

# PDD Holdings (PDD US)

## Consumer wallet share gain strategy boosted revenue and earnings growth

PDD Holdings (PDD) announced (29 Aug) 2Q23 results: revenue was up 66.3% YoY to RMB52.3bn, 22/21% ahead of our/Bloomberg consensus estimates, which we attribute to robust GMV growth and continuous increase in monetization. Non-GAAP net income increased by 42% YoY to RMB15.3bn, 41% ahead of consensus, due to operating leverage, sales and marketing spending geared at generating higher GMV from key consumer wallet-share gain categories. The strong beat in results echoed our view that in the e-commerce sector PDD has relatively more proactive room to drive GMV growth through targeting bigger consumer wallet share, and further increasing monetization rate given its relatively better ROI compared with peers. Maintain BUY.

- **2Q23 results a strong beat.** Online marketing services and others revenue rose by 50.4% YoY to RMB37.9bn in 2Q23 (73% of total revenue), 16/18% higher than our forecast/consensus estimates. The strong beat in our view can be attributable to both stronger-than-expected GMV growth (driven by the incorporation of more branded products) and high ASP products, and stronger-than-expected expansion in monetization rate. In 2Q23, transaction services revenue grew by 130.8% YoY to RMB14.3bn, 29% ahead of consensus, which in our view could be attributed to the robust development of Duoduo Grocery (DDG) business, and incremental monetization generated from commission revenue.
- **Higher sales and marketing efficiency boosted the beat on earnings.** PDD's Non-GAAP GPM declined to 64.3% in 2Q23 (2Q22: 74.7%). Non-GAAP R&D expense ratio was 4.0% in 2Q23 (2Q22: 6.2%). Non-GAAP S&M expenses were RMB16.6bn in 2Q23, up 52.8% YoY, equivalent to 31.7% of total revenue (2Q22: 34.4%; our estimate: 42.0%). The more disciplined than expected S&M spending, combined with stronger-than-expected revenue growth, drove a beat on non-GAAP OPM. Although international expansion sustained at a rapid pace, PDD's overall non-GAAP OPM was 27.9% in 2Q23 (2Q22: 33.5%), better than our estimate at 26.6%.
- **Future growth strategy and outlook.** PDD plans to continue to strengthen its infrastructure and supply chain capabilities within domestic and overseas markets, which aims at helping merchants and brand to achieve sustainable business operation on its platform. We believe this is a must-have trend in China's e-commerce industry, to remain competitive in the long term.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	93,950	130,558	175,379	213,872	247,820
YoY growth (%)	57.9	39.0	34.3	21.9	15.9
Net profit (RMB mn)	7,768.7	31,538.1	39,554.6	54,972.1	67,114.6
Adjusted net profit (RMB mn)	13,829.5	39,529.7	49,206.2	65,717.4	79,061.6
EPS (Adjusted) (RMB)	9.56	27.45	34.00	45.41	54.64
Consensus EPS (RMB)	9.56	27.45	27.38	33.20	40.23
P/E (x)	123.0	15.4	18.8	13.6	11.1
P/B (x)	12.7	4.1	4.4	3.2	2.4
ROE (%)	11.5	32.7	27.5	27.1	24.4

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **US\$109.00**

(Previous TP) **US\$109.00**

**Up/Downside** **36.4%**

**Current Price** **US\$79.91**

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### Stock Data

Mkt Cap (US\$ mn)	115,096.2
Avg 3 mths t/o (US\$ mn)	553.8
52w High/Low (US\$)	104.68/44.46
Total Issued Shares (mn)	1440.3

