

PDD Holdings (PDD US)

Impact from enhancement of merchant support started to emerge

PDD Holdings (PDD) announced (21 Nov) 3Q24 results: revenue was up 44.3% YoY (3Q23: 93.9%; 2Q24: 85.7%) to RMB99.4bn, 3% shy of Bloomberg consensus estimates, mainly owing to the 6% miss on transaction services fees which we attribute to the impact from enhancement of merchant support. Non-GAAP net profit increased by 61.3% YoY to RMB27.5bn, 6% short of consensus, due to the miss in revenue generation. We lower our 2024-2026E revenue forecast by 4-9% and non-GAAP net profit by 9-16% to factor in the greater-than-expected impact of PDD's move to enhance merchant support, as well as PDD's effort to provide home appliances products at prices similar to its peers' level against the backdrop of nationwide home appliance trade-in program. Our SOTP-based TP is cut to US\$156.8 (was US\$187.9), translating into 14x 2024E non-GAAP PE. Share price has reflected the near term pressure, in our view, and in view of the policy support on consumption, we maintain BUY.

■ **3Q results demonstrated PDD's commitment to enhancing merchant experience.** Online marketing services and others revenue rose by 24.3% YoY (3Q23: 39.3% YoY; 2Q24: 29.5% YoY) to RMB49.4bn in 3Q24, and transaction services revenue for 3Q24 grew by 71.5% YoY (3Q23: 315.1% YoY; 2Q24: 234.2% YoY) to RMB50.0bn. Online marketing services and other revenue is inline with consensus, and is gradually coming inline with GMV growth, indicating a slower pace in YoY expansion of monetization, in our view. The transaction services fee came in 6% short of consensus, indicating more aggressive-than-expected implementation of merchant support policy. Management highlighted on conference call that the RMB10bn fee reduction program and high-quality merchant support program it has launched had brought cost savings and efficiency gains to over 10mn merchants as of 3Q24.

■ **The miss on revenue translates into a miss on earnings.** PDD's GPM shrank to 60.0% in 3Q24 (3Q23: 61.0%), and was 2.1ppt shy of consensus, in our view owing to the miss in commission revenue, which has a margin relatively higher than the company average, as PDD is strengthening its merchant support. Sales and marketing expense of RMB30.5bn in 3Q24 is inline with consensus, and the miss in commission revenue generation was the main reason for the miss on earnings.

■ **Guided to invest firmly to drive a healthier and more sustainable platform ecosystem.** Management guided to continually invest in the merchant ecosystem to lay a more solid foundation for healthy and sustainable long-term development. It has implemented several policies such as service fee refunds, lower security deposits, waiving transfer shipment fees for orders from remote regions, and enhancing after-sales support for merchants. Our fine-tuned TP per ADS of US\$156.8 consists of: 1) US\$119.1 (was US\$148.1) for the main app based on 12x 24E PE (lowered from 13x); 2) US\$1.9 for Duoduo Grocery (unchanged); 3) US\$15.7 for Temu (based on an unchanged 1.2x 24E PS, was US\$16.7); and 4) US\$20.1 for net cash after considering 30% holding discount (was US\$21.3).

BUY (Maintain)

Target Price **US\$156.80**
 (Previous TP) US\$187.90
Up/Downside **34.6%**
Current Price **US\$116.49**

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Stock Data

Mkt Cap (US\$ mn)	167,783.2
Avg 3 mths t/o (US\$ mn)	702.3
52w High/Low (US\$)	157.57/89.17
Total Issued Shares (mn)	1440.3

Source: FactSet

Shareholding Structure

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

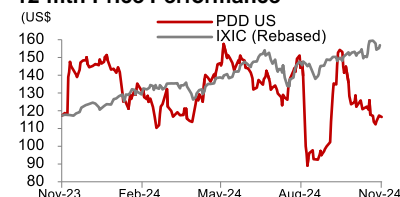
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-6.7%	-8.8%
3-mth	-20.2%	-24.6%
6-mth	-19.9%	-28.9%

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	398,211	519,805	615,576
Net profit (RMB mn)	31,538.1	60,026.5	113,022.3	138,445.4	165,311.2
Adjusted net profit (RMB mn)	39,529.7	67,899.4	123,401.3	150,400.9	178,546.0
YoY growth (%)	185.8	71.8	81.7	21.9	18.7
EPS (Adjusted) (RMB)	27.45	46.51	83.46	101.72	120.76
Consensus EPS (RMB)	na	na	85.44	101.78	121.26
P/E (x)	33.8	19.0	10.3	8.4	7.1

