

# Pinduoduo (PDD US)

## Upbeat 3Q20 with first quarterly profit

PDD delivered eye-catching 3Q20 results, with revenue +89% YoY (16% above consensus) and adj. net profit at +RMB466mn (vs. consensus at -RMB1,308mn). We are surprised to see that PDD achieved first quarterly profit, earlier than market expectation. We reiterate our confidence on its secular growth, driven by stronger user engagement, ROI-driven marketing, agricultural products potential and new initiatives (e.g. Duo Duo Mai Cai). We lifted its topline by 11%/10%/9% in FY21/22/23E for better GMV outlook, with higher DCF-based TP of US\$160.

- 3Q20 all-around beat, with first quarterly profit since IPO.** 3Q20 revenue surged 89% YoY, 16% above consensus. LTM GMV +73% YoY (quarter GMV +76%) was significantly above buy-side expectation (55%-60%), mainly on stronger ARPU growth. Non-GAAP net profit came in at +RMB466mn (vs. consensus at -RMB1,308mn), mainly due to higher GPM and lower S&M. S&M/Rev ratio continued to decrease to -70% in 3Q20 (vs. -75% in 2Q20, better than our estimate of -80%). Mgmt. reiterate its priority on topline growth and investment on DDMC(多多买菜), rather than targeting profit each quarter.
- Stepping-up fruits from stronger user engagement.** 3Q20 revenue grew 89% YoY, driven by ramp-up of active buyers (731 mn, +36% YoY) and higher ARPU (RMB1,993, +7% QoQ). PDD prioritizes user engagement and offerings categories expansion this year, and it began to see stepping-up fruits from higher purchase frequency and ARPU. Looking ahead, we see high visibility for PDD to continuously gain share with higher time spent, merchants livestreaming (20% usage), enhanced supply structure and DDMC initiatives.
- DDMC to bring further upside.** After launch in Aug, DDMC gained tractions with rising penetration and time spent. Looking ahead, PDD would strategically invest in infrastructure and logistics to build its next-day fulfillment capability, and then enhance cold chain logistics and algorithmic recommendation. We are bullish on fresh food group-buying industry potential, and we believe PDD is well positioned to capture the tailwinds by leveraging its agricultural products advantage, sizable user coverage and natural synergies with PDD portal.
- Maintain BUY.** We raised its revenue by 11%/10%/9% in FY21/22/23E, and adjusted earnings to -RMB 4.7bn/ +RMB4.9bn/ +RMB14.0bn. Our new DCF-based TP is revised from US\$96 to US\$160 (17x/13x FY21/22E P/S).

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	13,120	30,142	49,848	77,677	104,430
YoY growth (%)	652	130	65	56	34
Adj.net profit (RMB mn)	(3,456)	(4,439)	(4,694)	4,865	13,999
Adj. EPS (RMB)	(4.64)	(3.84)	(4.00)	4.06	11.46
YoY growth (%)	NA	NA	NA	NA	182
Consensus EPS (RMB)	NA	NA	(4.42)	1.96	10.44
P/E (x)	NA	NA	NA	234	82
P/S (x)	87.8	38.2	23.1	14.8	11.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(54.3)	(31.4)	(43.6)	4.4	29.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	US\$160
(Previous TP)	US\$96)
Up/Downside	+19%
Current Price	US\$135

### China Internet Sector

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

### Stock Data

Mkt Cap (US\$ mn)	164,463
Avg 3 mths t/o (US\$ mn)	673.79
52w High/Low (US\$)	117/30
Total Issued Shares (mn)	845

Source: Bloomberg

### Shareholding Structure

Baillie Gifford	3.05%
FMR LLC	2.43%
Goldman Sachs	1.69%

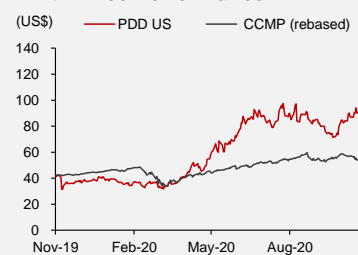
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	29.6%	29.9%
3-mth	17.8%	11.8%
6-mth	88.8%	49.1%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Ernst & Young

### Related Reports

- Secular growth intact despite mixed 2Q20 – 24 Aug 2020
- More bullish on topline growth – 25 May 2020
- A mixed quarter; Waiting for ecommerce recovery – 12 Mar 2020

