

PDD Holdings (PDD US)

2Q earnings beat; investment opportunities arise with overreaction on softened outlook

PDD Holdings (PDD) announced (26 Aug) 2Q24 results: revenue was up 86% YoY (2Q23: 66%; 1Q24: 131%) to RMB97.1bn, 3% shy of Bloomberg consensus estimates. Both online marketing services and others and transaction services fees were 3% short of consensus, which in our view can be attributed to intensified industry competition, but should be partly anticipated. Non-GAAP net profit increased by 126% YoY to RMB34.4bn, 14% ahead of consensus. We believe this is due to a beat on gross margin aided by increase in revenue contribution from semi-entrusted business model of Temu, and more optimized than expected sales and marketing spending. In our view, management's softened outlook and reiteration of seemingly stingy shareholder return policy weighed on market sentiment and led to the slump in stock price. However, the solid earnings growth (66%/100% YoY growth in non-GAAP net profit in 2H24E/2024E) aided by the UE improvement of Temu business, as well as likely better-than-feared earnings growth on core domestic business (2023-26E OP CAGR of 15%) should support a recovery in market sentiment and valuation. Our SOTP based TP was trimmed to US\$187.9 (was US\$192.7), translating into 15x 2024E non-GAAP PE. Maintain BUY.

- **2Q results shy of consensus on topline, but impact from intensified competition should be controllable.** Online marketing services and others revenue rose by 29% YoY (2Q23: 50% YoY; 1Q24: 56% YoY) to RMB49.1bn in 2Q24, and transaction services revenue for 2Q24 grew by 234% YoY (2Q23: 131% YoY; 1Q24: 327% YoY) to RMB47.9bn. Revenue for both segments came in 3% shy of consensus, which in our view can be attributed to a slower-than-expected increase in monetization rate owing to proactive response to intensified competition amid macro headwinds. Management stated that they will reduce transaction fees for high quality merchants to enhance their ROI and drive the high-quality development of its platform ecosystem, which in our view may weigh on profitability to some extent. However, the impact should be controllable, in our view, given its focus on high quality merchants.
- **Bottom line again delivers a beat to consensus.** PDD's GPM expanded to 65.3% in 2Q24 (2Q23: 64.3%), and was 3.7ppt better than consensus. In our view, this was driven by the increase in revenue contribution from semi-entrusted business model of Temu, which improved UE. Aided by the beat in GPM, and more optimized S&M spending, PDD's overall OPM was 33.6% in 2Q24, 4.5ppt better than consensus. Although the intensified competition in domestic may cause PDD to upsize its scale of subsidy to "RMB Ten billion Subsidy" program, the impact should be controllable on a group level, given PDD's strong technology capability to provide subsidy in an efficient way, and optimization in S&M spending for Temu.
- **No change in shareholder return policy, although the market may have expected for it.** Management reiterated that they believe PDD is in the investment phase, and it faces competition and uncertainties from external factors which led to the decision of no share repurchase or dividend in the near term. Although this may have disappointed the market, the statement is consistent with management's previous remarks. Our fine-tuned per ADS TP of US\$187.9 consists of: 1) US\$148.1 for main app (based on unchanged 13x 24E PE; was US\$154.6); 2) US\$1.9 for Duoduo Grocery (unchanged); 3) US\$16.7 for Temu (based on unchanged 1.2x 24E PS, was US\$15.6); and 4) US\$21.3 for net cash (was US\$20.6).

BUY (Maintain)

Target Price US\$187.90
 (Previous TP) US\$192.70
Up/Downside 34.3%
Current Price US\$139.87

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	201,457.9
Avg 3 mths t/o (US\$ mn)	354.9
52w High/Low (US\$)	157.57/78.27
Total Issued Shares (mn)	1440.3

Source: FactSet

Shareholding Structure

Entities affiliated with Zheng Huang	27.9%
Entities affiliated with Tencent	15.5%

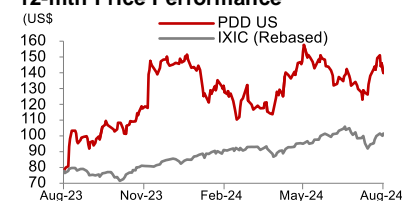
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	5.1%	5.8%
3-mth	-9.0%	-14.8%
6-mth	9.5%	-2.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	130,558	247,639	412,989	544,507	678,335
Net profit (RMB mn)	31,538.1	60,026.5	126,026.0	158,784.9	199,897.7
Adjusted net profit (RMB mn)	39,529.7	67,899.4	135,550.2	169,675.0	212,446.9
YoY growth (%)	185.8	71.8	99.6	25.2	25.2
EPS (Adjusted) (RMB)	27.45	46.51	92.85	116.22	145.52
Consensus EPS (RMB)	27.45	41.13	86.51	111.35	132.33
P/E (x)	40.0	22.5	10.7	8.5	6.8

