

# China/Hong Kong Company Update

## Pinduoduo Inc

Bloomberg: PDD US Equity | Reuters: PDD.O

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

13 Jan 2022

**BUY** (Upgrade from HOLD)

Last Traded Price (12 Jan 2022): US\$60.38 (NASDAQ : 15,188)

Price Target 12-mth: US\$96.00 (59% upside) (Prev US\$93.00)

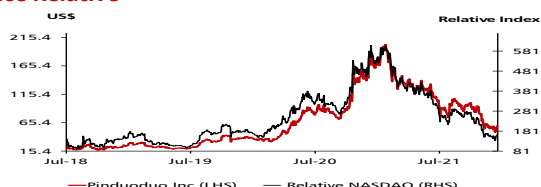
### Analyst

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### What's New

- Revenue growth remains higher than the industry with 69%, 30%, and 28% for FY21F, FY22F, and FY23F
- Growth drivers are e-grocery expansion and high monetisation potential with 700m+ MAU
- Share price correction has been overdone given solid revenue growth and improving earnings
- Upgrade to BUY from HOLD with revised TP of US\$96, due to higher revenue growth led by e-grocery expansion

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	59,492	100,377	130,282	167,166
EBITDA	(8,226)	449	4,338	18,554
Pre-tax Profit	(7,180)	1,349	5,238	19,454
Net Profit	(7,180)	1,349	5,238	19,454
Non-GAAP net profit	(2,965)	5,549	9,438	23,654
Non-GAAP profit(gth%)	(30.5)	N/A	70	151
EPS (RMB)	(6.02)	1.08	4.18	15.52
EPS (US\$)	(0.95)	0.17	0.66	2.44
EPS Gth (%)	0.0	N/A	288.4	271.4
Diluted EPS (US\$)	(0.95)	0.17	0.66	2.44
DPS (US\$)	0.00	0.00	0.00	0.00
BV Per Share (US\$)	7.64	8.16	9.26	12.14
PE (X)	nm	356.7	91.9	24.7
P/Cash Flow (X)	16.2	11.8	7.6	4.6
P/Free CF (X)	16.3	12.0	7.7	4.6
EV/EBITDA (X)	nm	705.2	58.2	7.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	7.9	7.4	6.5	5.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	(16.9)	2.2	7.5	22.8
Earnings Rev (%)		40	nm	194
Consensus EPS (RMB)		4.44	8.42	15.22
Other Broker Recs:		B:41	S:1	H:11

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Key e-grocery player with huge user base

### Investment Thesis

**Monetisation potential from 700m+ user base.** Pinduoduo's MAU of 700m+ surpassed Alibaba in 2020. This should continuously attract 3P merchants and expand product categories and SKUs, which will drive advertising revenue. We expect higher earnings thanks to improving operating efficiency and more focus on high-margin marketplace business.

**E-grocery a key growth driver.** Duoduo grocery is a leading player in Community Group BUY (CGB) with focus on fresh grocery. The online fresh grocery market size is expected to grow at a CAGR of 38% over FY20-23, from its currently low penetration of 12%.

**Stronger revenue growth than leading players.** We expect Pinduoduo's revenue to grow at c.41% CAGR during FY20-FY23F, faster than leading competitors, driven by its steady user growth in lower-tier cities and rising purchase frequency in new categories.

### Valuation:

We have a BUY rating on the counter. We set our TP at US\$96, based on a 6x FY22F price-to-sales (P/S), largely in line with the historical average of leading players.

### Where we differ:

**Higher than consensus GMV growth.** We forecast Pinduoduo's GMV growth at 46% and 34% for FY21F and FY22F, slightly higher than market consensus. We believe its e-grocery expansion is faster than expected, supported by the first-mover advantage and wide user base in lower-tier cities.

### Key Risks to Our View:

(1) Changes in government regulations; (2) Intensifying market competition in e-commerce and CGB; (3) Failure to retain existing users.

