

Pinduoduo (PDD US)

Stepping into quality growth

PDD delivered mixed 3Q21, with rev +51% YoY (miss 8%, ex-1p biz) and non-GAAP net profit at RMB3.2bn. Despite upbeat bottom line, its topline deceleration might trigger market concern on its organic growth, limited by AAC ceiling. To reflect challenging macro, focus shift to R&D from S&M and 1P biz change, we cut its topline by 7-19% in FY21-23E, implying rev + 27% in FY22E. DDMC would perform well in 4Q21E, given its solid "11.11" daily orders and UE. Mgmt emphasized its commitment on *RMB10bn Agriculture Initiative*, which would weigh on ST margin. Our new DCF-based TP is cut to US\$121 from US\$175.

- Mixed 3Q21.** 3Q21 rev +51% YoY, 19% below consensus. Excluding 1P biz, rev +55% YoY, 8% below our estimate. Non-GAAP net profit came in at RMB3.2bn (with adj. NPM at 15%), above consensus at -RMB364mn, mainly on disciplined S&M control. S&M/Rev ratio (ex-1P biz) improved to -47% in 3Q21 (vs. -49% in 2Q21). We view this result as relatively negative, given its topline deceleration under challenging macro despite upbeat margin.
- Stepping into quality growth, with focus shift to R&D from S&M.** Given challenging macro, epidemic and tightening regulation, we turn more conservative on PDD's GMV growth in next few quarters. Key driver will shift to ARPU and user engagement, instead of AAC. Looking into 2022, we expect ecommerce competition to intensify, with short video to gain share. As mgmt. focus more on R&D, rather than S&M-driven strategy, we expect PDD to step into quality growth stage. Coupled with shrinking 1P biz, we cut its topline by 7-19% in FY21-23E, suggesting rev + 27% in FY22E. CGB model was still evolving and challenging, but DDMC performed well in 3Q21 with solid orders and UE. We expect DDMC momentum to continue (daily orders peak >50mn during 11.11), with strong seasonality in 4Q21E. In the long run, PDD still excels itself with agricultural goods, sizable user traffic, high exposure in lower tier cities and natural synergies with PDD portal.
- Priority on Agriculture Initiatives to weigh on ST margin.** PDD emphasized its *RMB10bn Agriculture Initiative* <百亿农研> to support agricultural modernization and rural vitalization. Mgmt stated that 3Q21 has not reflected Agriculture Initiatives investment, and expect it to impact margin in coming quarters.
- Maintain BUY.** We cut its topline by 7-19%, but raised adj. NPM by 2-8ppts in FY21-23E. Maintain BUY with DCF-based TP at US\$121 (7.9x FY22E P/S).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	30,142	59,492	97,576	124,385	152,612
YoY growth (%)	130	97	64	27	23
Adj.net profit (RMB mn)	(4,266)	(2,965)	5,777	8,041	15,290
Adj. EPS (RMB)	(3.69)	(2.49)	4.75	6.48	12.09
YoY growth (%)	NA	NA	NA	NA	86
Consensus EPS (RMB)	NA	NA	0.49	5.34	13.45
P/E (x)	NA	NA	93	68	36
P/S (x)	18.3	9.3	5.7	4.4	3.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(28.3)	(11.9)	1.9	5.2	15.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$121
(Previous TP)	US\$175)
Up/Downside	+77.0%
Current Price	US\$68.5

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	99,662
Avg 3 mths t/o (US\$ mn)	703.19
52w High/Low (US\$)	212.6/ 74.12
Total Issued Shares (mn)	1,253

Source: Bloomberg

Shareholding Structure

Nanpeng Shen	15.35%
Baillie Gifford	2.19%
BlackRock	1.54%

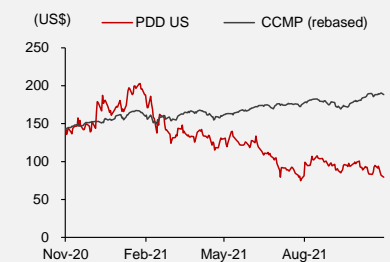
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-19.7%	-23.6%
3-mth	2.9%	-4.5%
6-mth	-38.5%	-47.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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Figure 1: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	97,576	124,385	152,612	108,365	152,900	203,148	-10.0%	-18.6%	-24.9%
Gross Profit	61,254	78,328	96,082	64,539	92,089	124,146	-5.1%	-14.9%	-22.6%
Operating Profit	(1,981)	(452)	5,959	(3,559)	2,835	18,933	NA	NA	-68.5%
Adj. net profit	5,777	8,041	15,290	(3,012)	(1,305)	2,598	NA	NA	488.6%
Adj. EPS (RMB)	4.75	6.48	12.09	0.49	5.34	13.45	NA	NA	-10.1%
Gross Margin	62.8%	63.0%	63.0%	59.6%	60.2%	61.1%	+3.2ppts	+2.7ppts	+1.8ppts
Operating Margin	-2.0%	-0.4%	3.9%	-3.3%	1.9%	9.3%	+1.3ppts	-2.2ppts	-5.4ppts
Adj. Net Margin	5.9%	6.5%	10.0%	-2.8%	-0.9%	1.3%	+8.7ppts	+7.3ppts	+8.7ppts

