

Pinduoduo (PDD US)

Resilient GMV growth to sustain in 2023

We expect Pinduoduo (PDD) to maintain relatively more resilient GMV and revenue growth in 2023E, aided by user stickiness and progress in incorporating more branded products. Duoduo Grocery (DDG)'s progress on improving operating efficiency could sustain, in our view, and is on track to achieve operating profit breakeven on single month basis in mid-to-late 2023. PDD's core platform e-commerce business has entered stable growth phase which will provide strong cash flow support for Temu's overseas expansion. Aggressive investment on Temu in the early stage has been well expected by the market, in our view. We remain positive on PDD's core business earnings growth outlook and its overseas expansion potential. We roll forward our DCF-based valuation to 2023E and per ADS TP is raised to US\$116.9. Maintain BUY.

- **Resilient GMV growth to sustain in 2023.** The incorporation of more branded products and enhanced customer purchase frequency aided by strengthened comparative advantage on FMCG and fresh grocery category should support PDD's better than industry rate GMV growth in 2023. We forecast a combined 2021-2024E GMV CAGR of 23% for PDD's domestic business (core app & DDG), and estimate PDD's market share in China e-commerce industry to expand from 16% in 2021 to 19/21% in 2022/2023E.
- **Enhanced user stickiness aided monetization rate expansion.** Per QuestMobile, PDD's DAU/MAU ratio stayed high at 59.6% in Nov 2022, close to that of 62.2% for Douyin, and higher than that of 48.8/44.9/24.9 for Kuaishou/Taobao/JD.com, which we believe is aided by PDD's comparative advantage in FMCG and fresh grocery category, and strong user engagement capability, which supports further monetization rate expansion. The incremental monetization from "Ten Billion subsidy" and increase in DDG's average order value could also give support. We forecast PDD's overall monetization rate to expand to 4.4% in 2024E (2021: 3.6%).
- **Strong core business profitability will provide consistent funding for overseas expansion.** We are positive on PDD's overseas expansion, and see supporting factors coming from: 1) incomparable domestic supply chain capability; 2) collaboration with J&T Express which help on fulfillment optimization. On Temu, the market is thrilled by its customer acquisition growth but worried about associate costs. Currently we forecast c.RMB12bn loss to be generated from Temu in 2023, while this could be buffered by the incremental operating profit generation from core business. PDD is experienced in growing user stickiness, value for quality proposition should leave room for TEMU to maximize investment return. We estimate 2022-2024E non-GAAP operating profit CAGR of 21% for core business and 31% for Group level.
- **Catalysts:** 1) 4Q22 results; 2) stronger than expected outlook on GMV and profit growth for core business; 3) rapid than expected ramp up of Temu.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	59,492	93,950	133,532	170,104	203,026
YoY growth (%)	97.4	57.9	42.1	27.4	19.4
Net profit (RMB mn)	(7,179.7)	7,768.7	32,066.8	36,030.9	49,780.3
Adjusted net profit (RMB mn)	(2,965.0)	13,829.5	39,370.9	44,928.3	59,983.6
EPS (Adjusted) (RMB)	(2.49)	9.56	27.44	31.31	41.81
Consensus EPS (RMB)	N/A	N/A	26.67	30.09	36.95
P/E (x)	N/A	123.0	25.8	23.0	16.6
ROE (%)	(16.9)	11.5	33.7	26.2	26.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$116.90
 (Previous TP US\$92.90)
Up/Downside 21.9%
Current Price US\$95.89

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Stock Data

Mkt Cap (US\$ mn)	137,586.4
Avg 3 mths t/o (US\$ mn)	88.1
52w High/Low (US\$)	104.68/25.53
Total Issued Shares (mn)	1434.8

Source: FactSet

Shareholding Structure

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

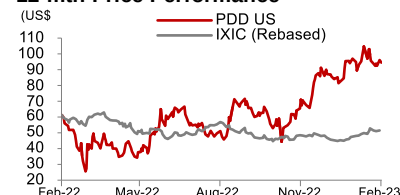
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-1.1%	-8.4%
3-mth	35.1%	28.3%
6-mth	87.5%	105.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Changes in forecast and valuation

Key changes to our forecast mainly include:

- 1) We lifted 2022-2024E revenue forecast by 12-22% due to higher GMV and monetization rate forecast, mainly driven by enhanced user stickiness and solid progress in incorporating more branded products which satisfy incremental consumer demand;
- 2) Our non-GAAP net margin forecast was lifted by 3.6/0.2/2.5pp in 2022/2023/2024E, mainly on the lift of gross profit margin driven by better than expected operating leverage supported by robust revenue growth, while partly offset by the lift in operating expense ratio forecast, as we budgeted in potential investment to support Temu's overseas expansion. As a result, our non-GAAP net profit was lifted by 27-33% for 2022-2024E.

