

Pinduoduo (PDD US)

Well positioned for upcoming recovery

PDD delivered eye-catching 1Q22 results, with rev +7% YoY (15% above consensus) and non-GAAP net profit at RMB4.2bn (59% above consensus, mainly on higher GPM and disciplined S&M). Given lockdown disruptions, PDD would see deceleration in 2Q22E, like BABA/JD. However, we think that PDD would be more resilient than peers, for its value-for-money products and relatively higher GMV exposure in lower-tier cities. DDMC performed well, and even surpassed some metrics of competitor in 1Q22. We turn more positive on PDD's margin outlook, backed by DDMC UE improvement, and more disciplined S&M offsetting by *RMB10bn Agriculture Initiative*. As such, we raised its earnings by 5%-9% in FY22-24E, with adj. NPM by 1ppt, to reflect disciplined expenses. Our new DCF-based TP is US\$70 from US\$65.

- Eye-catching 1Q22.** 1Q22 rev +7% YoY, 15% above consensus (on resilient GMV and rising take rate). We are impressed by its strong OMS growth, +29% YoY in 1Q22 (vs. 19% in 4Q21). AAC +7% YoY, up to 882mn (13mn net adds). Non-GAAP net profit came in at RMB4.2bn (with adj. NPM at 18%), largely above consensus at RMB2.6bn, mainly on higher GPM and disciplined S&M control (S&M/Rev ratio (ex-1P biz) at -47% in 1Q22, vs. -59% in 1Q21). We view this result as positive, given its resilient topline growth with upbeat margin, despite challenging environment.
- Well positioned for upcoming recovery after lockdowns relaxation.** We think that 2Q22E would be the most muted season for epidemic resurgence, for ecommerce players. However, we think that PDD would be more resilient than peers, for its value-for-money products and relatively higher GMV exposure in lower-tier cities. We expect May's volume to improve from Apr, and PDD to well positioned for upcoming recovery with lockdowns relaxation. We forecast its GMV +5% YoY in 2Q22E, and then rebound to double-digit growth in 2H22E. DDMC performed well, and even surpassed some metrics of competitor in 1Q22, according to third-party channel. We expect DDMC's UE improvement to continue. We turn more positive on PDD's margin outlook, backed by more disciplined S&M offsetting by *RMB10bn Agriculture Initiative* <百亿农研>.
- Maintain BUY.** We raised its earnings by 5%-9% in FY22-24E, with adj. NPM by 1ppt, to reflect disciplined expenses. Maintain BUY with higher DCF-based TP at US\$70 (32x FY23E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	59,492	93,950	104,714	122,250	138,281
YoY growth (%)	97.4	57.9	11.5	16.7	13.1
Adj.net profit (RMB mn)	(2,965)	13,830	16,884	21,496	27,423
Adj. EPS (RMB)	(2.49)	9.56	11.45	14.29	17.87
YoY growth (%)	NA	NA	20	25	25
Consensus EPS (RMB)	NA	NA	9.92	14.96	21.22
P/E (x)	NA	34	28	23	18
P/S (x)	6.9	4.4	3.9	3.3	3.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(11.9)	17.6	20.2	20.5	21.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$70
 (Previous TP US\$65)
Up/Downside +45.0%
Current Price US\$48.0

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	46,732
Avg 3 mths t/o (US\$ mn)	774.76
52w High/Low (US\$)	143.11/23.21
Total Issued Shares (mn)	1,264

Source: Bloomberg

Shareholding Structure

Nanpeng Shen	15.21%
Baillie Gifford	2.30%
FMR LLC	1.98%

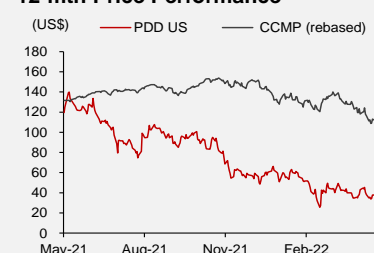
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	6.4%	21.3%
3-mth	-27.6%	-13.4%
6-mth	-54.6%	-36.1%

