

# Pinduoduo (PDD US)

## Stronger recovery ahead

PDD demonstrated its resilient growth and margin surprise in 2Q22 result, with rev +36% YoY (33% above consensus) and non-GAAP net profit at RMB10.8bn (157% above consensus, mainly on higher GPM and disciplined S&M). Such outperformance was supported by consumer sentiment recovery and 618 promotions. We turned more bullish on PDD's recovery and share gain ahead, for its value-for-money products and relatively higher GMV exposure in lower-tier cities. We expect rev/ GMV +35%/24% YoY in 2H22E, and DDMC to contribute 5% GMV. 2H22 margin might be lower than 2Q22, but we keep positive on its LT profitability with DDMC UE improvement, and disciplined S&M offsetting by agriculture initiatives. As such, we raised its earnings by 18%-41% in FY22-24E, to reflect better recovery. Our new DCF-based TP is increased to US\$83 from US\$70.

- **Another eye-catching quarter.** 2Q22 rev +36% YoY, 33% above consensus (benefiting from consumer sentiment recovery and 618 promotion). We are impressed by its topline acceleration and margin expansion amid epidemic impact. OMS +39% YoY and transaction services +107% YoY. Non-GAAP net profit came in at RMB10.8bn (+161% YoY, with adj. NPM at 34%), largely above consensus of RMB4.2bn, mainly on higher GPM and disciplined S&M control (S&M/Rev ratio (ex-1P biz) at -36% in 2Q22, vs. -47% in 1Q22).
- **Stronger recovery ahead with value-for-money products.** Despite epidemic resurgence, PDD demonstrated resilient GMV growth (largely above BABA/JD). We are more confident on its share gain trend ahead, for its value-for-money products (especially during challenging macro period) and relatively higher GMV exposure in lower-tier cities. PDD GMV was estimated >+25% YoY in Jul, based on third-party channel. With lockdowns relaxation, we forecast its GMV +24% YoY in 2H22E, backed by rising purchase frequency (+17%) and AOV (+5%). In the mid-to-long run, we expect agriculture initiatives and brand penetration to bring further upside. DDMC share gain continued in 2Q22, and we expect its UE to improve to -8% in FY22E, benefiting from operating leverage and industrial consolidation. Overseas expansion (into US mkt) is still at an early stage, but with promising TAM.
- **Maintain BUY.** We raised its earnings by 18%-41% in FY22-24E, to reflect better recovery. Maintain BUY with higher DCF-based TP at US\$83 (32x FY23E P/E).

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	59,492	93,950	120,992	144,157	165,117
YoY growth (%)	97.4	57.9	28.8	19.1	14.5
Adj.net profit (RMB mn)	(2,965)	13,830	26,849	28,899	34,736
Adj. EPS (RMB)	(2.49)	9.56	18.20	19.21	22.64
YoY growth (%)	NA	NA	90	6	18
Consensus EPS (RMB)	NA	NA	13.10	17.91	24.34
P/E (x)	NA	47	25	24	20
P/S (x)	9.6	6.1	4.7	4.0	3.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(11.9)	17.6	31.0	24.2	22.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	US\$83
(Previous TP	US\$70)
Up/Downside	+23.0%
Current Price	US\$67.5

### China Internet Sector

**Sophie Huang**  
(852) 3900 0889  
sophiehuang@cmbi.com.hk

**Eason Xu**  
(852) 3900 0849  
easonxu@cmbi.com.hk

### Stock Data

Mkt Cap (US\$ mn)	72,791
Avg 3 mths t/o (US\$ mn)	671.91
52w High/Low (US\$)	109.79/23.21
Total Issued Shares (mn)	1,264

Source: Bloomberg

### Shareholding Structure

Nanpeng Shen	10.51%
Baillie Gifford	2.22%
FMR LLC	1.73%

Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	13.1%	13.3%
3-mth	19.2%	19.1%
6-mth	11.0%	25.7%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Related Reports

1. Well positioned for upcoming recovery – 30 May 2022
2. Solid margin but moderate growth ahead – 22 Mar 2022
3. China Internet Analyst marketing takeaway – 31 Jan 2022

