

PDD Holdings (PDD US)

Earnings recovery in sight despite ongoing investment phase

PDD Holdings (PDD) announced (26 Mar) 4Q25 results: revenue increased by 12.0% YoY (3Q25: 9.0%) to RMB123.9bn, in line with Bloomberg consensus estimates. This was driven by a 5% beat in transaction services fees, primarily fuelled by better-than-expected revenue growth in the Temu business, but partially offset by a 3% miss in online marketing services and other revenues, which we attribute to soft consumption sentiment in 4Q25. Operating profit (OP) rose 8.3% YoY to RMB27.7bn in 4Q25 and was largely in line with consensus, although non-GAAP net income of RMB26.3bn missed expectations by 16% due to a larger-than-expected income tax expense. For 2025, PDD's revenue grew 10% YoY, while non-GAAP net profit declined by 12% YoY due to continued investment to enhance its platform ecosystem. After rolling forward our valuation to 2026E, our SOTP-based target price increased by 5% to US\$161.7 (previously US\$154.3). PDD is currently trading at 8x 2026E non-GAAP P/E, with approximately RMB496bn in cash, restricted cash and ST investment on hand. We forecast 16% YoY growth in non-GAAP net profit in 2026E, supported by narrowing losses at Temu and solid earnings growth in the core business. We view the risk-reward as attractive and reiterate our BUY rating.

■ **Overall revenue inline with consensus.** In 4Q25, PDD's online marketing services and other revenue increased by 5.3% YoY to RMB60.0bn (4Q24: 17.1% YoY; 3Q25: 8.1% YoY), 3% below consensus. Transaction services revenue grew 19.2% YoY to RMB63.9bn (4Q24: 33.3% YoY; 3Q25: 9.9% YoY), 5% ahead of consensus, which in our view was driven by strong performance in Temu. Total revenue of RMB123.9bn in 4Q25 was in line with consensus.

■ **OP and OPM also inline with consensus.** PDD's gross profit margin (GPM) declined to 55.5% in 4Q25 (4Q24: 56.8%), coming in 1.1ppts below consensus, which we attribute to a higher-than-expected revenue contribution from the relatively lower-margin Temu business. Sales and marketing expenses reached RMB34.4bn, up 9.6% YoY (4Q24: +17.7% YoY; 3Q25: -0.5% YoY), accounting for 27.7% of total revenue (4Q24: 28.3%), and were in line with consensus. Operating profit of RMB27.7bn and OPM of 22.4% were also in line with expectations.

■ **Lift SOTP-based TP to US\$161.7; maintain BUY.** We rolled over our valuation window to 2026E, and our new TP consists of, per ADS: 1) US\$95.0 for the main app based on 10x 2026E PE (was US\$100.7 based on 12.5x 2025E PE); 2) US\$2.0 for Duoduo Grocery based on 1.0x 2026E PS (was US\$1.9); 3) US\$25.0 for Temu based on 1.0x 2026E PS (was US\$20.7 based on 1.0x 2025E PS); and 4) US\$39.6 for net cash (was US\$31.0).

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	393,836	431,846	498,592	562,481	598,398
Net profit (RMB mn)	112,434.5	99,364.5	116,159.2	135,416.8	138,916.2
Adjusted net profit (RMB mn)	122,343.6	107,301.4	124,575.0	144,348.5	148,418.3
YoY growth (%)	80.2	(12.3)	16.1	15.9	2.8
EPS (Adjusted) (RMB)	82.71	72.38	83.21	95.47	97.20
Consensus EPS (RMB)	82.71	75.22	87.08	101.57	102.36
P/E (x)	8.7	10.0	8.6	7.5	7.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$161.70**
 (Previous TP) US\$154.30
Up/Downside **57.6%**
Current Price **US\$102.61**

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Stock Data

Mkt Cap (US\$ mn)	153,616.4
Avg 3 mths t/o (US\$ mn)	748.7
52w High/Low (US\$)	138.13/88.35
Total Issued Shares (mn)	1497.1

Source: FactSet

Shareholding Structure

Entities affiliated with Zheng Huang	24.8%
Entities affiliated with Tencent	13.8%

