

Pinduoduo (PDD US)

A solid start

PDD delivered eye-catching 1Q21, with rev +239% YoY (12% above consensus) and non-GAAP net loss at RMB1.9bn (vs. consensus at -RMB3.0bn). We are surprised to see its narrower-than-expected loss even with such topline growth & CGB investment, much better than both buy-side and sell-side expectations. We expect PDD to benefit from Anti-trust law and commission plan on "RMB10bn Subsidies". Share price saw volatility due to regulation news on sales dumping. We think the market has overreacted, and we keep positive on PDD's secular growth, driven by stronger user engagement and DDMC initiatives. We lifted its rev by 8%/9%/11% in FY21/22/23E but kept TP unchanged at US\$175.

- **1Q21 all-round beat.** 1Q21 revenue +239% YoY, 12% above consensus. Excluding 1P biz, rev +161% YoY. PDD did not disclose GMV from this quarter. Non-GAAP net loss came in at RMB1.9bn, better than consensus at -RMB3.0bn, mainly on higher GPM and lower S&M. S&M/Rev ratio continued to decrease, at -59% in 1Q21 (vs. -60% of our estimate). Excluding 1P & DDMC, gross margin of 3P ecommerce remained stable, per mgmt.
- **Better topline outlook with higher ROI.** Mgmt emphasized value-for-money offerings and user engagement to boost secular growth. We expect its commission plan on "RMB10bn Subsidies" to increase online marketing rev, and improve merchant operations with higher barrier. Agricultural goods, however, would not be charged. Take rate would improve accordingly, backed by richer ads format, better targeting and merchant operation. Moreover, we expect PDD to benefit from increasing merchants under Anti-trust Law.
- **DDMC as natural extension of core ecommerce.** PDD aims to be the largest grocery in the long run, and would invest more in supply chain & fulfillment to further improve efficiency. Despite crowded race, we believe DDMC & Meituan Select have led the CGB market (as tier-1 players), by leveraging its advantage in traffic and supply chain. Compared with peers, PDD excelled itself with agricultural goods, sizable user traffic, high exposure in low-tier cities and natural synergies with PDD portal. Based on our cross-check, we think DDMC's 1Q21 margin might be better than Meituan, and supply chain & next-day fulfillment enhancement would be the key in the future.
- **Maintain BUY.** We raised its rev by 8%/9%/11% in FY21/22/23E to reflect better topline outlook, but keep our DCF-based TP unchanged at US\$175 (9x FY22E P/S).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	30,142	59,492	108,325	151,332	199,043
YoY growth (%)	130	97	82	40	32
Adj.net profit (RMB mn)	(4,266)	(2,965)	(9,125)	(3,945)	6,680
Adj. EPS (RMB)	(3.69)	(2.49)	(7.50)	(3.18)	5.28
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(3.13)	3.35	12.32
P/E (x)	NA	NA	NA	NA	155
P/S (x)	32.8	16.6	9.1	6.5	5.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(28.3)	(11.9)	55.1	37.9	11.7
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\$175)
Up/Downside	+39.1%
Current Price	US\$125

China Internet Sector

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

Miriam Lu
 852 3761 8728
 miriamlu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	163,441
Avg 3 mths t/o (US\$ mn)	1,054.93
52w High/Low (US\$)	212.6/ 59.6
Total Issued Shares (mn)	1,253

Source: Bloomberg

Shareholding Structure

Nanpeng Shen	15.35%
Baillie Gifford	2.14%
Tencent Holdings	1.50%

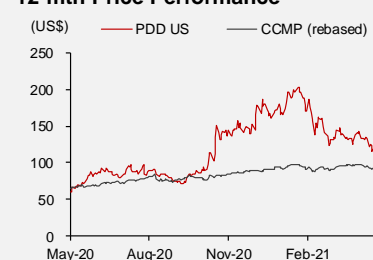
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-5.9%	-3.5%
3-mth	-27.3%	-27.6%
6-mth	-9.4%	-20.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. 2021 priority on agriculture & supply chain – 18 Mar 2021
2. Upbeat 3Q20 with first quarterly profit – 13 Nov 2020
3. Secular growth intact despite mixed 2Q20 – 24 Aug 2020

