

Pinduoduo (PDD US)

Strong revenue and earnings growth

Pinduoduo (PDD) announced (28 November) 3Q22 results: revenue was up 65% YoY to RMB35.5bn, 21/15% higher than our/Bloomberg consensus estimates, which we attribute to increase in merchant activities and on boarding of more quality merchants that drove stronger-than-expected monetization rate expansion, 龐大且活躍的用戶基礎, and its enhanced technology capability that drove better match between products and consumers. Non-GAAP net income attributable to PDD was RMB12.4bn (3Q21: 3.2bn), beating our/consensus estimates of RMB7.5/7.1bn, given better-than-expected GPM and stronger-than-expected operating leverage aided by robust revenue growth. Leveraging highly sticky user base, PDD is able to manage sales and marketing spending in an efficient and more proactive way. We think robust profitability for its main app 多多買家 and 多多進家, while the key to watch is the pace of investment for international commerce.

■ **3Q22 revenue beat, driven by increasing merchant and consumer engagement.** Online marketing services and others revenue rose by 58% YoY to RMB28.4bn in 3Q22 (80% of total revenue; our estimate: RMB23.1bn), driven by increase in merchant activities, and more subsidies provided by PDD to drive for more consumption. Management highlighted on conference call that PDD continues to focus on high-quality and value-for-money products, and product categories such as agriculture, consumer electronics, beauty & cosmetics all enjoyed positive consumer feedbacks. The strategic move to incorporate more branded products and high average selling price (ASP) categories could help drive higher than industry average GMV growth in 2023E, in our view. In 3Q22, transaction services revenue grew by 102% YoY to RMB7.0bn, which we attribute to increase in transaction processing fees and more diverse services provided to merchants.

■ **Strict ROI target leads to a controlled investment pace in the near term and drove margin beat.** Operating margin rose to 79.1% in 3Q22 (3Q21: 69.5%; 2Q22: 74.7%), 6.1pp better than our forecast, which we attribute to stronger-than-expected revenue growth. Non-GAAP S&M expenses were RMB13.4bn in 3Q22, equivalent to 37.9% of total revenue (3Q21:44.9%, 2Q22: 34.4%), better than our estimate at 41.0%. Non-GAAP OPM was 34.6% in 3Q22 (3Q21: 15.2%; 2Q22: 33.5%), ahead of our estimate of 23.0%. Management stated that high profitability this quarter is due to the out of sync between business cycle and financial recording cycle and may not be sustainable, and management remains committed in investment to drive for long-term growth, while will keep a strict ROI target at the same time. Strong profitability could sustain until it becomes more determined in investment in new initiatives that could support long-term revenue and earnings growth, and international e-commerce is the key to watch, in our view.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	59,492	93,950	119,494	144,739	166,149
YoY growth (%)	97.4	57.9	27.2	21.1	14.8
Net profit (RMB mn)	(7,179.7)	7,768.7	23,866.8	30,496.6	37,113.1
Adjusted net profit (RMB mn)	(2,965.0)	13,829.5	30,915.4	37,930.3	44,974.1
EPS (Adjusted) (RMB)	(2.49)	9.56	21.64	26.55	31.48
EPS (Adjusted, consensus)	na	na	18.56	22.90	26.52
P/E (x)	na	123.0	24.7	19.4	15.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$92.90
Up/Downside 41.3%
Current Price US\$65.75

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Stock Data

Mkt Cap (US\$ mn)	93,920.0
Avg 3 mths t/o (US\$ mn)	62.3
52w High/Low (US\$)	72.19/25.53
Total Issued Shares (mn)	1428.4

Source: FactSet

Shareholding Structure

Entities affiliated with Zheng Huang	27.9%
Entities affiliated with Tencent	15.5%

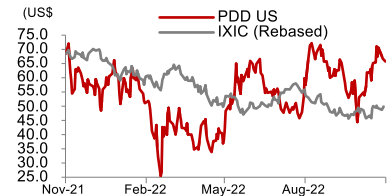
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	38.3%	37.3%
3-mth	9.9%	23.1%
6-mth	71.6%	73.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: PDD: quarterly financial results

