

Pinduoduo (PDD US)

Secular growth intact despite mixed 2Q20

Pinduoduo delivered mixed 2Q20 results, with in-line revenue, upbeat margin but slower GMV (for high base and flat ARPU). Given high buy-side expectation, stock price might see short term pressure. However, we keep positive on its secular growth, and expect agricultural products to be its long-term driver. We slightly lifted its adj. net profit by 2%/3% in FY21/22E for its improving margin, with higher DCF-based TP of US\$96.

- Mixed 2Q20 with slower GMV growth.** 2Q20 revenue grew 67% YoY, in line with consensus. LTM GMV +79% YoY (quarter GMV +48%) was slightly slower than buy-side expectation (~85%), mainly on high base and soft ARPU. Non-GAAP net loss at -RMB77mn (vs. consensus at -RMB1,517mn; our estimate at -RMB720mn), mainly on higher GPM and lower S&M. Non GAAP OPM was -5.9%, with S&M/Rev ratio at -75% (better than our estimate).
- Prioritizing growth than profitability.** 2Q20 revenue growth was driven by ramp-up of active buyers (683mn, + 41% YoY) and upbeat take rate (3.19%, vs. 1.8% in 1Q20). ARPU came in at RMB1,857, up 27% YoY but 1% QoQ, slightly below our expectation, mainly on dilution from net adds. However, we keep positive on its long-term ARPU upside, backed by rising purchase frequency and enhanced offerings. Moreover, we keep positive on its take rate upside, for: 1) better targeting with enhanced algorithm; and 2) live streaming initiatives (20% usage for merchants). By category, agricultural products would be its primary focus for still low online penetration rate (7%), and mgmt. reiterated its target at RMB1tn GMV of agricultural products in five years. 2Q20 margin beat on lighter-than-expected S&M. But mgmt. restated its priority on topline growth rather than profitability, thus we expect fluctuating net loss in 2H20E.
- Maintain BUY.** Stock price might see short-term pressure given high market expectation, but we keep positive on its long term momentum, driven by its ASP upside and enhanced monetization. We raised its revenue by 1%/1% in FY21/22E, and adjusted earnings to -RMB 5.3bn/ +RMB4.9bn/ +RMB13.8bn. Our new DCF-based TP is revised from US\$79 to US\$96 (11x FY21E P/S). Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	13,120	30,142	44,727	70,730	95,620
YoY growth (%)	652	130	48	58	35
Adj.net profit (RMB mn)	(3,456)	(4,439)	(5,306)	4,893	13,474
Adj. EPS (RMB)	(4.64)	(3.84)	(4.52)	4.09	11.03
YoY growth (%)	NA	NA	NA	NA	170
Consensus EPS (RMB)	NA	NA	(4.86)	3.10	10.59
P/E (x)	NA	NA	NA	143	53
P/S (x)	54.0	23.5	15.8	10.0	7.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(54.3)	(31.4)	(47.0)	6.2	29.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$96
(Previous TP)	US\$79)
Up/Downside	+15%
Current Price	US\$84

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	124,911
Avg 3 mths t/o (US\$ mn)	733.8
52w High/Low (US\$)	99/25
Total Issued Shares (mn)	845

Source: Bloomberg

Shareholding Structure

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

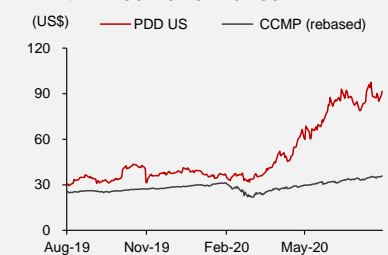
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	11.1%	4.0%
3-mth	37.8%	13.5%
6-mth	151.3%	118.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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Figure 1: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	44,727	70,730	95,620	44,371	70,391	94,472	0.8%	0.5%	1.2%
Gross Profit	34,765	55,693	75,141	34,468	55,413	74,189	0.9%	0.5%	1.3%
Operating Profit	(9,771)	(1,131)	7,386	(9,274)	(1,232)	6,909	NA	-8.2%	6.9%
Adj. net profit	(5,306)	4,893	13,474	(5,555)	4,801	13,098	NA	1.9%	2.9%
Adj. EPS (RMB)	(4.52)	4.09	11.03	(4.11)	4.05	10.94	NA	0.9%	0.9%
Gross Margin	77.7%	78.7%	78.6%	77.7%	78.7%	78.5%	+0.0ppts	+0.0ppts	+0.1ppts
Operating Margin	-21.8%	-1.6%	7.7%	-20.9%	-1.8%	7.3%	-0.9ppts	+0.2ppts	+0.4ppts
Adj. Net Margin	-11.9%	6.9%	14.1%	-12.5%	6.8%	13.9%	+0.7ppts	+0.1ppts	+0.2ppts

