

PDD Holdings (PDD US)

Still has potential to improve monetization

PDD Holdings (PDD) announced (20 Mar) 4Q23 results: revenue was up 123% YoY (4Q22: 46%; 3Q23: 94%) to RMB88.9bn, 11% ahead of Bloomberg consensus, which we attribute to both stronger-than-expected international expansion, and better-than-expected monetization improvement of domestic business. Non-GAAP NP increased by 110% YoY to RMB25.5bn, 52% ahead of consensus, which we attribute to better-than-expected domestic business profit generation, and likely narrower-than-expected loss generated from Temu business, aided by more rapid-than-expected business scale expansion and better-than-expected optimization in consumer subsidy. Although industry competition may become tougher in 2024, PDD still has room to drive a further increase in monetization rate, aided by the increase in commission rate of its “Ten Billion Subsidy” program, and the launch of new advertising products. Overseas expansion is on track to support PDD’s long-term revenue and earnings growth. To account for more rapid-than-expected development of international business, and better-than-expected monetization improvement of domestic business, we lift our DCF-based TP by 9% to USD155.4 (was US\$142.6); maintain BUY.

- 4Q23 results again demonstrated strong monetization improvement.** Online marketing services and others revenue rose by 57% YoY (4Q22: 38% YoY; 3Q23: 39% YoY) to RMB48.7bn in 4Q23 (55% of total revenue), 6% higher than consensus estimates. Transaction services revenue for 4Q23 grew by 357% YoY (4Q22: 86% YoY; 3Q23: 315% YoY) to RMB40.2bn, 17% ahead of consensus, which in our view can be attributed to stronger-than-expected revenue generation from Temu business, aided by more rapid-than-expected business scale expansion, and optimized consumer subsidy spending, as well as stronger-than-expected commission rate expansion in the “Ten Billion Subsidy” program.
- More efficient-than-expected sales and marketing spend drove a beat in OPM.** PDD’s GPM declined to 60.5% in 4Q23 (4Q22: 77.6%), owing to the development of Temu business, but this was 0.8ppt better than consensus. Total non-GAAP operating expense ratio was 32.9% for 4Q23, down 15ppt YoY. Non-GAAP S&M expenses were RMB26.2bn in 4Q23, up 53% YoY, equivalent to 29.5% of total revenue (4Q22: 43.2%; 3Q23: 30.9%). Although international expansion sustained at a more rapid-than-expected pace, PDD’s overall OPM was 25.2% in 4Q23 (4Q22: 22.9%; consensus: 20.9%).
- Quality growth remains priority in 2024.** Management stressed that quality growth remains a key word for 2024, and it will focus on improving the variety of products and services offered on PDD’s platform, deepening its value-for-money proposition, upgrading shopping experience, and enhancing user activity. PDD will step up investment in high-quality consumption, supply, and platform ecosystem to deliver value to consumers.

BUY (Maintain)
Target Price **US\$155.40**

 (Previous TP **US\$142.60**)

Up/Downside **21.7%**
Current Price **US\$127.68**
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Stock Data

Mkt Cap (US\$ mn)	183,900.4
Avg 3 mths t/o (US\$ mn)	975.6
52w High/Low (US\$)	151.33/60.02
Total Issued Shares (mn)	1440.3

Source: FactSet

Shareholding Structure

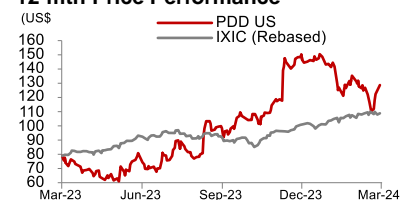
Entities affiliated with Zheng Huang	27.9%
Entities affiliated with Tencent	15.5%

Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-2.8%	-6.0%
3-mth	-12.8%	-20.3%
6-mth	35.1%	12.6%

