

# PDD Holdings (PDD US)

## Earnings beat; better consumption sentiment could propel valuation rerating

PDD Holdings (PDD) announced (20 Mar) 4Q24 results: revenue was up 24% YoY (3Q24: 44%) to RMB110.6bn, 5% shy of Bloomberg consensus estimates, mainly owing to the 10% miss on transaction services fees which we attribute to ongoing impact from enhancement of merchant support. Non-GAAP net profit increased by 17% YoY to RMB29.9bn, 4% ahead of consensus, which we attribute to non-operating items such as foreign exchange gains and other income. We lower our 2025-2026E revenue forecast by 3-5% and non-GAAP net profit by 3-9% to factor in the greater-than-expected impact of PDD's move to enhance merchant support and platform ecosystem, as well as incremental investment on consumer side to enhance consumer mindshare. Our SOTP-based TP is lifted to US\$170.4 (was US\$156.8) due to the rollover of valuation base to 2025E, which translates into 13x 2025E non-GAAP PE. We view the current trading 2025E non-GAAP PE of 9x (versus our estimated 12% YoY growth in group-level non-GAAP NP in 2025E) as undemanding, and we see key catalysts coming from: 1) potential recovery in consumption sentiment; 2) mitigation of geopolitical risks, which could propel a rerating of Temu. BUY.

- **Ads revenue growth continues to converge with GMV growth.** Online marketing services and others revenue rose by 17.1% YoY (4Q23: 56.9% YoY; 3Q24: 24.3% YoY) to RMB57.0bn in 4Q24, inline with consensus; transaction services revenue for 4Q24 grew by 33.3% YoY (4Q23: 357.1% YoY; 3Q24: 71.5% YoY) to RMB53.6bn. The growth of online marketing services and others revenue is largely inline with GMV growth of the main app, based on our estimate, indicating an ongoing slowdown in YoY expansion of monetization, in our view, but this can be explained by PDD's move to enhance platform ecosystem, as well as the intensified industry competition. The transaction services fee came in 10% short of consensus, indicating more aggressive-than-expected implementation of merchant support policy.
- **OPM inline with consensus despite a miss on GPM.** PDD's GPM shrank to 56.8% in 4Q24 (4Q23: 60.5%), and was 3.0ppt shy of consensus, which we attribute to the miss in commission revenue which has a higher-than-company average gross margin as PDD is strengthening its merchant support. However, the sales and marketing expense ratio of 28.3% is better than consensus at 31.7%, which indicates better-than-feared market positioning of PDD amid the backdrop of nation-wide trade-in program. Overall OPM of 23.1% in 4Q24 came inline with consensus.
- **Anticipating non-GAAP net profit growth of 12% for 2025E.** We are expecting limited room for further increase in monetization from advertising services; however, we are still positive that PDD's well-established consumer mindshare, combined with its effort to enhance user engagement and platform ecosystem, should help drive solid GMV growth, and could support solid earnings growth in 2025E. We are forecasting non-GAAP net profit of RMB136.7bn for PDD in 2025E, up 12% YoY.
- **SOTP-based TP of US\$170.4; maintain BUY.** Our new TP per ADS of US\$170.4 consists of: 1) US\$125.1 for the main app based on 12x 2025E PE (was US\$119.1 based on 12x 24E PE); 2) US\$1.9 for Duoduo Grocery (unchanged); 3) US\$20.5 for Temu based on 1.0x 2025E PS (was US\$15.7 based on 1.2x 24E PS); and 4) US\$22.9 for net cash after considering 30% holding discount (was US\$20.1).