(RMBmn)	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Online marketing services and others	12,485	18,922	14,111	18,080	17,946	22,425	18,158	25,173	28,426
YoY growth (%)	86.0%	95.3%	156.9%	63.6%	43.7%	18.5%	28.7%	39.2%	58.4%
Transaction services fees	1,332	2,268	2,931	3,008	3,477	4,724	5,591	6,216	7,022
YoY growth (%)	66.0%	105.0%	179.5%	164.1%	161.0%	108.3%	90.7%	106.7%	102.0%
Merchandise sales	393	5,358	5,124	1,958	82	82	44	51	56
Total revenue	14,210	26,548	22,167	23,046	21,506	27,231	23,794	31,440	35,504
YoY growth (%)	89.1%	146.0%	238.9%	89.0%	51.3%	2.6%	7.3%	36.4%	65.1%
Gross profit	10,950	15,022	11,421	15,148	14,947	20,715	16,634	23,478	28,090
Operating profit	(1,296)	(2,048)	(4,147)	1,997	2,139	6,907	2,154	8,697	10,437
Non-GAAP net profit	466	(185)	(1,890)	4,125	3,150	8,444	4,200	10,776	12,447
GPM (%)	77.1%	56.6%	51.5%	65.7%	69.5%	76.1%	69.9%	74.7%	79.1%
OPM (%)	-9.1%	-7.7%	-18.7%	8.7%	9.9%	25.4%	9.1%	27.7%	29.4%
Non-GAAP NPM (%)	-5.5%	-5.2%	-13.1%	10.5%	7.6%	24.3%	10.9%	28.3%	29.8%

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	30,142	59,492	93,950	119,494	144,739	166,149
Cost of goods sold	(6,339)	(19,279)	(31,718)	(32,422)	(39,052)	(45,054)
Gross profit	23,803	40,213	62,232	87,071	105,687	121,095
Operating expenses	(32,341)	(49,594)	(55,335)	(61,615)	(71,592)	(79,773)
Selling expense	(27,174)	(41,195)	(44,802)	(46,722)	(54,422)	(60,644)
Admin expense	(1,297)	(1,507)	(1,541)	(2,266)	(2,600)	(2,819)
R&D expense	(3,870)	(6,892)	(8,993)	(12,626)	(14,570)	(16,310)
Others	0	0	0	0	0	0
Operating profit	(8,538)	(9,380)	6,897	25,457	34,095	41,321
Interest income	1,542	2,455	3,062	3,253	3,554	4,386
Interest expense	(146)	(757)	(1,231)	(472)	(472)	(472)
Foreign exchange gain/loss	63	225	72	72	72	72
Others	83	194	656	656	656	656
Pre-tax profit	(6,996)	(7,263)	9,455	28,966	37,905	45,964
Income tax	0	0	(1,934)	(5,346)	(7,655)	(9,098)
Others	29	84	247	247	247	247
After tax profit	(6,968)	(7,180)	7,769	23,867	30,497	37,113
Minority interest	0	0	0	0	0	0
Net profit	(6,968)	(7,180)	7,769	23,867	30,497	37,113
Adjusted net profit	(4,266)	(2,965)	13,830	30,915	37,930	44,974
BALANCE SHEET						
	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	73,001	149,524	160,909	217,153	279,049	345,200
Cash & equivalents	5,768	22,421	6,427	61,556	122,351	187,568
Restricted cash	27,578	52,422	59,617	59,617	59,617	59,617
Account receivables	1,051	730	674	857	1,038	1,191
Prepayment	950	5,160	3,425	4,356	5,276	6,057
Other current assets	37,654	68,791	90,767	90,767	90,767	90,767
Non-current assets	3,056	9,385	20,301	22,162	21,173	20,183
PP&E	41	203	2,203	89	101	110
Right-of-use assets	517	630	939	939	939	939
Intangibles	1,994	1,277	701	4,677	3,677	2,677
Other non-current assets	503	7,275	16,457	16,457	16,457	16,457
Total assets	76,057	158,909	181,210	239,315	300,222	365,383
Current liabilities	45,768	83,882	93,730	120,188	143,217	163,455
Short-term borrowings	899	1,866	0	0	0	0
Account payables	29,926	53,834	62,510	80,815	96,516	110,619
Other current liabilities	9,950	16,735	16,707	21,030	24,573	27,499
Lease liabilities	116	253	427	427	427	427
Accrued expenses	4,877	11,193	14,086	17,915	21,700	24,910
Non-current liabilities	5,643	14,851	12,365	12,365	12,365	12,365
Convertible bonds	5,207	14,433	11,789	11,789	11,789	11,789
Other non-current liabilities	436	418	577	577	577	577
Total liabilities	51,410	98,733	106,095	132,553	155,582	175,821
Share capital	0	0	0	0	0	0
Capital surplus	41,494	86,699	95,341	95,341	95,341	95,341
Retained earnings	(18,295)	(25,475)	(17,707)	13,941	51,819	96,741
Other reserves	1,448	(1,048)	(2,520)	(2,520)	(2,520)	(2,520)
Total shareholders equity	24,647	60,176	75,115	106,762	144,640	189,562
Total equity and liabilities	76,057	158,909	181,210	239,315	300,222	365,383

