

China

ADD (no change)

Consensus ratings*: Buy 42 Hold 9 Sell 1

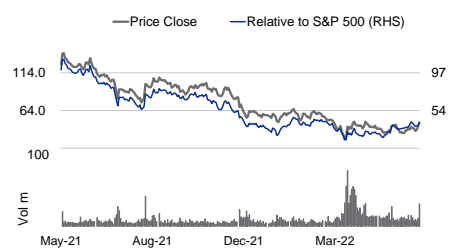
Current price: US\$48.30
 Target price: ▼ US\$106.0
 Previous target: US\$138.0
 Up/downside: 119.5%
 CGI / Consensus: 52.0%

Reuters: PDD.O
 Bloomberg: PDD US
 Market cap: US\$61,070m
 Average daily turnover: US\$761.1m
 Current shares o/s: 1,446m
 Free float: 25.5%

*Source: Bloomberg

Key changes in this note

- FY22F EPS decreased by 1.7%.
- FY23F EPS decreased by 3.6%.
- FY24F EPS decreased by 1.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	29.1	-6.5	-59.6
Relative (%)	29.7	-1.5	-58.6

Major shareholders	% held
Zheng Huang	29.4
Tencent	16.5

Analysts

Lei Yang

T (86) 21 6162 9676
 E yanglei@chinastock.com.hk

Hang Xu

T (852) 3698 6308
 E xuhang@chinastock.com.hk

Pinduoduo Inc

Short-term pressure but long-term potential

- PDD's 1Q22 revenue was Rmb23.8bn, up 7% yoy, slightly below our expectation, mainly because it largely reduced its 1P business. PDD achieved a non-GAAP net profit of Rmb4.2bn for the quarter, in line with our expectation.
- Given its already very large user base, PDD will focus on improving its services to existing customers to improve user frequency and ARPU.
- Reiterate Add with a new DCF-based TP of US\$106

Robust 1Q22 results

Excluding the 1P business impact, PDD's revenue grew 39% yoy in 1Q22 with 29% yoy growth in online marketing services revenue and 91% yoy growth in transaction services revenue. This was the fourth consecutive profitable quarter for PDD. The gross margin for the quarter was 69.9%, up 18% pts yoy, owing mainly to a reduction in 1P sales, partially offset by higher fulfillment expenses. The sales and marketing expenses ratio was 47.2% (1Q21: 58.6%, 4Q21: 41.7%), as PDD continued to shift its investment focus from selling and marketing to R&D and technology investment. PDD will continue to invest in agriculture technology and infrastructure to improve the overall digitalization of the agriculture industry, so the R&D expenses ratio will continue to increase. But the R&D and agriculture-related investment will take time to bear fruit. We expect PDD's 2Q22F revenue to grow by 6% yoy and non-GAAP net profit to grow by 6.9% yoy.

Focus change from AAU growth to ARPU growth

At the end of 1Q22, PDD had 881.9m annual active users (AAU), up by 7.1% yoy and 1.5% qoq; and 751.3m monthly active users (MAU), up by 3.7% yoy and 2.4% qoq. Given the already very large user base, management expects AAU growth to slow down in the future and some short-term fluctuation in user numbers to be unavoidable. PDD will focus on improving its services to existing customers to improve user frequency and ARPU. Overall ARPU continued to improve by 18.9% yoy to Rmb108.4 in 1Q22.

Learning from the pandemic

We believe PDD's revenue was negatively impacted by Omicron and the lockdown policy in Apr due to the logistics and delivery capacity restrictions. But in May, PDD launched various group purchase packaged products in Shanghai, which can be delivered to residential communities within 48 hours through aggregated product sorting and delivery. Therefore, we expect a mom recovery in revenue in May. As one of the supply guarantee companies, PDD participated in providing essential supplies to frontline workers and people in difficulty, in cooperation with local governments, and built a good relationship with the governments. The Shanghai lockdown provided PDD's young mid-level management with an opportunity to take charge in an emergency situation and mature quickly into responsible leaders, who will support PDD's future growth. The importance of the digitalization of the agriculture industry was highlighted during the pandemic, which strengthened PDD's determination to invest in agriculture technology and the agriculture supply chain. PDD's "10 Billion Agriculture Initiative" is still in the project assessment stage, as there are many aspects of the agriculture industry that need to be digitalized, and PDD is being prudent about where to begin.

