

China / Hong Kong Company Update

PDD Holdings

Bloomberg: PDD US Equity | Reuters: PDD.O

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 Jan 2024

BUY

Last Traded Price (17 Jan 2024): US\$142.15 (NASDAQ: 14,856)

Price Target 12-mth: US\$226 (59% upside) (Prev US\$171)

Analyst

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What's New

- Expect revenue growth of 83%/40%/27% in FY23-25F, supported by low-price strategy and rapid overseas expansion
- Revised up FY23/24/25F adjusted earnings by 3%/6%/7% on stronger overseas business performance
- Expect Non-GAAP net profit growth of 51%/38%/29% for FY23F/FY24F /FY25F, respectively
- Maintain BUY with higher TP of US\$226 based on 25x PE (vs 20x previously)

Benefitting from the consumption downgrade

Investment Thesis

Monetisation potential from an 900m+ user base. PDD's active buyers reached c.905m in 2022, ranking it among the biggest e-commerce platforms in China. The platform should continue to attract 3P merchants and expand its product categories and SKUs to drive merchant activity and generate advertising revenue. We expect higher earnings ahead, thanks to improving operating efficiency and a greater focus on the high-margin marketplace business.

E-grocery a key growth driver. PDD is the largest online agriculture platform in China, and Duo Duo Grocery is a leading player in community group buying (CGB) with a focus on fresh groceries. We expect online fresh grocery market to grow c.17% p.a. during FY23-25F as penetration is currently in the low-teens. Riding on rising demand for fresh grocery and continued expansion into new categories, we expect PDD's revenue to grow by 33% p.a. in FY23-FY25F, faster than leading competitors.

Price Relative



Overseas expansion a new catalyst. PDD launched its overseas marketplace platform Temu in North America in Sep 2022 as the first step in expanding its overseas business. We expect PDD's knowhow in social commerce, its ability to attract price-sensitive consumers, as well as its innovative business model that leverages on group buying to offer deep discounts, will enable the platform to make further inroads in overseas markets. Despite Temu still being in an early stage of expansion, any further monetisation should re-rate PDD's valuation. We forecast Temu's GMV to grow at a two-year CAGR of 75% and reach US\$49bn in FY25F.

Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	130,558	239,379	334,878	424,633
EBITDA	34,698	59,603	87,147	116,688
Pre-tax Profit	36,419	64,526	93,070	122,611
Net Profit	31,693	51,621	74,456	98,088
Core profit	39,530	59,621	82,456	106,088
Core Profit Gth (%)	186	51	38	29
EPS (RMB)	25.07	40.83	58.89	77.58
EPS (US\$)	3.48	5.67	8.18	10.78
EPS Gth (%)	304.3	62.9	44.2	31.7
Diluted EPS (US\$)	3.06	4.98	7.18	9.46
DPS (US\$)	0.00	0.00	0.00	0.00
BV Per Share (US\$)	12.94	19.50	28.56	40.22
PE (X)	40.8	25.1	17.4	13.2
P/Cash Flow (X)	26.7	19.6	14.2	10.8
P/Free CF (X)	27.0	19.9	14.4	10.9
EV/EBITDA (X)	31.7	17.3	10.7	6.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	11.0	7.3	5.0	3.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	32.9	35.0	34.1	31.3
Core Earnings Rev (%)		3	6	7
Consensus EPS (RMB)		40.42	52.69	68.21
Other Broker Recs:		B:53	S:0	H:3

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

We recommend BUY on PDD with a TP of US\$226 (vs. previous HK\$171).

We raised adjusted earnings by 3%/6%/7% on higher revenue growth assumption of 83%/40%/27% for FY23F/FY24F/FY25F respectively. Our TP of US\$226 is premised on 25x FY24 adjusted PE (vs 20x previously) on the back of the higher earnings CAGR of 33% in FY23-FY25F. Potential share price catalysts include (1) stronger-than-expected transaction volume growth; (2) margin improvements backed by increased merchant activity; and (3) faster overseas expansion.

