

PDD Holdings (PDD US)

Core business delivered quality growth

PDD Holdings (PDD) announced (23 May) 1Q23 results: revenue was up 58.2% YoY to RMB37.6bn, 15/17% ahead of our/Bloomberg consensus estimates, which we attribute to robust GMV growth, and increase in monetization. The stronger-than-expected revenue growth propelled better-than-expected operating leverage and drove a beat on earnings. Non-GAAP net income increased by 141.1% YoY to RMB10.1bn, 69% ahead of consensus. The strong beat in results echoed our view that PDD still has the potential to drive for robust GMV growth through incorporation of branded products and high ASP product, and PDD's monetization has potential to further increase given its relatively better ROI compared with peers. Management highlighted that PDD is entering a growth stage that focuses more on growth quality, which in our view indicating a more stable margin profile for PDD's domestic business, while overseas expansion of Temu could help unlock long-term development potential. We lift DCF-based TP by 3% to US\$109.0, translating into 22x 23E PE. Maintain BUY.

- 1Q23 results a solid beat.** Online marketing services and others revenue rose by 49.7% YoY to RMB27.2bn in 1Q23 (72.4% of total revenue), 13% higher than our forecast. The strong beat in our view can be attributable to both stronger than expected GMV growth, which is driven by the incorporation of more branded products and high ASP products, and stronger-than-expected expansion in monetization rate, which could be aided by PDD's investment to drive for better user engagement. In 1Q23, transaction services revenue grew by 85.9% YoY to RMB10.4bn, 21% ahead of our forecast, which in our view could be attributed to the robust development of Duoduo Grocery (DDG) business, and incremental monetization generated from commission revenue.
- S&M spending focusing on driving domestic user engagement and overseas expansion.** PDD's GPM rose to 70.4% in 1Q23 (1Q22: 69.9%). Non-GAAP S&M expenses were RMB15.8bn in 1Q23, up 47% YoY, equivalent to 41.9% of total revenue (1Q22: 45.0%, 4Q22: 43.2%), inline with our forecast. Management attributed the S&M expenses growth to the investment in domestic market to enhance user stickiness, and investment in overseas expansion. R&D expense ratio was 5.3% in 1Q23, 3.3pp better than our estimate, and this drove a beat on non-GAAP OPM. PDD's overall non-GAAP OPM was 22.5% in 1Q23 (1Q22: 15.5%; 4Q22: 29.1%), better than our estimate at 19.6%.
- Entering a growth stage focusing on quality of growth.** Management highlighted on conference call that PDD is entering a growth stage that focuses more on growth quality. It will aim at providing better services, incorporating more quality product supply, enhancing supply chain capabilities and improving supply chain efficiency. PDD will strengthen its platform economy, and will aim at helping merchants and brand achieve sustainable business operation on its platform. At the same time, PDD will aim at driving consumer experience improvement.

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	16.3	11.7	9.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$109.00
 (Previous TP US\$109.00)
Up/Downside 52.6%
Current Price US\$71.42

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Stock Data

Mkt Cap (US\$ mn)	102,867.9
Avg 3 mths t/o (US\$ mn)	632.1
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%

