EQUITY RESEARCH

PhillipCapital

Pingduoduo (PDD)

Year-on-year revenue growth in 2Q24 increased, intensifying support for high-quality merchants

China | E-commerce | Internet

14 Nov 2024

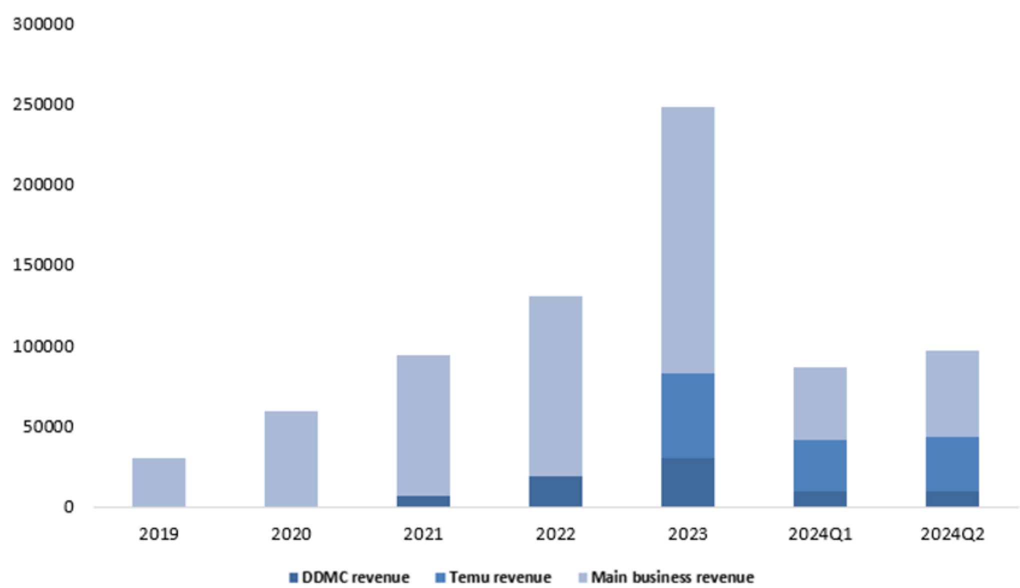
Company profile

Pinduoduo (PDD) was founded in 2015, starting as an agricultural product retail platform. By eliminating intermediaries and connecting factories directly to users and surplus manufacturing capacity, it significantly reduces product prices. It has gradually evolved into a full-category e-commerce platform focusing on low-priced popular products and social group-buying. In terms of customer acquisition, Pinduoduo leverages the social traffic ecosystem of WeChat, utilizing group purchases among acquaintances to rapidly increase user numbers. Positioned as a platform for "low-priced popular products", Pinduoduo attracts a large number of low-tier and low-income groups with its high cost-effectiveness and free shipping. In September 2022, the company's cross-border e-commerce platform, Temu, was launched in the United States and has since expanded its presence to 53 overseas countries and regions across Asia, Europe, North America, Latin America, Africa, and Oceania. By December 2023, Temu had reached 470 million independent visitors and became the most downloaded iPhone app in the United States in 2023.

2Q24 YoY revenue increased, with plans to invest 1 billion yuan to support high-quality merchants

In the second quarter of 2024, the company achieved a total revenue of 97.1 billion yuan. Comparing to the same period last year, this represents an 85.7% increase. In terms of profitability, operating profit was 32.6 billion yuan, up by 156.0% year-on-year, and Non-GAAP net profit reached 34.4 billion yuan, a 125.5% increase year-on-year. Regarding segment revenues, online marketing revenue was 49.1 billion yuan, a 29.5% increase, primarily due to the improvement in the monetization rate of marketing products. Transaction service revenue was 47.9 billion yuan, showing a significant 234.2% increase driven by the growth in platform order volume and GMV. Management plans to waive 10 billion yuan in transaction fees over the next year, and it is anticipated that the growth rate of transaction service revenue will slow down. On the expense side, the company's total operating expenses for the quarter were 30.8 billion yuan, up by 47.5% year-on-year, mainly attributed to the increase in sales and marketing expenses. During the reporting period, sales and marketing expenses amounted to 26.0 billion yuan, a 48.5% increase year-on-year, primarily due to increased spending on promotional and advertising activities.

