

Pinduoduo (PDD US)

Solid margin but moderate growth ahead

PDD delivered mixed 4Q21, with rev +3% YoY (miss 9%) and non-GAAP net profit at RMB8.4bn (184% above consensus, mainly on one-off rebate and disciplined S&M). Despite upbeat bottom line, its user/topline deceleration might deepen market concern on its LT organic growth, limited by AAC ceiling and slower ARPU expansion. To reflect challenging macro, epidemic impact, intensified competition and 1P biz change, we cut its topline by 13-17% in FY22-23E, implying +16% rev in FY22E. We forecast its adj. NPM at 15% in FY22E (vs. prior 7%), in which higher S&M efficiency & DDMC UE improvement to offset margin dilution from *RMB10bn Agriculture Initiative*. Our new DCF-based TP is cut to US\$65 from US\$121.

- Mixed 4Q21.** 4Q21 rev +3% YoY, 9% below consensus (mainly on less 1P biz). Excluding 1P biz, rev +28% YoY, OMS rev +19% YoY, slightly below our estimate. Non-GAAP net profit came in at RMB8.4bn (with adj. NPM at 31%), largely above consensus at RMB3.0bn, mainly on disciplined S&M control and one-off rebate (the reduction of merchandise sales and decreased server cost). S&M/Rev ratio (ex-1P biz) improved to -42% in 4Q21 (vs. -47% in 3Q21). We view this result as mixed, given its soft users (+2mn QoQ) /topline growth despite upbeat margin.
- Expecting solid margin but GMV deceleration in FY22E.** We are prudent on PDD's FY22E GMV growth, given challenging macro, epidemic and intensified competition from short video players. With AAC near to saturation, we expect PDD's key driver to be purchase frequency and user engagement, while ARPU expansion would slow down for DDMC dilution. Coupled with shrinking 1P biz, we cut its topline by 13%-17% in FY22-23E, suggesting +16% rev in FY22E. PDD prioritizes on *RMB10bn Agriculture Initiative* <百亿农研> to support agricultural modernization and rural vitalization, which might weigh on ST margin. However, we expect its core ecommerce margin solid in FY22E, coupled with UE improvement from DDMC. We forecast its adj. NPM at 15% in FY22E.
- Maintain BUY.** We cut its topline by 13-17%, but raised adj. NPM by 7-8ppts in FY22-23E, to reflect soft GMV momentum and disciplined expenses. Maintain BUY with lower DCF-based TP at US\$65 (29x FY23E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	59,492	93,950	108,522	126,695	143,310
YoY growth (%)	97	58	16	17	13
Adj.net profit (RMB mn)	(2,965)	13,830	16,177	21,289	26,696
Adj. EPS (RMB)	(2.49)	9.56	10.97	14.15	17.40
YoY growth (%)	NA	NA	NA	29	23
Consensus EPS (RMB)	NA	NA	7.91	15.00	29.20
P/E (x)	NA	27	23	18	15
P/S (x)	5.4	3.4	2.9	2.5	2.2
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(11.9)	17.6	19.0	20.3	20.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$65
 (Previous TP) US\$121
Up/Downside +62.5%
Current Price US\$40.0

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	53,390
Avg 3 mths t/o (US\$ mn)	549.93
52w High/Low (US\$)	152.06/23.21
Total Issued Shares (mn)	1,253

Source: Bloomberg

Shareholding Structure

Nanpeng Shen	15.35%
Baillie Gifford	2.32%
BlackRock	1.62%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-24.0%	-25.9%
3-mth	-22.2%	-16.1%
6-mth	-70.0%	-71.4%

