

# Pinduoduo (PDD US)

## More bullish on topline growth

PDD delivered strong 1Q20 results, with revenue +44% YoY (32% above consensus) and non-GAAP net loss at -RMB3,170mn (vs. consensus at -RMB2,670mn, our estimate at -RMB3,288mn). We are impressed by its upbeat revenue in such challenging quarter, and turn more confident on its recovery path and long-term momentum. We raised its revenue by 4.2%/4.5%/5.8% in FY20/21/22E, with revised DCF-based TP of US\$79.

- **1Q20 beat on topline.** 1Q20 revenue grew 44% YoY, 32% above consensus. Non-GAAP net loss came in at -RMB3,170mn (vs. consensus at -RMB2,670mn; our estimate at -RMB3,288mn), mainly on lower GPM and heavier S&M (S&M/Rev ratio at -112% (slightly above our estimate). We view this quarter as positive, for its upbeat user expansion, ARPU and topline.
- **Bullish on user expansion and ARPU upside in recovery period.** 1Q20 revenue growth was driven by ramp-up of active buyers (628mn, + 42% YoY) and ARPU (RMB1,842, +47% YoY). Its blended take rate was 2.78% (vs. 2.99% in 4Q19), while online marketing take rate at 1.82% (vs. 2.61% in 4Q19), mainly on preferential rates to merchants. Looking ahead, mgmt. expect take rate to pick up from 2Q20E in recovery period. We forecast GMV to accelerate from 2Q20E, and achieve RMB1.6trn GMV in FY20E, with higher purchase frequency and ARPU. Mgmt expect deeper cooperation with GOME, C2M initiatives to promote faster online-offline integration and closer connection with merchants.
- **Continuous investment ahead.** 2020 would be another investment year, with dynamic ROI-driven S&M strategy. In 2020, PDD will focus more on: 1) user expansion and engagement; and 2) offerings categories expansion. On the one hand, "RMB10bn subsidy" will continue to strengthen user loyalty and engagement. On the other hand, PDD would explore diversified opportunities through livestreaming, online-offline integration and exporters cooperation.
- **Maintain BUY.** Given its largely-above-industry topline growth, we turn more confident on PDD's long-term momentum, driven by higher user engagement and ARPU upside. We raised its revenue by 4.2%/4.5%/5.8% in FY20/21/22E, and adjusted earnings to -RMB 4.8bn/ +RMB9.1bn/ +RMB18.7bn. Our new DCF-based TP is revised from US\$50 to US\$79 (9.0x FY21E P/S), to reflect its higher long-term topline upside and competitive advantage.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	13,120	30,142	44,371	70,391	94,472
YoY growth (%)	652	130	47	59	34
Net income (RMB mn)	(3,456)	(4,439)	(4,831)	9,059	18,711
EPS (RMB)	(4.64)	(3.84)	(4.11)	7.64	15.62
YoY growth (%)	NA	NA	NA	(286)	105
Consensus EPS (RMB)	NA	NA	-116	62	30
P/E (x)	43.9	19.1	13.0	8.2	0.0
P/S (x)	0.0	0.0	0.0	0.0	0.0
Yield (%)	(54.3)	(31.4)	(42.9)	21.0	38.2
ROE (%)	13,120	30,142	44,371	70,391	94,472
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	US\$79
(Previous TP	US\$50)
Up/Downside	+15%
Current Price	US\$68

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	82,271
Avg 3 mths t/o (US\$ mn)	384.8
52w High/Low (US\$)	70/18
Total Issued Shares (mn)	679

Source: Bloomberg

### Shareholding Structure

Baillie Gifford	4.01%
FMR LLC	3.39%
Banyan Partners	2.96%

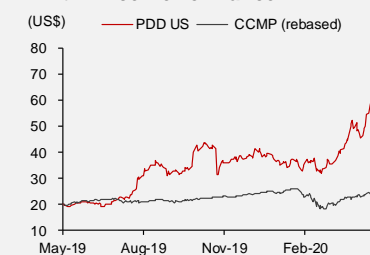
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	39.7%	27.3%
3-mth	98.7%	104.1%
6-mth	102.1%	84.7%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Ernst & Young