Revenue from 2019 to 2024Q2, RMB mn



Buy

CMP USD 117
(Closing price as of 11 Nov)
Target USD 163 (+39.3%)

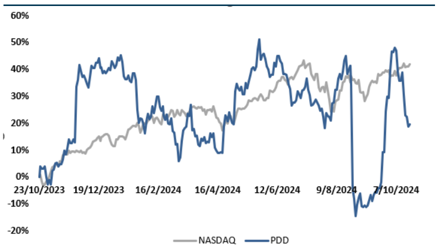
COMPANY DATA

O/S SHARES (MN) :	1,389.77
MARKET CAP (USD BN) :	1.63
52 - WK HI/LO (USD):	164.69/88.01

SHARE HOLDING PATTERN, %

Huang Zheng	25.40%
Entities affiliated with Tencent	14.10%
Entities affiliated with PDD Partnership	6.70%

PRICE VS. NASDAQ



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMB mn	FY22	FY23	FY24E	FY25E
Revenue	130,558	247,639	396,564	504,143
Shareholders Net profit	38,140	69,396	96,029	140,522
Diluted EPS	30.16	52.23	69.15	101.18
P/E ratio, x	22.8	22.9	17.2	14.8
Dividend Yield, %	0	0	0	0

Source: Company reports, Phillip Securities Est.

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Main Business: marketing products continue to exert strong efforts, and revenue has significantly increased

According to data from the National Bureau of Statistics, in the second quarter of 2024, the national online retail sales amounted to 3.7909 trillion yuan, showing a year-on-year decrease. Among these figures, the online retail sales of physical goods reached 315.4 billion yuan, also experiencing a year-on-year decline. Contrasting this with the company's 2Q24 online marketing revenue growth of 29.5%, it highlights the strong development momentum of Pinduoduo's main business. Pinduoduo mainly focuses on white-label products and agricultural produce, characterized by highly standardized products without much differentiation in functionality. Price is considered the core competitive advantage, and both are seen as insulated from advertising placements. Therefore, in 2022, Pinduoduo launched the "Full-Site Promotion" marketing product for the first time, leveraging search and contextual traffic to drive a comprehensive increase in store transaction volume. This initiative supported bidding based on target investment ratios and transaction prices, swiftly activating sellers' willingness to invest. Additionally, during the 2019 618 shopping festival, Pinduoduo introduced the "Ten Billion Subsidy" program for the first time, attracting brands like Apple, Moutai, and Mystery of the Blue to swiftly join the platform, addressing brand participation concerns while enhancing the stickiness of high-spending customer groups.

With the main business continuing to expand its market share and maintain a leading position in terms of price perception, we hold an optimistic view on the continuous improvement of its monetization capabilities. It is projected that the main business's monetization rate could reach 4.5% by 2024. The platform is expected to attract ongoing advertising investments from merchants to achieve further growth.

Duoduo Maicai: include more high-margin products for profitability

Starting in 2023, Duoduo Maicai has shifted its focus from Gross Merchandise Volume (GMV) to optimizing profit margins by reducing personnel and lowering commission rates. Additionally, Duoduo Maicai has concentrated its operations on 78 self-operated units in 30 cities, requiring these units to minimize operational losses and achieve profitability as soon as possible. At the same time, Duoduo Maicai is continuously expanding its product range to include more high-margin products, aiming to increase user purchase frequency.