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	44,727	70,730	95,620	49,108	77,858	102,633	-8.9%	-9.2%	-6.8%
Gross Profit	34,765	55,693	75,141	37,869	61,469	81,736	-8.2%	-9.4%	-8.1%
Operating Profit	(9,771)	(1,131)	7,386	(11,838)	(2,936)	4,756	NA	-61.5%	55.3%
Adj. net profit	(5,306)	4,893	13,474	(5,791)	4,938	14,187	NA	-0.9%	-5.0%
Adj. EPS (RMB)	(4.52)	4.09	11.03	(4.86)	3.10	10.59	NA	31.9%	4.2%
Gross Margin	77.7%	78.7%	78.6%	77.1%	79.0%	79.6%	+0.6ppt	-0.2ppts	-1.1ppts
Operating Margin	-21.8%	-1.6%	7.7%	-24.1%	-3.8%	4.6%	+2.3ppts	+2.2ppts	+3.1ppts
Adj. Net Margin	-11.9%	6.9%	14.1%	-11.8%	6.3%	13.8%	-0.1ppts	+0.6ppts	+0.3ppts

Source: Company data, Bloomberg

Figure 3: 2Q20 review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY	Consensus	Diff %
Revenue	4,545	7,290	7,514	10,793	6,541	12,193	86.4%	67.3%	12,152	0%
Operating profit	(2,121)	(1,490)	(2,792)	(2,135)	(4,397)	(1,640)	NA	NA	(2,637)	NA
Net profit	(1,878)	(1,003)	(2,335)	(1,752)	(4,199)	(899)	NA	NA	(2,450)	NA
Adj. net profit	(1,379)	(411)	(1,660)	(815)	(3,170)	(77)	NA	NA	(1,517)	NA
Adj. EPS (RMB)	(1.20)	(0.36)	(1.44)	(0.72)	(2.73)	(0.06)	NA	NA	(1.45)	NA
Margin (%)										
Gross margin	80.9%	78.2%	75.6%	81.1%	72.0%	78.2%			76.9%	
Operating margin	-46.7%	-20.4%	-37.2%	-19.8%	-67.2%	-13.4%			-21.7%	
Adj. net margin	-30.3%	-5.6%	-22.1%	-7.6%	-48.5%	-0.6%			-12.5%	
Growth (%)										
Revenue (YoY)	228.3%	169.1%	122.8%	90.9%	43.9%	67.3%			66.7%	
Revenue (QoQ)	-19.6%	60.4%	3.1%	43.6%	-39.4%	86.4%			85.8%	
Operating profit	737.7%	-77.5%	119.9%	-19.1%	107.4%	10.0%			NA	
Adj. net profit	414.8%	-38.9%	168.2%	-57.0%	129.8%	-81.2%			NA	

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 2Q20 revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
Total revenue	4,545	7,290	7,514	10,793	6,541	12,193	86.4%	67.3%
Online marketing	3,948	6,467	6,711	9,687	5,492	11,055	101.3%	70.9%
Transaction services	597	823	802	1,106	1,049	1,139	8.6%	38.4%
Merchant Sales	0	0	0	0	0	0	NA	NA