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	2Q24E Consensus	Diff (%)
Online marketing services and others	27,244	37,933	39,688	48,676	42,456	49,116	50,496	-2.7%
YoY growth (%)	49.7%	50.4%	39.3%	56.9%	55.8%	29.5%		
Transaction services fees	10,393	14,348	29,153	40,205	44,356	47,944	49,490	-3.1%
YoY growth (%)	85.9%	130.8%	315.1%	357.1%	326.8%	234.2%		
Total revenue	37,637	52,281	68,840	88,881	86,812	97,060	99,985	-2.9%
YoY growth (%)	58.2%	66.3%	93.9%	123.2%	130.7%	85.7%		
Gross profit	26,512	33,591	42,010	53,803	54,117	63,361	61,536	3.0%
Operating profit	6,929	12,719	16,656	22,395	25,974	32,565	29,075	12.0%
Non-GAAP net profit	10,126	15,269	17,027	25,476	30,602	34,432	30,100	14.4%
GPM (%)	70.4%	64.3%	61.0%	60.5%	62.3%	65.3%	61.5%	3.7 ppt
OPM (%)	18.4%	24.3%	24.2%	25.2%	29.9%	33.6%	29.1%	4.5 ppt
Non-GAAP NPM (%)	26.9%	29.2%	24.7%	28.7%	35.3%	35.5%	30.1%	5.4 ppt

Source: Company data, CMBIGM estimates

Figure 2: PDD: forecast revision

RMB bn	Current			Consensus			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	413.0	544.5	678.3	419.9	551.9	678.9	-1.6%	-1.3%	-0.1%
Gross profit	260.6	344.0	429.6	260.1	344.2	427.3	0.2%	-0.1%	0.5%
Operating profit	134.1	182.6	233.3	121.9	170.0	222.0	10.0%	7.4%	5.1%
Non-GAAP net profit	135.6	169.7	212.4	125.0	163.2	206.4	8.5%	4.0%	2.9%
Gross margin	63.1%	63.2%	63.3%	61.9%	62.4%	62.9%	1.2 ppt	0.8 ppt	0.4 ppt
Operating margin	32.5%	33.5%	34.4%	29.0%	30.8%	32.7%	3.4 ppt	2.7 ppt	1.7 ppt
Non-GAAP net margin	32.8%	31.2%	31.3%	29.8%	29.6%	30.4%	3.1 ppt	1.6 ppt	0.9 ppt

Source: CMBIGM estimates

Risks

1) Slower-than-expected global business expansion; 2) geopolitical issues impacting business development; and 3) slower-than-expected margin expansion.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	93,950	130,558	247,639	412,989	544,507	678,335
Cost of goods sold	(31,718)	(31,462)	(91,724)	(152,339)	(200,461)	(248,721)
Gross profit	62,232	99,095	155,916	260,650	344,045	429,614
Operating expenses	(55,335)	(68,693)	(97,217)	(126,567)	(161,427)	(196,354)
Selling expense	(44,802)	(54,344)	(82,189)	(107,999)	(138,580)	(168,571)
Admin expense	(1,541)	(3,965)	(4,076)	(4,956)	(5,826)	(7,123)
R&D expense	(8,993)	(10,385)	(10,952)	(13,612)	(17,021)	(20,661)
Others	0	0	0	0	0	0
Operating profit	6,897	30,402	58,699	134,083	182,618	233,260
Interest income	3,062	3,997	10,238	11,947	15,401	16,565
Interest expense	(1,231)	(52)	(44)	0	0	0
Foreign exchange gain/loss	72	(150)	36	275	275	275
Others	656	2,221	2,953	2,375	2,375	2,375
Pre-tax profit	9,455	36,419	71,881	148,680	200,669	252,474
Income tax	(1,934)	(4,726)	(11,850)	(22,552)	(41,782)	(52,475)
Others	247	(155)	(5)	(102)	(102)	(102)
After tax profit	7,769	31,538	60,027	126,026	158,785	199,898
Minority interest	0	0	0	0	0	0
Net profit	7,769	31,538	60,027	126,026	158,785	199,898
Adjusted net profit	13,830	39,530	67,899	135,550	169,675	212,447

