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CMB International Global Markets | Equity Research | Company Update

招銀国际 CMB INTERNATIONAL
招商银行全资附属机构 A Wholly Owned Subsidiary Of China Merchants Bank

PDD Holdings (PDD US)

Increased monetization drove a strong beat on results

PDD Holdings (PDD) announced (22 May) 1Q24 results: revenue was up 131% YoY (1Q23: 58%; 4Q23: 123%) to RMB86.8bn, 13% ahead of Bloomberg consensus, which we attribute to a stronger-than-expected increase in monetization of domestic business, and more rapid-than-expected international expansion. Non-GAAP net profit increased by 202% YoY to RMB30.6bn, ahead of consensus at RMB15.5bn, which we attribute to better-than-expected domestic business profit generation driven by monetization expansion aided by the launch of new advertising products since 4Q23. The results echoed our view that PDD still has room to drive a further increase in monetization rate, and we see its overseas expansion on track to support PDD's long-term revenue and earnings growth. We change our valuation method from DCF to SOTP to better reflect the valuation split between core domestic business and international business. Our target price is lifted to US$192.7 (was US$155.4), translating into 16.7x 2024E PE. Maintain BUY.

- **1Q24 results again a strong beat.** Online marketing services and others revenue rose by 56% YoY (1Q23: 50% YoY; 4Q23: 57% YoY) to RMB42.5bn in 1Q24 (48.9% of total revenue), 13% higher than consensus estimates, which in our view was driven by increased monetization aided by the launch of new advertising products since 4Q23. Transaction services revenue for 1Q24 grew by 327% YoY (1Q23: 86% YoY; 4Q23: 357% YoY) to RMB44.4bn, 17% ahead of consensus, which in our view can be attributed to stronger-than-expected revenue generation from Temu business, aided by more rapid-than-expected business scale expansion, and optimized consumer subsidy spending, as well as stronger-than-expected commission rate expansion in the "Ten Billion Subsidy" program.
- **Strong revenue growth with optimized S&M expense ratio.** PDD's GPM declined to 62.3% in 1Q24 (1Q23: 70.4%), owing to the development of Temu business, but this was 5.3ppt better than consensus estimates. Total non-GAAP operating expense ratio was 29.5% for 1Q24, down 18.6ppt YoY and 3.5ppt QoQ. Non-GAAP S&M expenses were RMB22.7bn in 1Q24, up 44% YoY, while the implied S&M expense ratio was 26.2%, optimized from 41.9% in 1Q23 and 29.5% in 4Q23. Although international expansion continued at a more rapid-than-expected pace, PDD's overall OPM was 29.9% in 1Q24 (1Q23: 18.4%; 4Q23: 25.2%; consensus: 18.4%).
- **Aiming to build an ecosystem that encourages compliance in business conduct to empower long-term development.** Management noted that it is taking initiatives to build an industry-leading compliance program and to leverage its technological capabilities to empower merchants' international business expansion with PDD's compliance know-how, which should empower long-term healthy business development, in our view. Key catalysts on the stock price include: 1) greater visibility regarding the potential mitigation of geopolitical risks and development of international business; 2) better-than-expected margin expansion of domestic business, aided by a more rapid-than-expected increase in monetization; and 3) update on shareholder return plan.

BUY (Maintain)

Target Price	**US$192.70**
(Previous TP	US$155.40)
Up/Downside	**31.0%**
Current Price	**US$147.09**

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Stock Data

Mkt Cap (US$ mn)	211,857.1
Avg 3 mths t/o (US$ mn)	524.3
52w High/Low (US$)	151.33/60.02
Total Issued Shares (mn)	1440.3

