expenses	(3,870)	(6,892)	(9,928)	(14,184)	(17,894)
Operating Profit	(8,538)	(9,380)	(12,188)	(8,031)	(3,227)
Interest income	1,542	2,455	3,161	3,717	4,308
Interest expense	(146)	(757)	(1,366)	(1,529)	(1,690)
Foreign currency exchange income/(loss)	63	225	209	336	339
Others (loss)/income, net	83	194	775	930	1,116
Profit Before Tax	(6,996)	(7,263)	(9,409)	(4,577)	845
Share of results of equity investee	29	84	169	191	210
Income Tax	0	0	0	0	0
Profit After Tax	(6,968)	(7,180)	(9,241)	(4,386)	1,055
Non-controlling Interest	0	0	0	0	0
Shareholders' Profit / Loss	(6,968)	(7,180)	(9,241)	(4,386)	1,055
Basic Earnings Per ADS	(6.023)	(6.023)	(7.348)	(3.386)	0.791
Diluted Earnings Per ADS	(6.023)	(6.023)	(7.348)	(3.386)	0.791
Weighted average ADS outstanding					
Basic mn ADS	1,157	1,192	1,258	1,295	1,334
Diluted mn ADS	1,157	1,192	1,258	1,295	1,334
Non GAAP operating profit	(5,981)	(5,767)	(7,557)	(2,141)	3,571
Non GAAP net income	(4,266)	(2,965)	(3,423)	2,830	9,320

Cash Flow Statement

Year end 31 Dec (RMB m)	2019A	2020A	2021F	2022F	2023F
Operating activities					
Net loss/ income	(6,968)	(7,180)	(9,241)	(4,386)	1,055
Depreciation	638	652	784	3,317	14,197
Working capital change	18,606	31,050	14,048	3,573	5,256
Share-based compensation	2,558	3,613	4,631	5,890	6,798
Other non cash gain/loss	(13)	62	988	1,002	1,141
Cash from Operating Activities	14,821	28,197	11,211	9,396	28,447
Investing activities					
Capital expenditure	(27)	(43)	(667)	(2,901)	(12,770)
Investment	(27,868)	(38,077)	(10,723)	(4,794)	(5,120)
Other cash related to investing act.	(425)	(238)	0	0	0
Cash from Investing Activities	(28,320)	(38,358)	(11,390)	(7,695)	(17,890)
Financing activities					
Capital raise from IPO, net	7,994	26,805	0	0	0
Convertible preferred shares, net	6,964	13,024	0	0	0
Proceeds from short-term borrowings	897	1,829	1,979	3,194	4,804
Others	0	(0)	1,815	8,279	(1,688)
Cash from Financing Activities	15,855	51,799	3,793	11,473	3,116
Effect of exchange rate changes on cash	450	(140)	566	732	1,091
Net Changes in Cash	2,806	41,498	4,181	13,906	14,764
Cash at Beg of Year	30,540	33,346	74,844	79,024	92,930
Cash at End of Year	33,346	74,844	79,024	92,930	107,694

Source: the Company, Guotai Junan International.

Balance Sheet

Year end 31 Dec (RMB m)	2019A	2020A	2021F	2022F	2023F
Long-term investments	503	7,275	8,316	9,398	10,620
Property and equipment, net	41	203	870	3,771	16,540
Intangible asset	1,994	1,277	1,404	1,545	1,699
Loan to a related party	0	0	0	0	0
Right-of-use assets	517	630	724	818	900
Total Non-current Assets	3,056	9,385	11,314	15,532	29,760
Cash & Restricted Cash	33,346	74,844	79,024	92,930	107,694
Receiv. from online pay't platforms	1,051	730	766	804	845
Short-term investments	35,289	64,551	74,234	77,945	81,843
Amounts due from related parties	2,366	4,240	4,452	4,675	4,908
Prepayments and other	950	5,160	4,655	5,529	5,200
Total Current Assets	73,001	149,524	163,132	181,884	200,490
Total Assets	76,057	158,909	174,446	197,415	230,250
Amounts due to related parties	1,503	3,386	7,712	6,374	8,878
Customer advances	606	2,423	4,482	6,082	7,862
Payable to merchants	29,926	53,834	57,142	60,826	64,677
Acc. expenses and other liabilities	4,877	11,193	13,468	14,703	13,622
Merchant deposits	7,841	10,926	13,735	14,436	13,889
Short-term borrowings	899	1,866	1,979	3,194	4,804
Lease liabilities	116	253	342	427	491
Total Current Liabilities	45,768	83,882	98,859	106,043	114,223
Convertible bond	5,207	14,433	15,303	24,696	37,153
Long term loan	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0
Lease liabilities	429	415	477	525	577
Other non-current liabilities	7	3	3	3	3
Total Non-current Liabilities	5,643	14,851	15,783	25,224	37,733
Total Liabilities	51,410	98,733	114,643	131,267	151,956
Total Shareholders' Equity	24,647	60,176	59,803	66,149	78,294
Minority Interest	0	0	0	0	0
Total Equity	24,647	60,176	59,803	66,149	78,294

Financial Ratios

	2019A	2020A	2021F	2022F	2023F
Non GAAP Operating margin	-19.8%	-9.7%	-7.2%	-1.4%	1.8%
Non GAAP Net margin	-14.2%	-5.0%	-3.2%	1.8%	4.8%

Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance>15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance>5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance<-5%; Or the fundamental outlook of the sector is unfavorable.

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