### Related Reports

1. A mixed quarter; Waiting for ecommerce recovery – 12 Mar 2020
2. 3Q19 results missed; Focusing on user engagement – 21 Nov 2019
3. Eye-catching 2Q19; More to come – 22 Aug 2019
4. Initiation: Rising star with growing pains – 27 Jun 2019

**Figure 1: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	44,371	70,391	94,472	42,573	67,375	89,332	4.2%	4.5%	5.8%
Gross Profit	34,468	55,413	74,189	32,992	52,927	69,930	4.5%	4.7%	6.1%
Operating Profit	(9,274)	3,081	14,394	(6,876)	4,147	14,221	NA	-25.7%	1.2%
Net profit	(4,831)	9,059	18,711	(2,540)	9,493	18,345	NA	-4.6%	2.0%
EPS (RMB)	(4.11)	7.64	15.62	(2.16)	8.01	15.32	NA	-4.6%	2.0%
Gross Margin	77.7%	78.7%	78.5%	77.5%	78.6%	78.3%	+0.2ppts	+0.2ppts	+0.2ppts
Operating Margin	-20.9%	4.4%	15.2%	-16.2%	6.2%	15.9%	-4.8ppts	-1.8ppts	-0.7ppts
Net Margin	-10.9%	12.9%	19.8%	-6.0%	14.1%	20.5%	-4.9ppts	-1.2ppts	-0.7ppts

Source: CMBIS estimates

**Figure 2: CMBIS estimates vs consensus**

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	44,371	70,391	94,472	45,527	69,668	91,015	-2.5%	1.0%	3.8%
Gross Profit	34,468	55,413	74,189	35,766	54,555	71,973	-3.6%	1.6%	3.1%
Operating Profit	(9,274)	3,081	14,394	(7,865)	439	10,226	NA	601.1%	40.8%
Net profit	(4,831)	9,059	18,711	(2,875)	6,062	17,147	NA	49.4%	9.1%
EPS (RMB)	(4.11)	7.64	15.62	(2.12)	4.80	14.41	NA	59.2%	8.4%
Gross Margin	77.7%	78.7%	78.5%	78.6%	78.3%	79.1%	-0.9ppt	+0.4ppts	-0.5ppts
Operating Margin	-20.9%	4.4%	15.2%	-17.3%	0.6%	11.2%	-3.6ppts	+3.7ppts	+4.0ppts
Net Margin	-10.9%	12.9%	19.8%	-6.3%	8.7%	18.8%	-4.6ppts	+4.2ppts	+1.0ppts

Source: Company data, Bloomberg

**Figure 3: 1Q20 review**

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	QoQ	YoY	Consensus	Diff %
Revenue	1,385	2,709	3,372	5,654	4,545	7,290	7,514	10,793	6,541	-39.4%	43.9%	4,969	32%
Operating profit	(253)	(6,636)	(1,269)	(2,641)	(2,121)	(1,490)	(2,792)	(2,135)	(4,397)	NA	NA	(3,454)	NA
Net profit	(282)	(6,494)	(1,098)	(2,424)	(1,878)	(1,003)	(2,335)	(1,752)	(4,199)	NA	NA	(3,241)	NA
Adj. net profit	(268)	(673)	(619)	(1,896)	(1,379)	(411)	(1,660)	(815)	(3,170)	NA	NA	(2,670)	NA
Adj. EPS (RMB)	(0.60)	(1.40)	(0.68)	(1.72)	(1.20)	(0.36)	(1.44)	(0.72)	(2.73)	NA	NA	(2.03)	NA
<b>Margin (%)</b>													
Gross margin	77.0%	85.7%	77.0%	74.9%	80.9%	78.2%	75.6%	81.1%				73.7%	
Operating margin	18.4%	-245.0%	-37.6%	-46.7%	-46.7%	-20.4%	-37.2%	-19.8%	-67.2%			-69.5%	
Adj. net margin	-19.3%	-24.9%	-18.4%	-33.5%	-30.3%	-5.6%	-22.1%	-7.6%	-48.5%			-53.7%	
<b>Growth (%)</b>													
Revenue (YoY)	3640.3%	2489.5%	697.2%	379.4%	228.3%	169.1%	122.8%	90.9%	43.9%			9.3%	
Revenue (QoQ)	17.4%	95.7%	24.5%	67.7%	-19.6%	60.4%	3.1%	43.6%	-39.4%			-54.0%	
Operating profit	17.2%	5306.8%	441.6%	11531.9%	737.7%	-77.5%	119.9%	-19.1%	107.4%			62.9%	
Adj. net profit	262.9%	531.2%	183.9%	-7319.9%	414.8%	-38.9%	168.2%	-57.0%	129.8%			93.6%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 4: 1Q20 revenue breakdown**