**Figure 1: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	120,992	144,157	165,117	106,618	124,472	140,795	13.5%	15.8%	17.3%
Gross profit	89,668	102,095	117,220	73,807	86,812	98,110	21.5%	17.6%	19.5%
Operating profit	22,186	22,373	26,290	13,712	18,221	20,838	61.8%	22.8%	26.2%
Adj. net profit	26,849	28,899	34,736	19,035	24,576	29,170	41.0%	17.6%	19.1%
Adj. EPS (RMB)	18.20	19.21	22.64	12.90	16.33	19.01	41.0%	17.6%	19.1%
Gross margin	74.1%	70.8%	71.0%	69.2%	69.7%	69.7%	+4.9ppts	+1.1ppts	+1.3ppts
Operating margin	18.3%	15.5%	15.9%	12.9%	14.6%	14.8%	+5.5ppts	+0.9ppts	+1.1ppts
Adj. Net margin	22.2%	20.0%	21.0%	17.9%	19.7%	20.7%	+4.3ppts	+0.3ppts	+0.3ppts

Source: CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	120,992	144,157	165,117	110,184	136,417	161,046	9.8%	5.7%	2.5%
Gross profit	89,668	102,095	117,220	76,079	94,391	110,829	17.9%	8.2%	5.8%
Operating profit	22,186	22,373	26,290	14,749	23,172	33,035	50.4%	-3.4%	-20.4%
Adj. net profit	26,849	28,899	34,736	18,160	25,481	33,377	47.8%	13.4%	4.1%
Adj. EPS (RMB)	18.20	19.21	22.64	13.10	17.91	24.34	39.0%	7.2%	-7.0%
Gross margin	74.1%	70.8%	71.0%	69.0%	69.2%	68.8%	+5.1ppts	+1.6ppts	+2.2ppts
Operating margin	18.3%	15.5%	15.9%	13.4%	17.0%	20.5%	+5.0ppts	-1.5ppts	-4.6ppts
Adj. net margin	22.2%	20.0%	21.0%	16.5%	18.7%	20.7%	+5.7ppts	+1.4ppts	+0.3ppts

Source: Company data, Bloomberg

**Figure 3: 2Q22 review**

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ	YoY	Consensus	Diff %
Revenue	6,541	12,193	14,210	26,548	22,167	23,046	21,506	27,231	23,794	31,440	32.1%	36.4%	23,624	33%
Operating profit	(4,397)	(1,640)	(1,296)	(2,048)	(4,147)	1,998	2,139	6,907	2,154	8,697	303.7%	335.4%	2,995	190%
Net profit	(4,119)	(899)	(785)	(1,376)	(2,905)	2,415	1,640	6,620	2,599	8,896	242.2%	268.4%	2,911	206%
Adj. net profit	(3,170)	(77)	466	(185)	(1,890)	4,125	3,150	8,444	4,200	10,776	156.6%	161.2%	4,195	157%
Adj. EPS (RMB)	(2.73)	(0.06)	0.33	(0.15)	(1.52)	2.85	2.18	5.88	2.95	7.54	155.6%	164.6%	2.75	174%
<b>Margin (%)</b>														
Gross margin	72.0%	78.2%	77.1%	56.6%	51.5%	65.7%	69.5%	76.1%	69.9%	74.7%			69.2%	
Operating margin	-67.2%	-13.4%	-9.1%	-7.7%	-18.7%	8.7%	9.9%	25.4%	9.1%	27.7%			12.7%	
Adj. net margin	-48.5%	-0.6%	3.3%	-0.7%	-8.5%	17.9%	14.6%	31.0%	17.7%	34.3%			17.8%	
<b>Growth (%)</b>														
Revenue (YoY)	43.9%	67.3%	89.1%	146.0%	238.9%	89.0%	51.3%	2.6%	7.3%	36.4%			2.5%	
Revenue (QoQ)	-39.4%	86.4%	16.5%	86.8%	-16.5%	4.0%	-6.7%	26.6%	-12.6%	32.1%			-0.7%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA	NA	268.4%			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA	164.6%			NA	

Source: Company data, Bloomberg

**Figure 4: 2Q22 revenue breakdown**

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ	YoY
<b>Total revenue</b>	<b>6,541</b>	<b>12,193</b>	<b>14,210</b>	<b>26,548</b>	<b>22,167</b>	<b>23,046</b>	<b>21,506</b>	<b>27,231</b>	<b>23,794</b>	<b>31,440</b>	<b>32.1%</b>	<b>36.4%</b>
Online marketing	5,492	11,055	12,878	18,922	14,111	18,080	17,946	22,425	18,158	25,173	38.6%	39.2%
Transaction services	1,049	1,139	1,332	2,268	2,931	3,008	3,477	4,724	5,591	6,216	11.2%	106.7%
Merchant Sales	0	0	0	5,358	5,124	1,958	82	82	44	51	15.6%	-97.4%

