

PDD Holdings (PDD US)

Investment to enhance long-term development prospect

PDD Holdings (PDD) announced (20 Mar) 4Q22 results: revenue was up 46.2% YoY to RMB39.8bn, 7/5% below our/Bloomberg consensus estimates. Non-GAAP net income attributable to PDD increased by 43.4% YoY to RMB12.1bn, 1/8% ahead of our forecast/Bloomberg consensus, thanks to better-than-expected gross margin. We lower our DCF-based TP to US\$106.0 (prior US\$116.9) to account for PDD's proactive move to enhance merchants ROI and consumer engagement amid intensified industry competition in the short-term, but maintain BUY as we remain positive on PDD's established consumer mindshare in domestic market, which should aid steady GMV growth in 2023 and international expansion potential over the long-run.

■ **2022 results implied an expansion in monetization rate.** For 2022, PDD's total revenue reached RMB130.6bn, up 39% YoY, or 50% if excluding the impact of merchandise sales business, driven by 42% increase in online marketing services and others, and 95% increase in transaction services fee. Though PDD stopped to disclose annual GMV as management thinks GMV is no longer a good metric to track company development, we estimate the online marketing services (OMS) revenue growth has outpaced GMV growth in 2022, and monetization rate for OMS has expanded by 0.2pp YoY to 3.2%. Non-GAAP net income was up 186% YoY to RMB39.5bn, translating into 30.3% non-GAAP net margin, which expanded 15.6pp YoY, driven by: 1) controlled investment pace for domestic business; and 2) narrowing losses generated from Duoduo Grocery (DDG).

■ **Transaction services revenue maintained rapid growth in 4Q22.** Online marketing services and others revenue rose by 38% YoY to RMB31.0bn in 4Q22 (78% of total revenue). In 4Q22, transaction services revenue grew by 86% YoY to RMB8.8bn. We attribute the strong growth to robust development of DDG, and incremental monetization from ten billion subsidy program, which we believe could sustain in 2023.

■ **Investment to enhance consumer engagement weighed on margin.** PDD's GPM rose to 77.6% in 4Q22 (4Q21: 76.1%), 5.2pp better than our forecast. Non-GAAP S&M expenses were RMB17.2bn in 4Q22, up 59% YoY, equivalent to 43.2% of total revenue (4Q21: 39.7%, 3Q22: 37.9%). This is worse than our estimate at 37.7%, which in our view could be attributed to PDD's move to enhance customer engagement through more coupons provided, and its investment to support Temu's international expansion. PDD's overall non-GAAP OPM was 29.1% in 4Q22 (4Q21: 30.8%; 3Q22: 34.6%), inline with our forecast. Factoring in PDD's investment to enhance its consumer engagement, we are forecasting 19% YoY non-GAAP OP growth for core domestic business in 2023E (previous forecast: 26% YoY).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	93,950	130,558	164,496	195,189	223,878
YoY growth (%)	57.9	39.0	26.0	18.7	14.7
Net profit (RMB mn)	7,768.7	31,538.1	32,788.9	45,911.2	55,936.0
Adjusted net profit (RMB mn)	13,829.5	39,529.7	41,394.4	55,722.3	66,733.9
EPS (Adjusted) (RMB)			28.74	38.69	46.33
Consensus EPS (RMB)			29.35	36.49	43.14
P/E (x)	123.0	15.4	24.4	17.4	14.3
P/B (x)	12.7	4.1	4.9	3.7	2.8
ROE (%)	11.5	32.7	23.4	24.1	22.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$106.00**

(Previous TP) **US\$116.90**

Up/Downside **15.3%**

Current Price **US\$91.94**

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Stock Data

Mkt Cap (US\$ mn)	132,423.3
Avg 3 mths t/o (US\$ mn)	91.9
52w High/Low (US\$)	104.68/33.84
Total Issued Shares (mn)	1440.3