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	3Q24E Consensus	Diff (%)
Online marketing services and others	27,244	37,933	39,688	48,676	42,456	49,116	49,351	49,124	0.5%
YoY growth (%)	49.7%	50.4%	39.3%	56.9%	55.8%	29.5%	24.3%		
Transaction services fees	10,393	14,348	29,153	40,205	44,356	47,944	50,003	53,355	-6.3%
YoY growth (%)	85.9%	130.8%	315.1%	357.1%	326.8%	234.2%	71.5%		
Total revenue	37,637	52,281	68,840	88,881	86,812	97,060	99,354	102,479	-3.0%
YoY growth (%)	58.2%	66.3%	93.9%	123.2%	130.7%	85.7%	44.3%		
Gross profit	26,512	33,591	42,010	53,803	54,117	63,361	59,645	63,655	-6.3%
Operating profit	6,929	12,719	16,656	22,395	25,974	32,565	24,292	28,055	-13.4%
Non-GAAP net profit	10,126	15,269	17,027	25,476	30,602	34,432	27,459	29,149	-5.8%
GPM (%)	70.4%	64.3%	61.0%	60.5%	62.3%	65.3%	60.0%	62.1%	-2.1 ppt
OPM (%)	18.4%	24.3%	24.2%	25.2%	29.9%	33.6%	24.5%	27.4%	-2.9 ppt
Non-GAAP NPM (%)	26.9%	29.2%	24.7%	28.7%	35.3%	35.5%	27.6%	28.4%	-0.8 ppt

Source: Company data, CMBIGM estimates

Figure 2: PDD: forecast revision

RMB bn	Current			Consensus			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	398.2	519.8	615.6	413.0	544.5	678.3	-3.6%	-4.5%	-9.3%
Gross profit	246.2	320.0	378.5	260.6	344.0	429.6	-5.6%	-7.0%	-11.9%
Operating profit	112.3	153.0	185.0	134.1	182.6	233.3	-16.3%	-16.2%	-20.7%
Non-GAAP net profit	123.4	150.4	178.5	135.6	169.7	212.4	-9.0%	-11.4%	-16.0%
Gross margin	61.8%	61.6%	61.5%	63.1%	63.2%	63.3%	-1.3 ppt	-1.6 ppt	-1.8 ppt
Operating margin	28.2%	29.4%	30.1%	32.5%	33.5%	34.4%	-4.3 ppt	-4.1 ppt	-4.3 ppt
Non-GAAP net margin	31.0%	28.9%	29.0%	32.8%	31.2%	31.3%	-1.8 ppt	-2.2 ppt	-2.3 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: PDD: SOTP valuation

#	Segment	Rev (RMBmn)	OP (RMBmn)	NOPAT (RMBmn)	2024E P/E (x)	2024E P/S (x)	Val. Rmb mn	Val. US\$m	\$/share	Value split	Comment
1	PDD main app	240,087	132,048	105,638	12.0		1,267,662	176,064	119.1	76.0%	12.0x 2024E PE; tax rate @20%
2	Grocery Temu	19,951				1.0	19,951	2,771	1.9	1.2%	1.0x 2024E PS
3	(2024E) Net cash (30% discount)	139,379				1.2	167,255	23,230	15.7	10.0%	1.2x 2024E PS
4							213,952	29,716	20.1	12.8%	2024E net cash
	Total						1,668,820	231,781	156.8		