**Figure 1: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	49,848	77,677	104,430	44,727	70,730	95,620	11.4%	9.8%	9.2%
Gross Profit	39,096	60,813	81,595	34,765	55,693	75,141	12.5%	9.2%	8.6%
Operating Profit	(9,466)	(1,506)	7,667	(9,771)	(1,131)	7,386	NA	33.2%	3.8%
Adj. net profit	(4,694)	4,865	13,999	(5,306)	4,893	13,474	NA	-0.6%	3.9%
Adj. EPS (RMB)	(4.00)	4.06	11.46	(4.52)	4.09	11.03	NA	-0.6%	3.9%
Gross Margin	78.4%	78.3%	78.1%	77.7%	78.7%	78.6%	+0.7ppts	-0.5ppts	-0.4ppts
Operating Margin	-19.0%	-1.9%	7.3%	-21.8%	-1.6%	7.7%	+2.9ppts	-0.3ppts	-0.4ppts
Adj. Net Margin	-9.4%	6.3%	13.4%	-11.9%	6.9%	14.1%	+2.4ppts	-0.7ppts	-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	49,848	77,677	104,430	48,954	75,505	101,821	1.8%	2.9%	2.6%
Gross Profit	39,096	60,813	81,595	37,861	59,728	81,396	3.3%	1.8%	0.2%
Operating Profit	(9,466)	(1,506)	7,667	(10,111)	(2,883)	9,561	NA	-47.8%	-19.8%
Adj. net profit	(4,694)	4,865	13,999	(4,824)	2,563	12,691	NA	89.9%	10.3%
Adj. EPS (RMB)	(4.00)	4.06	11.46	(4.42)	1.96	10.44	NA	107.6%	9.7%
Gross Margin	78.4%	78.3%	78.1%	77.3%	79.1%	79.9%	+1.1ppts	-0.8ppts	-1.8ppts
Operating Margin	-19.0%	-1.9%	7.3%	-20.7%	-3.8%	9.4%	+1.7ppts	+1.9ppts	-2.0ppts
Adj. Net Margin	-9.4%	6.3%	13.4%	-9.9%	3.4%	12.5%	+0.4ppts	+2.9ppts	+0.9ppts

Source: Company data, Bloomberg

**Figure 3: 3Q20 review**

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY	Consensus	Diff %
Revenue	4,545	7,290	7,514	10,793	6,541	12,193	14,210	16.5%	89.1%	12,205	16%
Operating profit	(2,121)	(1,490)	(2,792)	(2,135)	(4,397)	(1,640)	(1,296)	NA	NA	(2,593)	NA
Net profit	(1,878)	(1,003)	(2,335)	(1,752)	(4,199)	(899)	(785)	NA	NA	(2,066)	NA
Adj. net profit	(1,379)	(411)	(1,660)	(815)	(3,170)	(77)	466	NA	NA	(1,308)	NA
Adj. EPS (RMB)	(1.20)	(0.36)	(1.44)	(0.72)	(2.73)	(0.06)	0.33	NA	NA	(1.14)	NA
<b>Margin (%)</b>											
Gross margin	80.9%	78.2%	75.6%	81.1%	72.0%	78.2%	77.1%			76.2%	
Operating margin	-46.7%	-20.4%	-37.2%	-19.8%	-67.2%	-13.4%	-9.1%			-21.2%	
Adj. net margin	-30.3%	-5.6%	-22.1%	-7.6%	-48.5%	-0.6%	3.3%			-10.7%	
<b>Growth (%)</b>											
Revenue (YoY)	228.3%	169.1%	122.8%	90.9%	43.9%	67.3%	89.1%			62.4%	
Revenue (QoQ)	-19.6%	60.4%	3.1%	43.6%	-39.4%	86.4%	16.5%			0.1%	
Operating profit	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg

**Figure 4: 3Q20 revenue breakdown**

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
<b>Total revenue</b>	<b>4,545</b>	<b>7,290</b>	<b>7,514</b>	<b>10,793</b>	<b>6,541</b>	<b>12,193</b>	<b>14,210</b>	<b>16.5%</b>	<b>89.1%</b>
Online marketing	3,948	6,467	6,711	9,687	5,492	11,055	12,878	16.5%	91.9%
Transaction services	597	823	802	1,106	1,049	1,139	1,332	17.0%	66.0%
Merchant Sales	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
Tax	0	377	(1,917)	(4,724)	(10,258)	(19,872)	(34,773)	(55,632)	(82,329)	(113,935)
D&A	667	701	736	772	811	852	894	939	986	1,035
Working capital	12,907	13,552	14,230	14,941	15,688	16,473	17,296	18,161	19,069	20,023
CAPEX	(104)	(162)	(218)	(261)	(313)	(376)	(451)	(541)	(650)	(779)
<b>FCF</b>	<b>4,004</b>	<b>12,961</b>	<b>20,498</b>	<b>29,623</b>	<b>46,959</b>	<b>76,565</b>	<b>122,058</b>	<b>185,454</b>	<b>266,391</b>	<b>362,084</b>
FCF Growth		224%	58%	45%	59%	63%	59%	52%	44%	36%
Terminal Value										3,315,674
<b>PV (FCF+ Terminal Value)</b>	<b>3,505</b>	<b>9,930</b>	<b>13,746</b>	<b>17,388</b>	<b>24,126</b>	<b>34,430</b>	<b>48,043</b>	<b>63,892</b>	<b>80,331</b>	<b>970,727</b>

**Assumptions**

<b>WACC</b>	<b>14.2%</b>
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%
<b>Terminal growth rate</b>	<b>3.0%</b>
<b>Debt value</b>	<b>0</b>