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,996)	(7,263)	9,455	28,966	37,905	45,964
Depreciation & amortization	638	652	1,495	1,097	1,120	1,141
Tax paid	0	0	(1,934)	(5,346)	(7,655)	(9,098)
Change in working capital	18,606	31,050	13,562	25,344	21,927	19,305
Others	2,574	3,759	6,204	7,177	7,629	8,056
Net cash from operations	14,821	28,197	28,783	57,238	60,926	65,368
Investing						
Capital expenditure	(62)	(43)	(3,287)	(2,109)	(132)	(151)
Acquisition of subsidiaries/ investments	(52,666)	(93,160)	(130,268)	0	0	0
Net proceeds from disposal of short-term investments	24,798	55,083	97,547	0	0	0
Others	(390)	(238)	445	0	0	0
Net cash from investing	(28,320)	(38,358)	(35,562)	(2,109)	(132)	(151)
Financing						
Net borrowings	897	906	(1,875)	0	0	0
Proceeds from share issues	14,958	50,893	0	(0)	0	0
Share repurchases	0	0	0	0	0	0
Others	0	(0)	0	0	0	0
Net cash from financing	15,855	51,799	(1,875)	(0)	0	0
Net change in cash						
Cash at the beginning of the year	30,540	33,346	74,844	6,427	61,556	122,351
Exchange difference	450	(140)	(145)	0	0	0
Others	0	0	(59,617)	0	0	0
Cash at the end of the year	33,346	74,844	6,427	61,556	122,351	187,568
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	129.7%	97.4%	57.9%	27.2%	21.1%	14.8%
Gross profit	133.0%	68.9%	54.8%	39.9%	21.4%	14.6%
Operating profit	na	na	na	269.1%	33.9%	21.2%
Net profit	na	na	na	207.2%	27.8%	21.7%
Adj. net profit	na	na	na	123.5%	22.7%	18.6%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	79.0%	67.6%	66.2%	72.9%	73.0%	72.9%
Operating margin	(28.3%)	(15.8%)	7.3%	21.3%	23.6%	24.9%
Adj. net profit margin	(14.2%)	(5.0%)	14.7%	25.9%	26.2%	27.1%
Return on equity (ROE)	(32.1%)	(16.9%)	11.5%	26.2%	24.3%	22.2%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	1.6	1.8	1.7	1.8	1.9	2.1
Receivable turnover days	7.9	5.5	2.7	2.3	2.4	2.4
Payable turnover days	(1,359.0)	(792.9)	(669.4)	(806.8)	(828.7)	(839.0)
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	na	na	123.0	24.7	19.4	15.9
P/E (diluted)	na	na	79.7	21.8	17.7	15.0
P/B	9.2	10.2	12.7	5.5	4.1	3.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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