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 (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	108,522	126,695	143,310	128,226	165,421	197,690	-15.4%	-23.4%	-27.5%
Gross Profit	75,207	88,482	100,030	83,234	109,901	129,498	-9.6%	-19.5%	-22.8%
Operating Profit	10,255	14,249	17,815	8,679	21,894	28,793	18.2%	-34.9%	-38.1%
Adj. net profit	16,177	21,289	26,696	12,585	24,334	35,708	28.5%	-12.5%	-25.2%
Adj. EPS (RMB)	10.97	14.15	17.40	7.91	15.00	29.20	38.7%	-5.7%	-40.4%
Gross Margin	69.3%	69.8%	69.8%	64.9%	66.4%	65.5%	+4.4ppts	+3.4ppts	+4.3ppts
Operating Margin	9.4%	11.2%	12.4%	6.8%	13.2%	14.6%	+2.7ppts	-2.0ppts	-2.1ppts
Adj. Net Margin	14.9%	16.8%	18.6%	9.8%	14.7%	18.1%	+5.1ppts	+2.1ppts	+0.6ppts

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	108,522	126,695	143,310	124,385	152,612	NA	-12.8%	-17.0%	NA
Gross Profit	75,207	88,482	100,030	78,328	96,082	NA	-4.0%	-7.9%	NA
Operating Profit	10,255	14,249	17,815	(452)	5,959	NA	-2368.8%	139.1%	NA
Adj. net profit	16,177	21,289	26,696	8,041	15,290	NA	101.2%	39.2%	NA
Adj. EPS (RMB)	10.97	14.15	17.40	6.48	12.09	NA	69.2%	17.0%	NA
Gross Margin	69.3%	69.8%	69.8%	63.0%	63.0%	NA	+6.3ppts	+6.8ppts	NA
Operating Margin	9.4%	11.2%	12.4%	-0.4%	3.9%	NA	+9.8ppts	+7.3ppts	NA
Adj. Net Margin	14.9%	16.8%	18.6%	6.5%	10.0%	NA	+8.4ppts	+6.8ppts	NA

Source: Company data, Bloomberg

Figure 3: 4Q21 review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	6,541	12,193	14,210	26,548	22,167	23,046	21,506	27,231	26.6%	2.6%	29,996	-9%	27,778	-2%
Operating profit	(4,397)	(1,640)	(1,296)	(2,048)	(4,147)	1,998	2,139	6,907	222.9%	NA	1,652	318%	2,982	132%
Net profit	(4,119)	(899)	(785)	(1,376)	(2,905)	2,415	1,640	6,620	303.6%	NA	1,901	248%	3,835	73%
Adj. net profit	(3,170)	(77)	466	(185)	(1,890)	4,125	3,150	8,444	168.1%	NA	2,973	184%	5,228	62%
Adj. EPS (RMB)	(2.73)	(0.06)	0.33	(0.15)	(1.52)	2.85	2.18	5.91	171.1%	NA	2.02	192%	4.50	31%
Margin (%)														
Gross margin	72.0%	78.2%	77.1%	56.6%	51.5%	65.7%	69.5%	76.1%			65.7%		63.8%	
Operating margin	-67.2%	-13.4%	-9.1%	-7.7%	-18.7%	8.7%	9.9%	25.4%			5.5%		10.7%	
Adj. net margin	-48.5%	-0.6%	3.3%	-0.7%	-8.5%	17.9%	14.6%	31.0%			9.9%		18.8%	
Growth (%)														
Revenue (YoY)	43.9%	67.3%	89.1%	146.0%	238.9%	89.0%	51.3%	2.6%			13.0%		4.6%	
Revenue (QoQ)	-39.4%	86.4%	16.5%	86.8%	-16.5%	4.0%	-6.7%	26.6%			39.5%		29.2%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	

Source: Company data, Bloomberg

Figure 4: 4Q21 revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY	
Total revenue	6,541	12,193	14,210	26,548	22,167	23,046	21,506	27,231	26.6%	2.6%	
Online marketing		5,492	11,055	12,878	18,922	14,111	18,080	17,946	22,425	25.0%	18.5%
Transaction services		1,049	1,139	1,332	2,268	2,931	3,008	3,477	4,724	35.9%	108.3%
Merchant Sales		0	0	0	5,358	5,124	1,958	82	82	-0.6%	-98.5%