**BUY (Maintain)**

**Target Price** US\$170.40  
(Previous TP) US\$156.80  
**Up/Downside** 30.2%  
**Current Price** US\$130.92

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### Stock Data

Mkt Cap (US\$ mn)	196,202.2
Avg 3 mths t/o (US\$ mn)	928.2
52w High/Low (US\$)	157.57/89.17
Total Issued Shares (mn)	1498.6

Source: FactSet

### Shareholding Structure

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

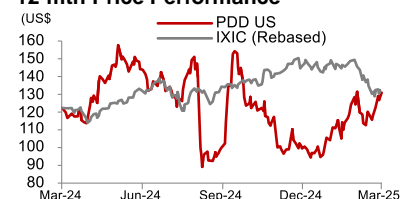
Source: Nasdaq

### Share Performance

	Absolute	Relative
1-mth	-0.3%	10.0%
3-mth	31.6%	45.6%
6-mth	31.1%	33.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Earnings Summary**

<b>(YE 31 Dec)</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
<b>Revenue (RMB mn)</b>	247,639	393,836	496,266	597,832	656,765
<b>Net profit (RMB mn)</b>	60,026.5	112,434.5	124,712.2	159,776.8	178,917.7
<b>Adjusted net profit (RMB mn)</b>	67,899.4	122,343.6	136,670.0	173,285.2	193,101.0
<b>YoY growth (%)</b>	71.8	80.2	11.7	26.8	11.4
<b>EPS (Adjusted) (RMB)</b>	46.51	82.71	91.20	115.63	128.85
<b>Consensus EPS (RMB)</b>	na	na	93.30	112.58	119.88
<b>P/E (x)</b>	21.4	11.7	10.7	8.4	7.5

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	4Q24E Consensus	Diff (%)
Online marketing services and others	27,244	37,933	39,688	48,676	42,456	49,116	49,351	57,011	57,294	-0.5%
YoY growth (%)	49.7%	50.4%	39.3%	56.9%	55.8%	29.5%	24.3%	17.1%		
Transaction services fees	10,393	14,348	29,153	40,205	44,356	47,944	50,003	53,599	59,305	-9.6%
YoY growth (%)	85.9%	130.8%	315.1%	357.1%	326.8%	234.2%	71.5%	33.3%		
<b>Total revenue</b>	<b>37,637</b>	<b>52,281</b>	<b>68,840</b>	<b>88,881</b>	<b>86,812</b>	<b>97,060</b>	<b>99,354</b>	<b>110,610</b>	<b>116,032</b>	<b>-4.7%</b>
YoY growth (%)	58.2%	66.3%	93.9%	123.2%	130.7%	85.7%	44.3%	24.4%		
<b>Gross profit</b>	<b>26,512</b>	<b>33,591</b>	<b>42,010</b>	<b>53,803</b>	<b>54,117</b>	<b>63,361</b>	<b>59,645</b>	<b>62,812</b>	<b>69,381</b>	<b>-9.5%</b>
S&M	16,260	17,542	21,748	26,639	23,411	26,049	30,484	31,357	36,748	-14.7%
G&A	816	596	758	1,905	1,823	1,839	1,806	2,085	2,247	-7.2%
R&D	2,507	2,734	2,847	2,864	2,910	2,909	3,063	3,777	3,756	0.6%
<b>Operating profit</b>	<b>6,929</b>	<b>12,719</b>	<b>16,656</b>	<b>22,395</b>	<b>25,974</b>	<b>32,565</b>	<b>24,292</b>	<b>25,592</b>	<b>26,814</b>	<b>-4.6%</b>
<b>Non-GAAP net profit</b>	<b>10,126</b>	<b>15,269</b>	<b>17,027</b>	<b>25,476</b>	<b>30,602</b>	<b>34,432</b>	<b>27,459</b>	<b>29,851</b>	<b>28,597</b>	<b>4.4%</b>
GPM (%)	70.4%	64.3%	61.0%	60.5%	62.3%	65.3%	60.0%	56.8%	59.8%	-3.0 ppt
S&M expense ratio	43.2%	33.6%	31.6%	30.0%	27.0%	26.8%	30.7%	28.3%	31.7%	-3.3 ppt
G&A expense ratio	2.2%	1.1%	1.1%	2.1%	2.1%	1.9%	1.8%	1.9%	1.9%	-0.1 ppt
R&D expense ratio	6.7%	5.2%	4.1%	3.2%	3.4%	3.0%	3.1%	3.4%	3.2%	0.2 ppt
OPM (%)	18.4%	24.3%	24.2%	25.2%	29.9%	33.6%	24.5%	23.1%	23.1%	0.0 ppt
Non-GAAP NPM (%)	26.9%	29.2%	24.7%	28.7%	35.3%	35.5%	27.6%	27.0%	24.6%	2.3 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 2: PDD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	496.3	597.8	656.8	519.8	615.6	N/A	-4.5%	-2.9%	N/A
Gross Profit	296.6	358.6	395.1	320.3	379.1	N/A	-7.4%	-5.4%	N/A
Operating Profit	128.3	170.2	192.0	153.3	185.7	N/A	-16.3%	-8.3%	N/A
Non-GAAP net profit	136.7	173.3	193.1	150.6	179.0	N/A	-9.3%	-3.2%	N/A
Gross Margin	59.8%	60.0%	60.2%	61.6%	61.6%	N/A	-1.8 ppt	-1.6 ppt	N/A
Operating Margin	25.9%	28.5%	29.2%	29.5%	30.2%	N/A	-3.6 ppt	-1.7 ppt	N/A
Non-GAAP net margin	27.5%	29.0%	29.4%	29.0%	29.1%	N/A	-1.4 ppt	-0.1 ppt	N/A