Source: FactSet

Shareholding Structure

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

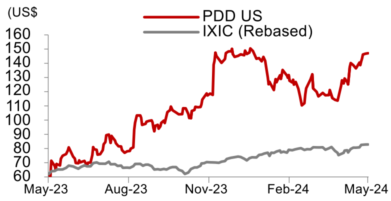
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	14.9%	7.3%
3-mth	15.2%	9.7%
6-mth	25.2%	6.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	130,558	247,639	438,737	577,858	719,857
Net profit (RMB mn)	31,538.1	60,026.5	112,617.1	161,701.0	204,635.6
Adjusted net profit (RMB mn)	39,529.7	67,899.4	121,416.8	171,524.6	215,793.3
YoY growth (%)	185.8	71.8	78.8	41.3	25.8
EPS (Adjusted) (RMB)	27.45	46.51	83.17	117.49	147.81
Consensus EPS (RMB)	27.45	41.13	61.45	82.06	102.88
P/E (x)	42.7	24.0	12.8	8.9	7.0

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q23	2Q23	3Q23	4Q23	1Q24	1Q24E Consensus	Diff (%)
Online marketing services and others	27,244	37,933	39,688	48,676	42,456	37,650	12.8%
YoY growth (%)	*49.7%*	*50.4%*	*39.3%*	*56.9%*	*55.8%*		
Transaction services fees	10,393	14,348	29,153	40,205	44,356	38,072	16.5%
YoY growth (%)	*85.9%*	*130.8%*	*315.1%*	*357.1%*	*326.8%*		
Total revenue	**37,637**	**52,281**	**68,840**	**88,881**	**86,812**	**76,860**	12.9%
YoY growth (%)	*58.2%*	*66.3%*	*93.9%*	*123.2%*	*130.7%*		
Gross profit	26,512	33,591	42,010	53,803	54,117	43,824	23.5%
Operating profit	6,929	12,719	16,656	22,395	25,974	14,143	83.7%
Non-GAAP net profit	**10,126**	**15,269**	**17,027**	**25,476**	**30,601**	**15,535**	97.0%
GPM (%)	70.4%	64.3%	61.0%	60.5%	62.3%	57.0%	5.3 ppt
OPM (%)	18.4%	24.3%	24.2%	25.2%	29.9%	18.4%	11.5 ppt
Non-GAAP NPM (%)	26.9%	29.2%	24.7%	28.7%	35.3%	20.2%	15.0 ppt

Source: Company data, CMBIGM estimates

Figure 2: PDD: forecast revision

	Current			Previous			Change (%)		
(RMB bn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	438.7	577.9	719.9	389.6	492.4	540.1	12.6%	17.4%	33.3%
Gross profit	275.3	361.2	451.7	243.4	308.1	335.7	13.1%	17.2%	34.5%
Operating profit	128.6	187.0	239.7	91.2	133.6	144.6	40.9%	40.0%	65.7%
Non-GAAP net profit	121.4	171.5	215.8	91.7	127.3	136.8	32.4%	34.7%	57.7%
Gross margin	62.8%	62.5%	62.7%	62.5%	62.6%	62.2%	0.3 ppt	-0.1 ppt	0.6 ppt
Operating margin	29.3%	32.4%	33.3%	23.4%	27.1%	26.8%	5.9 ppt	5.2 ppt	6.5 ppt
Non-GAAP net margin	27.7%	29.7%	30.0%	23.5%	25.9%	25.3%	4.1 ppt	3.8 ppt	4.6 ppt

Source: CMBIGM estimates

Our SOTP-based target price of US$192.7 translates into 16.7x 2024E on a non-GAAP basis, which comprises, per ADS:

1) US$154.6 for PDD main app, based on unchanged 13.0x 2024E non-GAAP PE, around a 30% premium to current valuation of e-commerce peers given potential higher earnings growth;

2) US$1.9 for Duoduo Grocery, based on 1.0x 2024E revenue, in line with the valuation we assigned to other peers that have the same business model;

3) US$15.6 for Temu, based on 1.2x 2024E revenue, which we believe should be justified by its rapid business revenue growth, and implies c.11x 2026E PE, which we think is not demanding and can be justified by a >100% revenue CAGR over 2023-2026E;

4) US$20.6 for net cash, with a 30% holding discount.

