

## Pinduoduo Inc(NYSE: PDD)

### Key metrics are about to slow, DG to HOLD

- We downgrade PDD to HOLD because its traffic, ARPU, and take rate are seeing increasing challenges.
- Several external issues, including the weak macro environment, increasing competitive pressure, and regulatory environment will also pose an impact to PDD.
- We estimate that PDD's 3Q rev. misses cons by 3%, while non-GAAP NI is RMB 550mn vs cons (735)mn. PDD's rev. growth(excluding merchandise sales) will decelerate from 2Q21's 73% YoY to 3Q/4Q's 63%/42% YoY.

### Traffic is about to hit the ceiling

We cut our forecast of PDD's annual active buyer number in 3Q21/4Q21 from previously 875mn/903mn to 867mn/890mn because: 1) the new regulation over digital ads poses negative impact to PDD's user acquisition strategy. Our channel check suggests that PDD's spending in traffic acquisition on Bytedance and Tencent dropped about 30% in September because new regulations impact the ROI; 2) PDD remains 2nd place in download ranking throughout 3Q21, falling behind Taobao Deal. Taobao Deal cannibalizes PDD's users as it offers lower ASP products and more subsidy; 3) PDD's former user acquisition methods, like social sharing and social games, are showing less satisfying result as PDD users reached to a large number, and users are less interested in those techniques.

### ARPU growth also sees challenge

We estimate that PDD's GMV (excluding community group buying) will reach RMB 2.45tn in 2021, representing annual per-user spending of RMB 2750, which could further break down to ASP RMB 50 and 55 placed order per user. PDD made some progress in introducing certain brand products in FMCG, food, and 3C products, but shows limited achievement in attracting high-tier brands. Therefore, the ASP remains to be flattish throughout 2021. Meanwhile, PDD's user purchasing frequency is about 80-90% of Taobao and Tmall's, so there is also limited incremental space.

### Take rate has limited incremental potential

We estimate that PDD's 3Q21 take rate to be 3.9%, slightly higher than 2Q21's 3.8%. PDD is launching a series of new ads products, like automatic (TBC)

### Summary financial data

Highlights	F2018A	F2019A	F2020A	F2021E	F2022E
Revenues (RMB mn)	13,120	30,142	59,492	106,586	147,455
Non-GAAP operating profit (RMB mn)	(3,958)	(5,981)	(5,767)	1,342	17,880
Non-GAAP EPADS (RMB)	(4.55)	(3.69)	(2.49)	3.43	16.20
GAAP EPADS (RMB)	(13.8)	(6.02)	(6.02)	0.10	12.34
P/E (non-GAAP)	(134)	(166)	(246)	178	38

Source: Bloomberg, Blue Lotus (as of Oct. 15, 2021)

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Blue Lotus Capital Advisors Limited

**BUY** **HOLD** **SELL**

**Target Price: US\$ 98** **Current Price: US\$ 94**  
 RIC: (NYSE: PDD) **BBG: PDD US**  
 Market cap (US\$ mn) 117,847  
 Average daily volume (US\$ mn) 1049  
 Shares out/float (m) 1253.3/N.A.

Source: Bloomberg, Blue Lotus (as of Oct. 15, 2021)

### Key Changes

	New	Old	Diff
BLRI Recommendation	HOLD	BUY	-
BLRI Target Price	US\$ 98	US\$ 130	(32.0%)
F2021E EPADS (US\$)	0.53	0.55	(3.6%)
F2022E EPADS (US\$)	2.49	2.97	(16.2%)
F2023E EPADS (US\$)	4.51	5.47	(17.6%)

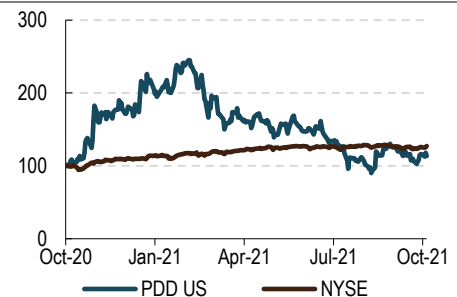
Source: Blue Lotus (as of Oct. 15, 2021), 1US\$=6.7RMB

### BLRI vs. The Street

No. of Bloomberg Recommendations	44
Target price vs. Bloomberg mean	(28.5%)
1-year-fwd EPS vs. Bloomberg mean	(48.7%)
Bloomberg recommendation	4.53

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY) (as of Oct. 15, 2021)

### Price performance and volume data



Source: Bloomberg, Blue Lotus (as of Oct. 15, 2021)

### Research team



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# Pinduoduo Inc: Financial Summary

