

PDD Holdings (PDD US)

Investing to enhance supply chain capabilities

PDD Holdings (PDD) reported (27 May) 1Q26 results: revenue grew 11.0% YoY (4Q25: 12.0%) to RMB106.2bn, 2% below Bloomberg consensus on a 5% miss in online marketing services and others, partly offset by a 1% beat in transaction services revenue. Operating profit (OP) rose 21.6% YoY to RMB19.6bn, coming in 7% below consensus on the revenue miss and higher-than-expected sales and marketing spend. PDD continues to invest in supply chain capabilities as well as its platform and broader ecosystem, to enhance overall experience for both merchants and customers in order to better cope with fierce industry competition, especially when consumer demand is facing some short-term headwinds. We lower our 2026E revenue / non-GAAP net profit forecasts by 3%/13% to reflect stepped-up merchant support and revised assumptions on investment income and other income/(loss). Our SOTP-based TP is cut by 4% to US\$154.8, translating into 15x 2026E PE. With shares trading at ~8x 2026E PE and the company's c. RMB512bn of cash, restricted cash, and short-term investments on hand, we view the current valuation as undemanding. Maintain BUY.

- **1Q26 revenue missed on incremental merchant support.** Online marketing services and other revenue rose 2.5% YoY to RMB49.9bn (1Q25: +14.8% YoY; 4Q25: +5.3% YoY), 5.0% below consensus, which we attribute to incremental merchant support amid intensifying competition. Transaction services revenue grew 19.9% YoY to RMB56.3bn (1Q25: +5.8% YoY; 4Q25: +19.2% YoY), 1.4% ahead of consensus, driven in our view by robust Temu performance.
- **GPM improved sequentially; OP came in below consensus.** Gross profit margin (GPM) was 55.9% in 1Q26 (1Q25: 57.2%), up 0.4ppts QoQ and 0.3ppts above consensus. Sales and marketing expenses reached RMB33.8bn, up 1% YoY (1Q25: +43% YoY; 4Q25: +10% YoY), and accounting for 31.8% of total revenue (1Q25: 34.9%), 1.3ppts above consensus. OP of RMB19.6bn was 7% below consensus on softer revenue and elevated S&M spend to support overseas expansion, with OPM of 18.4% coming in 0.9ppts below consensus.
- **SOTP-based TP of US\$154.8.** Our TP comprises, per ADS: 1) US\$89.8 for the main app on an unchanged 10x 2026E target PE (previously US\$95.0); 2) US\$2.0 for Duoduo Grocery on 1.0x 2026E PS (unchanged); 3) US\$25.0 for Temu on 1.0x 2026E PS (unchanged); and 4) US\$38.0 for net cash (previously US\$39.6).

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	393,836	431,846	483,752	546,663	581,933
Net profit (RMB mn)	112,434.5	99,364.5	99,713.6	129,185.8	142,377.8
Adjusted net profit (RMB mn)	122,343.6	107,301.4	107,878.9	137,866.3	151,618.4
YoY growth (%)	80.2	(12.3)	0.5	27.8	10.0
EPS (Adjusted) (RMB)	82.71	72.38	72.06	91.19	99.30
Consensus EPS (RMB)	82.71	72.38	82.65	97.48	108.93
P/E (x)	7.2	8.3	8.3	6.5	5.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$154.80
(Previous TP)	US\$161.70)
Up/Downside	78.7%
Current Price	US\$86.61

China Internet

Saiyi HE, CFA
(852) 3916 1739
hesaiyi@cmbi.com.hk

Ye TAO, CFA
(852) 3850 5226
franktao@cmbi.com.hk

Wentao LU, CFA
luwentao@cmbi.com.hk

Shuyin GUO
(852) 3916 3716
guoshuyin@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	129,662.9
Avg 3 mths t/o (US\$ mn)	338.2
52w High/Low (US\$)	138.13/86.61
Total Issued Shares (mn)	1497.1