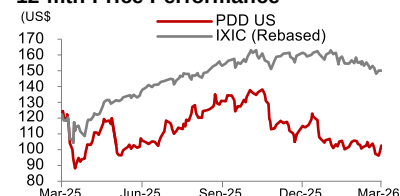
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-2.6%	1.6%
3-mth	-10.8%	-4.0%
6-mth	-21.1%	-19.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	4Q25E Consensus	Diff (%)
Online marketing services and others	42,456	49,116	49,351	57,011	48,722	55,703	53,348	60,010	61,567	-2.5%
YoY growth (%)	55.8%	29.5%	24.3%	17.1%	14.8%	13.4%	8.1%	5.3%		
Transaction services fees	44,356	47,944	50,003	53,599	46,950	48,282	54,929	63,902	61,009	4.7%
YoY growth (%)	326.8%	234.2%	71.5%	33.3%	5.8%	0.7%	9.9%	19.2%		
Total revenue	86,812	97,060	99,354	110,610	95,672	103,985	108,277	123,912	123,762	0.1%
YoY growth (%)	130.7%	85.7%	44.3%	24.4%	10.2%	7.1%	9.0%	12.0%		
Gross profit	54,117	63,361	59,645	62,812	54,725	58,126	61,436	68,757	69,987	-1.8%
S&M	23,411	26,049	30,484	31,357	33,403	27,210	30,323	34,352	34,360	0.0%
G&A	1,823	1,839	1,806	2,085	1,659	1,532	1,755	1,690	2,069	18.3%
R&D	2,910	2,909	3,063	3,777	3,578	3,591	4,332	4,995	4,617	8.2%
Operating profit	25,974	32,565	24,292	25,592	16,086	25,793	25,026	27,720	27,875	-0.6%
YoY growth (%)	274.9%	156.0%	45.8%	14.3%	-38.1%	-20.8%	3.0%	8.3%		
Net profit	27,998	32,009	24,981	27,447	14,742	30,753	29,328	24,541	29,144	15.8%
Non-GAAP net profit	30,602	34,432	27,459	29,851	16,916	32,708	31,382	26,295	31,210	15.7%
YoY growth (%)	202.2%	125.5%	61.3%	17.2%	-44.7%	-5.0%	14.3%	-11.9%		
GPM (%)	62.3%	65.3%	60.0%	56.8%	57.2%	55.9%	56.7%	55.5%	56.5%	-1.1 ppt
S&M expense ratio	27.0%	26.8%	30.7%	28.3%	34.9%	26.2%	28.0%	27.7%	27.8%	0.0 ppt
G&A expense ratio	2.1%	1.9%	1.8%	1.9%	1.7%	1.5%	1.6%	1.4%	1.7%	-0.3 ppt
R&D expense ratio	3.4%	3.0%	3.1%	3.4%	3.7%	3.5%	4.0%	4.0%	3.7%	0.3 ppt
OPM (%)	29.9%	33.6%	24.5%	23.1%	16.8%	24.8%	23.1%	22.4%	22.5%	-0.2 ppt
Non-GAAP NPM (%)	35.3%	35.5%	27.6%	27.0%	17.7%	31.5%	29.0%	21.2%	25.2%	-4.0 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 2: PDD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Revenue	498.6	562.5	598.4	494.5	545.6	-	0.8%	3.1%	-
Gross profit	284.5	320.6	339.1	281.8	317.9	-	1.0%	0.9%	-
Operating profit	118.9	145.0	154.0	124.3	149.6	-	-4.4%	-3.1%	-
Non-GAAP net profit	124.6	144.3	148.4	134.4	153.0	-	-7.3%	-5.7%	-
Gross margin	57.1%	57.0%	56.7%	57.0%	58.3%	-	0.1 ppt	-1.3 ppt	-
Operating margin	23.8%	25.8%	25.7%	25.1%	27.4%	-	-1.3 ppt	-1.6 ppt	-
Non-GAAP net margin	25.0%	25.7%	24.8%	27.2%	28.1%	-	-2.2 ppt	-2.4 ppt	-

Source: CMBIGM estimates

Figure 3: PDD: CMBI forecast vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Revenue	498.6	562.5	598.4	496.1	557.1	576.1	0.5%	1.0%	3.9%
Gross profit	284.5	320.6	339.1	286.3	328.0	333.8	-0.6%	-2.3%	1.6%
Operating profit	118.9	145.0	154.0	119.0	144.0	147.3	-0.1%	0.7%	4.6%
Non-GAAP net profit	124.6	144.3	148.4	129.4	153.0	156.3	-3.7%	-5.6%	-5.1%
Gross margin	57.1%	57.0%	56.7%	57.7%	58.9%	57.9%	-0.7 ppt	-1.9 ppt	-1.3 ppt
Operating margin	23.8%	25.8%	25.7%	24.0%	25.8%	25.6%	-0.1 ppt	-0.1 ppt	0.2 ppt
Non-GAAP net margin	25.0%	25.7%	24.8%	26.1%	27.5%	27.1%	-1.1 ppt	-1.8 ppt	-2.3 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 4: PDD: SOTP valuation