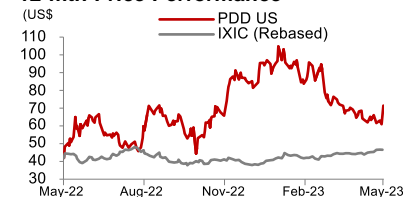
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	9.6%	2.3%
3-mth	-14.7%	-23.4%
6-mth	8.6%	-4.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q22	2Q22	3Q22	4Q22	1Q23	1Q23 CMBI estimates	Diff (%)	1Q23 Consensus	Diff (%)
Online marketing services and others	18,202	25,223	28,482	31,023	27,244	24,082	13.1%	24,177	12.7%
YoY growth (%)	29.0%	39.5%	58.7%	38.3%	49.7%				
Transaction services fees	5,591	6,216	7,022	8,797	10,393	8,628	20.5%	8,141	27.7%
YoY growth (%)	90.7%	106.7%	102.0%	86.2%	85.9%				
Total revenue	23,794	31,440	35,504	39,820	37,637	32,769	14.9%	32,320	16.5%
YoY growth (%)	7.3%	36.4%	65.1%	46.2%	58.2%				
Gross profit	16,634	23,478	28,090	30,893	26,512	23,117	14.7%	23,792	11.4%
Operating profit	2,154	8,697	10,437	9,114	6,929	3,681	88.2%	3,380	105.0%
Non-GAAP net profit	4,200	10,776	12,447	12,106	10,126	6,002	68.7%	5,999	68.8%
GPM (%)	69.9%	74.7%	79.1%	77.6%	70.4%	70.5%	-0.1 ppt	73.6%	-3.2 ppt
OPM (%)	9.1%	27.7%	29.4%	22.9%	18.4%	11.2%	7.2 ppt	10.5%	8.0 ppt
Non-GAAP NPM (%)	10.9%	28.3%	29.8%	23.7%	21.5%	11.9%	9.6 ppt	18.6%	3.0 ppt

Source: Company data, CMBIGM estimates

Figure 2: PDD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E		2023E	2024E	2025E
Revenue	175.4	213.9	247.8	164.5	195.2	223.9	6.6%	9.6%	10.7%
Gross Profit	133.0	164.1	189.9	123.3	147.8	169.7	7.9%	11.0%	11.9%
Operating Profit	42.1	60.7	77.4	36.4	51.6	65.6	15.9%	17.8%	18.0%
Non-GAAP net profit	49.2	65.7	79.1	41.4	55.7	66.7	18.9%	17.9%	18.5%
Gross Margin	75.8%	76.7%	76.6%	74.9%	75.7%	75.8%	0.9 ppt	1.0 ppt	0.8 ppt
Operating Margin	24.0%	28.4%	31.2%	22.1%	26.4%	29.3%	1.9 ppt	2.0 ppt	1.9 ppt
Non-GAAP net margin	28.1%	30.7%	31.9%	25.2%	28.5%	29.8%	2.9 ppt	2.2 ppt	2.1 ppt

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	175.4	213.9	247.8	166.6	200.6	233.9	5.3%	6.6%	5.9%
Gross Profit	133.0	164.1	189.9	124.8	147.2	169.6	6.6%	11.4%	12.0%
Operating Profit	42.1	60.7	77.4	35.1	48.5	62.0	20.1%	25.3%	24.7%
Non-GAAP net profit	49.2	65.7	79.1	41.1	53.2	66.8	19.6%	23.5%	18.4%
Gross Margin	75.8%	76.7%	76.6%	74.9%	73.4%	72.5%	1.0 ppt	3.3 ppt	4.1 ppt
Operating Margin	24.0%	28.4%	31.2%	21.1%	24.2%	26.5%	3.0 ppt	4.2 ppt	4.7 ppt
Non-GAAP net margin	28.1%	30.7%	31.9%	24.7%	26.5%	28.5%	3.4 ppt	4.2 ppt	3.4 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	175,379	213,872	247,820	276,390	297,309	312,682	322,239	330,904
NPV of FCF	433,674							
Discounted terminal value	456,082							
Total PDD equity valuation	1,092,238							
No. of shares (diluted, mn)	1,447							
Valuation per share (US\$)	109.0							

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	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						
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

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
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
Net cash from operations	28,197	28,783	48,508	56,551	78,889	95,731
Investing						
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
Net cash from investing	(38,358)	(35,562)	(22,362)	(3,508)	(4,277)	(4,461)
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	87,369	161,981
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	87,369	161,981	253,252
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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%
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	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)
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	123.0	15.4	16.3	11.7	9.6
P/E (diluted)	na	79.7	14.0	14.8	11.1	9.2
P/B	10.2	12.7	4.1	3.8	2.7	2.1

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

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