Figure 3: PDD: SOTP valuation (2024E)

#	Segment	Rev (RMBmn)	OP (RMBmn)	NOPAT (RMBmn)	2024E P/E (x)	2024E P/S (x)	Val. Rmb mn	Val. US$m	$/share	Value split
1	PDD main app	284,109	156,260	125,008	13.0		1,625,102	225,709	154.6	80.2%
2	Duoduo Grocery	19,951				1.0	19,951	2,771	1.9	1.0%
3	Temu (2024E)	136,868				1.2	164,242	22,811	15.6	8.1%
4	Net cash (30% discount)						216,361	30,050	20.6	10.7%
	Total						**2,025,655**	**281,341**	**192.7**	

Source: CMBIGM estimates

Risks

1) Slower-than-expected global business expansion; 2) geopolitical issues impacting business development; and 3) slower-than-expected margin expansion.

Figure 4: PDD: one-year forward PE

Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**93,950**	**130,558**	**247,639**	**438,737**	**577,858**	**719,857**
Cost of goods sold	(31,718)	(31,462)	(91,724)	(163,429)	(216,654)	(268,189)
Gross profit	**62,232**	**99,095**	**155,916**	**275,308**	**361,204**	**451,667**
Operating expenses	**(55,335)**	**(68,693)**	**(97,217)**	**(146,742)**	**(174,204)**	**(211,973)**
Selling expense	(44,802)	(54,344)	(82,189)	(128,333)	(151,113)	(183,928)
Admin expense	(1,541)	(3,965)	(4,076)	(5,704)	(6,761)	(8,278)
R&D expense	(8,993)	(10,385)	(10,952)	(12,705)	(16,330)	(19,766)
Others	0	0	0	0	0	0
Operating profit	**6,897**	**30,402**	**58,699**	**128,565**	**187,000**	**239,695**
Interest income	3,062	3,997	10,238	11,947	15,129	16,436
Interest expense	(1,231)	(52)	(44)	(81)	(81)	(81)
Foreign exchange gain/loss	72	(150)	36	215	215	215
Others	656	2,221	2,953	1,881	1,881	1,881
Pre-tax profit	**9,455**	**36,419**	**71,881**	**142,527**	**204,144**	**258,146**
Income tax	(1,934)	(4,726)	(11,850)	(29,857)	(42,391)	(53,458)
Others	247	(155)	(5)	(52)	(52)	(52)
After tax profit	**7,769**	**31,538**	**60,027**	**112,617**	**161,701**	**204,636**
Minority interest	0	0	0	0	0	0
Net profit	**7,769**	**31,538**	**60,027**	**112,617**	**161,701**	**204,636**
Adjusted net profit	**13,830**	**39,530**	**67,899**	**121,417**	**171,525**	**215,793**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**160,909**	**216,618**	**294,750**	**435,647**	**618,572**	**832,915**
Cash & equivalents	6,427	34,326	59,794	194,420	372,779	582,462
Restricted cash	59,617	57,974	61,985	61,985	61,985	61,985
Account receivables	674	588	3,914	6,935	9,133	11,378
Prepayment	3,425	2,298	4,213	7,464	9,831	12,247
Other current assets	90,767	121,431	164,843	164,843	164,843	164,843
Non-current assets	**20,301**	**20,502**	**53,328**	**59,226**	**59,739**	**60,297**
PP&E	2,203	1,045	980	4,422	5,236	5,794
Right-of-use assets	939	1,416	4,105	4,105	4,105	4,105
Intangibles	701	134	21	2,477	2,177	2,177
Other non-current assets	16,457	17,907	48,222	48,222	48,222	48,222
Total assets	**181,210**	**237,120**	**348,078**	**494,873**	**678,312**	**893,212**
Current liabilities	**93,730**	**116,889**	**152,901**	**174,017**	**185,931**	**185,038**
Short-term borrowings	0	13,886	649	649	649	649
Account payables	62,510	63,317	74,997	78,911	82,700	82,367
Other current liabilities	16,707	18,124	20,262	27,006	31,597	35,594
Lease liabilities	427	602	1,642	1,642	1,642	1,642