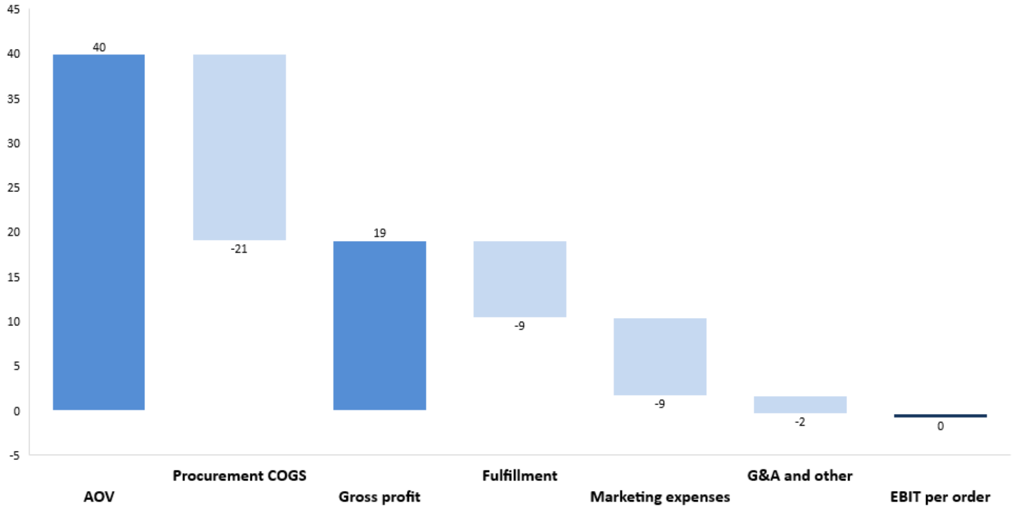
Temu: semi-consignment model launched in March while fully consignment business continues to reduce losses

2Q24, Temu's global sales continued to grow on a month-on-month basis, with significant improvements in the profitability of its fully hosted business. Considering the potential geopolitical impacts on Temu's operations in the United States, including plans by former President Trump to impose tariffs of 60% or higher on Chinese goods and congressional threats to include Temu in the Uyghur Forced Labor Prevention Act (UFLPA) entity list, the company has ceased advertising in the U.S. market since the Super Bowl. Future growth will primarily rely on organic traffic due to these factors, allowing for cost compression and ongoing reduction of annual losses.

Furthermore, in mid-March 2024, Temu introduced a semi-hosted business model where the company continues to procure from merchants, price products for consumers, conduct marketing, customer acquisition, and customer service, while merchants handle shipping from overseas warehouses and arrange end fulfillment. From Temu's perspective, the semi-hosted model offers several advantages, including shorter delivery times from local overseas warehouses, lower exposure to long-distance logistics cost fluctuations, and mitigation of fulfillment costs impact, along with the ability to expand SKU numbers and increase product prices.

Due to the unclear prospects of Temu's operations in the U.S., the company is estimating its value using transaction data from non-U.S. regions. It is anticipated that under the semi-hosted model, the platform will increase the average order value, gradually reducing fulfillment costs, and by 2025, the UE model is expected to achieve pre-tax breakeven.

UE model of Non-US market in 2025E, US$



Investment thesis

Considering the current macroeconomic environment in China, global geopolitical uncertainties, and the company's continued focus on high-quality development while providing significant transaction fee reductions, short-term profits may fluctuate. However, in the long term, this can help promote the formation of a positive platform ecosystem.

We forecast the company's operating revenue for 2024 and 2025 to be 396.6 billion yuan and 504.1 billion yuan respectively, with Non-GAAP net profits of 96 billion yuan and 140.5 billion yuan, corresponding to EPS of 69 yuan and 101 yuan, and PEs of 17.2x and 14.8x.

According to the SOTP valuation method, the total target market value for Pinduoduo in 2024 is estimated at 225.8 billion USD, with a target price of 163 USD, corresponding to a Non-GAAP PE ratio of 17.2x for 2024 and a rating of "Buy." The segmented values are as follows:

1. Pinduoduo Main Platform: 124 USD, based on a Non-GAAP PE ratio of 13x for 2024, considering potential higher profit growth with a premium of around 30% compared to the current average valuation of comparable companies in the e-commerce industry.
2. Duo Duo Mai Cai: 6 USD, based on a Non-GAAP PE ratio of 15x for 2024, matching the valuation assigned to other companies with similar business models.
3. Temu: 12 USD, based on a Non-GAAP PE ratio of 15x for 2025, considering the support of its rapid revenue growth.
4. Net Cash: 21 USD.

Risk factors

1) Overseas business performance below expectations; 2) Intensified competition in the e-commerce industries; 3) Impact of geopolitical issues on business development.