Reiterate Add with a new DCF-based TP of US\$106

We cut our EPS forecasts for FY22–24F by 1.7%, 3.6% and 1.1%, respectively, as we expect top-line growth to slow down due to pandemic fluctuations and its agricultural investment to take time to develop. We still like PDD, as we believe it has great long-term potential to improve its margins. The key risks are 1) the Alibaba and JD threat in lower-tier markets, 2) competition from live-broadcasting platforms, and 3) regulatory risks.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	59,492	93,950	108,417	137,896	165,102
Operating EBITDA (Rmbm)	(8,733)	8,391	14,399	21,599	31,835
Net Profit (Rmbm)	(2,965)	13,830	15,512	21,500	29,484
Core EPS (Rmb)	(2.49)	9.56	10.73	14.87	20.39
Core EPS Growth	(32.5%)		12.2%	38.6%	37.1%
FD Core P/E (x)	NA	33.84	30.17	21.77	15.87
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	39.00	21.25	12.65	7.26
P/FCFE (x)	102.4	NA	21.8	14.2	11.0
Net Gearing	(205%)	(187%)	(189%)	(192%)	(189%)
P/BV (x)	6.41	6.23	5.47	4.61	3.73
ROE	(7.0%)	20.4%	19.3%	23.0%	26.0%
% Change In Core EPS Estimates			(1.72%)	(3.64%)	(1.13%)
CGI/consensus EPS (x)			1.10	1.00	0.97

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Short-term pressure but long-term potential

Figure 1: PDD earnings review

(RMB m)	1Q21	1Q22	yoy
Online marketing services	14,111	18,158	28.7%
Transaction services	2,931	5,591	90.7%
Merchandise sales	5,124	44	-99.1%
Total revenue	22,167	23,794	7.3%
Payment processing fees	-	-	N/A
Costs associated with the operation of our platform	(10,746)	(7,160)	-33.4%
Costs of revenues	(10,746)	(7,160)	-33.4%
Gross profit	11,421	16,634	45.6%
GP margin	51.5%	69.9%	18% pts
Sales and marketing expenses	(12,997)	(11,219)	-13.7%
General and administrative expenses	(352)	(592)	68.3%
Research and development expenses	(2,219)	(2,669)	20.3%
Operating profit	(4,147)	2,154	N/A
OP margin	-18.7%	9.1%	28% pts
Interest and investment gain, net	970	796	-18.0%
Interest expense	(335)	(13)	-96.2%
Foreign exchange (loss)/gain	(10)	20	N/A
Other income/(loss), net	470	240	-49.0%
Loss before income tax	(3,052)	3,198	N/A
Income tax expenses	-	(565)	N/A
Share of results of equity investees	147	(34)	N/A
Net income	(2,905)	2,599	N/A
Non-controlling interests	-	-	N/A
Net income attributable to shareholders	(2,905)	2,599	N/A
Net income attributable to ordinary shareholders	(2,905)	2,599	N/A
NP margin	-13.1%	10.9%	24% pts
Non-GAAP adjustments	1,015	1,601	57.7%
Non-GAAP net income	(1,890)	4,200	N/A
Non-GAAP NP margin	-8.5%	17.7%	26% pts

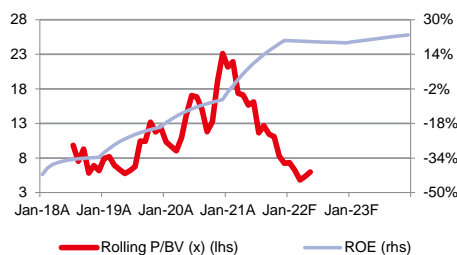
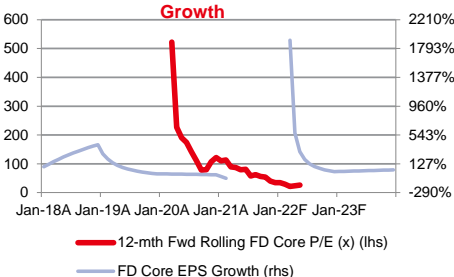
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: PDD earnings revisions

(Rmb m)	FY22F			FY23F			FY24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	114,773	108,417	-5.5%	145,980	137,896	-5.5%	178,111	165,102	-7.3%
Gross margin	65.4%	67.4%	2.0% pts	65.4%	67.8%	2.4% pts	64.6%	68.0%	3.4% pts
Operating margin	10.3%	11.8%	1.5% pts	15.2%	14.2%	-1.1% pts	17.9%	17.8%	-0.1% pts
Net income	11,684	10,512	-10.0%	16,813	16,000	-4.8%	24,322	23,984	-1.4%
Non-GAAP net income	15,784	15,512	-1.7%	22,313	21,500	-3.6%	29,822	29,484	-1.1%
EPS (Rmb)	10.91	10.73	-1.7%	15.43	14.87	-3.6%	20.62	20.39	-1.1%

SOURCES: CGIS RESEARCH

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth


Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	59,492	93,950	108,417	137,896	165,102
Gross Profit	40,213	62,232	73,118	93,531	112,228
Operating EBITDA	(8,733)	8,391	14,399	21,599	31,835
Depreciation And Amortisation	(647)	(1,494)	(1,604)	(2,034)	(2,389)
Operating EBIT	(9,380)	6,897	12,795	19,564	29,446
Financial Income/(Expense)	1,698	1,831	438	986	1,750
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	503	975	750	750	750
Profit Before Tax (pre-EI)	(7,180)	9,702	13,983	21,300	31,946
Exceptional Items					
Pre-tax Profit	(7,180)	9,702	13,983	21,300	31,946
Taxation	0	(1,934)	(3,471)	(5,300)	(7,961)
Exceptional Income - post-tax					
Profit After Tax	(7,180)	7,769	10,512	16,000	23,984
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	4,215	6,061	5,000	5,500	5,500
Net Profit	(2,965)	13,830	15,512	21,500	29,484
Recurring Net Profit	(2,965)	13,830	15,512	21,500	29,484
Fully Diluted Recurring Net Profit	(2,965)	13,830	15,512	21,500	29,484