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	QoQ	YoY
<b>Total revenue</b>	<b>3,249</b>	<b>3,773</b>	<b>4,100</b>	<b>4,641</b>	<b>4,545</b>	<b>7,290</b>	<b>7,514</b>	<b>10,793</b>	<b>6,541</b>	<b>-39.4%</b>	<b>43.9%</b>
Online marketing	1,115	2,371	2,974	5,062	3,948	6,467	6,711	9,687	5,492	-43.3%	39.1%
Transaction services	270	338	398	592	597	823	802	1,106	1,049	-5.2%	75.7%
Merchant Sales	0	0	0	0	0	0	0	0	0	NA	NA

Source: Company data

Figure 5: DCF valuation

DCF valuation (RMB mn)										
	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
EBIT	(9,274)	3,081	14,394	25,910	42,492	64,248	90,564	120,240	151,760	183,587
Tax	0	(770)	(3,599)	(6,477)	(10,623)	(16,062)	(22,641)	(30,060)	(37,940)	(45,897)
D&A	665	699	734	770	809	849	892	936	983	1,032
Working capital	9,316	9,781	10,271	10,784	11,323	11,889	12,484	13,108	13,763	14,452
CAPEX	(92)	(147)	(197)	(236)	(283)	(340)	(408)	(490)	(588)	(705)
FCF	614	12,644	21,603	30,751	43,718	60,585	80,891	103,735	127,979	152,469
FCF Growth		1958%	71%	42%	42%	39%	34%	28%	23%	19%
Terminal Value										1,396,185
PV (FCF+ Terminal Value)	538	9,687	14,487	18,049	22,460	27,244	31,839	35,738	38,592	408,760

Assumptions	
WACC	14.2%
Tax rate	25.0%
Risk free rate	3.6%
Cost of debt	0.0%
Beta	1.30
Market risk return	11.8%
Cost of equity	14.2%
Debt/Assets	0.0%
Terminal growth rate	3.0%
Debt value	0

		WACC					
			12%	13%	14%	15%	16%
Growth	1.5%		96.2	84.5	72.7	66.8	60.1
	2.0%		99.4	86.9	74.5	68.3	61.3
	2.5%		103.0	89.7	76.5	70.0	62.6
	3.0%		107.0	92.6	78.6	71.8	64.0
	3.5%		111.4	95.9	81.0	73.7	65.5
	4.0%		116.4	99.6	83.6	75.8	67.2
	4.5%		122.0	103.7	86.4	78.1	69.0

Equity Value	
PV	607,395
minus: Net cash	(29,427)
minus: Minority Interest	0
Equity Value	636,822
Shares (mn)	4,627
Target Price (US\$) based on DCF	78.6

Source: Company data, Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	13,120	30,142	44,371	70,391	94,472
Online marketing	11,522	26,814	39,584	63,338	85,549
Transaction	1,598	3,328	4,786	7,052	8,923
Merchant Sales	-	-	-	-	-
<b>COGS</b>	(2,905)	(6,339)	(9,903)	(14,977)	(20,283)
<b>Gross profit</b>	10,215	23,803	34,468	55,413	74,189
S&M	(13,442)	(27,174)	(36,334)	(41,074)	(45,609)
Admin. Exp.	(6,457)	(1,297)	(1,610)	(2,301)	(3,108)
R&D	(1,116)	(3,870)	(5,798)	(8,957)	(11,079)
Others	-	-	-	-	-
<b>Operating profit</b>	(10,800)	(8,538)	(9,274)	3,081	14,394
Financial Cost	585	1,396	1,781	2,487	2,895
Associates	(2)	146	-	-	-
<b>Pre-tax Income</b>	(10,217)	(6,996)	(7,493)	5,569	17,289
Income Tax	-	-	-	(29)	(3,302)
Convertible preferred shares	(80)	-	-	-	-
<b>Net profit</b>	(10,298)	(6,996)	(7,493)	5,539	13,987
<b>Adj. net profit</b>	(3,456)	(4,439)	(4,831)	9,059	18,711

