

Pinduoduo Inc

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DBS Group Research . Equity

30 May 2022

BUY

Last Traded Price (27 May 2022): US\$48.30 (NASDAQ : 12,131)
Price Target 12-mth: US\$72.00 (49% upside)

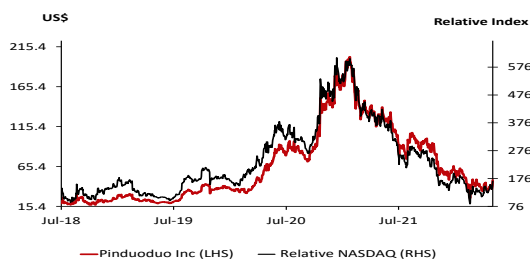
Analyst

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What's New

- 1Q22 core revenue excluding merchandise sales grew 39% to c.Rmb 23.7bn
- Non-GAAP net profit of Rmb4.2bn in 1Q22 was higher than market expectations
- Our FY22F and FY23F revenue forecasts largely unchanged due to Covid uncertainty in 2Q22
- Maintain BUY and US\$72 TP based on 5x P/S

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	59,492	93,950	116,629	157,709
EBITDA	(8,226)	8,472	11,634	21,048
Pre-tax Profit	(7,180)	9,702	13,034	22,448
Net Profit	(7,180)	7,769	11,034	20,448
Core profit	(2,965)	13,830	18,534	27,948
EPS (RMB)	(6.02)	6.20	8.80	16.32
EPS (US\$)	(0.90)	0.93	1.31	2.44
EPS Gth (%)	0.0	N/A	42.0	85.3
Diluted EPS (US\$)	(0.90)	0.81	1.15	2.13
DPS (US\$)	0.00	0.00	0.00	0.00
BV Per Share (US\$)	7.25	8.95	10.68	13.53
PE (X)	nm	52.2	36.8	19.8
CorePE (X)	nm	52.2	36.8	19.8
P/Cash Flow (X)	13.7	14.1	10.0	7.0
P/Free CF (X)	13.7	14.4	10.1	7.0
EV/EBITDA (X)	nm	31.2	19.1	7.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	6.7	5.4	4.5	3.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	(16.9)	11.5	13.4	20.1
Core Earnings Rev (%)			96	18
Consensus EPS (RMB)			10.35	15.09
Other Broker Recs:		B:43	S:0	H:9

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 800m+ user base. Pinduoduo's active buyers reached 882m in 1Q 2022. This should continue to attract 3P merchants and expand product categories and SKUs, which will drive advertising revenue. We expect higher earnings ahead thanks to improving operating efficiency and greater focus on high-margin marketplace business.

E-grocery a key growth driver. Duoduo grocery is a leading player in Community Group BUY (CGB) with a focus on fresh grocery. The online fresh grocery market is expected to grow at a CAGR of 38% over FY20-23, as penetration is currently low at 12% in 2021.

Stronger revenue growth than leading players. We expect Pinduoduo's revenue to grow by c.30% CAGR during FY21-FY23F, faster than leading competitors, driven by its steady user growth in lower-tier cities and rising purchase frequency in new categories.

Valuation:

We derive our TP of US\$72, based on 5x FY22F price-to-sales (P/S). The multiple is largely in line with the historical range of leading players.

Where we differ:

Higher than consensus GMV growth. Our projection on Pinduoduo's GMV growth is slightly higher than market consensus. We believe its e-grocery expansion is faster, supported by the first-mover advantage and large 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)	1,617
Mkt Cap (US\$m)	78,101
Major Shareholders (%)	
Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	773.99
GICS Industry: Consumer Discretionary / Retailing	



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WHAT'S NEW

1Q22 core revenue grew by 39%, above market expectations

1Q22 results highlights

- Revenue excluding merchandise sales increased by 39% y-o-y to c.Rmb23.7bn, above market expectations.
- Total revenue increased by 7% y-o-y to Rmb23.8bn. 1P revenue decreased from Rmb 5bn in 1Q21 to Rmb 44m in 1Q22, as the company has been de-emphasizing 1P business.
- Segment-wise, online marketing revenue increased by 29% to Rmb18,158m; transaction services revenue rose 91% to Rmb5,591m.
- The robust growth is supported by higher purchase frequency as well as wider product offerings.
- Selling and marketing expenses decreased 14% to c.Rmb11bn. R&D expenses increased by 21% to Rmb2.7bn.
- Non-GAAP net loss was Rmb4.2bn in 1Q22, above consensus forecast of c.Rmb2.5bn, mainly due to higher revenue growth and lower marketing spending.
- Average active buyers increased by 7% y-o-y to 882m in 1Q22.

Our View

- Management reiterated it will continue to invest in R&D on agriculture technology.
- The company will continue to place more stringent controls on its sales and marketing expenses, as further growth of its already large user base of 882m MAU will be limited.

- The marketplace business (3P) margin increased from 67% in 1Q21 to 70% in 1Q22, driven by increasing volume growth and wider value-added service offerings for merchants.