### At A Glance

Issued Capital (m shrs)	1,239
Mkt Cap (US\$m)	74,811
Major Shareholders (%)	
Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	559.08
GICS Industry: Consumer Discretionary / Retailing	



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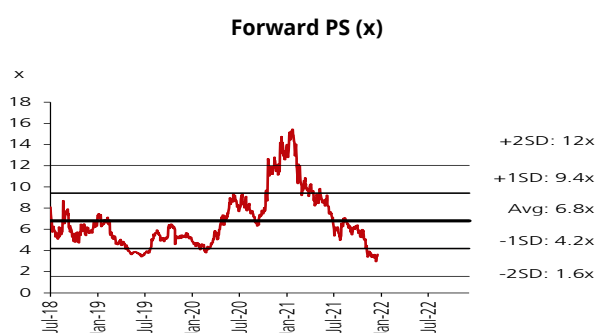
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## Pinduoduo Inc

### Company Background

Established in 2014 and listed in 2018, Pinduoduo is the third-largest e-commerce platform in China with a 10% market share in 2019 (any latest number say 2020) in terms of gross merchandise value. The company focuses on agricultural products. Online marketplace services and commission fees accounted for 81% and 10% of its FY20 revenue respectively. HUANG Zheng, its former Chairman and CEO, is the company's largest shareholder. Tencent is the second-largest shareholder.

### Historical PS and PB band



Source: Thomson Reuters, DBS HK

## Pinduoduo Inc

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
GMV (Rmb bn)	1,006.6	1,667.6	2,438.9	3,273.0	4,065.0
No. of active buyers (m)	585.2	788.4	922.4	1,014.7	1,095.8

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Online market place	26,814	47,954	78,044	109,644	142,275
Transaction	3,328	5,787	14,633	19,638	24,390
Merchandise	0	5,751	7,700	1,000	500
<b>Total</b>	<b>30,142</b>	<b>59,492</b>	<b>100,377</b>	<b>130,282</b>	<b>167,166</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	30,142	59,492	100,377	130,282	167,166
Cost of Goods Sold	(6,339)	(19,279)	(37,357)	(43,663)	(55,500)
<b>Gross Profit</b>	<b>23,803</b>	<b>40,213</b>	<b>63,020</b>	<b>86,619</b>	<b>111,666</b>
Other Opng (Exp)/Inc	(32,341)	(49,594)	(63,172)	(82,880)	(93,712)
<b>Operating Profit</b>	<b>(8,538)</b>	<b>(9,380)</b>	<b>(151)</b>	<b>3,738</b>	<b>17,954</b>
Other Non Opg (Exp)/Inc	146	419	0	0	0
Associates & JV Inc	29	84	0	0	0
Net Interest (Exp)/Inc	1,396	1,698	1,500	1,500	1,500
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>(6,968)</b>	<b>(7,180)</b>	<b>1,349</b>	<b>5,238</b>	<b>19,454</b>
Tax	0	0	0	0	0
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>(6,968)</b>	<b>(7,180)</b>	<b>1,349</b>	<b>5,238</b>	<b>19,454</b>
Net Profit before Except.	(6,968)	(7,180)	1,349	5,238	19,454
EBITDA	(7,726)	(8,226)	449	4,338	18,554

### Growth

Revenue Gth (%)	129.7	97.4	68.7	29.8	28.3
EBITDA Gth (%)	25.0	(6.5)	N/A	866.7	327.7
Opg Profit Gth (%)	(20.9)	9.9	(98.4)	(2,572.0)	380.2
Net Profit Gth (%)	32.3	(3.0)	N/A	288.4	271.4

### Margins & Ratio

Gross Margins (%)	79.0	67.6	62.8	66.5	66.8
Opg Profit Margin (%)	(28.3)	(15.8)	(0.2)	2.9	10.7
Net Profit Margin (%)	(23.1)	(12.1)	1.3	4.0	11.6
ROAE (%)	(32.1)	(16.9)	2.2	7.5	22.8
ROA (%)	(11.7)	(6.1)	0.7	2.2	6.0
ROCE (%)	(34.1)	(17.4)	(0.2)	4.3	17.6
Div Payout Ratio (%)	N/A	N/A	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