Fiscal year ends-31-Mar

## Exhibit 1. Income statement

(RMB mn)	F2020A	F2021E	F2022E
Total GMV	1,667,600	2,451,199	3,261,429
Revenues	59,492	106,586	147,455
Online marketing services	48,347	77,644	106,570
Commission fees	5,787	13,678	24,578
Cost of products	(11,732)	(18,405)	(24,196)
Gross profit	43,205	61,919	85,410
Sales and marketing expenses	(41,195)	(52,785)	(58,279)
General and administrative expenses	(1,507)	(1,834)	(1,902)
Research and development expenses	(6,892)	(9,627)	(11,987)
Impairment of a long-term investment	-	276	-
Share-based compensation	3,613	3,944	4,638
Operating profit(loss), GAAP	(9,380)	(2,326)	13,242
Operating profit(loss), non-GAAP	(5,767)	1,342	17,880
Other income/(loss)	2,117	2,306	4,206
Pre-tax (Loss)/income, GAAP	(7,263)	(21)	17,447
Income taxes expenses	-	-	(2,617)
Net (loss)/income, GAAP	(7,180)	125	14,830
Net (loss)/income, non-GAAP	(2,965)	4,111	19,469
Number of ADS, diluted (mn)	1,192	1,197	1,202
EPADS, GAAP, diluted (RMB)	(6.02)	0.10	12.34
Gross margin	72.6%	58.1%	57.9%
EBIT margin, GAAP	(15.8)%	(2.18)%	8.98%
Net margin, GAAP	(12.1)%	0.12%	10.06%

Source: Pinduoduo Inc, Blue Lotus (as of Oct. 15, 2021)

## Exhibit 2. Balance sheet

(RMB mn)	F2020A	F2021E	F2022E
Cash and cash equivalents	22,421	48,117	85,207
Restricted cash	52,422	52,422	52,422
Receivables from online payment	730	1,161	1,606
Short-term investments	64,551	64,551	64,551
Amounts due from related parties	4,240	7,597	10,509
Prepayments and other current assets	5,160	9,244	12,788
Total current assets	149,524	183,092	227,084
Long-term investment	-	-	-
Property and equipment, net	203	8,695	17,804
Intangible asset	1,277	16,465	19,717
Loan to a related party and others	7,905	-	-
Total non-current assets	9,385	25,160	37,521
Total asset	158,909	208,252	264,605
Amounts due to related parties	3,386	6,066	8,392
Customer advances	2,423	4,341	6,006
Payable to merchants	53,834	65,699	78,480
Accrued expenses and other	11,193	22,270	30,935
Merchant deposits	10,926	19,576	27,082
Total current liabilities	83,882	120,072	153,014
Total liabilities	98,733	134,923	167,865
Total shareholders' (deficits)/equity	60,176	73,329	96,741
Total liabilities and equity	158,909	208,252	264,605

Source: Pinduoduo Inc, Blue Lotus (as of Oct. 15, 2021)

## Company Description

PDD is China's 3<sup>rd</sup> largest online mobile e-business company in terms of GMV. We estimate that in 2020, 760mn (+30% YoY) customers placed 24,000 mn orders (+36% YoY) on the PDD platform, generating GMV of RMB 1,700 bn (+70% YoY), accounting for about 15% of China e-commerce retail market shares.

## Industry View

We estimate China's eCommerce market to grow by 13%-15% in 2021, after growing 15% in 2020. We estimate traditional eCommerce and social eCommerce sub-sectors to grow at 3-year CAGR of 10% and 50% respectively, and we expect the total online retail market to grow at 11%-12% CAGR from 2021 to 2023.

## Exhibit 3. Cash flow statement

(RMB mn)	F2020A	F2021E	F2022E
Net income	(7,180)	125	14,830
Depreciation & amortization	652	1,346	2,756
Interest income	(469)	(210)	(210)
Share-based compensation	3,613	3,944	4,638
Restricted cash	-	-	-
Receivables from online payment platforms	321	(432)	(445)
Amounts due from related parties (current assets)	(1,637)	(3,356)	(2,913)
Prepayments and other current assets	(4,049)	(4,084)	(3,544)
Amounts due to related parties (current liabilities)	1,883	2,680	2,326
Customer advances	1,817	1,918	1,665
Payables to merchants	23,934	11,865	12,781
Accrued expenses and other liabilities	6,225	12,036	8,577
Merchant deposits	3,085	8,649	7,506
Net cash flow generated from operating activities	28,196	34,482	47,967
Proceeds from sales of short-term investments and others	(38,315)	-	-
Purchase of property and equipment	(43)	(9,072)	(11,076)
Net cash flow generated from investing activities	(38,358)	(9,072)	(11,076)
Net cash flow generated from financing activities	51,799	-	-
Exchange rate effect on cash and cash equivalents	(140)	286	199
Change in cash	41,498	25,696	37,090
Cash at beginning	33,346	74,843	100,539
Cash at end	74,843	100,539	137,629

Source: Pinduoduo Inc, Blue Lotus (as of Oct. 15, 2021)