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	104,714	122,250	138,281	104,714	122,250	138,281	0.0%	0.0%	0.0%
Gross profit	72,407	85,142	96,190	72,407	85,142	96,190	0.0%	0.0%	0.0%
Operating profit	11,277	14,703	18,896	9,706	13,481	16,822	16.2%	9.1%	12.3%
Adj. net profit	16,884	21,496	27,423	15,549	20,457	25,659	8.6%	5.1%	6.9%
Adj. EPS (RMB)	11.45	14.29	17.87	10.54	13.60	16.72	8.6%	5.1%	6.9%
Gross margin	69.1%	69.6%	69.6%	69.1%	69.6%	69.6%	0.0ppts	0.0ppts	0.0ppts
Operating margin	10.8%	12.0%	13.7%	9.3%	11.0%	12.2%	+1.5ppts	+1.0ppts	+1.5ppts
Adj. Net margin	16.1%	17.6%	19.8%	14.8%	16.7%	18.6%	+1.3ppts	+0.9ppts	+1.3ppts

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	104,714	122,250	138,281	110,747	138,250	162,645	-5.4%	-11.6%	-15.0%
Gross profit	72,407	85,142	96,190	75,021	94,176	110,849	-3.5%	-9.6%	-13.2%
Operating profit	11,277	14,703	18,896	13,726	22,489	35,266	-17.8%	-34.6%	-46.4%
Adj. net profit	16,884	21,496	27,423	17,115	25,440	34,778	-1.4%	-15.5%	-21.1%
Adj. EPS (RMB)	11.45	14.29	17.87	9.92	14.96	21.22	15.4%	-4.5%	-15.8%
Gross margin	69.1%	69.6%	69.6%	67.7%	68.1%	68.2%	+1.4ppts	+1.5ppts	+1.4ppts
Operating margin	10.8%	12.0%	13.7%	12.4%	16.3%	21.7%	-1.6ppts	-4.2ppts	-8.0ppts
Adj. net margin	16.1%	17.6%	19.8%	15.5%	18.4%	21.4%	+0.7ppts	-0.8ppts	-1.6ppts

Source: Company data, Bloomberg

Figure 3: 1Q22 review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus	Diff %
Revenue	6,541	12,193	14,210	26,548	22,167	23,046	21,506	27,231	23,794	-12.6%	7.3%	20,649	15%
Operating profit	(4,397)	(1,640)	(1,296)	(2,048)	(4,147)	1,998	2,139	6,907	2,154	-68.8%	NA	1,137	89%
Net profit	(4,119)	(899)	(785)	(1,376)	(2,905)	2,415	1,640	6,620	2,599	-60.7%	NA	1,347	93%
Adj. net profit	(3,170)	(77)	466	(185)	(1,890)	4,125	3,150	8,444	4,200	-50.3%	NA	2,640	59%
Adj. EPS (RMB)	(2.73)	(0.06)	0.33	(0.15)	(1.52)	2.85	2.18	5.88	2.95	-49.8%	NA	1.53	93%
Margin (%)													
Gross margin	72.0%	78.2%	77.1%	56.6%	51.5%	65.7%	69.5%	76.1%	69.9%			66.5%	
Operating margin	-67.2%	-13.4%	-9.1%	-7.7%	-18.7%	8.7%	9.9%	25.4%	9.1%			5.5%	
Adj. net margin	-48.5%	-0.6%	3.3%	-0.7%	-8.5%	17.9%	14.6%	31.0%	17.7%			12.8%	
Growth (%)													
Revenue (YoY)	43.9%	67.3%	89.1%	146.0%	238.9%	89.0%	51.3%	2.6%	7.3%			-22.2%	
Revenue (QoQ)	-39.4%	86.4%	16.5%	86.8%	-16.5%	4.0%	-6.7%	26.6%	-12.6%			-4.0%	
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: 1Q22 revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY
Total revenue	6,541	12,193	14,210	26,548	22,167	23,046	21,506	27,231	23,794	-12.6%	7.3%
Online marketing	5,492	11,055	12,878	18,922	14,111	18,080	17,946	22,425	18,158	-19.0%	28.7%
Transaction services	1,049	1,139	1,332	2,268	2,931	3,008	3,477	4,724	5,591	18.4%	90.7%
Merchant Sales	0	0	0	5,358	5,124	1,958	82	82	44	-46.3%	-99.1%