**Equity Value**

<b>PV</b>	<b>1,266,117</b>
minus: Net cash	(32,817)
minus: Minority Interest	0
Equity Value	1,298,934
Shares (mn)	4,627
<b>Target Price (US\$) based on DCF</b>	<b>160.4</b>

		WACC				
		12%	13%	14%	15%	16%
Growth	1.5%	199.5	172.9	146.3	133.1	118.0
	2.0%	207.2	178.7	150.6	136.7	120.9
	2.5%	215.7	185.2	155.3	140.6	124.0
	3.0%	225.1	192.3	<b>160.4</b>	144.9	127.4
	3.5%	235.6	200.1	166.0	149.5	131.0
	4.0%	247.5	208.8	172.1	154.5	134.9
	4.5%	260.9	218.5	178.9	160.0	139.2

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	49,848	77,677	104,430
Online marketing	11,522	26,814	44,353	70,124	94,841
Transaction	1,598	3,328	5,495	7,553	9,589
Merchant Sales	-	-	-	-	-
<b>COGS</b>	(2,905)	(6,339)	(10,752)	(16,864)	(22,834)
<b>Gross profit</b>	10,215	23,803	39,096	60,813	81,595
S&M	(13,442)	(27,174)	(40,281)	(49,949)	(58,726)
Admin.Exp.	(6,457)	(1,297)	(1,767)	(2,486)	(2,957)
R&D	(1,116)	(3,870)	(6,514)	(9,885)	(12,246)
Others	-	-	-	-	-
<b>Operating profit</b>	(10,800)	(8,538)	(9,466)	(1,506)	7,667
Financial Cost	585	1,396	1,781	2,487	2,895
Associates	(2)	146	-	-	-
<b>Pre-tax Income</b>	(10,217)	(6,996)	(7,685)	981	10,561
Income Tax	-	-	-	-	(1,784)
Convertible preferred shares	(80)	-	-	-	-
<b>Net profit</b>	(10,298)	(6,996)	(7,685)	981	8,778
<b>Adj. net profit</b>	(3,456)	(4,439)	(4,694)	4,865	13,999

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net income</b>	(10,217)	(6,996)	(7,685)	981	8,778
D&A	497	641	667	706	754
Change in WC	10,725	11,826	12,907	12,090	11,492
Others	6,763	2,558	2,991	3,884	5,221
<b>Operating CF</b>	7,768	8,029	8,880	17,661	26,245
Capex	(27)	(63)	(104)	(162)	(218)
Associates	160	-	-	-	-
Others	(7,681)	(3,014)	(2,991)	(3,495)	(4,177)
<b>Investing CF</b>	(7,549)	(3,077)	(3,095)	(3,657)	(4,395)
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	5,786	14,003	21,850
Cash (beg of yr)	12,429	30,540	43,411	49,196	63,200
FX	547	-	-	-	-
<b>Cash (end of yr)</b>	30,540	43,411	49,196	63,200	85,050

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	2,791	5,044	7,471	10,423	14,064
Fixed asset	29	69	124	199	281
Associates	-	-	-	-	-
Intangible assets	2,579	4,975	7,347	10,224	13,783
Others	183	-	-	-	-
<b>Current assets</b>	40,391	56,795	65,058	81,806	106,202
Cash	14,160	27,031	32,817	46,820	68,670
Restricted cash	16,379	16,379	16,379	16,379	16,379
Account receivable	248	528	874	1,202	1,526
Others	9,604	12,856	14,988	17,405	19,627
<b>Current liabilities</b>	24,359	45,768	54,921	69,755	83,793
Amounts due to related parties	478	1,503	1,072	1,683	2,279
Customer advances	191	268	444	701	948
Payable to merchants	17,276	25,165	33,301	41,199	49,399
Accrued expenses	2,226	5,418	8,448	11,295	13,731
Merchant deposits	4,188	13,413	11,655	14,877	17,435
<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	-	-	-	-	-
<b>Total Equity</b>	18,823	10,428	11,967	16,832	30,831
<b>Shareholders' equity</b>	18,823	22,303	17,609	22,475	36,474

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	89.0	90.3	90.8
Transaction services	12.2	11.0	11.0	9.7	9.2
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	65.4	55.8	34.4
Gross profit	900.2	133.0	64.2	55.5	34.2
EBIT	NA	NA	NA	NA	NA
Net profit	NA	NA	NA	NA	187.7
<b>P&amp;L ratios (%)</b>					
Operating margin	(82.3)	(28.3)	(19.0)	(1.9)	7.3
Pre-tax margin	(77.9)	(23.2)	(15.4)	1.3	10.1
Adj. net margin	(26.3)	(14.7)	(9.4)	6.3	13.4
Effective tax rate	-	-	-	-	(1.7)
<b>Returns (%)</b>					
ROE	(54.3)	(31.4)	(43.6)	4.4	29.0
ROA	(12.2)	(8.5)	(7.0)	5.9	13.2
<b>Per share</b>					
Adj. EPS (RMB)	(4.64)	(3.84)	(4.00)	4.06	11.46
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	10.67	7.51	3.81	4.79	7.61

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

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

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

### For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

### For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

### For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.