Source: FactSet

Shareholding Structure

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

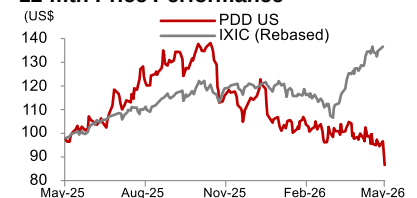
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-11.0%	-17.7%
3-mth	-16.5%	-29.0%
6-mth	-25.4%	-34.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q25	2Q25	3Q25	4Q25	1Q26	1Q26E Consensus	Diff (%)
Online marketing services and others	48,722	55,703	53,348	60,010	49,936	52,557	-5.0%
YoY growth (%)	14.8%	13.4%	8.1%	5.3%	2.5%		
Transaction services fees	46,950	48,282	54,929	63,902	56,293	55,523	1.4%
YoY growth (%)	5.8%	0.7%	9.9%	19.2%	19.9%		
Total revenue	95,672	103,985	108,277	123,912	106,229	108,602	-2.2%
YoY growth (%)	10.2%	7.1%	9.0%	12.0%	11.0%		
Gross profit	54,725	58,126	61,436	68,757	59,336	60,361	-1.7%
S&M	33,403	27,210	30,323	34,352	33,773	33,110	2.0%
G&A	1,659	1,532	1,755	1,690	1,579	1,794	-12.0%
R&D	3,578	3,591	4,332	4,995	4,418	4,296	2.8%
Operating profit	16,086	25,793	25,026	27,720	19,566	21,016	-6.9%
YoY growth (%)	-38.1%	-20.8%	3.0%	8.3%	21.6%		
Net profit	14,742	30,753	29,328	24,541	12,547	22,313	-43.8%
Non-GAAP net profit	16,916	32,708	31,382	26,295	14,071	24,597	-42.8%
YoY growth (%)	-44.7%	-5.0%	14.3%	-11.9%	-16.8%		
GPM (%)	57.2%	55.9%	56.7%	55.5%	55.9%	55.6%	0.3 ppt
S&M expense ratio	34.9%	26.2%	28.0%	27.7%	31.8%	30.5%	1.3 ppt
G&A expense ratio	1.7%	1.5%	1.6%	1.4%	1.5%	1.7%	-0.2 ppt
R&D expense ratio	3.7%	3.5%	4.0%	4.0%	4.2%	4.0%	0.2 ppt
OPM (%)	16.8%	24.8%	23.1%	22.4%	18.4%	19.4%	-0.9 ppt
Non-GAAP NPM (%)	17.7%	31.5%	29.0%	21.2%	13.2%	22.6%	-9.4 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 2: PDD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Revenue	483.8	546.7	581.9	498.6	562.5	598.4	-3.0%	-2.8%	-2.8%
Gross Profit	267.4	305.2	325.5	284.5	320.6	339.1	-6.0%	-4.8%	-4.0%
Operating Profit	109.1	137.3	157.7	118.9	145.0	154.0	-8.2%	-5.3%	2.4%
Non-GAAP net profit	107.9	135.2	149.5	124.6	144.3	148.4	-13.4%	-6.3%	0.7%
Gross Margin	55.3%	55.8%	55.9%	57.1%	57.0%	56.7%	-1.8 ppt	-1.2 ppt	-0.7 ppt
Operating Margin	22.5%	25.1%	27.1%	23.8%	25.8%	25.7%	-1.3 ppt	-0.7 ppt	1.4 ppt
Non-GAAP net margin	22.3%	24.7%	25.7%	25.0%	25.7%	24.8%	-2.7 ppt	-0.9 ppt	0.9 ppt