- Given the improved margin and lower marketing spending amid weak macro in last two quarters, we remain confident that Pinduoduo's profitability should continue to improve. We now forecast FY22 and FY23 non-GAAP net earnings to increase by 29% and 49% in FY22F and FY23F. Despite the strong revenue growth in 1Q, we have kept our FY22F and FY23F revenue forecast largely unchanged amid Covid resurgence. We maintain our TP at US\$72, based on 5x FY22F P/S.

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.

Pinduoduo Inc

Quarterly / Interim Income Statement (RMBm)

FY Dec	1Q2021	4Q2021	1Q2022	% chg yoy	% chg qoq
Revenue	22,167	27,231	23,794	7.3	(12.6)
Cost of Goods Sold	(10,746)	(6,516)	(7,160)	(33.4)	9.9
Gross Profit	11,421	20,715	16,634	45.6	(19.7)
Other Oper. (Exp)/Inc	(15,568)	(13,808)	(14,500)	(6.9)	5.0
Operating Profit	(4,147)	6,907	2,134	(151.5)	(69.1)
Other Non Opg (Exp)/Inc	460	163	260	(43.5)	59.2
Associates & JV Inc	147	16.7	(33.6)	nm	(301.5)
Net Interest (Exp)/Inc	635	612	784	23.4	28.1
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	(2,905)	7,698	3,144	nm	(59.2)
Tax	0.0	(1,079)	(565)	nm	(47.6)
Minority Interest	0.0	0.0	0.0	nm	nm
Net Profit	(2,905)	6,620	2,579	nm	(61.0)
Net profit bef Except.	(2,905)	6,620	2,579	nm	(61.0)
EBITDA	(3,540)	7,087	2,361	nm	(66.7)
Margins (%)					
Gross Margins	51.5	76.1	69.9		
Opg Profit Margins	(18.7)	25.4	9.0		
Net Profit Margins	(13.1)	24.3	10.8		

Source: Company, DBS HK

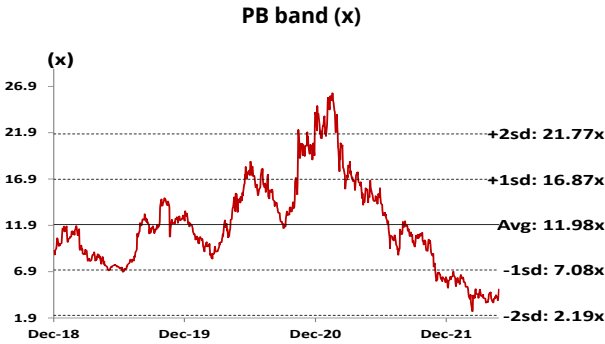
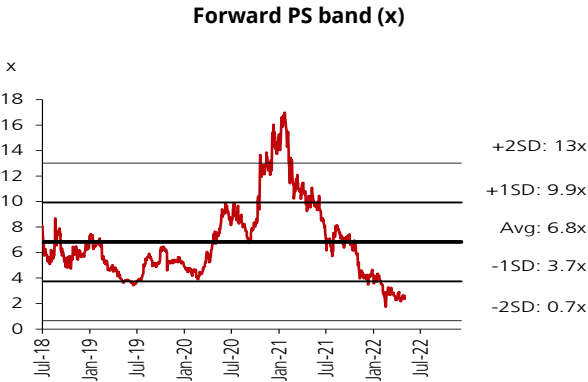
Income Statement (RMB m)

FY Dec	2020A	2021A	% chg vov
Revenue	59,492	93,950	57.9
Cost of Goods Sold	(19,279)	(31,718)	64.5
Gross Profit	40,213	62,232	54.8
Other Opng (Exp)/Inc	(49,594)	(55,335)	11.6
Operating Profit	(9,380)	6,897	(173.5)
Other Non Opg (Exp)/Inc	419	728	73.8
Associates & JV Inc	84	247	195.1
Net Interest (Exp)/Inc	1,698	1,831	7.8
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	(7,180)	9,702	nm
Tax	0	(1,934)	nm
Minority Interest	0	0	nm
Net Profit	(7,180)	7,769	nm
Net Profit before Except.	(7,180)	7,769	nm
EBITDA	(8,226)	8,472	nm
Margins & Ratio			
Gross Margins (%)	67.6	66.2	
Opg Profit Margin (%)	(15.8)	7.3	
Net Profit Margin (%)	(12.1)	8.3	

Source: Company, DBS HK

Pinduoduo Inc

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Pinduoduo Inc

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
GMV (Rmb bn)	1,006.6	1,667.6	2,441.0	2,896.2	3,579.8
No. of active buyers (m)	585.2	788.4	868.7	912.1	939.5

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Online market place	26,814	47,954	72,563	99,052	136,031
Transaction	3,328	5,787	14,140	17,377	21,479
Merchandise	0	5,751	7,246	200	200
Total	30,142	59,492	93,950	116,629	157,709