Source: FactSet

### Shareholding Structure

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

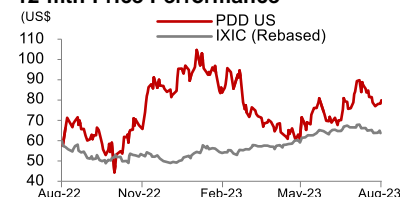
Source: Nasdaq

### Share Performance

	Absolute	Relative
1-mth	-3.7%	0.2%
3-mth	33.1%	24.4%
6-mth	-4.6%	-20.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	2Q23 CMBI estimates	Diff (%)	2Q23 Consensus	Diff (%)
<b>Online marketing services and others</b>	18,202	25,223	28,482	31,023	27,244	37,933	32,669	16.1%	32,066	18.3%
YoY growth (%)	29.0%	39.5%	58.7%	38.3%	49.7%	50.4%				
<b>Transaction services fees</b>	5,591	6,216	7,022	8,797	10,393	14,348	10,282	39.5%	11,142	28.8%
YoY growth (%)	90.7%	106.7%	102.0%	86.2%	85.9%	130.8%				
<b>Total revenue</b>	<b>23,794</b>	<b>31,440</b>	<b>35,504</b>	<b>39,820</b>	<b>37,637</b>	<b>52,281</b>	<b>42,951</b>	21.7%	<b>43,282</b>	20.8%
YoY growth (%)	7.3%	36.4%	65.1%	46.2%	58.2%	66.3%				
Gross profit	16,634	23,478	28,090	30,893	26,512	33,591	32,359	3.8%	31,391	7.0%
Operating profit	2,154	8,697	10,437	9,114	6,929	12,719	8,923	42.5%	8,934	42.4%
<b>Non-GAAP net profit</b>	<b>4,200</b>	<b>10,776</b>	<b>12,447</b>	<b>12,106</b>	<b>10,126</b>	<b>15,269</b>	<b>10,780</b>	41.6%	<b>10,805</b>	41.3%
GPM (%)	69.9%	74.7%	79.1%	77.6%	70.4%	64.3%	75.3%	-11.1 ppt	72.5%	-8.3 ppt
OPM (%)	9.1%	27.7%	29.4%	22.9%	18.4%	24.3%	20.8%	3.6 ppt	20.6%	3.7 ppt
Non-GAAP NPM (%)	17.7%	34.3%	35.1%	30.4%	26.9%	29.2%	25.1%	4.1 ppt	25.0%	4.2 ppt

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	59,492	93,950	130,558	175,379	213,872	247,820
Cost of goods sold	(19,279)	(31,718)	(31,462)	(42,366)	(49,803)	(57,904)
Gross profit	40,213	62,232	99,095	133,013	164,069	189,916
Operating expenses	(49,594)	(55,335)	(68,693)	(90,864)	(103,321)	(112,535)
Selling expense	(41,195)	(44,802)	(54,344)	(73,753)	(82,669)	(89,100)
Admin expense	(1,507)	(1,541)	(3,965)	(5,151)	(6,067)	(7,030)
R&D expense	(6,892)	(8,993)	(10,385)	(11,960)	(14,585)	(16,405)
Others	0	0	0	0	0	0
Operating profit	(9,380)	6,897	30,402	42,149	60,747	77,382
Interest income	2,455	3,062	3,997	5,978	6,277	8,036
Interest expense	(757)	(1,231)	(52)	(24)	(24)	(24)
Foreign exchange gain/loss	225	72	(150)	(150)	(150)	(150)
Others	194	656	2,221	1,228	1,228	1,228
Pre-tax profit	(7,263)	9,455	36,419	49,180	68,078	86,471
Income tax	0	(1,934)	(4,726)	(9,732)	(13,212)	(19,463)
Others	84	247	(155)	106	106	106
After tax profit	(7,180)	7,769	31,538	39,555	54,972	67,115
Minority interest	0	0	0	0	0	0
Net profit	(7,180)	7,769	31,538	39,555	54,972	67,115
Adjusted net profit	(2,965)	13,830	39,530	49,206	65,717	79,062