Source: CMBIGM estimates

Figure 3: PDD: SOTP valuation

#	Segment	Rev (RMBmn)	OP (RMBmn)	NOPAT (RMBmn)	2025E P/E (x)	2025E P/S (x)	Val. Rmb mn	Val. US\$m	\$/ADS	Value split	Comment
1	PDD main app	267,840	140,616	112,493	12.0		1,349,915	187,488	125.1	73.4%	12.0x 2025E PE; tax rate @20%
2	Duoduo Grocery	20,692				1.0	20,692	2,874	1.9	1.1%	1.0x 2025E PS
3	Temu (2025E)	220,919				1.0	220,919	30,683	20.5	12.0%	1.0x 2025E PS
4	Net cash (30% discount)						247,248	34,340	22.9	13.4%	2025E net cash
<b>Total</b>							<b>1,838,774</b>	<b>255,385</b>	<b>170.4</b>		

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	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	130,558	247,639	393,836	496,266	597,832	656,765
Cost of goods sold	(31,462)	(91,724)	(153,900)	(199,618)	(239,203)	(261,657)
Gross profit	99,095	155,916	239,936	296,648	358,629	395,108
Operating expenses	(68,693)	(97,217)	(131,513)	(168,325)	(188,426)	(203,061)
Selling expense	(54,344)	(82,189)	(111,301)	(145,222)	(161,193)	(173,799)
Admin expense	(3,965)	(4,076)	(7,553)	(9,021)	(10,867)	(11,939)
R&D expense	(10,385)	(10,952)	(12,659)	(14,082)	(16,366)	(17,323)
Others	0	0	0	0	0	0
Operating profit	30,402	58,699	108,423	128,323	170,203	192,047
Interest income	3,997	10,238	20,553	19,894	20,578	21,934
Interest expense	(52)	(44)	0	0	0	0
Foreign exchange gain/loss	(150)	36	588	588	588	588
Others	2,221	2,953	3,120	3,120	3,120	3,120
Pre-tax profit	36,419	71,881	132,684	151,925	194,489	217,688
Income tax	(4,726)	(11,850)	(20,267)	(27,230)	(34,729)	(38,788)
Others	(155)	(5)	17	17	17	17
After tax profit	31,538	60,027	112,435	124,712	159,777	178,918
Minority interest	0	0	0	0	0	0
Net profit	31,538	60,027	112,435	124,712	159,777	178,918
Adjusted net profit	39,530	67,899	122,344	136,670	173,285	193,101