Key Risks

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

At A Glance

Issued Capital (m shrs)	1,320
Mkt Cap (US\$m)	188,971
Major Shareholders (%)	Nil
Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	957.34
GICS Industry: Consumer Discretionary / Retailing	

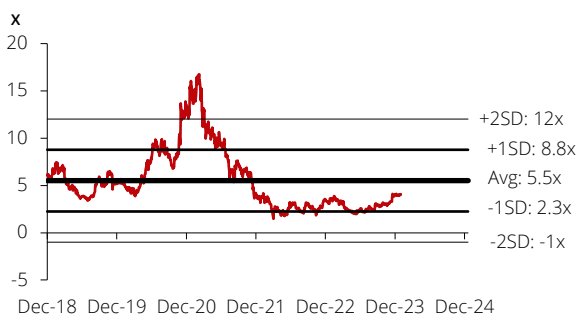
PDD Holdings

Company Background

Established in 2014 and listed in 2018, Pinduoduo is the third largest e-commerce platform in China with a 19% market share in 2021 in terms of gross merchandise value. The company focuses on agricultural products. Online marketplace services and transaction services accounted for 77% and 15% of its FY21 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

Forward PS band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

PDD Holdings

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
GMV (Rmb bn)	2,441.0	3,040.1	3,889.1	4,616.3	5,305.4
No. of active buyers (m)	868.7	904.8	922.9	936.7	950.8

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Online marketplace services (Rmb m)	72,563	102,722	149,730	182,342	212,216
Transaction services (Rmb m)	14,140	27,626	89,449	152,336	212,216
Merchandise sales (Rmb m)	7,246	209	200	200	200
Total	93,950	130,558	239,379	334,878	424,633

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	93,950	130,558	239,379	334,878	424,633
Cost of Goods Sold	(31,718)	(31,462)	(83,913)	(119,011)	(152,996)
Gross Profit	62,232	99,095	155,466	215,867	271,637
Other Opng (Exp)/Inc	(55,335)	(68,693)	(102,863)	(134,220)	(160,449)
Operating Profit	6,897	30,402	52,603	81,647	111,188
Other Non Opg (Exp)/Inc	728	2,072	5,000	3,500	3,500
Associates & JV Inc	247	0	0	0	0
Net Interest (Exp)/Inc	1,831	3,945	6,923	7,923	7,923
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	9,702	36,419	64,526	93,070	122,611
Tax	(1,934)	(4,726)	(12,905)	(18,614)	(24,522)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	7,769	31,693	51,621	74,456	98,088
Net Profit before Except.	7,769	31,693	51,621	74,456	98,088
EBITDA	9,367	34,698	59,603	87,147	116,688
Growth					
Revenue Gth (%)	57.9	39.0	83.4	39.9	26.8
EBITDA Gth (%)	N/A	270.4	71.8	46.2	33.9
Opg Profit Gth (%)	(173.5)	340.8	73.0	55.2	36.2
Net Profit Gth (%)	N/A	308.0	62.9	44.2	31.7
Margins & Ratio					
Gross Margins (%)	66.2	75.9	64.9	64.5	64.0
Opg Profit Margin (%)	7.3	23.3	22.0	24.4	26.2
Net Profit Margin (%)	8.3	24.3	21.6	22.2	23.1
ROAE (%)	11.5	32.9	35.0	34.1	31.3
ROA (%)	4.6	15.2	19.0	21.0	21.1
ROCE (%)	6.7	23.9	25.7	27.8	27.0
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