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	389,619	492,359	540,111
Net profit (RMB mn)	31,538.1	60,026.5	83,882.9	118,906.4	127,694.3
Adjusted net profit (RMB mn)	39,529.7	67,899.4	91,719.2	127,320.5	136,828.3
YoY growth (%)	185.8	71.8	35.1	38.8	7.5
EPS (Adjusted) (RMB)	27.45	46.51	62.83	87.21	93.72
Consensus EPS (RMB)	27.45	41.13	54.17	71.19	82.47
P/E (x)	15.4	14.7	14.8	10.5	9.7

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23 Consensus	Diff (%)
Online marketing services and others	18,202	25,223	28,482	31,023	27,244	37,933	39,688	48,676	46,030	5.7%
YoY growth (%)	29.0%	39.5%	58.7%	38.3%	49.7%	50.4%	39.3%	56.9%		
Transaction services fees	5,591	6,216	7,022	8,797	10,393	14,348	29,153	40,205	34,237	17.4%
YoY growth (%)	90.7%	106.7%	102.0%	86.2%	85.9%	130.8%	315.1%	357.1%		
Total revenue	23,794	31,440	35,504	39,820	37,637	52,281	68,840	88,881	79,874	11.3%
YoY growth (%)	7.3%	36.4%	65.1%	46.2%	58.2%	66.3%	93.9%	123.2%		
Gross profit	16,634	23,478	28,090	30,893	26,512	33,591	42,010	53,803	47,683	12.8%
Operating profit	2,154	8,697	10,437	9,114	6,929	12,719	16,656	22,395	16,716	34.0%
Non-GAAP net profit	4,200	10,776	12,447	12,106	10,126	15,269	17,027	25,476	16,795	51.7%
GPM (%)	69.9%	74.7%	79.1%	77.6%	70.4%	64.3%	61.0%	60.5%	59.7%	0.8 ppt
OPM (%)	9.1%	27.7%	29.4%	22.9%	18.4%	24.3%	24.2%	25.2%	20.9%	4.3 ppt
Non-GAAP NPM (%)	17.7%	34.3%	35.1%	30.4%	26.9%	29.2%	24.7%	28.7%	21.0%	7.6 ppt

Source: Company data, CMBIGM estimates

Figure 2: PDD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	389.6	492.4	540.1	296.5	358.9	-	31.4%	37.2%	-
Gross profit	243.4	308.1	335.7	185.4	225.1	-	31.2%	36.9%	-
Operating profit	91.2	133.6	144.6	70.0	94.4	-	30.3%	41.5%	-
Non-GAAP net profit	91.7	127.3	136.8	75.2	98.0	-	21.9%	30.0%	-
Gross margin	62.5%	62.6%	62.2%	62.5%	62.7%	-	-0.1 ppt	-0.1 ppt	-
Operating margin	23.4%	27.1%	26.8%	23.6%	26.3%	-	-0.2 ppt	0.8 ppt	-
Non-GAAP net margin	23.5%	25.9%	25.3%	25.4%	27.3%	-	-1.8 ppt	-1.4 ppt	-

Source: CMBIGM estimates

Figure 3: PDD: DCF valuation (terminal growth of 2%; WACC of 12%)

(RMBbn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	389,619	492,359	540,111	574,552	599,531	616,584	631,816
NPV of FCF	590,221						
Discounted terminal value	727,940						
Total PDD equity valuation	1,633,041						
No. of shares (diluted, mn)	1,460						
Valuation per share (US\$)	155.4						