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	149,524	160,909	216,618	270,652	346,115	438,136
Cash & equivalents	22,421	6,427	34,326	87,369	161,981	253,252
Restricted cash	52,422	59,617	57,974	57,974	57,974	57,974
Account receivables	730	674	588	789	963	1,116
Prepayment	5,160	3,425	2,298	3,087	3,765	4,363
Other current assets	68,791	90,767	121,431	121,431	121,431	121,431
Non-current assets	9,385	20,301	20,502	23,889	23,973	23,765
PP&E	203	2,203	1,045	1,789	2,174	2,265
Right-of-use assets	630	939	1,416	1,416	1,416	1,416
Intangibles	1,277	701	134	2,777	2,477	2,177
Other non-current assets	7,275	16,457	17,907	17,907	17,907	17,907
Total assets	158,909	181,210	237,120	294,541	370,088	461,901
Current liabilities	83,882	93,730	116,889	122,398	132,279	145,082
Short-term borrowings	1,866	0	13,886	13,886	13,886	13,886
Account payables	53,834	62,510	63,317	65,810	68,353	74,979
Other current liabilities	16,735	16,707	18,124	23,684	28,051	32,073
Lease liabilities	253	427	602	602	602	602
Accrued expenses	11,193	14,086	20,961	18,415	21,387	23,543
Non-current liabilities	14,851	12,365	2,460	2,460	2,460	2,460
Convertible bonds	14,433	11,789	1,576	1,576	1,576	1,576
Other non-current liabilities	418	577	884	884	884	884
Total liabilities	98,733	106,095	119,349	124,857	134,739	147,542
Share capital	0	0	0	0	0	0
Capital surplus	86,699	95,341	99,255	99,255	99,255	99,255
Retained earnings	(25,475)	(17,707)	15,193	67,106	132,771	211,781
Other reserves	(1,048)	(2,520)	3,322	3,322	3,322	3,322
Total shareholders equity	60,176	75,115	117,771	169,683	235,349	314,359
Total equity and liabilities	158,909	181,210	237,120	294,541	370,088	461,901

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(7,263)	9,455	36,419	49,180	68,078	86,471
Depreciation & amortization	652	1,495	1,948	3,359	4,193	4,669
Tax paid	0	(1,934)	(4,726)	(9,732)	(13,212)	(19,463)
Change in working capital	31,050	13,562	9,886	4,517	9,031	12,052
Others	3,759	6,204	4,980	9,226	10,800	12,001
<b>Net cash from operations</b>	<b>28,197</b>	<b>28,783</b>	<b>48,508</b>	<b>56,551</b>	<b>78,889</b>	<b>95,731</b>
<b>Investing</b>						
Capital expenditure	(43)	(3,287)	(2,611)	(3,508)	(4,277)	(4,461)
Acquisition of subsidiaries/ investments	(93,160)	(130,268)	(28,596)	0	0	0
Net proceeds from disposal of short-term investments	55,083	97,547	0	0	0	0
Others	(238)	445	8,845	0	0	0
<b>Net cash from investing</b>	<b>(38,358)</b>	<b>(35,562)</b>	<b>(22,362)</b>	<b>(3,508)</b>	<b>(4,277)</b>	<b>(4,461)</b>
<b>Financing</b>						
Net borrowings	906	(1,875)	0	0	0	0
Proceeds from share issues	50,893	0	3,915	(0)	0	0
Share repurchases	0	0	0	0	0	0
Others	(0)	0	(3,905)	0	0	0
<b>Net cash from financing</b>	<b>51,799</b>	<b>(1,875)</b>	<b>10</b>	<b>(0)</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	33,346	74,844	66,044	34,326	87,369	161,981
Exchange difference	(140)	(145)	100	0	0	0
Others	0	0	57,974	0	0	0
<b>Cash at the end of the year</b>	<b>74,844</b>	<b>66,044</b>	<b>150,275</b>	<b>87,369</b>	<b>161,981</b>	<b>253,252</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	97.4%	57.9%	39.0%	34.3%	21.9%	15.9%
Gross profit	68.9%	54.8%	59.2%	34.2%	23.3%	15.8%
Operating profit	na	na	340.8%	38.6%	44.1%	27.4%
Net profit	na	na	306.0%	25.4%	39.0%	22.1%
Adj. net profit	na	na	185.8%	24.5%	33.6%	20.3%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	67.6%	66.2%	75.9%	75.8%	76.7%	76.6%
Operating margin	(15.8%)	7.3%	23.3%	24.0%	28.4%	31.2%
Adj. net profit margin	(5.0%)	14.7%	30.3%	28.1%	30.7%	31.9%
Return on equity (ROE)	(16.9%)	11.5%	32.7%	27.5%	27.1%	24.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	1.8	1.7	1.9	2.2	2.6	3.0
Receivable turnover days	5.5	2.7	1.8	1.4	1.5	1.5
Payable turnover days	(792.9)	(669.4)	(729.9)	(556.2)	(491.6)	(451.8)
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	na	123.0	15.4	18.8	13.6	11.1
P/E (diluted)	na	79.7	14.0	17.1	12.8	10.7
P/B	10.2	12.7	4.1	4.4	3.2	2.4

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

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