Figure 1: PDD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	133.5	170.1	203.0	119.5	144.7	166.1	11.7%	17.5%	22.2%
Gross Profit	99.2	127.9	154.5	87.1	105.7	121.1	13.9%	21.0%	27.6%
Operating Profit	31.8	40.8	57.0	25.5	34.1	41.3	25.1%	19.7%	38.0%
Non-GAAP net profit	39.4	44.9	60.0	30.9	37.9	45.0	27.4%	18.4%	33.4%
Gross Margin	74.3%	75.2%	76.1%	72.9%	73.0%	72.9%	1.4 ppt	2.2 ppt	3.2 ppt
Operating Margin	23.9%	24.0%	28.1%	21.3%	23.6%	24.9%	2.5 ppt	0.4 ppt	3.2 ppt
Non-GAAP net margin	29.5%	26.4%	29.5%	25.9%	26.2%	27.1%	3.6 ppt	0.2 ppt	2.5 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	133.5	170.1	203.0	130.0	163.3	194.2	2.7%	4.2%	4.5%
Gross Profit	99.2	127.9	154.5	97.8	122.6	146.2	1.5%	4.3%	5.7%
Operating Profit	31.8	40.8	57.0	32.0	40.3	53.3	-0.4%	1.3%	7.0%
Non-GAAP net profit	39.4	44.9	60.0	36.7	42.2	53.4	7.4%	6.4%	12.4%
Gross Margin	74.3%	75.2%	76.1%	75.2%	75.1%	75.3%	-0.9 ppt	0.1 ppt	0.8 ppt
Operating Margin	23.9%	24.0%	28.1%	24.6%	24.7%	27.4%	-0.7 ppt	-0.7 ppt	0.7 ppt
Non-GAAP net margin	29.5%	26.4%	29.5%	28.2%	25.9%	27.5%	1.3 ppt	0.6 ppt	2.1 ppt

Source: Bloomberg, CMBIGM estimates

Our DCF-based target price was lifted to US\$116.9 per ADS (assumption on both WACC of 12.0% and terminal growth rate of 2.0% remains unchanged) as a result of lifted revenue and earnings forecast and rolled-forward valuation to 2023. Our target price translates into 26x 2023E non-GAAP PE.

Our previous target price of US\$92.9 translates into 24x 2023E PE under non-GAAP basis.

Figure 3: PDD: DCF valuation (WACC of 12.0%; terminal growth of 2.0%)

(RMBbn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	170,104	203,026	233,173	261,577	287,345	310,281	331,032	350,221
NPV of FCF	441,036							
Discounted terminal value	513,179							
Total PDD equity valuation	1,161,144							
No. of shares (diluted, mn)	1,435							
Valuation per share (US\$)	116.9							

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	133,532	170,104	203,026
Cost of goods sold	(6,339)	(19,279)	(31,718)	(34,346)	(42,217)	(48,542)
Gross profit	23,803	40,213	62,232	99,186	127,887	154,485
Operating expenses	(32,341)	(49,594)	(55,335)	(67,337)	(87,089)	(97,448)
Selling expense	(27,174)	(41,195)	(44,802)	(53,413)	(69,062)	(76,135)
Admin expense	(1,297)	(1,507)	(1,541)	(3,165)	(3,861)	(4,406)
R&D expense	(3,870)	(6,892)	(8,993)	(10,760)	(14,166)	(16,907)
Others	0	0	0	0	0	0
Operating profit	(8,538)	(9,380)	6,897	31,849	40,798	57,037
Interest income	1,542	2,455	3,062	3,532	3,958	4,552
Interest expense	(146)	(757)	(1,231)	(57)	(67)	(67)
Foreign exchange gain/loss	63	225	72	(126)	(126)	(126)
Others	83	194	656	2,053	656	656
Pre-tax profit	(6,996)	(7,263)	9,455	37,251	45,219	62,052
Income tax	0	0	(1,934)	(5,108)	(9,112)	(12,196)
Others	29	84	247	(76)	(76)	(76)
After tax profit	(6,968)	(7,180)	7,769	32,067	36,031	49,780
Minority interest	0	0	0	0	0	0
Net profit	(6,968)	(7,180)	7,769	32,067	36,031	49,780
Adjusted net profit	(4,266)	(2,965)	13,830	39,371	44,928	59,984