Figure 1: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	108,325	151,332	199,043	100,401	139,290	178,438	7.9%	8.6%	11.5%
Gross Profit	61,892	86,879	115,703	60,926	86,205	112,308	1.6%	0.8%	3.0%
Operating Profit	(17,421)	(14,863)	(7,554)	(17,166)	(14,464)	(7,198)	NA	NA	NA
Adj. net profit	(9,125)	(3,945)	6,680	(9,267)	(4,149)	6,057	NA	NA	10.3%
Adj. EPS (RMB)	(7.50)	(3.18)	5.28	(7.62)	(3.35)	4.79	NA	NA	10.3%
Gross Margin	57.1%	57.4%	58.1%	60.7%	61.9%	62.9%	-3.5ppts	-4.5ppts	-4.8ppts
Operating Margin	-16.1%	-9.8%	-3.8%	-17.1%	-10.4%	-4.0%	+1.0ppts	+0.6ppts	+0.2ppts
Adj. Net Margin	-8.4%	-2.6%	3.4%	-9.2%	-3.0%	3.4%	+0.8ppts	+0.4ppts	-0.0ppts

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	108,325	151,332	199,043	106,257	148,946	203,906	1.9%	1.6%	-2.4%
Gross Profit	61,892	86,879	115,703	60,982	86,165	115,266	1.5%	0.8%	0.4%
Operating Profit	(17,421)	(14,863)	(7,554)	(12,694)	(2,996)	15,230	NA	NA	NA
Adj. net profit	(9,125)	(3,945)	6,680	(3,583)	6,437	17,974	NA	NA	-62.8%
Adj. EPS (RMB)	(7.50)	(3.18)	5.28	(3.13)	3.35	12.32	NA	NA	-57.1%
Gross Margin	57.1%	57.4%	58.1%	57.4%	57.8%	56.5%	-0.3ppts	-0.4ppts	+1.6ppts
Operating Margin	-16.1%	-9.8%	-3.8%	-11.9%	-2.0%	7.5%	-4.1ppts	-7.8ppts	-11.3ppts
Adj. Net Margin	-8.4%	-2.6%	3.4%	-3.4%	4.3%	8.8%	-5.1ppts	-6.9ppts	-5.5ppts

Source: Company data, Bloomberg

Figure 3: 1Q21 review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY	Consensus	Diff %
Revenue	4,545	7,290	7,514	10,793	6,541	12,193	14,210	26,548	22,167	-16.5%	238.9%	19,714	12%
Operating profit	(2,121)	(1,490)	(2,792)	(2,135)	(4,397)	(1,640)	(1,296)	(2,048)	(4,147)	102.5%	-5.7%	(5,177)	NA
Net profit	(1,878)	(1,003)	(2,335)	(1,752)	(4,119)	(899)	(785)	(1,376)	(2,905)	111.1%	-29.5%	(4,176)	NA
Adj. net profit	(1,379)	(411)	(1,660)	(815)	(3,170)	(77)	466	(185)	(1,890)	924.4%	-40.4%	(2,971)	NA
Adj. EPS (RMB)	(1.20)	(0.36)	(1.44)	(0.72)	(2.73)	(0.06)	0.33	(0.15)	(1.52)	913.3%	-44.3%	(2.25)	NA
Margin (%)													
Gross margin	80.9%	78.2%	75.6%	81.1%	72.0%	78.2%	77.1%	56.6%	51.5%			49.7%	
Operating margin	-46.7%	-20.4%	-37.2%	-19.8%	-67.2%	-13.4%	-9.1%	-7.7%	-18.7%			-26.3%	
Adj. net margin	-30.3%	-5.6%	-22.1%	-7.6%	-48.5%	-0.6%	3.3%	-0.7%	-8.5%			-15.1%	
Growth (%)													
Revenue (YoY)	228.3%	169.1%	122.8%	90.9%	43.9%	67.3%	89.1%	146.0%	238.9%			201.4%	
Revenue (QoQ)	-19.6%	60.4%	3.1%	43.6%	-39.4%	86.4%	16.5%	86.8%	-16.5%			-25.7%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg

Figure 4: 1Q21 revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY
Total revenue	4,545	7,290	7,514	10,793	6,541	12,193	14,210	26,548	22,167	-16.5%	238.9%
Online marketing	3,948	6,467	6,711	9,687	5,492	11,055	12,878	18,922	14,111	-25.4%	156.9%
Transaction services	597	823	802	1,106	1,049	1,139	1,332	2,268	2,931	29.3%	179.5%
Merchant Sales	0	0	0	0	0	0	0	5,358	5,124	-4.4%	NA