#	Segment	Rev (RMBmn)	OP (RMBmn)	NOPAT (RMBmn)	2026E P/E (x)	2026E P/S (x)	Val. Rmb mn	Val. US\$m	\$/share	Value split	Comment
1	PDD main app Duoduo	296,316	124,453	99,562	10.0		995,622	142,232	95.0	58.8%	10x 2026E PE; tax rate @20%
2	Grocery Temu	21,355				1.0	21,355	3,051	2.0	1.3%	1.0x 2026E PS
3	(2026E)	262,100				1.0	262,100	37,443	25.0	15.5%	1.0x 2026E PS
4	Net cash						415,073	59,296	39.6	24.5%	2026E net cash
Total							1,694,149	242,021	161.7		

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	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	247,639	393,836	431,846	498,592	562,481	598,398
Cost of goods sold	(91,724)	(153,900)	(188,802)	(214,092)	(241,908)	(259,325)
Gross profit	155,916	239,936	243,044	284,499	320,572	339,073
Operating expenses	(97,217)	(131,513)	(148,420)	(165,631)	(175,606)	(185,024)
Selling expense	(82,189)	(111,301)	(125,288)	(139,423)	(146,601)	(154,167)
Admin expense	(4,076)	(7,553)	(6,636)	(7,661)	(8,643)	(9,195)
R&D expense	(10,952)	(12,659)	(16,496)	(18,547)	(20,361)	(21,662)
Others	0	0	0	0	0	0
Operating profit	58,699	108,423	94,624	118,868	144,967	154,049
Interest income	10,238	20,553	25,584	25,338	27,602	27,944
Interest expense	(44)	0	0	0	0	0
Foreign exchange gain/loss	36	588	(1,967)	(1,967)	(1,967)	(1,967)
Others	2,953	3,120	2,727	2,727	2,727	2,727
Pre-tax profit	71,881	132,684	120,968	144,967	173,329	182,754
Income tax	(11,850)	(20,267)	(21,733)	(28,936)	(38,042)	(43,966)
Others	(5)	17	129	129	129	129
After tax profit	60,027	112,435	99,364	116,159	135,417	138,916
Minority interest	0	0	0	0	0	0
Net profit	60,027	112,435	99,364	116,159	135,417	138,916
Adjusted net profit	67,899	122,344	107,301	124,575	144,348	148,418
BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	294,750	415,648	518,980	650,670	799,102	959,400
Cash & equivalents	59,794	57,768	108,901	238,638	385,201	544,447
Restricted cash	61,985	68,426	73,831	73,831	73,831	73,831
Account receivables	3,914	3,679	5,109	5,899	6,655	7,080
Prepayment	4,213	4,413	7,527	8,690	9,803	10,429
Other current assets	164,843	281,361	323,613	323,613	323,613	323,613
Non-current assets	53,328	89,386	111,064	110,682	110,710	110,726
PP&E	980	879	1,306	919	948	964
Right-of-use assets	4,105	5,064	4,863	4,863	4,863	4,863
Intangibles	21	19	15	19	19	19
Other non-current assets	48,222	83,423	104,880	104,880	104,880	104,880
Total assets	348,078	505,034	630,044	761,352	909,812	1,070,126
Current liabilities	152,901	188,423	212,215	219,361	223,473	235,368
Short-term borrowings	649	5,310	0	0	0	0
Account payables	74,997	91,656	107,407	113,334	122,325	128,352
Other current liabilities	20,262	20,210	22,174	25,964	28,021	29,379
Lease liabilities	1,642	2,106	2,499	2,499	2,499	2,499
Accrued expenses	55,351	69,142	80,136	77,564	70,628	75,138
Non-current liabilities	7,936	3,298	2,922	2,922	2,922	2,922
Convertible bonds	5,232	0	0	0	0	0
Other non-current liabilities	2,704	3,298	2,922	2,922	2,922	2,922
Total liabilities	160,837	191,721	215,137	222,283	226,395	238,290
Share capital	0	0	0	0	0	0
Capital surplus	107,399	118,067	127,106	127,106	127,106	127,106
Retained earnings	75,119	187,421	285,685	409,847	554,196	702,614
Other reserves	4,724	7,825	2,116	2,116	2,116	2,116
Total shareholders equity	187,242	313,313	414,907	539,069	683,418	831,836
Total equity and liabilities	348,078	505,034	630,044	761,352	909,812	1,070,126

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

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