Source: Company data

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	59,492	93,950	120,992	144,157	165,117
Online marketing	47,954	72,563	95,973	114,641	131,799
Transaction	5,787	14,140	24,718	29,160	33,318
Merchant Sales	5,751	7,248	301	356	-
<b>COGS</b>	(19,279)	(31,718)	(31,324)	(42,061)	(47,897)
<b>Gross profit</b>	40,213	62,232	89,668	102,095	117,220
S&M	(41,195)	(44,802)	(50,379)	(59,164)	(66,811)
Admin.Exp.	(1,507)	(1,541)	(2,910)	(3,340)	(3,707)
R&D	(6,892)	(8,993)	(14,193)	(17,219)	(20,412)
Others	-	-	-	-	-
<b>Operating profit</b>	(9,380)	6,897	22,186	22,373	26,290
Financial Cost	1,698	1,831	3,351	4,779	7,126
Associates	419	728	-	-	-
<b>Pre-tax Income</b>	(7,263)	9,455	25,537	27,152	33,416
Income Tax	-	(1,934)	(4,738)	(5,100)	(6,130)
Convertible preferred shares	-	-	-	-	-
<b>Net profit</b>	(7,180)	7,769	20,799	22,052	27,286
<b>Adj. net profit</b>	(2,965)	13,830	26,849	28,899	34,736

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	9,385	11,540	15,856	20,924	26,324
Fixed asset	203	233	329	460	688
Associates	-	-	-	-	-
Intangible assets	1,277	11,307	15,528	20,463	25,637
Others	7,275	-	-	-	-
<b>Current assets</b>	149,524	149,760	192,964	241,842	293,801
Cash	22,421	21,854	62,757	109,011	158,210
Restricted cash	52,422	52,422	52,422	52,422	52,422
Account receivable	730	1,079	1,319	1,556	1,778
Others	73,951	74,405	76,465	78,853	81,392
<b>Current liabilities</b>	83,882	106,224	126,519	150,606	172,080
Amounts due to related parties	3,386	3,168	3,127	4,200	4,783
Customer advances	2,423	726	960	1,146	1,318
Payable to merchants	53,834	73,963	90,433	106,683	121,894
Accrued expenses	11,193	12,342	13,914	17,241	19,706
Merchant deposits	10,926	16,025	18,087	21,337	24,379
<b>Non-current liabilities</b>	5,643	5,643	5,643	5,643	5,643
Convertible bonds	5,207	5,207	5,207	5,207	5,207
Others	436	436	436	436	436
MI	-	-	-	-	-
<b>Total Equity</b>	69,384	49,433	76,658	106,517	142,403
<b>Shareholders' equity</b>	60,176	72,642	99,491	128,390	163,127

Source: Company data, CMBIGM estimates

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	(7,180)	7,769	20,799	22,052	27,286
D&A	652	885	1,152	1,238	1,377
Change in WC	(370)	30,933	17,994	21,462	18,713
Others	3,613	4,698	6,050	6,847	7,451
<b>Operating CF</b>	(3,285)	44,285	45,995	51,599	54,827
Capex	(116)	(196)	(252)	(300)	(344)
Associates	-	-	-	-	-
Others	(32,603)	(4,228)	(4,840)	(5,045)	(5,284)
<b>Investing CF</b>	(32,719)	(4,424)	(5,092)	(5,346)	(5,628)
Equity raised	51,799	-	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
<b>Financing CF</b>	51,799	-	-	-	-
<b>Net change in cash</b>	15,795	39,861	40,903	46,253	49,199
Cash (beg of yr)	18,620	34,415	74,277	115,180	161,433
FX	-	-	-	-	-
<b>Cash (end of yr)</b>	34,415	74,276	115,180	161,433	210,632

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Online marketing	80.6	77.2	79.3	79.5	79.8
Transaction services	9.7	15.1	20.4	20.2	20.2
Merchant Sales	9.7	7.7	0.2	0.2	0.0
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	97.4	57.9	28.8	19.1	14.5
Gross profit	68.9	54.8	44.1	13.9	14.8
EBIT	NA	NA	NA	NA	NA
Net profit	NA	NA	NA	NA	NA
<b>P&amp;L ratios (%)</b>					
Operating margin	(15.8)	7.3	18.3	15.5	15.9
Pre-tax margin	(12.2)	10.1	21.1	18.8	20.2
Adj. net margin	(5.0)	14.7	22.2	20.0	21.0
Effective tax rate	-	(2.1)	(18.6)	(18.8)	(18.3)
<b>Returns (%)</b>					
ROE	(11.9)	17.6	31.0	24.2	22.6
ROA	(2.5)	8.6	14.5	12.3	11.9
<b>Per share</b>					
Adj. EPS (RMB)	(2.49)	9.56	18.20	19.21	22.64
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	13.18	11.55	14.23	19.01	24.60

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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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