Source: FactSet

Shareholding Structure

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

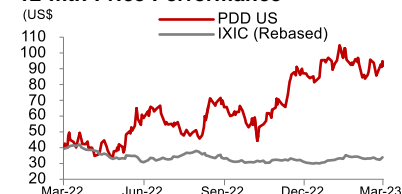
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-1.6%	-0.3%
3-mth	5.6%	-2.8%
6-mth	40.0%	37.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Online marketing services and others	14,111	18,080	17,946	22,425	18,158	25,173	28,426	30,965
YoY growth (%)	156.9%	63.6%	43.7%	18.5%	28.7%	39.2%	58.4%	38.1%
Transaction services fees	2,931	3,008	3,477	4,724	5,591	6,216	7,022	8,797
YoY growth (%)	179.5%	164.1%	161.0%	108.3%	90.7%	106.7%	102.0%	86.2%
Merchandise sales	5,124	1,958	82	82	44	51	56	58
Total revenue	22,167	23,046	21,506	27,231	23,794	31,440	35,504	39,820
YoY growth (%)	238.9%	89.0%	51.3%	2.6%	7.3%	36.4%	65.1%	46.2%
Gross profit	11,421	15,148	14,947	20,715	16,634	23,478	28,090	30,893
Operating profit	(4,147)	1,997	2,139	6,907	2,154	8,697	10,437	9,114
Non-GAAP net profit	(1,890)	4,125	3,150	8,444	4,200	10,776	12,447	12,106
GPM (%)	51.5%	65.7%	69.5%	76.1%	69.9%	74.7%	79.1%	77.6%
OPM (%)	-18.7%	8.7%	9.9%	25.4%	9.1%	27.7%	29.4%	22.9%
Non-GAAP NPM (%)	-13.1%	10.5%	7.6%	24.3%	10.9%	28.3%	29.8%	23.7%

Source: Company data, CMBIGM estimates

Figure 2: PDD: forecast revision

RMB bn	Current			Previous		Change (%)	
	2023E	2024E	2025E	2023E	2024E	2023E	2024E
Revenue	164.5	195.2	223.9	170.1	203.0	-3.3%	-3.9%
Gross Profit	123.3	147.8	169.7	127.9	154.5	-3.6%	-4.3%
Operating Profit	36.4	51.6	65.6	40.8	57.0	-10.8%	-9.6%
Non-GAAP net profit	41.4	55.7	66.7	44.9	60.0	-7.9%	-7.1%
Gross Margin	74.9%	75.7%	75.8%	75.2%	76.1%	-0.3 ppt	-0.4 ppt
Operating Margin	22.1%	26.4%	29.3%	24.0%	28.1%	-1.9 ppt	-1.7 ppt
Non-GAAP net margin	25.2%	28.5%	29.8%	26.4%	29.5%	-1.2 ppt	-1.0 ppt

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB bn	CMBIGM			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	164.5	195.2	223.9	165.2	198.5	231.8	-0.4%	-1.7%	-3.4%
Gross Profit	123.3	147.8	169.7	124.0	149.1	173.1	-0.6%	-0.9%	-2.0%
Operating Profit	36.4	51.6	65.6	40.8	54.3	64.9	-10.8%	-5.0%	1.1%
Non-GAAP net profit	41.4	55.7	66.7	42.7	54.1	67.7	-3.0%	3.1%	-1.4%
Gross Margin	74.9%	75.7%	75.8%	75.0%	75.1%	74.7%	-0.1 ppt	0.6 ppt	1.1 ppt
Operating Margin	22.1%	26.4%	29.3%	24.7%	27.3%	28.0%	-2.6 ppt	-0.9 ppt	1.3 ppt
Non-GAAP net margin	25.2%	28.5%	29.8%	25.8%	27.2%	29.2%	-0.7 ppt	1.3 ppt	0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: PDD: DCF valuation (WACC of 12.0%; terminal growth of 2.0%; both unchanged)

(RMBbn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	164,496	195,189	223,878	250,275	273,081	292,610	309,846	325,427
NPV of FCF	396,601							
Discounted terminal value	469,279							
Total PDD equity valuation	1,057,639							
No. of shares (diluted, mn)	1,440							
Valuation per share (US\$)	106.0							

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	59,492	93,950	130,558	164,496	195,189	223,878
Cost of goods sold	(19,279)	(31,718)	(31,462)	(41,246)	(47,391)	(54,149)
Gross profit	40,213	62,232	99,095	123,250	147,798	169,729
Operating expenses	(49,594)	(55,335)	(68,693)	(86,870)	(96,248)	(104,126)
Selling expense	(41,195)	(44,802)	(54,344)	(69,176)	(75,447)	(80,492)
Admin expense	(1,507)	(1,541)	(3,965)	(4,831)	(5,537)	(6,351)
R&D expense	(6,892)	(8,993)	(10,385)	(12,863)	(15,263)	(17,282)
Others	0	0	0	0	0	0
Operating profit	(9,380)	6,897	30,402	36,380	51,551	65,603
Interest income	2,455	3,062	3,997	4,483	5,369	6,595
Interest expense	(757)	(1,231)	(52)	(24)	(24)	(24)
Foreign exchange gain/loss	225	72	(150)	(150)	(150)	(150)
Others	194	656	2,221	656	656	656
Pre-tax profit	(7,263)	9,455	36,419	41,345	57,402	72,680
Income tax	0	(1,934)	(4,726)	(8,401)	(11,336)	(16,589)
Others	84	247	(155)	(155)	(155)	(155)
After tax profit	(7,180)	7,769	31,538	32,789	45,911	55,936
Minority interest	0	0	0	0	0	0
Net profit	(7,180)	7,769	31,538	32,789	45,911	55,936
Adjusted net profit	(2,965)	13,830	39,530	41,394	55,722	66,734