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	30,142	59,492	108,325	151,332	199,043
Online marketing	26,814	47,954	75,535	107,518	143,530
Transaction	3,328	5,787	8,136	10,871	13,774
Merchant Sales	-	5,751	24,654	32,943	41,739
COGS	(6,339)	(19,279)	(46,433)	(64,453)	(83,340)
Gross profit	23,803	40,213	61,892	86,879	115,703
S&M	(27,174)	(41,195)	(66,803)	(84,911)	(101,491)
Admin.Exp.	(1,297)	(1,507)	(3,056)	(3,622)	(4,559)
R&D	(3,870)	(6,892)	(9,453)	(13,208)	(17,207)
Others	-	-	-	-	-
Operating profit	(8,538)	(9,380)	(17,421)	(14,863)	(7,554)
Financial Cost	1,396	1,698	2,879	3,351	4,779
Associates	146	419	-	-	-
Pre-tax Income	(6,996)	(7,263)	(14,541)	(11,512)	(2,774)
Income Tax	-	-	-	-	-
Convertible preferred shares	-	-	-	-	-
Net profit	(6,968)	(7,180)	(14,541)	(11,512)	(2,774)
Adj. net profit	(4,266)	(2,965)	(9,125)	(3,945)	6,680

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	3,056	9,385	12,211	17,784	24,856
Fixed asset	41	203	258	396	611
Associates	-	-	-	-	-
Intangible assets	1,994	1,277	11,953	17,388	24,244
Others	503	7,275	-	-	-
Current assets	73,001	149,524	45,232	58,943	86,807
Cash	5,768	22,421	(84,175)	(74,173)	(50,404)
Restricted cash	27,578	52,422	52,422	52,422	52,422
Account receivable	1,051	730	1,079	1,441	1,826
Others	38,605	73,951	75,906	79,252	82,963
Current liabilities	45,768	83,882	83,846	107,076	135,331
Amounts due to related parties	1,503	3,386	4,638	6,438	8,325
Customer advances	606	2,423	755	1,075	1,435
Payable to merchants	29,926	53,834	44,378	56,003	70,956
Accrued expenses	4,877	11,193	18,049	23,794	29,571
Merchant deposits	8,855	10,926	16,025	19,766	25,043
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	(32,046)	(35,991)	(29,310)
Shareholders' equity	24,647	60,176	51,051	47,106	53,786

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(6,968)	(7,180)	(14,541)	(11,512)	(2,774)
D&A	641	669	720	795	310
Change in WC	6,729	(370)	7,054	19,521	24,159
Others	2,558	3,613	5,416	7,567	9,455
Operating CF	2,960	(3,267)	(1,350)	16,371	31,150
Capex	(63)	(116)	(226)	(315)	(415)
Associates	-	-	-	-	-
Others	(30,672)	(32,603)	(4,875)	(6,053)	(6,966)
Investing CF	(30,735)	(32,719)	(5,100)	(6,369)	(7,381)
Equity raised	7,919	-	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
Financing CF	7,919	-	-	-	-
Net change in cash	(19,856)	(35,986)	(6,451)	10,002	23,768
Cash (beg of yr)	30,540	10,684	(25,302)	(31,753)	(21,750)
FX	-	-	-	-	-
Cash (end of yr)	10,684	(25,302)	(31,753)	(21,750)	2,018

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Online marketing	89.0	80.6	69.7	71.0	72.1
Transaction services	11.0	9.7	7.5	7.2	6.9
Merchant Sales	0.0	9.7	22.8	21.8	21.0
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	129.7	97.4	82.1	39.7	31.5
Gross profit	133.0	68.9	53.9	40.4	33.2
EBIT	NA	NA	NA	NA	NA
Net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(28.3)	(15.8)	(16.1)	(9.8)	(3.8)
Pre-tax margin	(23.2)	(12.2)	(13.4)	(7.6)	(1.4)
Adj. net margin	(14.2)	(5.0)	(8.4)	(2.6)	3.4
Effective tax rate	-	-	-	-	-
Returns (%)					
ROE	(28.3)	(11.9)	55.1	37.9	11.7
ROA	(7.2)	(2.5)	(8.4)	(5.9)	7.1
Per share					
Adj. EPS (RMB)	(3.69)	(2.49)	(7.50)	(3.18)	5.28
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	8.30	13.01	(5.54)	(6.24)	(4.77)

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.