Accrued expenses	14,086	20,961	55,351	65,811	69,343	64,787
Non-current liabilities	**12,365**	**2,460**	**7,936**	**7,936**	**7,936**	**7,936**
Convertible bonds	11,789	1,576	5,232	5,232	5,232	5,232
Other non-current liabilities	577	884	2,704	2,704	2,704	2,704
Total liabilities	**106,095**	**119,349**	**160,837**	**181,953**	**193,866**	**192,974**
Share capital	0	0	0	0	0	0
Capital surplus	95,341	99,255	107,399	107,399	107,399	107,399
Retained earnings	(17,707)	15,193	75,119	200,798	372,322	588,116
Other reserves	(2,520)	3,322	4,724	4,724	4,724	4,724
Total shareholders equity	**75,115**	**117,771**	**187,242**	**312,921**	**484,445**	**700,239**
Total equity and liabilities	**181,210**	**237,120**	**348,078**	**494,873**	**678,312**	**893,212**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**9,455**	**36,419**	**71,881**	**142,527**	**204,144**	**258,146**
Depreciation & amortization	1,495	2,224	4,082	7,164	9,888	10,960
Tax paid	(1,934)	(4,726)	(11,850)	(29,857)	(42,391)	(53,458)
Change in working capital	13,562	7,423	37,848	14,844	7,348	(5,553)
Others	6,204	7,167	(7,798)	8,722	9,771	11,105
Net cash from operations	**28,783**	**48,508**	**94,163**	**143,400**	**188,761**	**221,200**
Investing						
Capital expenditure	(3,287)	(636)	(4,953)	(8,775)	(10,401)	(11,518)
Acquisition of subsidiaries/ investments	(130,268)	(167,210)	(42,303)	0	0	0
Net proceeds from disposal of short-term investments	97,547	141,928	0	0	0	0
Others	445	3,556	(8,176)	0	0	0
Net cash from investing	**(35,562)**	**(22,362)**	**(55,431)**	**(8,775)**	**(10,401)**	**(11,518)**
Financing						
Net borrowings	(1,875)	0	0	0	0	0
Proceeds from share issues	0	0	8,144	(0)	0	0
Share repurchases	0	0	0	0	0	0
Others	0	10	(17,104)	0	0	0
Net cash from financing	**(1,875)**	**10**	**(8,961)**	**(0)**	**0**	**0**
Net change in cash						
Cash at the beginning of the year	74,844	66,044	92,300	59,794	194,420	372,779
Exchange difference	(145)	100	(291)	0	0	0
Others	0	0	61,985	0	0	0
Cash at the end of the year	**66,044**	**92,300**	**183,765**	**194,420**	**372,779**	**582,462**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	57.9%	39.0%	89.7%	77.2%	31.7%	24.6%
Gross profit	54.8%	59.2%	57.3%	76.6%	31.2%	25.0%
Operating profit	na	340.8%	93.1%	119.0%	45.5%	28.2%
Net profit	na	306.0%	90.3%	87.6%	43.6%	26.6%
Adj. net profit	na	185.8%	71.8%	78.8%	41.3%	25.8%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	66.2%	75.9%	63.0%	62.8%	62.5%	62.7%
Operating margin	7.3%	23.3%	23.7%	29.3%	32.4%	33.3%
Adj. net profit margin	14.7%	30.3%	27.4%	27.7%	29.7%	30.0%
Return on equity (ROE)	11.5%	32.7%	39.4%	45.0%	40.6%	34.5%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.7	1.9	1.9	2.5	3.3	4.5
Receivable turnover days	2.7	1.8	3.3	4.5	5.1	5.2
Payable turnover days	(669.4)	(729.9)	(275.2)	(171.9)	(136.1)	(112.3)

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	171.8	42.7	24.0	12.8	8.9	7.0
P/E (diluted)	111.3	38.8	22.9	12.8	9.1	7.2
P/B	17.8	11.4	7.7	4.6	3.0	2.1

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

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