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	149,524	160,909	216,618	259,689	322,257	399,267
Cash & equivalents	22,421	6,427	34,326	76,647	138,537	214,913
Restricted cash	52,422	59,617	57,974	57,974	57,974	57,974
Account receivables	730	674	588	740	879	1,008
Prepayment	5,160	3,425	2,298	2,896	3,436	3,941
Other current assets	68,791	90,767	121,431	121,431	121,431	121,431
Non-current assets	9,385	20,301	20,502	23,780	23,787	23,550
PP&E	203	2,203	1,045	1,680	1,987	2,050
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	283,468	346,044	422,817
Current liabilities	83,882	93,730	116,889	118,657	125,562	135,653
Short-term borrowings	1,866	0	13,886	13,886	13,886	13,886
Account payables	53,834	62,510	63,317	63,960	65,013	70,063
Other current liabilities	16,735	16,707	18,124	22,937	26,542	29,834
Lease liabilities	253	427	602	602	602	602
Accrued expenses	11,193	14,086	20,961	17,272	19,519	21,268
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	121,117	128,021	138,112
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	59,774	115,445	182,127
Other reserves	(1,048)	(2,520)	3,322	3,322	3,322	3,322
Total shareholders equity	60,176	75,115	117,771	162,352	218,022	284,705
Total equity and liabilities	158,909	181,210	237,120	283,468	346,044	422,817

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(7,263)	9,455	36,419	41,345	57,402	72,680
Depreciation & amortization	652	1,495	1,948	3,251	3,897	4,267
Tax paid	0	(1,934)	(4,726)	(8,401)	(11,336)	(16,589)
Change in working capital	31,050	13,562	9,886	1,017	6,226	9,457
Others	3,759	6,204	4,980	8,399	9,604	10,591
Net cash from operations	28,197	28,783	48,508	45,611	65,794	80,406
Investing						
Capital expenditure	(43)	(3,287)	(2,611)	(3,290)	(3,904)	(4,030)
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
Net cash from investing	(38,358)	(35,562)	(22,362)	(3,290)	(3,904)	(4,030)
Financing						
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
Net cash from financing	51,799	(1,875)	10	(0)	0	0
Net change in cash						
Cash at the beginning of the year	33,346	74,844	66,044	34,326	76,647	138,537
Exchange difference	(140)	(145)	100	0	0	0
Others	0	0	57,974	0	0	0
Cash at the end of the year	74,844	66,044	150,275	76,647	138,537	214,913
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	97.4%	57.9%	39.0%	26.0%	18.7%	14.7%
Gross profit	68.9%	54.8%	59.2%	24.4%	19.9%	14.8%
Operating profit	na	na	340.8%	19.7%	41.7%	27.3%
Net profit	na	na	306.0%	4.0%	40.0%	21.8%
Adj. net profit	na	na	185.8%	4.7%	34.6%	19.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	67.6%	66.2%	75.9%	74.9%	75.7%	75.8%
Operating margin	(15.8%)	7.3%	23.3%	22.1%	26.4%	29.3%
Adj. net profit margin	(5.0%)	14.7%	30.3%	25.2%	28.5%	29.8%
Return on equity (ROE)	(16.9%)	11.5%	32.7%	23.4%	24.1%	22.3%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.8	1.7	1.9	2.2	2.6	2.9
Receivable turnover days	5.5	2.7	1.8	1.5	1.5	1.5
Payable turnover days	(792.9)	(669.4)	(729.9)	(563.2)	(496.7)	(455.2)
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	123.0	15.4	24.4	17.4	14.3
P/E (diluted)	na	79.7	14.0	22.0	16.3	13.6
P/B	10.2	12.7	4.1	4.9	3.7	2.8

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

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