

## Pinduoduo Inc. (NYSE: PDD)

### Slowed revenue growth is priced-in, upgrade to HOLD

- PDD reported its 4Q21 revenue/non-GAAP NI (9%)/184% vs. consensus. While annual active customer remained flattish and led to slowed revenue growth of 19% YoY, cautious S&M spending helped PDD to reach net margin of 32%.
- Despite negative factors such as lockdowns in 1Q22 and macro uncertainties, short video could be a catalyst which improves user retention.
- We UG PDD to HOLD rating for the priced-in revenue slow down and higher-than-expected margin improvement. Our TP of US\$ 43 implies 19X PE in FY2022.

#### User was almost flattish

PDD reported its revenue to increase 19% YoY, missing our est./cons by 4%/9%. We estimate that GMV growth in 4Q21 was about 18%-20% YoY. We see three reasons for such results: 1) Annual active users increased only 1.4mn from last quarter. We believe that as a platform with 870mn active buyers, PDD has limited upside for user volume. 2) Weak national consumption in 4Q21. According to NBS, online physical goods sold only increased ~5% YoY in 4Q21. 3) Limited take rate upside. Since its launch of automatic ads(放心推) and starting to charge commission to 10bn subsidy merchants in 1H21, its take rate has gradually improved from 3.7% to 4.0%, identical to BABA's level.

#### Core eCommerce margin reached 40%+

PDD reported its 4Q21 non-GAAP net profit to reach 8.5bn, beating consensus by 184%. This is mainly attributable to: 1) Lower promotional costs. We estimate that PDD's 10bn subsidy program contributes about ~8% of total GMV in 4Q21, vs previous 10-12%. This has caused PDD's S&M expense to decrease 23% YoY 2) Narrowed loss from Community Group Buying business. PDD's CGB order volume is estimated to be about ~42mn in 4Q21 vs ~10mn of 4Q20, while operating loss margin (per GMV) narrowed from ~30% to ~10%. We estimate that this figure could be improved to 5-8% by the end of 2022 3) one-off fee rebate from service provider. If excluding loss from CGB, PDD's profit margin of eCommerce services already reached 40%+, similar to BABA's China commerce margin. (TBC)

#### Summary financial data

Highlights	F2019A	F2020A	F2021A	F2022E	F2023E
Revenues (RMB mn)	30,142	59,492	93,950	103,552	116,935
Non-GAAP operating profit (RMB mn)	(5,981)	(5,767)	11,395	20,560	32,555
Non-GAAP EPADS (RMB)	(3.69)	(2.49)	9.68	14.70	20.61
GAAP EPADS (RMB)	(6.02)	(6.02)	5.44	10.12	17.31
P/E (non-GAAP)	(71)	(105)	27	18	13

Source: Bloomberg, Blue Lotus (as of Mar. 22, 2022)

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BUY

**HOLD**

SELL

Target Price: US\$ 43

Current Price: US\$ 40

RIC: (NYSE: PDD)

BBG: PDD US

Market cap (US\$ mn)

50,119

Average daily volume (US\$ mn)

736

Shares out/float (m)

1253.3/N.A.

Source: Bloomberg, Blue Lotus (as of Mar. 22, 2022)

#### Key Changes

	New	Old	Diff
BLRI Recommendation	HOLD	SELL	-
BLRI Target Price	US\$ 43	US\$ 50	-
F2022E EPADS (US\$)	2.30	2.15	7.0%
F2023E EPADS (US\$)	3.12	3.37	(7.4%)
F2024E EPADS (US\$)	3.87	4.34	(10.8%)

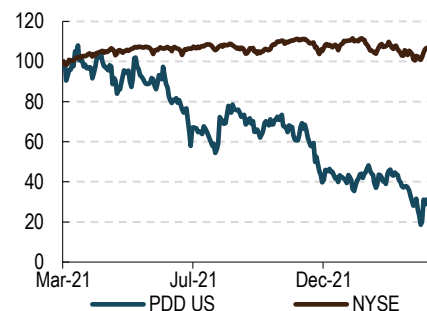
Source: Blue Lotus (as of Mar. 22, 2022), 1US\$=6.5RMB

#### BLRI vs. The Street

No. of Bloomberg Recommendations	45
Target price vs. Bloomberg mean	(43.5%)
1-year-fwd EPS vs. Bloomberg mean	66.4%
Bloomberg recommendation	4.47

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY) (as of Mar. 22, 2022)

#### Price performance and volume data



Source: Bloomberg, Blue Lotus (as of Mar. 22, 2022)

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# Pinduoduo Inc. : Financial Summary