Source: CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	97,576	124,385	152,612	105,120	143,755	189,443	-7.2%	-13.5%	-19.4%
Gross Profit	61,254	78,328	96,082	59,307	81,761	108,911	3.3%	-4.2%	-11.8%
Operating Profit	(1,981)	(452)	5,959	(10,852)	(6,298)	2,925	NA	NA	NA
Adj. net profit	5,777	8,041	15,290	(2,716)	4,241	15,126	NA	NA	1.1%
Adj. EPS (RMB)	4.75	6.48	12.09	(2.23)	3.42	11.96	NA	NA	1.1%
Gross Margin	62.8%	63.0%	63.0%	56.4%	56.9%	57.5%	+6.4ppts	+6.1ppts	+5.5ppts
Operating Margin	-2.0%	-0.4%	3.9%	-10.3%	-4.4%	1.5%	+8.3ppts	+4.0ppts	+2.4ppts
Adj. Net Margin	5.9%	6.5%	10.0%	-2.6%	3.0%	8.0%	+8.5ppts	+3.5ppts	+2.0ppts

Source: Company data, Bloomberg

Figure 3: 3Q21 review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY	Consensus	Diff %
Revenue	4,545	7,290	7,514	10,793	6,541	12,193	14,210	26,548	22,167	23,046	21,506	-6.7%	51.3%	26,474	-19%
Operating profit	(2,121)	(1,490)	(2,792)	(2,135)	(4,397)	(1,640)	(1,296)	(2,048)	(4,147)	1,998	2,139	NA	NA	(1,752)	NA
Net profit	(1,878)	(1,003)	(2,335)	(1,752)	(4,119)	(899)	(785)	(1,376)	(2,905)	2,415	1,640	NA	NA	(1,709)	NA
Adj. net profit	(1,379)	(411)	(1,660)	(815)	(3,170)	(77)	466	(185)	(1,890)	4,125	3,150	NA	NA	(364)	NA
Adj. EPS (RMB)	(1.20)	(0.36)	(1.44)	(0.72)	(2.73)	(0.06)	0.33	(0.15)	(1.52)	2.85	2.18	NA	NA	(0.36)	NA
Margin (%)															
Gross margin	80.9%	78.2%	75.6%	81.1%	72.0%	78.2%	77.1%	56.6%	51.5%	65.7%	69.5%			58.6%	
Operating margin	-46.7%	-20.4%	-37.2%	-19.8%	-67.2%	-13.4%	-9.1%	-7.7%	-18.7%	8.7%	9.9%			-6.6%	
Adj. net margin	-30.3%	-5.6%	-22.1%	-7.6%	-48.5%	-0.6%	3.3%	-0.7%	-8.5%	17.9%	14.6%			-1.4%	
Growth (%)															
Revenue (YoY)	228.3%	169.1%	122.8%	90.9%	43.9%	67.3%	89.1%	146.0%	238.9%	89.0%	51.3%			86.3%	
Revenue (QoQ)	-19.6%	60.4%	3.1%	43.6%	-39.4%	86.4%	16.5%	86.8%	-16.5%	4.0%	-6.7%			14.9%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg

Figure 4: 3Q21 revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY
Total revenue	4,545	7,290	7,514	10,793	6,541	12,193	14,210	26,548	22,167	23,046	21,506	-6.7%	51.3%
Online marketing	3,948	6,467	6,711	9,687	5,492	11,055	12,878	18,922	14,111	18,080	17,946	-0.7%	39.4%
Transaction services	597	823	802	1,106	1,049	1,139	1,332	2,268	2,931	3,008	3,477	15.6%	161.0%
Merchant Sales	0	0	0	0	0	0	0	5,358	5,124	1,958	82	-95.8%	NA

Source: Company data

Figure 5: DCF valuation

DCF valuation (RMB mn)										
	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(1,981)	(452)	5,959	11,680	20,651	33,338	49,725	69,278	91,070	113,989
Tax	0	(1,077)	(2,698)	(2,920)	(5,163)	(8,335)	(12,431)	(17,319)	(22,768)	(28,497)
D&A	716	779	284	298	313	328	345	362	380	399
Working capital	32,946	22,373	24,215	25,426	26,697	28,032	29,433	30,905	32,450	34,073
CAPEX	(203)	(259)	(318)	(381)	(458)	(549)	(659)	(791)	(949)	(1,139)
FCF	31,477	21,364	27,442	34,102	42,040	52,814	66,412	82,434	100,184	118,824
FCF Growth		-32%	28%	24%	23%	26%	26%	24%	22%	19%
Terminal Value										1,608,690
PV (FCF+ Terminal Value)	28,459	17,462	20,279	22,784	25,394	28,843	32,790	36,797	40,431	630,313

Assumptions

WACC	10.6%
Tax rate	25.0%
Risk free rate	3.6%
Cost of debt	0.0%
Beta	1.30
Market risk return	9.0%
Cost of equity	10.6%
Debt/Assets	0.0%
Terminal growth rate	3.0%
Debt value	0