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	59,492	93,950	104,714	122,250	138,281
Online marketing	47,954	72,563	87,788	102,798	116,808
Transaction	5,787	14,140	16,649	19,132	21,473
Merchant Sales	5,751	7,248	277	319	-
COGS	(19,279)	(31,718)	(32,307)	(37,107)	(42,091)
Gross profit	40,213	62,232	72,407	85,142	96,190
S&M	(41,195)	(44,802)	(44,182)	(49,636)	(53,278)
Admin.Exp.	(1,507)	(1,541)	(2,571)	(2,901)	(3,189)
R&D	(6,892)	(8,993)	(14,378)	(17,902)	(20,828)
Others	-	-	-	-	-
Operating profit	(9,380)	6,897	11,277	14,703	18,896
Financial Cost	1,698	1,831	3,351	4,779	7,126
Associates	419	728	-	-	-
Pre-tax Income	(7,263)	9,455	14,627	19,483	26,022
Income Tax	-	(1,934)	(2,979)	(3,793)	(4,839)
Convertible preferred shares	-	-	-	-	-
Net profit	(7,180)	7,769	11,648	15,689	21,183
Adj. net profit	(2,965)	13,830	16,884	21,496	27,423

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	9,385	11,540	15,177	19,443	23,941
Fixed asset	203	233	300	398	581
Associates	-	-	-	-	-
Intangible assets	1,277	11,307	14,877	19,045	23,360
Others	7,275	-	-	-	-
Current assets	149,524	149,760	174,391	210,154	250,635
Cash	22,421	21,854	45,257	78,968	117,279
Restricted cash	52,422	52,422	52,422	52,422	52,422
Account receivable	730	1,079	1,214	1,395	1,566
Others	73,951	74,405	75,497	77,369	79,368
Current liabilities	83,882	106,224	117,226	134,789	151,184
Amounts due to related parties	3,386	3,168	3,226	3,705	4,203
Customer advances	2,423	726	878	1,028	1,168
Payable to merchants	53,834	73,963	83,244	95,662	107,367
Accrued expenses	11,193	12,342	13,230	15,261	16,972
Merchant deposits	10,926	16,025	16,649	19,132	21,473
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	66,699	89,165	117,750
Shareholders' equity	60,176	72,642	89,526	111,022	138,445

Source: Company data, CMBIGM estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(7,180)	7,769	11,648	15,689	21,183
D&A	652	885	1,152	1,238	1,377
Change in WC	(370)	30,933	9,774	15,510	14,225
Others	3,613	4,698	5,236	5,807	6,240
Operating CF	(3,285)	44,285	27,809	38,244	43,024
Capex	(116)	(196)	(218)	(255)	(288)
Associates	-	-	-	-	-
Others	(32,603)	(4,228)	(4,189)	(4,279)	(4,425)
Investing CF	(32,719)	(4,424)	(4,407)	(4,533)	(4,713)
Equity raised	51,799	-	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
Financing CF	51,799	-	-	-	-
Net change in cash	15,795	39,861	23,403	33,710	38,311
Cash (beg of yr)	18,620	34,415	74,277	97,680	131,390
FX	-	-	-	-	-
Cash (end of yr)	34,415	74,276	97,680	131,390	169,701

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	11.5	16.7	13.1
Gross profit	68.9	54.8	16.4	17.6	13.0
EBIT	NA	NA	NA	NA	NA
Net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(15.8)	7.3	10.8	12.0	13.7
Pre-tax margin	(12.2)	10.1	14.0	15.9	18.8
Adj. net margin	(5.0)	14.7	16.1	17.6	19.8
Effective tax rate	-	(2.1)	(20.4)	(19.5)	(18.6)
Returns (%)					
ROE	(11.9)	17.6	20.2	20.5	21.1
ROA	(2.5)	8.6	9.6	10.3	10.9
Per share					
Adj. EPS (RMB)	(2.49)	9.56	11.45	14.29	17.87
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	13.18	11.55	12.51	16.07	20.50

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