Source: Company, DBS HK

Pinduoduo Inc

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	30,142	59,492	93,950	116,629	157,709
Cost of Goods Sold	(6,339)	(19,279)	(31,718)	(37,457)	(47,453)
Gross Profit	23,803	40,213	62,232	79,172	110,257
Other Opg (Exp)/Inc	(32,341)	(49,594)	(55,335)	(68,138)	(89,808)
Operating Profit	(8,538)	(9,380)	6,897	11,034	20,448
Other Non Opg (Exp)/Inc	146	419	728	0	0
Associates & JV Inc	29	84	247	0	0
Net Interest (Exp)/Inc	1,396	1,698	1,831	2,000	2,000
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(6,968)	(7,180)	9,702	13,034	22,448
Tax	0	0	(1,934)	(2,000)	(2,000)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	(6,968)	(7,180)	7,769	11,034	20,448
Net Profit before Except.	(6,968)	(7,180)	7,769	11,034	20,448
EBITDA	(7,726)	(8,226)	8,472	11,634	21,048
Growth					
Revenue Gth (%)	129.7	97.4	57.9	24.1	35.2
EBITDA Gth (%)	25.0	(6.5)	N/A	37.3	80.9
Opg Profit Gth (%)	(20.9)	9.9	(173.5)	60.0	85.3
Net Profit Gth (%)	32.3	(3.0)	N/A	42.0	85.3
Margins & Ratio					
Gross Margins (%)	79.0	67.6	66.2	67.9	69.9
Opg Profit Margin (%)	(28.3)	(15.8)	7.3	9.5	13.0
Net Profit Margin (%)	(23.1)	(12.1)	8.3	9.5	13.0
ROAE (%)	(32.1)	(16.9)	11.5	13.4	20.1
ROA (%)	(11.7)	(6.1)	4.6	5.5	8.1
ROCE (%)	(34.1)	(17.4)	6.7	9.9	16.3
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	2021A	2022F	2023F
Net Fixed Assets	558	833	3,142	2,992	2,842
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	2,497	8,552	17,159	17,159	17,159
Cash & ST Invt	68,635	139,395	152,561	194,646	254,367
Inventory	0	0	0	0	0
Debtors	0	0	0	0	0
Other Current Assets	4,367	10,129	8,349	8,349	8,349
Total Assets	76,057	158,909	181,210	223,145	282,716
ST Debt	899	1,866	0	0	0
Creditors	29,926	53,834	62,510	81,263	105,641
Other Current Liab	14,943	28,182	31,220	39,869	51,113
LT Debt	5,207	14,433	11,789	11,789	11,789
Other LT Liabilities	436	418	577	577	577
Shareholder's Equity	24,647	60,176	75,115	89,648	113,597
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	76,057	158,909	181,210	223,145	282,716
Non-Cash Wkg. Capital	(40,502)	(71,887)	(85,381)	(112,783)	(148,405)
Net Cash/(Debt)	62,529	123,096	140,772	182,857	242,578
Debtors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Creditors Turn (avg days)	1,511.1	820.6	682.3	711.9	728.0
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	0.6
Current Ratio (x)	1.6	1.8	1.7	1.7	1.7
Quick Ratio (x)	1.5	1.7	1.6	1.6	1.6
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	5.1	5.1	5.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	(6,968)	(7,180)	9,702	13,034	22,448
Dep. & Amort.	638	652	600	600	600
Tax Paid	0	0	(1,934)	(2,000)	(2,000)
Assoc. & JV Inc/(loss)	(29)	(84)	(247)	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	14,821	28,197	28,783	40,686	58,321
Other Operating CF	6,358	6,612	(8,122)	(11,634)	(21,048)
Net Operating CF	14,821	28,197	28,783	40,686	58,321
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)	(34,962)	0	0
Net Investing CF	(28,320)	(38,358)	(35,562)	(600)	(600)
Div Paid	0	0	0	0	0
Chg in Gross Debt	7,861	13,930	(644)	0	0
Capital Issues	7,994	37,869	0	0	0
Other Financing CF	0	0	(1,231)	(1,000)	(1,000)
Net Financing CF	15,855	51,799	(1,875)	(1,000)	(1,000)
Currency Adjustments	450	(140)	(145)	0	0
Chg in Cash	2,806	41,498	(8,800)	39,086	56,721
Opg CFPS (RMB)	0.00	0.00	0.00	0.00	0.00
Free CFPS (RMB)	12.79	23.62	22.49	31.99	46.06

Source: Company, DBS HK

Pinduoduo Inc

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	25-Aug-21	US\$99.12	US\$95.40	Hold
2:	29-Nov-21	US\$68.46	US\$93.00	Hold
3:	13-Jan-22	US\$60.38	US\$96.00	Buy
4:	22-Mar-22	US\$39.99	US\$72.00	Buy

Source: DBS HK

Analyst: Tsz Wang Tam

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

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