

Pinduoduo (PDD US)

2021 priority on agriculture & supply chain

PDD delivered mixed 4Q20 results, with rev +146% YoY (38% above consensus) and adj. net loss at RMB185mn (vs. consensus at +RMB141mn). Quarterly GMV +57% YoY, missed ~20%. Market concern lies on anti-trust regulations and mgmt. change. PDD would prioritize on agricultural products, supply chain & offline fulfillment in 2021. Stock price might bear short-term pressure, but we keep positive on its long-term topline growth, driven by stronger user engagement, agricultural products potential and DDMC initiatives. We lifted its rev by 29%/33% in FY21/22E to reflect 1P biz but trimmed margin estimate, with lower TP of US\$175.

- Mixed 4Q20, alert on short-term volatility.** 4Q20 rev surged 146% YoY, 38% above consensus. Excluding 1P biz, rev beat 10%. LTM GMV +66% YoY (quarter GMV +57%) was ~20% below buy side expectation. Non-GAAP net loss came in at RMB466mn (vs. consensus at +RMB141mn).
- Short-term margin pressure from agriculture & supply chain investment.** PDD's LTM active buyer surpassed BABA for the first time, while its ARPU saw milder growth. Take rate surprised us at 3.2% (vs. 3.0% in 4Q19). We keep confident on its topline momentum, with ramp-up of ARPU, DDMC contribution, and ROI-driven marketing. But in the short term, we think investors would still need time to digest the regulatory headwinds, GMV deceleration, heavy model evolving and margin drag from stepping-up investment in agriculture R&D, supply chain and fulfillment infrastructure.
- DDMC to unlock TAM.** Regarding CGB regulation concern, mgmt differentiate DDMC with CGB biz for its natural traffic (most DDMC users come from PDD platform, instead of group-leaders). PDD aims to be the largest grocery in the long run, and would invest more in supply chain & fulfillment to further improve efficiency. Given relatively regional & fragmented competition landscape, players would focus more on cities expansion and group-leaders operation first, but supply chain & next-day fulfillment capability would be the key. We expect PDD to continuously leverage its agriculture advantage, sizable user traffic, high exposure in low-tier cities and natural synergies with PDD portal.
- Maintain BUY.** We raised its rev by 29%/33% in FY21/22E to reflect 1P contribution, but cut bottom line to -RMB 9.3bn/ -RMB4.1bn. Our DCF-based TP is slightly trimmed from US\$181 to US\$175 (10x FY22E P/S).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	30,142	59,492	100,401	139,290	178,438
YoY growth (%)	130	97	69	39	28
Adj.net profit (RMB mn)	(4,266)	(2,965)	(9,267)	(4,149)	6,057
Adj. EPS (RMB)	(3.69)	(2.49)	(7.62)	(3.35)	4.79
YoY growth (%)	NA	NA	NA	NA	(243)
Consensus EPS (RMB)	NA	NA	1.63	8.46	19.01
P/E (x)	NA	NA	NA	NA	203
P/S (x)	39.0	19.8	11.7	8.4	6.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(28.3)	(11.9)	53.8	36.2	9.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$175
(Previous TP)	US\$181)
Up/Downside	+17.4%
Current Price	US\$149

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	195,830
Avg 3 mths t/o (US\$ mn)	1,352.05
52w High/Low (US\$)	212.6/ 30.2
Total Issued Shares (mn)	878

Source: Bloomberg

Shareholding Structure

Nanpeng Shen	21.90%
Baillie Gifford	2.89%
BlackRock	2.20%

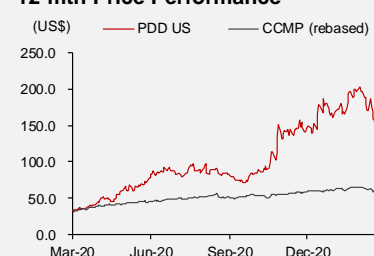
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-19.1%	-15.2%
3-mth	12.0%	4.8%
6-mth	92.5%	60.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

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- Secular growth intact despite mixed 2Q20 – 24 Aug 2020
- More bullish on topline growth – 25 May 2020