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	59,492	93,950	108,522	126,695	143,310
Online marketing	47,954	72,563	90,980	106,536	121,055
Transaction	5,787	14,140	17,254	19,828	22,254
Merchant Sales	5,751	7,248	288	330	-
COGS	(19,279)	(31,718)	(33,315)	(38,213)	(43,279)
Gross profit	40,213	62,232	75,207	88,482	100,030
S&M	(41,195)	(44,802)	(47,401)	(52,690)	(56,628)
Admin.Exp.	(1,507)	(1,541)	(2,650)	(2,990)	(3,286)
R&D	(6,892)	(8,993)	(14,901)	(18,553)	(22,302)
Others	-	-	-	-	-
Operating profit	(9,380)	6,897	10,255	14,249	17,815
Financial Cost	1,698	1,831	3,351	4,779	7,126
Associates	419	728	-	-	-
Pre-tax Income	(7,263)	9,455	13,606	19,028	24,941
Income Tax	-	(1,934)	(2,855)	(3,757)	(4,711)
Convertible preferred shares	-	-	-	-	-
Net profit	(7,180)	7,769	10,751	15,271	20,230
Adj. net profit	(2,965)	13,830	16,177	21,289	26,696

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	9,385	11,540	15,336	19,764	24,431
Fixed asset	203	233	307	411	602
Associates	-	-	-	-	-
Intangible assets	1,277	11,307	15,029	19,353	23,829
Others	7,275	-	-	-	-
Current assets	149,524	149,760	177,985	213,941	254,228
Cash	22,421	21,854	48,355	82,223	120,272
Restricted cash	52,422	52,422	52,422	52,422	52,422
Account receivable	730	1,079	1,258	1,446	1,623
Others	73,951	74,405	75,949	77,850	79,911
Current liabilities	83,882	106,224	121,687	139,815	156,912
Amounts due to related parties	3,386	3,168	3,326	3,816	4,322
Customer advances	2,423	726	910	1,065	1,211
Payable to merchants	53,834	73,963	86,271	99,141	111,271
Accrued expenses	11,193	12,342	13,926	15,964	17,854
Merchant deposits	10,926	16,025	17,254	19,828	22,254
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	69,384	49,433	65,991	88,248	116,103
Shareholders' equity	60,176	72,642	88,819	110,109	136,805

Source: Company data, CMBIGM estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(7,180)	7,769	10,751	15,271	20,230
D&A	652	885	1,152	1,238	1,377
Change in WC	(370)	30,933	13,739	16,039	14,860
Others	3,613	4,698	5,426	6,018	6,467
Operating CF	(3,285)	44,285	31,068	38,566	42,933
Capex	(116)	(196)	(226)	(264)	(299)
Associates	-	-	-	-	-
Others	(32,603)	(4,228)	(4,341)	(4,434)	(4,586)
Investing CF	(32,719)	(4,424)	(4,567)	(4,698)	(4,884)
Equity raised	51,799	-	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
Financing CF	51,799	-	-	-	-
Net change in cash	15,795	39,861	26,501	33,868	38,049
Cash (beg of yr)	18,620	34,415	74,276	100,777	134,645
FX	-	-	-	-	-
Cash (end of yr)	34,415	74,276	100,777	134,645	172,694

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Online marketing	80.6	77.2	83.8	84.1	84.5
Transaction services	9.7	15.1	15.9	15.7	15.5
Merchant Sales	9.7	7.7	0.3	0.3	0.0
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	97.4	57.9	15.5	16.7	13.1
Gross profit	68.9	54.8	20.8	17.7	13.1
EBIT	NA	NA	NA	NA	NA
Net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(15.8)	7.3	9.4	11.2	12.4
Pre-tax margin	(12.2)	10.1	12.5	15.0	17.4
Adj. net margin	(5.0)	14.7	14.9	16.8	18.6
Effective tax rate	-	(2.1)	(21.0)	(19.7)	(18.9)
Returns (%)					
ROE	(11.9)	17.6	19.0	20.3	20.5
ROA	(2.5)	8.6	9.1	10.0	10.4
Per share					
Adj. EPS (RMB)	(2.49)	9.56	10.97	14.15	17.40
DPS (RMB)	0.00	0.00	0.00	0.00	1.00
BVPS (RMB)	13.18	11.55	12.38	15.91	20.23

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