Source: CMBIGM estimates

Risks

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

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	93,950	130,558	247,639	398,211	519,805	615,576
Cost of goods sold	(31,718)	(31,462)	(91,724)	(152,056)	(199,843)	(237,083)
Gross profit	62,232	99,095	155,916	246,155	319,961	378,493
Operating expenses	(55,335)	(68,693)	(97,217)	(133,905)	(166,995)	(193,454)
Selling expense	(44,802)	(54,344)	(82,189)	(114,488)	(143,209)	(165,902)
Admin expense	(1,541)	(3,965)	(4,076)	(5,097)	(5,978)	(6,956)
R&D expense	(8,993)	(10,385)	(10,952)	(14,319)	(17,808)	(20,597)
Others	0	0	0	0	0	0
Operating profit	6,897	30,402	58,699	112,250	152,966	185,039
Interest income	3,062	3,997	10,238	19,332	20,553	22,383
Interest expense	(1,231)	(52)	(44)	0	0	0
Foreign exchange gain/loss	72	(150)	36	(273)	(273)	(273)
Others	656	2,221	2,953	2,393	2,393	2,393
Pre-tax profit	9,455	36,419	71,881	133,702	175,640	209,542
Income tax	(1,934)	(4,726)	(11,850)	(20,581)	(37,095)	(44,131)
Others	247	(155)	(5)	(100)	(100)	(100)
After tax profit	7,769	31,538	60,027	113,022	138,445	165,311
Minority interest	0	0	0	0	0	0
Net profit	7,769	31,538	60,027	113,022	138,445	165,311
Adjusted net profit	13,830	39,530	67,899	123,401	150,401	178,546
BALANCE SHEET						
	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	160,909	216,618	294,750	425,034	583,872	756,519
Cash & equivalents	6,427	34,326	59,794	185,136	339,984	509,487
Restricted cash	59,617	57,974	61,985	61,985	61,985	61,985
Account receivables	674	588	3,914	6,294	8,216	9,730
Prepayment	3,425	2,298	4,213	6,775	8,843	10,473
Other current assets	90,767	121,431	164,843	164,843	164,843	164,843
Non-current assets	20,301	20,502	53,328	58,821	59,217	59,463
PP&E	2,203	1,045	980	4,017	4,713	4,959
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	483,854	643,089	815,982
Current liabilities	93,730	116,889	152,901	161,014	169,848	164,194
Short-term borrowings	0	13,886	649	649	649	649
Account payables	62,510	63,317	74,997	72,819	75,071	73,327
Other current liabilities	16,707	18,124	20,262	26,173	30,110	33,175
Lease liabilities	427	602	1,642	1,642	1,642	1,642
Accrued expenses	14,086	20,961	55,351	59,732	62,377	55,402
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	168,949	177,783	172,130
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	202,782	353,183	531,729
Other reserves	(2,520)	3,322	4,724	4,724	4,724	4,724
Total shareholders equity	75,115	117,771	187,242	314,905	465,306	643,852
Total equity and liabilities	181,210	237,120	348,078	483,854	643,089	815,982

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,455	36,419	71,881	133,702	175,640	209,542
Depreciation & amortization	1,495	2,224	4,082	6,759	8,960	9,603
Tax paid	(1,934)	(4,726)	(11,850)	(20,581)	(37,095)	(44,131)
Change in working capital	13,562	7,423	37,848	3,171	4,843	(8,796)
Others	6,204	7,167	(7,798)	10,254	11,856	13,135
Net cash from operations	28,783	48,508	94,163	133,306	164,205	179,353
Investing						
Capital expenditure	(3,287)	(636)	(4,953)	(7,964)	(9,356)	(9,849)
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)	(7,964)	(9,356)	(9,849)
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	185,136	339,984
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	185,136	339,984	509,487
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	57.9%	39.0%	89.7%	60.8%	30.5%	18.4%
Gross profit	54.8%	59.2%	57.3%	57.9%	30.0%	18.3%
Operating profit	na	340.8%	93.1%	91.2%	36.3%	21.0%
Net profit	na	306.0%	90.3%	88.3%	22.5%	19.4%
Adj. net profit	na	185.8%	71.8%	81.7%	21.9%	18.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	66.2%	75.9%	63.0%	61.8%	61.6%	61.5%
Operating margin	7.3%	23.3%	23.7%	28.2%	29.4%	30.1%
Adj. net profit margin	14.7%	30.3%	27.4%	31.0%	28.9%	29.0%
Return on equity (ROE)	11.5%	32.7%	39.4%	45.0%	35.5%	29.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.7	1.9	1.9	2.6	3.4	4.6
Receivable turnover days	2.7	1.8	3.3	4.7	5.1	5.3
Payable turnover days	(669.4)	(729.9)	(275.2)	(177.4)	(135.1)	(114.2)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	136.1	33.8	19.0	10.3	8.4	7.1
P/E (diluted)	88.2	30.7	18.1	10.1	8.3	7.0
P/B	14.1	9.1	6.1	3.7	2.5	1.8

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

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