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	93,950	130,558	247,639	389,619	492,359	540,111
Cost of goods sold	(31,718)	(31,462)	(91,724)	(146,265)	(184,283)	(204,406)
Gross profit	62,232	99,095	155,916	243,354	308,076	335,705
Operating expenses	(55,335)	(68,693)	(97,217)	(152,132)	(174,524)	(191,089)
Selling expense	(44,802)	(54,344)	(82,189)	(135,395)	(155,342)	(169,868)
Admin expense	(1,541)	(3,965)	(4,076)	(4,675)	(5,268)	(5,671)
R&D expense	(8,993)	(10,385)	(10,952)	(12,062)	(13,914)	(15,549)
Others	0	0	0	0	0	0
Operating profit	6,897	30,402	58,699	91,221	133,552	144,616
Interest income	3,062	3,997	10,238	11,947	13,540	13,640
Interest expense	(1,231)	(52)	(44)	(81)	(81)	(81)
Foreign exchange gain/loss	72	(150)	36	36	36	36
Others	656	2,221	2,953	2,953	2,953	2,953
Pre-tax profit	9,455	36,419	71,881	106,075	149,999	161,164
Income tax	(1,934)	(4,726)	(11,850)	(22,192)	(31,092)	(33,469)
Others	247	(155)	(5)	0	0	0
After tax profit	7,769	31,538	60,027	83,883	118,906	127,694
Minority interest	0	0	0	0	0	0
Net profit	7,769	31,538	60,027	83,883	118,906	127,694
Adjusted net profit	13,830	39,530	67,899	91,719	127,320	136,828
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	160,909	216,618	294,750	397,079	525,568	652,683
Cash & equivalents	6,427	34,326	59,794	157,464	282,581	408,129
Restricted cash	59,617	57,974	61,985	61,985	61,985	61,985
Account receivables	674	588	3,914	6,158	7,782	8,537
Prepayment	3,425	2,298	4,213	6,628	8,376	9,189
Other current assets	90,767	121,431	164,843	164,843	164,843	164,843
Non-current assets	20,301	20,502	53,328	58,735	58,970	58,859
PP&E	2,203	1,045	980	3,931	4,466	4,356
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	455,814	584,538	711,543
Current liabilities	93,730	116,889	152,901	164,674	166,122	156,342
Short-term borrowings	0	13,886	649	649	649	649
Account payables	62,510	63,317	74,997	78,352	75,768	73,974
Other current liabilities	16,707	18,124	20,262	25,589	28,981	31,468
Lease liabilities	427	602	1,642	1,642	1,642	1,642
Accrued expenses	14,086	20,961	55,351	58,443	59,083	48,610
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	172,610	174,057	164,278
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	171,081	298,358	435,142
Other reserves	(2,520)	3,322	4,724	4,724	4,724	4,724
Total shareholders equity	75,115	117,771	187,242	283,204	410,481	547,265
Total equity and liabilities	181,210	237,120	348,078	455,814	584,538	711,543

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,455	36,419	71,881	106,075	149,999	161,164
Depreciation & amortization	1,495	2,224	4,082	6,673	8,627	8,752
Tax paid	(1,934)	(4,726)	(11,850)	(22,192)	(31,092)	(33,469)
Change in working capital	13,562	7,423	37,848	7,114	(1,925)	(11,347)
Others	6,204	7,167	(7,798)	7,792	8,370	9,090
Net cash from operations	28,783	48,508	94,163	105,462	133,979	134,190
Investing						
Capital expenditure	(3,287)	(636)	(4,953)	(7,792)	(8,862)	(8,642)
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)	(7,792)	(8,862)	(8,642)
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	157,464	282,581
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	157,464	282,581	408,129
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	57.9%	39.0%	89.7%	57.3%	26.4%	9.7%
Gross profit	54.8%	59.2%	57.3%	56.1%	26.6%	9.0%
Operating profit	na	340.8%	93.1%	55.4%	46.4%	8.3%
Net profit	na	306.0%	90.3%	39.7%	41.8%	7.4%
Adj. net profit	na	185.8%	71.8%	35.1%	38.8%	7.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	66.2%	75.9%	63.0%	62.5%	62.6%	62.2%
Operating margin	7.3%	23.3%	23.7%	23.4%	27.1%	26.8%
Adj. net profit margin	14.7%	30.3%	27.4%	23.5%	25.9%	25.3%
Return on equity (ROE)	11.5%	32.7%	39.4%	35.7%	34.3%	26.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.7	1.9	1.9	2.4	3.2	4.2
Receivable turnover days	2.7	1.8	3.3	4.7	5.2	5.5
Payable turnover days	(669.4)	(729.9)	(275.2)	(191.3)	(152.6)	(133.7)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	123.0	15.4	14.7	14.8	10.5	9.7
P/E (diluted)	79.7	14.0	14.0	14.6	10.5	9.8
P/B	12.7	4.1	4.7	4.4	3.0	2.3

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

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