Source: CMBIGM estimates

Figure 3: PDD: CMBI forecast vs consensus

RMB bn	CMBI			Consensus			Diff (%)		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Revenue	483.8	546.7	581.9	492.3	554.7	605.9	-1.7%	-1.5%	-4.0%
Gross profit	267.4	305.2	325.5	277.3	315.4	350.3	-3.6%	-3.2%	-7.1%
Operating profit	109.1	137.3	157.7	112.2	136.7	157.7	-2.8%	0.5%	0.0%
Non-GAAP net profit	107.9	135.2	149.5	122.6	146.5	168.6	-12.0%	-7.7%	-11.3%
Gross margin	55.3%	55.8%	55.9%	56.3%	56.9%	57.8%	-1.1 ppt	-1.0 ppt	-1.9 ppt
Operating margin	22.5%	25.1%	27.1%	22.8%	24.6%	26.0%	-0.2 ppt	0.5 ppt	1.1 ppt
Non-GAAP net margin	22.3%	24.7%	25.7%	24.9%	26.4%	27.8%	-2.6 ppt	-1.7 ppt	-2.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: PDD: SOTP valuation

#	Segment	Rev (RMBmn)	OP (RMBmn)	NOPAT (RMBmn)	2026E P/E (x)	2026E P/S (x)	Val. Rmb mn	Val. US\$m	\$/ADS	Value split	Comment
1	PDD main app	279,730	117,487	93,989	10.0		939,894	134,271	89.8	58.0%	10x 2026E PE; tax rate @20%
2	Duoduo Grocery	21,355				1.0	21,355	3,051	2.0	1.3%	1.0x 2026E PS
3	Temu (2026E)	262,100				1.0	262,100	37,443	25.0	16.2%	1.0x 2026E PS
4	Net cash						398,449	56,921	38.0	24.6%	2026E net cash
Total							1,621,797	231,685	154.8		

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	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	247,639	393,836	431,846	483,752	546,663	581,933
Cost of goods sold	(91,724)	(153,900)	(188,802)	(216,395)	(241,422)	(256,476)
Gross profit	155,916	239,936	243,044	267,357	305,241	325,456
Operating expenses	(97,217)	(131,513)	(148,420)	(158,283)	(167,934)	(167,712)
Selling expense	(82,189)	(111,301)	(125,288)	(132,854)	(139,745)	(137,705)
Admin expense	(4,076)	(7,553)	(6,636)	(7,433)	(8,400)	(8,942)
R&D expense	(10,952)	(12,659)	(16,496)	(17,995)	(19,789)	(21,065)
Others	0	0	0	0	0	0
Operating profit	58,699	108,423	94,624	109,074	137,307	157,744
Interest income	10,238	20,553	25,584	14,781	27,312	26,157
Interest expense	(44)	0	0	0	0	0
Foreign exchange gain/loss	36	588	(1,967)	(1,967)	(1,967)	(1,967)
Others	2,953	3,120	2,727	2,727	2,727	2,727
Pre-tax profit	71,881	132,684	120,968	124,615	165,380	184,662
Income tax	(11,850)	(20,267)	(21,733)	(25,030)	(36,323)	(42,413)
Others	(5)	17	129	129	129	129
After tax profit	60,027	112,435	99,364	99,714	129,186	142,378
Minority interest	0	0	0	0	0	0
Net profit	60,027	112,435	99,364	99,714	129,186	142,378
Adjusted net profit	67,899	122,344	107,301	107,879	137,866	151,618