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	13,120	30,142	44,727	70,730	95,620
Online marketing	11,522	26,814	39,833	63,644	86,589
Transaction	1,598	3,328	4,894	7,086	9,032
Merchant Sales	-	-	-	-	-
COGS	(2,905)	(6,339)	(9,963)	(15,037)	(20,480)
Gross profit	10,215	23,803	34,765	55,693	75,141
S&M	(13,442)	(27,174)	(37,070)	(45,514)	(53,807)
Admin.Exp.	(6,457)	(1,297)	(1,620)	(2,309)	(2,734)
R&D	(1,116)	(3,870)	(5,845)	(9,001)	(11,213)
Others	-	-	-	-	-
Operating profit	(10,800)	(8,538)	(9,771)	(1,131)	7,386
Financial Cost	585	1,396	1,781	2,487	2,895
Associates	(2)	146	-	-	-
Pre-tax Income	(10,217)	(6,996)	(7,990)	1,356	10,281
Income Tax	-	-	-	-	(1,588)
Convertible preferred shares	(80)	-	-	-	-
Net profit	(10,298)	(6,996)	(7,990)	1,356	8,693
Adj. net profit	(3,456)	(4,439)	(5,306)	4,893	13,474

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	(10,217)	(6,996)	(7,990)	1,356	8,693
D&A	497	641	666	700	742
Change in WC	10,725	11,826	9,636	11,306	10,947
Others	6,763	2,558	2,684	3,537	4,781
Operating CF	7,768	8,029	4,996	16,899	25,163
Capex	(27)	(63)	(93)	(147)	(199)
Associates	160	-	-	-	-
Others	(7,681)	(3,014)	(2,684)	(3,183)	(3,825)
Investing CF	(7,549)	(3,077)	(2,777)	(3,330)	(4,024)
Equity raised	17,705	7,919	-	-	-
Change of Debts	(4)	-	-	-	-
Others	(356)	-	-	-	-
Financing CF	17,344	7,919	-	-	-
Net change in cash	18,111	12,871	2,219	13,569	21,139
Cash (beg of yr)	12,429	30,540	43,411	45,630	59,199
FX	547	-	-	-	-
Cash (end of yr)	30,540	43,411	45,630	59,199	80,337

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	2,791	5,044	7,155	9,786	13,068
Fixed asset	29	69	115	181	257
Associates	-	-	-	-	-
Intangible assets	2,579	4,975	7,040	9,605	12,811
Others	183	-	-	-	-
Current assets	40,391	56,795	60,956	77,100	100,672
Cash	14,160	27,031	29,251	42,819	63,958
Restricted cash	16,379	16,379	16,379	16,379	16,379
Account receivable	248	528	816	1,127	1,437
Others	9,604	12,856	14,510	16,775	18,898
Current liabilities	24,359	45,768	51,114	64,996	78,375
Amounts due to related parties	478	1,503	994	1,500	2,044
Customer advances	191	268	398	636	866
Payable to merchants	17,276	25,165	31,074	38,653	46,527
Accrued expenses	2,226	5,418	7,772	10,249	12,518
Merchant deposits	4,188	13,413	10,876	13,958	16,421
Non-current liabilities	-	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	11,355	16,247	29,721
Shareholders' equity	18,823	22,303	16,997	21,890	35,364

Source: Company data, CMBIS estimates

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Online marketing	87.8	89.0	89.1	90.0	90.6
Transaction services	12.2	11.0	10.9	10.0	9.4
Merchant Sales	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	652.3	129.7	48.4	58.1	35.2
Gross profit	900.2	133.0	46.1	60.2	34.9
EBIT	NA	NA	NA	NA	NA
Net profit	NA	NA	NA	(192.2)	175.4
P&L ratios (%)					
Operating margin	(82.3)	(28.3)	(21.8)	(1.6)	7.7
Pre-tax margin	(77.9)	(23.2)	(17.9)	1.9	10.8
Net margin	(26.3)	(14.7)	(11.9)	6.9	14.1
Effective tax rate	-	-	-	-	(1.7)
Returns (%)					
ROE	(54.3)	(31.4)	(47.0)	6.2	29.1
ROA	(12.2)	(8.5)	(8.2)	6.3	13.4
Per share					
Adj. EPS (RMB)	(4.64)	(3.84)	(4.52)	4.09	11.03
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	10.67	7.51	3.67	4.66	7.38

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