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	(8,733)	8,391	14,399	21,599	31,835
Cash Flow from Invt. & Assoc.					
Change In Working Capital	31,050	13,562	11,149	16,702	16,851
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	719	2,681	1,604	2,034	2,389
Other Operating Cashflow	3,463	4,252	(854)	(1,284)	(1,639)
Net Interest (Paid)/Received	1,698	1,831	438	986	1,750
Tax Paid	0	(1,934)	(3,471)	(5,300)	(7,961)
Cashflow From Operations	28,197	28,783	23,265	34,736	43,225
Capex	(43)	(3,287)	(2,000)	(2,000)	(1,000)
Disposals Of FAs/subsidiaries	55,083	97,547	0	0	0
Acq. Of Subsidiaries/investments	(93,398)	(130,268)	0	0	0
Other Investing Cashflow	0	445	0	0	0
Cash Flow From Investing	(38,358)	(35,562)	(2,000)	(2,000)	(1,000)
Debt Raised/(repaid)	13,930	(1,875)	200	200	200
Proceeds From Issue Of Shares	37,869	0	0	0	0
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(0)	0	0	0	0
Cash Flow From Financing	51,799	(1,875)	200	200	200
Total Cash Generated	41,638	(8,655)	21,465	32,936	42,425
Free Cashflow To Equity	3,769	(8,655)	21,465	32,936	42,425
Free Cashflow To Firm	(9,404)	(5,548)	22,413	33,898	43,401

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet					
(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	139,395	152,561	174,026	206,962	249,386
Total Debtors	730	674	2,571	1,556	3,385
Inventories					
Total Other Current Assets	9,400	7,675	8,100	8,567	9,082
Total Current Assets	149,524	160,909	184,697	217,085	261,853
Fixed Assets	203	2,203	2,954	3,105	1,806
Total Investments	0	0	0	0	0
Intangible Assets	1,277	701	346	161	71
Total Other Non-Current Assets	7,905	17,396	17,490	17,593	17,707
Total Non-current Assets	9,385	20,301	20,790	20,859	19,584
Short-term Debt	1,866	0	200	400	600
Current Portion of Long-Term Debt					
Total Creditors	53,834	62,510	75,012	90,014	108,017
Other Current Liabilities	28,182	31,220	32,283	33,538	34,844
Total Current Liabilities	83,882	93,730	107,495	123,952	143,461
Total Long-term Debt					
Hybrid Debt - Debt Component	14,433	11,789	11,789	11,789	11,789
Total Other Non-Current Liabilities	418	577	577	577	577
Total Non-current Liabilities	14,851	12,365	12,365	12,365	12,365
Total Provisions	0	0	0	0	0
Total Liabilities	98,733	106,095	119,861	136,318	155,826
Shareholders' Equity	60,176	75,115	85,626	101,626	125,611
Minority Interests	0	0	0	0	0
Total Equity	60,176	75,115	85,626	101,626	125,611

Key Ratios					
	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	97.4%	57.9%	15.4%	27.2%	19.7%
Operating EBITDA Growth	10.5%	N/A	71.6%	50.0%	47.4%
Operating EBITDA Margin	(14.7%)	8.9%	13.3%	15.7%	19.3%
Net Cash Per Share (Rmb)	103.3	97.3	112.0	134.7	163.9
BVPS (Rmb)	50.48	51.94	59.21	70.28	86.86
Gross Interest Cover	(12.39)	5.60	11.15	16.84	25.04
Effective Tax Rate	0.0%	19.9%	24.8%	24.9%	24.9%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	5.48	2.73	5.46	5.46	5.48
Inventory Days	-	-	-	-	-
Accounts Payables Days	795.1	669.4	711.0	678.9	685.4
ROIC (%)	25.1%	(11.0%)	(19.7%)	(25.8%)	(31.8%)
ROCE (%)	(12.8%)	12.5%	15.7%	20.6%	25.8%
Return On Average Assets	(4.0%)	7.1%	7.8%	9.3%	10.7%

Key Drivers					
	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Annual active buyers growth (%)	34.7%	10.2%	3.0%	10.0%	7.0%
Average ticket size growth (%)	-14.8%	-8.1%	4.0%	5.0%	4.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Mar 2022		
632 companies under coverage for quarter ended on 31 Mar 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched (2 year data)

Pinduoduo Inc (PDD US)

RECOMMENDATION FRAMEWORK

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