See the last page of the report for important disclosures

## Contribution from new initiative is small in near term

- **(Continued) ads (放心推)** by the end of 4Q20, and largely increase take rate in 1H21. Yet, PDD didn't promote many new ads products after 2Q21. PDD's take rate is only about 0.1-0.2 ppts lower than Taobao and Tmall's, so there will be limited incremental growth.
- **PDD also has a reasonable portion of discretionary goods:** There has been a thesis that PDD will be less impacted by the weak macro environment because it sells more low-cost items. We don't agree with the thesis because: 1) Using 1Q20 as an economic downturn example, consumer discretionary consumptions bear more severe drawback. According to NBS 1Q20 data, consumption of food&beverage/apparel/traffic&communication each recorded 2.1%/(17.8%)/(17%) YoY growth; 2) discretionary goods now take about 40%-45% as of PDD's total GMV, including apparel (~20%), 3C (~12%), and beauty make-up (~8%), etc., according to our estimation.
- **Community group buying and new social sharing methods make limited contribution:** We estimate that GMV of Duoduo Grocery (多多买菜) and Qunmaimai (群买买) reach about 25bn-30bn/5-10bn in 3Q21, or about 5%/1% of total GMV. PDD reached average daily CGB order volume of ~35mn in Q3, with op loss of ~(15%). We believe that despite high growth, these new business are still relatively small both in terms of GMV and revenue, and will not be able to make up the deaccelerated GMV growth of online sales.
- **Rev. growth slow while margin beats:** We suggest that PDD's GMV growth is under increasing challenge in September and October. We now adjust our forecast of PDD's FY21/22 revenue growth to RMB 106bn/147bn, or 79%/38% YoY growth. Meanwhile, because of improved user stickiness and better cost control, PDD may continuously contribute profits in coming quarters. We estimate that PDD's FY21/22 non-GAAP NI to be RMB 4.1bn/19bn, vs cons est. of RMB 468mn/8.6bn. Our view is that PDD's user retention and rev. growth is more important than profit. We DG PDD to HOLD rating and cut TP to US\$98, implying 7.5X/5.4X PS or 178X/38X PE in FY21/22.

**Exhibit 4. PDD C3Q21 preview table**

(RMB mn)	2Q21E	2Q21C	BL vs cons	4Q20A	QoQ	2Q20A	YoY	3Q21E	3Q21C
GMV(ttm)	2,259,964			2,097,645	7.7%	1,457,600	55%	2,451,199	
GMV(quarterly)	601,019			556,320	8.0%	438,700	37.0%	770,735	
Revenue	25,705	26,513	(3.0)%	23,046	11.5%	14,210	80.9%	35,668	36,692
Online marketing services	19,746			18,080	9.2%	12,878	53.3%	25,706	
Commission fees	3,413			3,008	13.5%	1,332	156.2%	4,326	
Cost of products	(10,983)			(7,898)	39.1%	(3,260)	236.9%	(15,040)	
Gross profit	14,722	15,288		15,148	(2.8)%	10,950	0.34ppt	20,628	22,067
Gross margin	57.3%	57.7%		65.7%	(8.46ppt)	77.1%	(19.79ppt)	57.8%	60.1%
Sales and marketing expenses	(12,503)			(10,388)	20.4%	(10,072)	24.1%	(16,896)	
General and administrative expenses	(538)			(434)	24.0%	(369)	46.0%	(509)	
Research and development expenses	(2,494)			(2,329)	7.08%	(1,805)	38%	(2,586)	
Share-based compensation	955			1,188	(19.6)%	956	(0.1)%	829	
Operating loss, GAAP	(814)	(2,102)	61.3%	1,997	NM	(1,296)	NM	637	62
Op Margin, GAAP	(3.2)%	(7.9)%	4.8ppt	8.7%	(11.8ppt)	(9.1)%	6.0ppt	1.79%	0.2%
Operating loss, Non-GAAP	141			3,185	(95.56)%	(340)	NM	1,466	
Op Margin, Non-GAAP	0.6%			13.8%	(13.27ppt)	(2.4)%	2.9ppt	4.11%	
Interest income	509			545	(6.5)%	485	4.9%	509	
Foreign exchange gain/(loss)	44.5			44.5		97.86		44.45	
Other (loss)/income, net	123.4			123.4		57.9		123	
Loss before income tax	(405)	(1,769)	77.1%	2,416	NM	(820)	50.65%	1,020	701
Income tax expenses	0			0		0		0	
Net (loss)/income, GAAP	(405)	(1,907)	78.8%	2,415	NM	(785)	48.42%	1,020	207
Net Margin, GAAP	(1.6)%	(7.2)%		10.5%	(12.05ppt)	(5.5)%	3.9ppt	2.86%	0.56%
Net (loss)/income, Non-GAAP	550	(735)	NM	4,125	(86.7)%	466	18.00%	1,849	1,526
Net Margin, Non-GAAP	2.1%	(2.8)%		17.9%	(15.76ppt)	3.3%	(1.1ppt)	5.18%	4.16%

Source: Pinduoduo Inc, Blue Lotus (as of Oct. 15, 2021)

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