Financials

Key Financial Data					
Dec Y/E	FY21	FY22	FY23	FY24E	FY25E
Valutation Ratio					
P/E ratio	60.0	22.8	22.9	17.2	14.8
Dividend Yield, %	0.00%	0.00%	0.00%	0.00%	0.00%
Per share data(RMB)					
EPS	9.74	30.16	52.23	69.15	101.18
BVPS	59.9	93.1	140.9	150.5	250.1
Growth & Margin					
Growth					
Revenue Growth	57.92%	38.97%	89.68%	60.14%	27.13%
Gross Profit Growth	54.75%	59.24%	57.34%	61.91%	33.53%
EBIT Growth	176.82%	285.17%	97.37%	34.77%	46.67%
Net Profit Growth	192.42%	305.96%	90.33%	36.85%	51.71%
Margin					
Gross Profit Margin	66.24%	75.90%	62.96%	63.66%	66.86%
EBIT Margin	10.06%	27.89%	29.03%	24.43%	28.19%
Net Profit Margin	8.27%	24.16%	24.24%	20.72%	24.72%
Key Ratios					
ROE	125.08%	110.86%	132.26%	189.72%	145.12%
ROA	51.85%	55.06%	71.14%	99.03%	92.00%

Consolidated Statement of Profit or Loss					
Dec Y/E, RMB mn	**2021**	**2022**	**2023**	**2024E**	**2025E**
REVENUE	93950	130558	247639	396564	504143
Cost of services	-31718	-31462	-91724	-144121	-167053
Gross profit	62232	99095	155916	252443	337090
R&D expenses	-8993	-10385	-10952	-22809	-33273
Selling, administrative and general expenses	-46342	-58309	-86264	-141756	-170722
Operating profit, GAAP	6897	30402	58699	87877	133094
Operating profit, Non-GAAP	11336	37004	68068	101758	148988
Finance income	3790	6069	13226	9000	9000
Finance costs	-1231	-52	-44	0	0
Profit before income tax and share of results of equity investees	9455	36419	71881	96877	142094
Income tax expenses	-1934	-4726	-11850	-14729	-17466
Share of results of equity investees	247	-155	-5	0	0
Net profit, GAAP	7769	31538	60027	82148	124628
Net profit, Non-GAAP	12208	38140	69396	96029	140522
Non-GAAP Profit attributable to:					
– Equity holders of the Company	12208	38140	69396	96029	140522
– Non-controlling interests	0	0	0	0	0

Consolidated Statement of Financial Position					
Dec Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
Current assets					
Accounts receivable	4924	6907	11342	11586	13257
Cash and cash equivalents	66044	92300	121780	211329	344897
Others	89941	117411	161628	122994	134011
Total current assets	160909	216618	294750	345909	492165
Non-current assets					
PPE	2203	1045	980	2186	3478
Others	18097	19457	52348	52348	52348
Total non-current assets	20301	20502	53328	54534	55826
Total Assets	181210	237120	348078	400443	547991
Current liabilities					
Total current liabilities	93730	116889	152901	183481	192655
Non-current liabilities					
Total non-current liabilities	12365	2460	7936	7936	7936
Total liabilities	106095	119349	160837	191417	200591
Equity attributable to equity holders of the Company	75115	117771	187242	209026	347400
Non-controlling interests	0	0	0	0	0
Total equity	75115	117771	187242	209026	347400
Total liabilities and equity	181210	237120	348078	400443	547991

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	2021	2022	2023	2024E	2025E
CFO	28783	48508	94163	118137	148221
Net profit	7769	31538	60027	82148	124628
Depreciation and Amortization	1495	2224	786	1502	1504
Change in working capital	13562	7423	26456	27762	15109
Others	5957	7322	6893	6724	6980
CFI	-35562	-22362	-55431	-28124	-14553
Short term and long term investment,net	-32275	-21726	-54847	-27424	-13712
Purchase of property, equipment and intangible assets	-3287	-636	-584	-701	-841
CFF	-1875	10	-8961	-351	0
Cash paid for distribution of dividends	0	0	0	0	0
Cash received from financing	-1875	10	-8961	-351	0
Effect of exchange rate changes on cash	-145	100	-291	-112	-101
Net Change in Cash	-8800	26256	29479	89549	133568
Cash, CE and Restricted cash at Beg	74844	66044	92300	121780	211329
Cash, CE and Restricted cash at Y/E	66044	92300	121780	211329	344897

Current Price as of: Nov 11

Exchange rate: USD/RMB = 7.3

Source： PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20%upside from the current price
-5% to +5%	Neutral	3	Trade within ± 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20%downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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