Equity Value

PV	883,552
minus: Net cash	(16,855)
minus: Minority Interest	0
Equity Value	900,407
Shares (mn)	4,627
Target Price (US\$) based on DCF	121

		WACC				
		8.6%	9.6%	10.6%	11.6%	12.6%
Growth	1.5%	147	124	107	93	83
	2.0%	155	130	111	97	85
	2.5%	164	137	116	100	87
	3.0%	175	144	121	104	90
	3.5%	189	153	127	108	93
	4.0%	205	163	134	113	97
	4.5%	225	175	142	118	101

Source: CMBIS estimate

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	30,142	59,492	97,576	124,385	152,612
Online marketing	26,814	47,954	75,535	99,899	126,800
Transaction	3,328	5,787	14,793	18,365	22,124
Merchant Sales	-	5,751	7,248	6,122	3,687
COGS	(6,339)	(19,279)	(36,322)	(46,057)	(56,530)
Gross profit	23,803	40,213	61,254	78,328	96,082
S&M	(27,174)	(41,195)	(47,038)	(58,672)	(65,721)
Admin.Exp.	(1,297)	(1,507)	(2,804)	(3,033)	(3,579)
R&D	(3,870)	(6,892)	(13,393)	(17,075)	(20,823)
Others	-	-	-	-	-
Operating profit	(8,538)	(9,380)	(1,981)	(452)	5,959
Financial Cost	1,396	1,698	2,879	3,351	4,779
Associates	146	419	-	-	-
Pre-tax income	(6,996)	(7,263)	898	2,899	10,739
Income Tax	-	-	-	(1,077)	(2,698)
Convertible preferred shares	-	-	-	-	-
Net profit	(6,968)	(7,180)	898	1,822	8,041
Adj. net profit	(4,266)	(2,965)	5,777	8,041	15,290

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	3,056	9,385	11,709	16,165	21,541
Fixed asset	41	203	239	338	483
Associates	-	-	-	-	-
Intangible assets	1,994	1,277	11,470	15,827	21,058
Others	503	7,275	-	-	-
Current assets	73,001	149,524	145,097	173,691	210,593
Cash	5,768	22,421	16,855	42,813	76,942
Restricted cash	27,578	52,422	52,422	52,422	52,422
Account receivable	1,051	730	1,079	1,339	1,613
Others	38,605	73,951	74,741	77,116	79,615
Current liabilities	45,768	83,882	108,573	133,581	160,570
Amounts due to related parties	1,503	3,386	3,628	4,600	5,646
Customer advances	606	2,423	755	999	1,268
Payable to merchants	29,926	53,834	73,963	91,825	110,621
Accrued expenses	4,877	11,193	14,202	17,793	20,910
Merchant deposits	8,855	10,926	16,025	18,365	22,124
Non-current liabilities	5,643	5,643	5,643	5,643	5,643
Convertible bonds	5,207	5,207	5,207	5,207	5,207
Others	436	436	436	436	436
MI	-	-	-	-	-
Total Equity	24,647	69,384	42,591	50,632	65,921
Shareholders' equity	24,647	60,176	65,953	73,993	89,283

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(6,968)	(7,180)	898	1,822	8,041
D&A	641	669	716	779	284
Change in WC	6,729	(370)	32,946	22,373	24,215
Others	2,558	3,613	4,879	6,219	7,249
Operating CF	2,960	(3,267)	39,439	31,193	39,788
Capex	(63)	(116)	(203)	(259)	(318)
Associates	-	-	-	-	-
Others	(30,672)	(32,603)	(4,391)	(4,975)	(5,341)
Investing CF	(30,735)	(32,719)	(4,594)	(5,235)	(5,659)
Equity raised	7,919	-	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
Financing CF	7,919	-	-	-	-
Net change in cash	(19,856)	(35,986)	34,845	25,958	34,129
Cash (beg of yr)	30,540	10,684	34,433	69,278	95,236
FX	-	-	-	-	-
Cash (end of yr)	10,684	(25,302)	69,278	95,236	129,365

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Online marketing	89.0	80.6	77.4	80.3	83.1
Transaction services	11.0	9.7	15.2	14.8	14.5
Merchant Sales	0.0	9.7	7.4	4.9	2.4
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	129.7	97.4	64.0	27.5	22.7
Gross profit	133.0	68.9	52.3	27.9	22.7
EBIT	NA	NA	NA	NA	NA
Net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(28.3)	(15.8)	(2.0)	(0.4)	3.9
Pre-tax margin	(23.2)	(12.2)	0.9	2.3	7.0
Adj. net margin	(14.2)	(5.0)	5.9	6.5	10.0
Effective tax rate	-	-	-	(37.2)	(25.1)
Returns (%)					
ROE	(28.3)	(11.9)	1.9	5.2	15.0
ROA	(7.2)	(2.5)	3.7	4.6	7.2
Per share					
Adj. EPS (RMB)	(3.69)	(2.49)	4.75	6.48	12.09
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	8.30	13.01	10.12	11.57	14.43

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