Figure 1: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	100,401	139,290	178,438	77,677	104,430	NA	29.3%	33.4%	NA
Gross Profit	60,926	86,205	112,308	60,813	81,595	NA	0.2%	5.6%	NA
Operating Profit	(17,166)	(14,464)	(7,198)	(1,506)	7,667	NA	NA	NA	NA
Adj. net profit	(9,267)	(4,149)	6,057	4,865	13,999	NA	NA	NA	NA
Adj. EPS (RMB)	(7.62)	(3.35)	4.79	4.06	11.46	NA	NA	NA	NA
Gross Margin	60.7%	61.9%	62.9%	78.3%	78.1%	NA	-17.6ppts	-16.2ppts	NA
Operating Margin	-17.1%	-10.4%	-4.0%	-1.9%	7.3%	NA	-15.2ppts	-17.7ppts	NA
Adj. Net Margin	-9.2%	-3.0%	3.4%	6.3%	13.4%	NA	-15.5ppts	-16.4ppts	NA

Source: CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	100,401	139,290	178,438	82,065	113,463	150,750	22.3%	22.8%	18.4%
Gross Profit	60,926	86,205	112,308	63,592	88,648	116,600	-4.2%	-2.8%	-3.7%
Operating Profit	(17,166)	(14,464)	(7,198)	(3,434)	6,309	NA	NA	NA	NA
Adj. net profit	(9,267)	(4,149)	6,057	2,612	13,649	25,473	NA	NA	-76.2%
Adj. EPS (RMB)	(7.62)	(3.35)	4.79	1.63	8.46	19.01	NA	NA	-74.8%
Gross Margin	60.7%	61.9%	62.9%	77.5%	78.1%	77.3%	-16.8ppts	-16.2ppts	-14.4ppts
Operating Margin	-17.1%	-10.4%	-4.0%	-4.2%	5.6%	NA	-12.9ppts	-15.9ppts	NA
Adj. Net Margin	-9.2%	-3.0%	3.4%	3.2%	12.0%	16.9%	-12.4ppts	-15.0ppts	-13.5ppts

Source: Company data, Bloomberg

Figure 3: 4Q20 review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	Consensus	Diff %
Revenue	4,545	7,290	7,514	10,793	6,541	12,193	14,210	26,548	86.8%	146.0%	19,287	38%
Operating profit	(2,121)	(1,490)	(2,792)	(2,135)	(4,397)	(1,640)	(1,296)	(2,048)	NA	NA	(1,244)	NA
Net profit	(1,878)	(1,003)	(2,335)	(1,752)	(4,199)	(899)	(785)	(1,376)	NA	NA	(656)	NA
Adj. net profit	(1,379)	(411)	(1,660)	(815)	(3,170)	(77)	466	(185)	NA	NA	141	NA
Adj. EPS (RMB)	(1.20)	(0.36)	(1.44)	(0.72)	(2.73)	(0.06)	0.33	(0.15)	NA	NA	0.15	NA
Margin (%)												
Gross margin	80.9%	78.2%	75.6%	81.1%	72.0%	78.2%	77.1%	56.6%			78.5%	
Operating margin	-46.7%	-20.4%	-37.2%	-19.8%	-67.2%	-13.4%	-9.1%	-7.7%			-6.4%	
Adj. net margin	-30.3%	-5.6%	-22.1%	-7.6%	-48.5%	-0.6%	3.3%	-0.7%			0.7%	
Growth (%)												
Revenue (YoY)	228.3%	169.1%	122.8%	90.9%	43.9%	67.3%	89.1%	146.0%			78.7%	
Revenue (QoQ)	-19.6%	60.4%	3.1%	43.6%	-39.4%	86.4%	16.5%	86.8%			35.7%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg

Figure 4: 4Q20 revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY
Total revenue	4,545	7,290	7,514	10,793	6,541	12,193	14,210	26,548	86.8%	146.0%
Online marketing	3,948	6,467	6,711	9,687	5,492	11,055	12,878	18,922	46.9%	95.3%
Transaction services	597	823	802	1,106	1,049	1,139	1,332	2,268	70.2%	105.0%
Merchant Sales	0	0	0	0	0	0	0	5,358	NA	NA