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	73,001	149,524	160,909	211,127	267,408	338,719
Cash & equivalents	5,768	22,421	6,427	65,727	120,412	190,288
Restricted cash	27,578	52,422	59,617	48,808	48,808	48,808
Account receivables	1,051	730	674	958	1,220	1,456
Prepayment	950	5,160	3,425	4,868	6,201	7,401
Other current assets	37,654	68,791	90,767	90,767	90,767	90,767
Non-current assets	3,056	9,385	20,301	18,241	18,307	18,336
PP&E	41	203	2,203	1,370	1,736	2,065
Right-of-use assets	517	630	939	939	939	939
Intangibles	1,994	1,277	701	3,077	2,777	2,477
Other non-current assets	503	7,275	16,457	12,856	12,856	12,856
Total assets	76,057	158,909	181,210	229,368	285,715	357,056
Current liabilities	45,768	83,882	93,730	96,827	108,297	119,706
Short-term borrowings	899	1,866	0	0	0	0
Account payables	29,926	53,834	62,510	58,014	61,792	66,264
Other current liabilities	9,950	16,735	16,707	23,030	28,217	32,713
Lease liabilities	116	253	427	427	427	427
Accrued expenses	4,877	11,193	14,086	15,356	17,861	20,303
Non-current liabilities	5,643	14,851	12,365	17,327	17,327	17,327
Convertible bonds	5,207	14,433	11,789	16,750	16,750	16,750
Other non-current liabilities	436	418	577	577	577	577
Total liabilities	51,410	98,733	106,095	114,153	125,623	137,032
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)	22,394	67,270	127,202
Other reserves	1,448	(1,048)	(2,520)	(2,520)	(2,520)	(2,520)
Total shareholders equity	24,647	60,176	75,115	115,215	160,091	220,023
Total equity and liabilities	76,057	158,909	181,210	229,368	285,715	357,056

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,996)	(7,263)	9,455	37,251	45,219	62,052
Depreciation & amortization	638	652	1,495	1,978	3,336	4,031
Tax paid	0	0	(1,934)	(5,108)	(9,112)	(12,196)
Change in working capital	18,606	31,050	13,562	12,180	9,874	9,973
Others	2,574	3,759	6,204	7,108	8,769	10,075
Net cash from operations	14,821	28,197	28,783	53,409	58,087	73,936
Investing						
Capital expenditure	(62)	(43)	(3,287)	(2,671)	(3,402)	(4,061)
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	3,601	0	0
Net cash from investing	(28,320)	(38,358)	(35,562)	931	(3,402)	(4,061)
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	4,961	0	0
Net cash from financing	15,855	51,799	(1,875)	4,961	0	0
Net change in cash						
Cash at the beginning of the year	30,540	33,346	74,844	6,427	65,727	120,412
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	65,727	120,412	190,288
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	129.7%	97.4%	57.9%	42.1%	27.4%	19.4%
Gross profit	133.0%	68.9%	54.8%	59.4%	28.9%	20.8%
Operating profit	na	na	na	361.8%	28.1%	39.8%
Net profit	na	na	na	312.8%	12.4%	38.2%
Adj. net profit	na	na	na	184.7%	14.1%	33.5%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	79.0%	67.6%	66.2%	74.3%	75.2%	76.1%
Operating margin	(28.3%)	(15.8%)	7.3%	23.9%	24.0%	28.1%
Adj. net profit margin	(14.2%)	(5.0%)	14.7%	29.5%	26.4%	29.5%
Return on equity (ROE)	(32.1%)	(16.9%)	11.5%	33.7%	26.2%	26.2%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	1.6	1.8	1.7	2.2	2.5	2.8
Receivable turnover days	7.9	5.5	2.7	2.2	2.3	2.4
Payable turnover days	(1,359.0)	(792.9)	(669.4)	(640.4)	(517.9)	(481.4)
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	na	na	123.0	25.8	23.0	16.6
P/E (diluted)	na	na	79.7	23.9	21.0	15.7
P/B	9.2	10.2	12.7	7.2	5.2	3.8

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

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