

PDD Holdings (PDD US)

Results beat on better-than-expected savings from sales and marketing spend

PDD Holdings (PDD) announced (25 Aug) 2Q25 results: revenue was up 7% YoY (1Q25: 10%) to RMB104.0bn, inline with Bloomberg consensus estimates, which was driven by a 1% beat in online marketing services and others, but offset by the 1% miss in transaction services fees that we attributed to the impact from change in “de minimis exemption” policy in the U.S. market. Non-GAAP NP decreased by 5% YoY to RMB32.7bn but was 46% better than consensus, driven by the 20% beat in OP and the RMB10.4bn interest and investment income. Although PDD is still in an investment stage to enhance platform ecosystem, as well as to improve quality and diversity of supply, the beat in operating profit likely speaks to a better-than-feared impact from incremental sales and marketing spend amid the backdrop of national subsidies. Although we expect the impact on earnings from investment to enhance supply and platform ecosystem to sustain, we are still looking for a turning point in earnings growth in 4Q25E, when both the launch of first-batch platform ecosystem enhancement policies and “national subsidies” campaign reached a full-year milestone. Accounting for the earnings beat in 2Q25, we lift 2025E non-GAAP NP by 10%, while maintaining that of 2026-2027E largely unchanged, and lift SOTP-based TP by 9% to US\$146.3 (was US\$134.5). BUY.

■ **Impact from change in “de minimis exemption” policy gearing up.** In 2Q25, PDD’s online marketing services and others revenue rose by 13.4% YoY (2Q24: 29.5% YoY; 1Q25: 14.8% YoY) to RMB55.7bn, 1% better than consensus. We estimate the growth is largely inline with that of GMV growth of PDD’s main app. Transaction services revenue for 2Q25 grew by merely 1% YoY (2Q24: 234% YoY; 1Q25: 6% YoY) to RMB48.3bn, which missed consensus by 1%, in our view owing to the change in “de minimis exemption” policy in the U.S. market, as well as PDD’s move to further enhance merchant support. However, we expect the ramp-up of “semi-entrusted” business model as well as “local fulfilment” business model, and the business expansion in other countries to help offset the impact in the U.S. market.

■ **Better-than-expected savings on S&M expenses led to a beat on OPM.** PDD’s GPM shrank to 55.9% in 2Q25 (2Q24: 65.3%), and was 3.4ppt shy of consensus. However, the better-than-expected cost savings from sales and marketing expenses in 2Q25 drove a beat on OPM. Sales and marketing expenses reached RMB27.2bn, up 4% YoY (1Q25: 43% YoY), which accounted for 26.2% of total revenue, and was 7.5ppts better than consensus. This, in our view, speaks to a better-than-feared impact from incremental sales and marketing spend amid the backdrop of national subsidies. Although we are still expecting some variabilities and fluctuation in quarterly sales and marketing spend amid still-fierce industry competition, we are looking for a turning point in earnings growth in 4Q25E, when both the launch of first-batch platform ecosystem enhancement policies and “national subsidies” campaign reached a full-year milestone.

■ **Lift SOTP-based TP to US\$146.3; maintain BUY.** Our new TP consists of, per ADS: 1) US\$94.0 for the main app based on 12.5x 2025E PE (was US\$83.1 based on 12.0x PE); 2) US\$1.9 for Duoduo Grocery (unchanged); 3) US\$20.5 for Temu based on 1.0x 2025E PS (unchanged); and 4) US\$29.8 for net cash (was US\$29.0).

BUY (Maintain)

Target Price US\$146.30
(Previous TP) US\$134.50
Up/Downside 15.1%
Current Price US\$127.11

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Stock Data

Mkt Cap (US\$ mn)	183,079.4
Avg 3 mths t/o (US\$ mn)	346.7
52w High/Low (US\$)	154.27/88.35
Total Issued Shares (mn)	1440.3

Source: FactSet

Shareholding Structure

Entities affiliated with Zheng Huang	24.8%
Entities affiliated with Tencent	13.8%

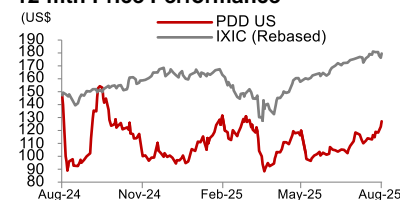
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	10.5%	7.4%
3-mth	6.1%	-6.6%
6-mth	-3.2%	-12.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	247,639	393,836	426,673	492,741	543,743
Net profit (RMB mn)	60,026.5	112,434.5	95,824.3	118,200.9	135,305.9
Adjusted net profit (RMB mn)	67,899.4	122,343.6	104,016.5	126,922.4	144,386.4
YoY growth (%)	71.8	80.2	(15.0)	22.0	13.8
EPS (Adjusted) (RMB)	46.51	82.71	69.41	84.69	96.34
Consensus EPS (RMB)	na	82.71	61.39	81.65	97.58
P/E (x)	20.6	11.2	13.5	10.9	9.5