PDD Holdings

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	3,142	2,461	1,161	(139)	(1,439)
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	17,159	18,041	18,041	18,041	18,041
Cash & ST Invt	152,561	207,413	279,191	377,158	503,539
Inventory	0	0	0	0	0
Debtors	0	0	0	0	0
Other Current Assets	8,349	9,205	8,515	8,033	7,695
Total Assets	181,210	237,120	306,909	403,093	527,836
ST Debt	0	13,886	13,886	13,886	13,886
Creditors	62,510	63,317	63,317	63,317	63,317
Other Current Liab	31,220	39,687	49,855	63,583	82,238
LT Debt	11,789	1,576	1,576	1,576	1,576
Other LT Liabilities	577	884	884	884	884
Shareholder's Equity	75,115	117,771	177,392	259,848	365,936
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	181,210	237,120	306,909	403,093	527,837
Non-Cash Wkg. Capital	(85,381)	(93,799)	(104,656)	(118,867)	(137,860)
Net Cash/(Debt)	140,772	191,951	263,730	361,696	488,078
Debtors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Creditors Turn (avg days)	702.5	785.4	282.1	197.5	153.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.6	0.6	0.9	0.9	0.9
Current Ratio (x)	1.7	1.9	2.3	2.7	3.2
Quick Ratio (x)	1.6	1.8	2.2	2.7	3.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	27.9	4.1	6.5	6.5	6.5
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

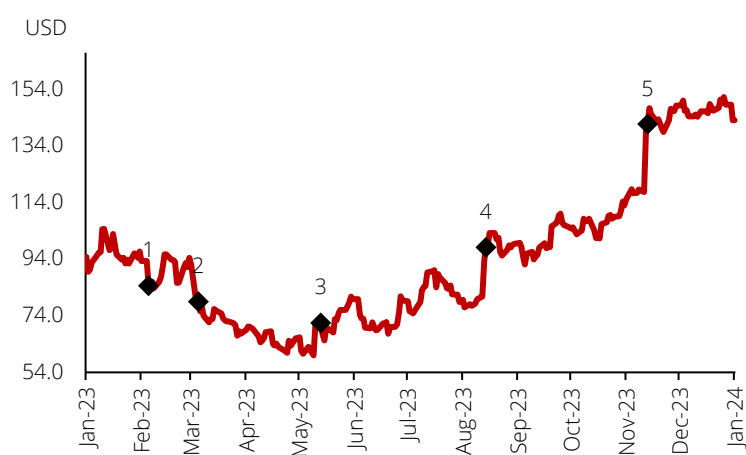
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	9,702	36,419	64,526	93,070	122,611
Dep. & Amort.	1,495	2,224	2,000	2,000	2,000
Tax Paid	(1,934)	(4,726)	(12,905)	(18,614)	(24,522)
Assoc. & JV Inc/(loss)	(247)	155	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	28,783	48,508	65,856	91,044	119,459
Other Operating CF	(9,017)	(34,073)	(53,621)	(76,456)	(100,088)
Net Operating CF	28,783	48,508	65,856	91,044	119,459
Capital Exp.(net)	(3,287)	(636)	(1,000)	(1,000)	(1,000)
Other Invt.(net)	(32,721)	(18,144)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	445	(3,582)	0	0	0
Net Investing CF	(35,563)	(22,362)	(1,000)	(1,000)	(1,000)
Div Paid	0	0	0	0	0
Chg in Gross Debt	(1,875)	0	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	0	10	(77)	(77)	(77)
Net Financing CF	(1,875)	10	(77)	(77)	(77)
Currency Adjustments	(145)	100	0	0	0
Chg in Cash	(8,800)	26,256	64,778	89,967	118,382
Opg CFPS (RMB)	0.00	0.00	0.00	0.00	0.00
Free CFPS (RMB)	20.35	37.86	51.29	71.22	93.69

Source: Company, DBS HK

PDD Holdings

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	21-Feb-23	US\$93.42	US\$137.00	BUY
2	21-Mar-23	US\$91.94	US\$135.00	BUY
3	29-May-23	US\$71.42	US\$154.00	BUY
4	30-Aug-23	US\$93.22	US\$159.00	BUY
5	29-Nov-23	US\$139.00	US\$171.00	BUY

Source: DBS HK

Analyst: Tsz Wang Tam
 Lilian Lv
 Andy Yu

PDD Holdings

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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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