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	294,750	415,648	518,980	631,303	773,551	936,952
Cash & equivalents	59,794	57,768	108,901	293,536	433,943	596,312
Restricted cash	61,985	68,426	73,831	0	0	0
Account receivables	3,914	3,679	5,109	5,723	6,468	6,885
Prepayment	4,213	4,413	7,527	8,431	9,528	10,142
Other current assets	164,843	281,361	323,613	323,613	323,613	323,613
Non-current assets	53,328	89,386	111,064	110,675	110,703	110,719
PP&E	980	879	1,306	913	941	957
Right-of-use assets	4,105	5,064	4,863	4,863	4,863	4,863
Intangibles	21	19	15	19	19	19
Other non-current assets	48,222	83,423	104,880	104,880	104,880	104,880
Total assets	348,078	505,034	630,044	741,978	884,255	1,047,671
Current liabilities	152,901	188,423	212,215	216,683	221,093	232,892
Short-term borrowings	649	5,310	0	0	0	0
Account payables	74,997	91,656	107,407	113,334	122,325	128,352
Other current liabilities	20,262	20,210	22,174	25,595	27,628	28,970
Lease liabilities	1,642	2,106	2,499	2,499	2,499	2,499
Accrued expenses	55,351	69,142	80,136	75,255	68,642	73,071
Non-current liabilities	7,936	3,298	2,922	2,922	2,922	2,922
Convertible bonds	5,232	0	0	0	0	0
Other non-current liabilities	2,704	3,298	2,922	2,922	2,922	2,922
Total liabilities	160,837	191,721	215,137	219,605	224,015	235,814
Share capital	0	0	0	0	0	0
Capital surplus	107,399	118,067	127,106	127,106	127,106	127,106
Retained earnings	75,119	187,421	285,685	393,151	531,018	682,636
Other reserves	4,724	7,825	2,116	2,116	2,116	2,116
Total shareholders equity	187,242	313,313	414,907	522,373	660,239	811,858
Total equity and liabilities	348,078	505,034	630,044	741,978	884,255	1,047,671

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	71,881	132,684	120,968	124,615	165,380	184,662
Depreciation & amortization	786	709	601	412	464	508
Tax paid	(11,850)	(20,267)	(21,733)	(25,030)	(36,323)	(42,413)
Change in working capital	40,313	28,020	22,038	2,949	2,569	10,766
Others	(6,968)	(19,217)	(14,936)	8,294	8,810	9,370
Net cash from operations	94,163	121,929	106,939	111,240	140,899	162,893
Investing						
Capital expenditure	(583)	(967)	(1,145)	(435)	(492)	(524)
Acquisition of subsidiaries/ investments	(172,183)	(254,120)	(252,015)	0	0	0
Net proceeds from disposal of short-term investments	130,317	147,288	230,909	0	0	0
Others	(12,982)	(10,557)	(21,172)	0	0	0
Net cash from investing	(55,431)	(118,356)	(43,423)	(435)	(492)	(524)
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	9,039	(0)	0	0
Share repurchases	0	0	0	0	0	0
Others	(8,961)	1	(14,266)	0	0	0
Net cash from financing	(8,961)	1	(5,227)	(0)	0	0
Net change in cash						
Cash at the beginning of the year	92,300	121,780	126,194	182,731	293,536	433,943
Exchange difference	(291)	840	(1,751)	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	121,780	126,194	182,731	293,536	433,943	596,312
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	89.7%	59.0%	9.7%	12.0%	13.0%	6.5%
Gross profit	57.3%	53.9%	1.3%	10.0%	14.2%	6.6%
Operating profit	93.1%	84.7%	(12.7%)	15.3%	25.9%	14.9%
Net profit	90.3%	87.3%	(11.6%)	0.4%	29.6%	10.2%
Adj. net profit	71.8%	80.2%	(12.3%)	0.5%	27.8%	10.0%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	63.0%	60.9%	56.3%	55.3%	55.8%	55.9%
Operating margin	23.7%	27.5%	21.9%	22.5%	25.1%	27.1%
Adj. net profit margin	27.4%	31.1%	24.8%	22.3%	25.2%	26.1%
Return on equity (ROE)	39.4%	44.9%	27.3%	21.3%	21.8%	19.3%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	1.9	2.2	2.4	2.9	3.5	4.0
Receivable turnover days	3.3	3.5	3.7	4.1	4.1	4.2
Payable turnover days	(275.2)	(197.6)	(192.4)	(186.2)	(178.1)	(178.4)
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	13.2	7.2	8.3	8.3	6.5	5.9
P/E (diluted)	12.6	7.1	8.1	8.2	6.4	5.9
P/B	4.2	2.6	2.0	1.6	1.3	1.0

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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