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	2Q25E Consensus	Diff (%)
Online marketing services and others	42,456	49,116	49,351	57,011	48,722	55,703	54,942	1.4%
YoY growth (%)	55.8%	29.5%	24.3%	17.1%	14.8%	13.4%		
Transaction services fees	44,356	47,944	50,003	53,599	46,950	48,282	48,990	-1.4%
YoY growth (%)	326.8%	234.2%	71.5%	33.3%	5.8%	0.7%		
Total revenue	86,812	97,060	99,354	110,610	95,672	103,985	103,933	0.1%
YoY growth (%)	130.7%	85.7%	44.3%	24.4%	10.2%	7.1%		
Gross profit	54,117	63,361	59,645	62,812	54,725	58,126	61,602	-5.6%
S&M	23,411	26,049	30,484	31,357	33,403	27,210	35,004	-22.3%
G&A	1,823	1,839	1,806	2,085	1,659	1,532	1,913	-19.9%
R&D	2,910	2,909	3,063	3,777	3,578	3,591	3,500	2.6%
Operating profit	25,974	32,565	24,292	25,592	16,086	25,793	21,494	20.0%
Net profit	27,998	32,009	24,981	27,447	14,742	30,753	19,917	54.4%
Non-GAAP net profit	30,602	34,432	27,459	29,851	16,916	32,708	22,390	46.1%
YoY growth (%)	202.2%	125.5%	61.3%	17.2%	-44.7%	-5.0%		
GPM (%)	62.3%	65.3%	60.0%	56.8%	57.2%	55.9%	59.3%	-3.4 ppt
S&M expense ratio	27.0%	26.8%	30.7%	28.3%	34.9%	26.2%	33.7%	-7.5 ppt
G&A expense ratio	2.1%	1.9%	1.8%	1.9%	1.7%	1.5%	1.8%	-0.4 ppt
R&D expense ratio	3.4%	3.0%	3.1%	3.4%	3.7%	3.5%	3.4%	0.1 ppt
OPM (%)	29.9%	33.6%	24.5%	23.1%	16.8%	24.8%	20.7%	4.1 ppt
Non-GAAP NPM (%)	35.3%	35.5%	27.6%	27.0%	17.7%	31.5%	21.5%	9.9 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 2: PDD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	426.7	492.7	543.7	434.6	535.6	595.0	-1.8%	-8.0%	-8.6%
Gross profit	239.8	280.0	315.9	254.9	295.1	330.8	-5.9%	-5.1%	-4.5%
Operating profit	91.6	119.4	142.0	81.7	122.7	142.8	12.1%	-2.7%	-0.6%
Non-GAAP net profit	104.0	126.9	144.4	94.9	128.4	145.7	9.6%	-1.2%	-0.9%
Gross margin	56.2%	56.8%	58.1%	58.7%	55.1%	55.6%	-2.5 ppt	1.7 ppt	2.5 ppt
Operating margin	21.5%	24.2%	26.1%	18.8%	22.9%	24.0%	2.7 ppt	1.3 ppt	2.1 ppt
Non-GAAP net margin	24.4%	25.8%	26.6%	21.8%	24.0%	24.5%	2.5 ppt	1.8 ppt	2.1 ppt

Source: CMBIGM estimates

Figure 3: PDD: SOTP valuation

#	Segment	Rev (RMBmn)	OP (RMBmn)	NOPAT (RMBmn)	2025E P/E (x)	2025E P/S (x)	Val. Rmb mn	Val. US\$m	\$/ADS	Value split	Comment
1	PDD main app	274,178	101,446	81,157	12.5		1,014,459	140,897	94.0	64.3%	12.5x 2025E PE; tax rate @20%
2	Duoduo Grocery	20,692				1.0	20,692	2,874	1.9	1.3%	1.0x 2025E PS
3	Temu (2025E)	220,919				1.0	220,919	30,683	20.5	14.0%	1.0x 2025E PS
4	Net cash						322,028	44,726	29.8	20.4%	2025E net cash
Total							1,578,098	219,180	146.3		

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	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	130,558	247,639	393,836	426,673	492,741	543,743
Cost of goods sold	(31,462)	(91,724)	(153,900)	(186,862)	(212,785)	(227,831)
Gross profit	99,095	155,916	239,936	239,811	279,956	315,911
Operating expenses	(68,693)	(97,217)	(131,513)	(148,217)	(160,561)	(173,917)
Selling expense	(54,344)	(82,189)	(111,301)	(126,788)	(136,306)	(147,696)
Admin expense	(3,965)	(4,076)	(7,553)	(7,997)	(9,235)	(10,191)
R&D expense	(10,385)	(10,952)	(12,659)	(13,432)	(15,019)	(16,030)
Others	0	0	0	0	0	0
Operating profit	30,402	58,699	108,423	91,594	119,395	141,994
Interest income	3,997	10,238	20,553	19,894	20,672	20,883
Interest expense	(52)	(44)	0	0	0	0
Foreign exchange gain/loss	(150)	36	588	588	588	588
Others	2,221	2,953	3,120	3,120	3,120	3,120
Pre-tax profit	36,419	71,881	132,684	115,195	143,775	166,585
Income tax	(4,726)	(11,850)	(20,267)	(19,388)	(25,592)	(31,296)
Others	(155)	(5)	17	17	17	17
After tax profit	31,538	60,027	112,435	95,824	118,201	135,306
Minority interest	0	0	0	0	0	0
Net profit	31,538	60,027	112,435	95,824	118,201	135,306
Adjusted net profit	39,530	67,899	122,344	104,016	126,922	144,386