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net income</b>	(10,217)	(6,996)	(7,493)	5,539	13,987
D&A	497	641	665	699	741
Change in WC	10,725	11,826	9,316	10,989	10,182
Others	6,763	2,558	2,662	3,520	4,724
<b>Operating CF</b>	7,768	8,029	5,150	20,746	29,635
Capex	(27)	(63)	(92)	(147)	(197)
Associates	160	-	-	-	-
Others	(7,681)	(3,014)	(2,662)	(3,168)	(3,779)
<b>Investing CF</b>	(7,549)	(3,077)	(2,755)	(3,314)	(3,976)
Equity raised	17,705	7,919	-	-	-
Change of Debts	(4)	-	-	-	-
Others	(356)	-	-	-	-
<b>Financing CF</b>	17,344	7,919	-	-	-
<b>Net change in cash</b>	18,111	12,871	2,396	17,432	25,659
Cash (beg of yr)	12,429	30,540	43,411	45,806	63,239
FX	547	-	-	-	-
<b>Cash (end of yr)</b>	30,540	43,411	45,806	63,239	88,898

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	2,791	5,044	7,133	9,748	12,983
Fixed asset	29	69	114	180	254
Associates	-	-	-	-	-
Intangible assets	2,579	4,975	7,019	9,568	12,728
Others	183	-	-	-	-
<b>Current assets</b>	40,391	56,795	61,058	80,838	108,634
Cash	14,160	27,031	29,427	46,859	72,518
Restricted cash	16,379	16,379	16,379	16,379	16,379
Account receivable	248	528	811	1,122	1,420
Others	9,604	12,856	14,441	16,477	18,317
<b>Current liabilities</b>	24,359	45,768	50,718	64,055	76,375
Amounts due to related parties	478	1,503	988	1,494	2,024
Customer advances	191	268	396	633	855
Payable to merchants	17,276	25,165	30,880	38,467	45,968
Accrued expenses	2,226	5,418	7,647	9,568	11,303
Merchant deposits	4,188	13,413	10,808	13,891	16,224
<b>Non-current liabilities</b>	-	5,643	5,643	5,643	5,643
Convertible bonds	-	5,207	5,207	5,207	5,207
Others	-	436	436	436	436
MI	-	-	-	-	-
Total Equity	18,823	10,428	11,830	20,889	39,599
<b>Shareholders' equity</b>	18,823	22,303	17,473	26,531	45,242

Source: Company data, CMBIS estimates

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Online marketing	87.8	89.0	89.2	90.0	90.6
Transaction services	12.2	11.0	10.8	10.0	9.4
Merchant Sales	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	652.3	129.7	47.2	58.6	34.2
Gross profit	900.2	133.0	44.8	60.8	33.9
EBIT	NA	NA	NA	NA	NA
Net profit	NA	NA	NA	(287.5)	106.5
<b>P&amp;L ratios (%)</b>					
Operating margin	(82.3)	(28.3)	(20.9)	4.4	15.2
Pre-tax margin	(77.9)	(23.2)	(16.9)	7.9	18.3
Net margin	(26.3)	(14.7)	(10.9)	12.9	19.8
Effective tax rate	-	-	-	(0.0)	(3.5)
<b>Returns (%)</b>					
ROE	(54.3)	(31.4)	(42.9)	21.0	38.2
ROA	(12.2)	(8.5)	(7.4)	11.4	17.6
<b>Per share</b>					
EPS (RMB)	(4.64)	(3.84)	(4.11)	7.64	15.62
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	10.67	7.51	3.78	5.65	9.54

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