## Pinduoduo Inc

## Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	558	833	683	533	383
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	2,497	8,552	8,552	8,552	8,552
Cash & ST Invt	68,635	139,395	181,002	244,804	350,277
Inventory	0	0	0	0	0
Debtors	0	0	0	0	0
Other Current Assets	4,367	10,129	12,709	16,579	22,383
<b>Total Assets</b>	<b>76,057</b>	<b>158,909</b>	<b>202,946</b>	<b>270,467</b>	<b>381,595</b>
ST Debt	899	1,866	1,866	1,866	1,866
Creditors	29,926	53,834	80,751	121,126	181,690
Other Current Liab	14,943	28,182	40,453	58,860	86,471
LT Debt	5,207	14,433	14,433	14,433	14,433
Other LT Liabilities	436	418	418	418	418
Shareholder's Equity	24,647	60,176	65,025	73,763	96,717
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>76,057</b>	<b>158,909</b>	<b>202,946</b>	<b>270,467</b>	<b>381,595</b>
Non-Cash Wkg. Capital	(40,502)	(71,887)	(108,495)	(163,408)	(245,778)
Net Cash/(Debt)	62,529	123,096	164,703	228,505	333,978
Debtors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Creditors Turn (avg days)	1,511.1	820.6	668.2	855.6	1,006.6
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.5	0.5	0.6	0.6	0.5
Current Ratio (x)	1.6	1.8	1.6	1.4	1.4
Quick Ratio (x)	1.5	1.7	1.5	1.3	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	0.4	0.3	3.7	3.7	3.7
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

## Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	(6,968)	(7,180)	1,349	5,238	19,454
Dep. & Amort.	638	652	600	600	600
Tax Paid	0	0	0	0	0
Assoc. & JV Inc/(loss)	(29)	(84)	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	14,821	28,197	40,707	62,901	104,573
Other Operating CF	6,358	6,612	(1,949)	(5,838)	(20,054)
<b>Net Operating CF</b>	<b>14,821</b>	<b>28,197</b>	<b>40,707</b>	<b>62,901</b>	<b>104,573</b>
Capital Exp.(net)	(27)	(43)	(600)	(600)	(600)
Other Invt.(net)	(27,868)	(38,077)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(424)	(238)	0	0	0
<b>Net Investing CF</b>	<b>(28,320)</b>	<b>(38,358)</b>	<b>(600)</b>	<b>(600)</b>	<b>(600)</b>
Div Paid	0	0	0	0	0
Chg in Gross Debt	7,861	13,930	0	0	0
Capital Issues	7,994	37,869	0	0	0
Other Financing CF	0	0	(1,000)	(1,000)	(1,000)
<b>Net Financing CF</b>	<b>15,855</b>	<b>51,799</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Currency Adjustments	450	(140)	0	0	0
Chg in Cash	2,806	41,498	39,107	61,301	102,973
Opg CFPS (RMB)	0.00	0.00	0.00	0.00	0.00
Free CFPS (RMB)	12.79	23.62	32.00	49.71	82.96

Source: Company, DBS HK

**Pinduoduo Inc**

**Target Price & Ratings History**

USD



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	19-Feb-21	US\$195.78	US\$131.00	Fully Valued
2:	18-Mar-21	US\$149.46	US\$131.00	Fully Valued
3:	25-Aug-21	US\$99.12	US\$95.40	Hold
4:	29-Nov-21	US\$68.46	US\$93.00	Hold

Source: DBS HK

Analyst: Tsz-Wang TAM, CFA  
Lilian LV

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 13 Jan 2022 09:29:38 (HKT)

Dissemination Date: 13 Jan 2022 15:43:36 (HKT)

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