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	216,618	294,750	415,648	544,147	682,785	828,606
Cash & equivalents	34,326	59,794	57,768	135,475	272,755	417,529
Restricted cash	57,974	61,985	68,426	68,426	68,426	68,426
Account receivables	588	3,914	3,679	3,986	4,603	5,080
Prepayment	2,298	4,213	4,413	4,781	5,522	6,093
Other current assets	121,431	164,843	281,361	331,478	331,478	331,478
Non-current assets	20,502	53,328	89,386	89,391	89,421	89,444
PP&E	1,045	980	879	885	914	937
Right-of-use assets	1,416	4,105	5,064	5,064	5,064	5,064
Intangibles	134	21	19	19	19	19
Other non-current assets	17,907	48,222	83,423	83,423	83,423	83,423
Total assets	237,120	348,078	505,034	633,538	772,206	918,050
Current liabilities	116,889	152,901	188,423	213,289	225,034	226,492
Short-term borrowings	13,886	649	5,310	5,310	5,310	5,310
Account payables	63,317	74,997	91,656	102,071	113,630	121,593
Other current liabilities	18,124	20,262	20,210	24,628	27,338	29,211
Lease liabilities	602	1,642	2,106	2,106	2,106	2,106
Accrued expenses	20,961	55,351	69,142	79,173	76,651	68,272
Non-current liabilities	2,460	7,936	3,298	3,298	3,298	3,298
Convertible bonds	1,576	5,232	0	0	0	0
Other non-current liabilities	884	2,704	3,298	3,298	3,298	3,298
Total liabilities	119,349	160,837	191,721	216,587	228,332	229,790
Share capital	0	0	0	0	0	0
Capital surplus	99,255	107,399	118,067	118,067	118,067	118,067
Retained earnings	15,193	75,119	187,421	291,059	417,982	562,368
Other reserves	3,322	4,724	7,825	7,825	7,825	7,825
Total shareholders equity	117,771	187,242	313,313	416,951	543,873	688,260
Total equity and liabilities	237,120	348,078	505,034	633,538	772,206	918,050

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	36,419	71,881	132,684	115,195	143,775	166,585
Depreciation & amortization	2,224	786	709	0	414	466
Tax paid	(4,726)	(11,850)	(20,267)	(19,388)	(25,592)	(31,296)
Change in working capital	7,423	40,313	28,020	24,191	10,388	410
Others	7,167	(6,968)	(19,217)	8,209	8,739	9,098
Net cash from operations	48,508	94,163	121,929	128,208	137,724	145,263
Investing						
Capital expenditure	(636)	(583)	(967)	(384)	(443)	(489)
Acquisition of subsidiaries/ investments	(167,210)	(172,183)	(254,120)	(50,117)	0	0
Net proceeds from disposal of short-term investments	141,928	130,317	147,288	0	0	0
Others	3,556	(12,982)	(10,557)	0	0	0
Net cash from investing	(22,362)	(55,431)	(118,356)	(50,501)	(443)	(489)
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	0	(0)	0	0
Share repurchases	0	0	0	0	0	0
Others	10	(8,961)	1	0	0	0
Net cash from financing	10	(8,961)	1	(0)	0	0
Net change in cash						
Cash at the beginning of the year	66,044	92,300	121,780	57,768	135,475	272,755
Exchange difference	100	(291)	840	0	0	0
Others	0	0	68,426	0	0	0
Cash at the end of the year	92,300	121,780	194,621	135,475	272,755	417,529
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	39.0%	89.7%	59.0%	8.3%	15.5%	10.4%
Gross profit	59.2%	57.3%	53.9%	(0.1%)	16.7%	12.8%
Operating profit	340.8%	93.1%	84.7%	(15.5%)	30.4%	18.9%
Net profit	306.0%	90.3%	87.3%	(14.8%)	23.4%	14.5%
Adj. net profit	185.8%	71.8%	80.2%	(15.0%)	22.0%	13.8%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	75.9%	63.0%	60.9%	56.2%	56.8%	58.1%
Operating margin	23.3%	23.7%	27.5%	21.5%	24.2%	26.1%
Adj. net profit margin	30.3%	27.4%	31.1%	24.4%	25.8%	26.6%
Return on equity (ROE)	32.7%	39.4%	44.9%	26.2%	24.6%	22.0%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	1.9	1.9	2.2	2.6	3.0	3.7
Receivable turnover days	1.8	3.3	3.5	3.3	3.2	3.2
Payable turnover days	(729.9)	(275.2)	(197.6)	(189.2)	(185.0)	(188.4)
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	36.6	20.6	11.2	13.5	10.9	9.5
P/E (diluted)	33.3	19.6	11.0	13.2	10.8	9.5
P/B	9.8	6.6	4.0	3.1	2.4	1.9

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

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