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	216,618	294,750	415,648	543,487	714,952	901,437
Cash & equivalents	34,326	59,794	57,768	183,502	352,880	538,154
Restricted cash	57,974	61,985	68,426	68,426	68,426	68,426
Account receivables	588	3,914	3,679	4,636	5,585	6,136
Prepayment	2,298	4,213	4,413	5,561	6,700	7,360
Other current assets	121,431	164,843	281,361	281,361	281,361	281,361
Non-current assets	20,502	53,328	89,386	89,454	89,500	89,526
PP&E	1,045	980	879	947	993	1,020
Right-of-use assets	1,416	4,105	5,064	5,064	5,064	5,064
Intangibles	134	21	19	19	19	19
Other non-current assets	17,907	48,222	83,423	83,423	83,423	83,423
Total assets	237,120	348,078	505,034	632,941	804,452	990,963
Current liabilities	116,889	152,901	188,423	180,038	178,264	171,674
Short-term borrowings	13,886	649	5,310	5,310	5,310	5,310
Account payables	63,317	74,997	91,656	75,899	74,678	79,602
Other current liabilities	18,124	20,262	20,210	24,487	27,085	28,831
Lease liabilities	602	1,642	2,106	2,106	2,106	2,106
Accrued expenses	20,961	55,351	69,142	72,236	69,085	55,825
Non-current liabilities	2,460	7,936	3,298	3,298	3,298	3,298
Convertible bonds	1,576	5,232	0	0	0	0
Other non-current liabilities	884	2,704	3,298	3,298	3,298	3,298
Total liabilities	119,349	160,837	191,721	183,337	181,562	174,972
Share capital	0	0	0	0	0	0
Capital surplus	99,255	107,399	118,067	118,067	118,067	118,067
Retained earnings	15,193	75,119	187,421	323,713	496,998	690,099
Other reserves	3,322	4,724	7,825	7,825	7,825	7,825
Total shareholders equity	117,771	187,242	313,313	449,604	622,890	815,991
Total equity and liabilities	237,120	348,078	505,034	632,941	804,452	990,963

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	36,419	71,881	132,684	151,925	194,489	217,688
Depreciation & amortization	2,224	786	0	0	492	565
Tax paid	(4,726)	(11,850)	(20,267)	(27,230)	(34,729)	(38,788)
Change in working capital	7,423	40,313	23,849	(10,489)	(3,861)	(7,801)
Others	7,167	(6,968)	(14,337)	11,975	13,526	14,200
<b>Net cash from operations</b>	<b>48,508</b>	<b>94,163</b>	<b>121,929</b>	<b>126,181</b>	<b>169,916</b>	<b>185,864</b>
<b>Investing</b>						
Capital expenditure	(636)	(583)	(354)	(447)	(538)	(591)
Acquisition of subsidiaries/ investments	(167,210)	(172,183)	(116,376)	0	0	0
Net proceeds from disposal of short-term investments	141,928	130,317	0	0	0	0
Others	3,556	(12,982)	(1,625)	0	0	0
<b>Net cash from investing</b>	<b>(22,362)</b>	<b>(55,431)</b>	<b>(118,356)</b>	<b>(447)</b>	<b>(538)</b>	<b>(591)</b>
<b>Financing</b>						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	10,668	(0)	0	0
Share repurchases	0	0	0	0	0	0
Others	10	(8,961)	(10,667)	0	0	0
<b>Net cash from financing</b>	<b>10</b>	<b>(8,961)</b>	<b>1</b>	<b>(0)</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	66,044	92,300	121,780	57,768	183,502	352,880
Exchange difference	100	(291)	840	0	0	0
Others	0	0	68,426	0	0	0
<b>Cash at the end of the year</b>	<b>92,300</b>	<b>121,780</b>	<b>194,621</b>	<b>183,502</b>	<b>352,880</b>	<b>538,154</b>

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

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