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	30,142	59,492	100,401	139,290	178,438
Online marketing	26,814	47,954	73,348	101,165	128,672
Transaction	3,328	5,787	7,900	10,229	12,348
Merchant Sales	-	5,751	19,152	27,897	37,418
COGS	(6,339)	(19,279)	(39,474)	(53,086)	(66,130)
Gross profit	23,803	40,213	60,926	86,205	112,308
S&M	(27,174)	(41,195)	(66,461)	(85,153)	(99,957)
Admin.Exp.	(1,297)	(1,507)	(2,870)	(3,359)	(4,124)
R&D	(3,870)	(6,892)	(8,761)	(12,157)	(15,425)
Others	-	-	-	-	-
Operating profit	(8,538)	(9,380)	(17,166)	(14,464)	(7,198)
Financial Cost	1,396	1,698	2,879	3,351	4,779
Associates	146	419	-	-	-
Pre-tax Income	(6,996)	(7,263)	(14,287)	(11,113)	(2,418)
Income Tax	-	-	-	-	-
Convertible preferred shares	-	-	-	-	-
Net profit	(6,968)	(7,180)	(14,287)	(11,113)	(2,418)
Adj. net profit	(4,266)	(2,965)	(9,267)	(4,149)	6,057

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	3,056	9,385	11,841	16,917	23,238
Fixed asset	41	203	244	367	553
Associates	-	-	-	-	-
Intangible assets	1,994	1,277	11,597	16,550	22,685
Others	503	7,275	-	-	-
Current assets	73,001	149,524	41,826	52,013	72,653
Cash	5,768	22,421	(87,347)	(80,542)	(63,187)
Restricted cash	27,578	52,422	52,422	52,422	52,422
Account receivable	1,051	730	1,047	1,356	1,637
Others	38,605	73,951	75,703	78,776	81,780
Current liabilities	45,768	83,882	80,212	99,624	120,527
Amounts due to related parties	1,503	3,386	3,943	5,302	6,605
Customer advances	606	2,423	733	1,012	1,287
Payable to merchants	29,926	53,834	43,093	52,694	63,610
Accrued expenses	4,877	11,193	16,882	22,018	26,574
Merchant deposits	8,855	10,926	15,561	18,598	22,451
Non-current liabilities	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	-	-	-	-	-
Total Equity	24,647	69,384	(32,188)	(36,336)	(30,279)
Shareholders' equity	24,647	60,176	50,909	46,760	52,818

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(6,968)	(7,180)	(14,287)	(11,113)	(2,418)
D&A	641	669	717	786	296
Change in WC	6,729	(370)	3,654	16,030	17,618
Others	2,558	3,613	5,020	6,965	8,476
Operating CF	2,960	(3,267)	(4,895)	12,667	23,972
Capex	(63)	(116)	(209)	(290)	(372)
Associates	-	-	-	-	-
Others	(30,672)	(32,603)	(4,518)	(5,572)	(6,245)
Investing CF	(30,735)	(32,719)	(4,727)	(5,862)	(6,617)
Equity raised	7,919	-	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
Financing CF	7,919	-	-	-	-
Net change in cash	(19,856)	(35,986)	(9,622)	6,805	17,355
Cash (beg of yr)	30,540	10,684	(25,302)	(34,924)	(28,119)
FX	-	-	-	-	-
Cash (end of yr)	10,684	(25,302)	(34,924)	(28,119)	(10,765)

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Online marketing	89.0	80.6	73.1	72.6	72.1
Transaction services	11.0	9.7	7.9	7.3	6.9
Merchant Sales	0.0	9.7	19.1	20.0	21.0
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	129.7	97.4	68.8	38.7	28.1
Gross profit	133.0	68.9	51.5	41.5	30.3
EBIT	NA	NA	NA	NA	NA
Net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(28.3)	(15.8)	(17.1)	(10.4)	(4.0)
Pre-tax margin	(23.2)	(12.2)	(14.2)	(8.0)	(1.4)
Adj. net margin	(14.2)	(5.0)	(9.2)	(3.0)	3.4
Effective tax rate	-	-	-	-	-
Returns (%)					
ROE	(28.3)	(11.9)	53.8	36.2	9.8
ROA	(7.2)	(2.5)	(8.7)	(6.8)	7.4
Per share					
Adj. EPS (RMB)	(3.69)	(2.49)	(7.62)	(3.35)	4.79
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	8.30	13.01	(5.57)	(6.31)	(4.97)

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