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	160,909	216,618	294,750	441,122	621,624	832,988
Cash & equivalents	6,427	34,326	59,794	200,740	376,925	583,897
Restricted cash	59,617	57,974	61,985	61,985	61,985	61,985
Account receivables	674	588	3,914	6,528	8,606	10,722
Prepayment	3,425	2,298	4,213	7,026	9,264	11,540
Other current assets	90,767	121,431	164,843	164,843	164,843	164,843
Non-current assets	20,301	20,502	53,328	58,968	59,439	59,965
PP&E	2,203	1,045	980	4,165	4,935	5,461
Right-of-use assets	939	1,416	4,105	4,105	4,105	4,105
Intangibles	701	134	21	2,477	2,177	2,177
Other non-current assets	16,457	17,907	48,222	48,222	48,222	48,222
Total assets	181,210	237,120	348,078	500,091	681,063	892,953
Current liabilities	93,730	116,889	152,901	165,101	176,399	175,842
Short-term borrowings	0	13,886	649	649	649	649
Account payables	62,510	63,317	74,997	74,170	77,614	77,407
Other current liabilities	16,707	18,124	20,262	26,693	31,154	35,094
Lease liabilities	427	602	1,642	1,642	1,642	1,642
Accrued expenses	14,086	20,961	55,351	61,948	65,341	61,050
Non-current liabilities	12,365	2,460	7,936	7,936	7,936	7,936
Convertible bonds	11,789	1,576	5,232	5,232	5,232	5,232
Other non-current liabilities	577	884	2,704	2,704	2,704	2,704
Total liabilities	106,095	119,349	160,837	173,037	184,335	183,777
Share capital	0	0	0	0	0	0
Capital surplus	95,341	99,255	107,399	107,399	107,399	107,399
Retained earnings	(17,707)	15,193	75,119	214,931	384,606	597,052
Other reserves	(2,520)	3,322	4,724	4,724	4,724	4,724
Total shareholders equity	75,115	117,771	187,242	327,054	496,729	709,175
Total equity and liabilities	181,210	237,120	348,078	500,091	681,063	892,953

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,455	36,419	71,881	148,680	200,669	252,474
Depreciation & amortization	1,495	2,224	4,082	6,906	9,330	10,327
Tax paid	(1,934)	(4,726)	(11,850)	(22,552)	(41,782)	(52,475)
Change in working capital	13,562	7,423	37,848	6,774	6,981	(4,949)
Others	6,204	7,167	(7,798)	9,397	10,788	12,447
Net cash from operations	28,783	48,508	94,163	149,205	185,987	217,825
Investing						
Capital expenditure	(3,287)	(636)	(4,953)	(8,260)	(9,801)	(10,853)
Acquisition of subsidiaries/ investments	(130,268)	(167,210)	(42,303)	0	0	0
Net proceeds from disposal of short-term investments	97,547	141,928	0	0	0	0
Others	445	3,556	(8,176)	0	0	0
Net cash from investing	(35,562)	(22,362)	(55,431)	(8,260)	(9,801)	(10,853)
Financing						
Net borrowings	(1,875)	0	0	0	0	0
Proceeds from share issues	0	0	8,144	(0)	0	0
Share repurchases	0	0	0	0	0	0
Others	0	10	(17,104)	0	0	0
Net cash from financing	(1,875)	10	(8,961)	(0)	0	0
Net change in cash						
Cash at the beginning of the year	74,844	66,044	92,300	59,794	200,740	376,925
Exchange difference	(145)	100	(291)	0	0	0
Others	0	0	61,985	0	0	0
Cash at the end of the year	66,044	92,300	183,765	200,740	376,925	583,897
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	57.9%	39.0%	89.7%	66.8%	31.8%	24.6%
Gross profit	54.8%	59.2%	57.3%	67.2%	32.0%	24.9%
Operating profit	na	340.8%	93.1%	128.4%	36.2%	27.7%
Net profit	na	306.0%	90.3%	110.0%	26.0%	25.9%
Adj. net profit	na	185.8%	71.8%	99.6%	25.2%	25.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	66.2%	75.9%	63.0%	63.1%	63.2%	63.3%
Operating margin	7.3%	23.3%	23.7%	32.5%	33.5%	34.4%
Adj. net profit margin	14.7%	30.3%	27.4%	32.8%	31.2%	31.3%
Return on equity (ROE)	11.5%	32.7%	39.4%	49.0%	38.6%	33.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.7	1.9	1.9	2.7	3.5	4.7
Receivable turnover days	2.7	1.8	3.3	4.6	5.1	5.2
Payable turnover days	(669.4)	(729.9)	(275.2)	(178.7)	(138.2)	(113.7)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	161.0	40.0	22.5	10.7	8.5	6.8
P/E (diluted)	104.4	36.4	21.5	10.8	8.6	6.9
P/B	16.7	10.7	7.2	4.1	2.7	1.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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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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