Fiscal year ends-31-Mar

## Exhibit 1. Income statement

(RMB mn)	F2021A	F2022E	F2023E
Total GMV	2,441,000	2,801,547	3,021,579
Revenues	93,950	103,552	116,935
Online marketing services	72,563	82,372	88,841
Commission fees	14,140	20,854	27,767
Cost of products	(16,729)	(18,167)	(17,817)
Gross profit	62,232	72,364	83,631
Sales and marketing expenses	(44,802)	(46,063)	(46,169)
General and administrative expenses	(1,541)	(1,696)	(1,532)
Research and development expenses	(8,993)	(8,998)	(8,129)
Impairment of a long-term investment	276	-	-
Share-based compensation	4,775	4,953	4,754
Operating profit(loss), GAAP	6,897	15,607	27,801
Operating profit(loss), non-GAAP	11,395	20,560	32,555
Other income/(loss)	2,559	1,457	3,320
Pre-tax (Loss)/income, GAAP	9,455	17,064	31,121
Income taxes expenses	(1,934)	(2,560)	(6,224)
Net (loss)/income, GAAP	7,769	14,504	24,897
Net (loss)/income, non-GAAP	13,830	21,070	29,651
Number of ADS, diluted (mn)	1,428	1,433	1,438
EPADS, GAAP, diluted (RMB)	5.44	10.12	17.31
Gross margin	66.2%	69.9%	71.5%
EBIT margin, GAAP	7.34%	15.07%	23.78%
Net margin, GAAP	8.27%	14.01%	21.29%

Source: Pinduoduo Inc, Blue Lotus (as of Mar. 22, 2022)

## Exhibit 2. Balance sheet

(RMB mn)	F2021A	F2022E	F2023E
Cash and cash equivalents	6,427	12,606	29,868
Restricted cash	59,617	68,560	75,416
Receivables from online payment	674	748	823
Short-term investments	86,517	86,517	86,517
Amounts due from related parties	4,250	4,717	5,190
Prepayments and other current assets	3,425	3,801	4,182
Total current assets	160,909	176,949	201,994
Long-term investment	-	-	-
Property and equipment, net	2,203	6,394	9,914
Intangible asset	701	799	513
Loan to a related party and others	17,396	17,365	17,365
Total non-current assets	20,301	24,557	27,792
Total asset	181,210	201,506	229,786
Amounts due to related parties	1,963	2,179	2,397
Customer advances	1,167	1,295	1,425
Payable to merchants	62,510	67,609	70,695
Accrued expenses and other	14,086	13,928	14,556
Merchant deposits	13,578	15,070	16,579
Total current liabilities	93,730	100,335	105,906
Total liabilities	106,095	112,702	105,906
Total shareholders' (deficits)/equity	75,115	88,804	123,881
Total liabilities and equity	181,210	201,506	229,786

Source: Pinduoduo Inc, Blue Lotus (as of Mar. 22, 2022)

## Company Description

PDD is China's 3<sup>rd</sup> largest online mobile e-business company in terms of GMV. In 2021, 870mn (+30% YoY) customers placed 61,000 mn orders (+59% YoY) on the PDD platform, generating GMV of RMB 2,440 bn (+46% YoY), accounting for about ~18% of China e-commerce retail market shares.

## Industry View

We estimate China's eCommerce market to grow by 10% in 2022, after growing 12% in 2021. 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)	F2021A	F2022E	F2023E
Net income	7,769	14,842	24,489
Depreciation & amortization	578	994	1,367
Interest income	(210)	(210)	(210)
Share-based compensation	4,775	4,977	4,654
Restricted cash	-	(8,943)	(6,856)
Receivables from online payment platforms	56	(74)	(75)
Amounts due from related parties (current assets)	(10)	(467)	(472)
Prepayments and other current assets	1,735	(376)	(381)
Amounts due to related parties (current liabilities)	(1,423)	216	218
Customer advances	(1,256)	128	130
Payables to merchants	8,712	5,100	3,086
Accrued expenses and other liabilities	4,585	1,570	1,336
Merchant deposits	3,473	1,493	1,509
Net cash flow generated from operating activities	28,783	19,250	28,796
Proceeds from sales of short-term investments and others	(32,733)	-	-
Purchase of property and equipment	(2,829)	(4,183)	(4,602)
Net cash flow generated from investing activities	(35,562)	(4,183)	(4,602)
Net cash flow generated from financing activities	(1,875)	-	-
Exchange rate effect on cash and cash equivalents	(145)	55	(77)
Change in cash	(8,800)	15,122	24,118
Cash at beginning	74,843	66,044	81,166
Cash at end	66,044	81,166	105,283

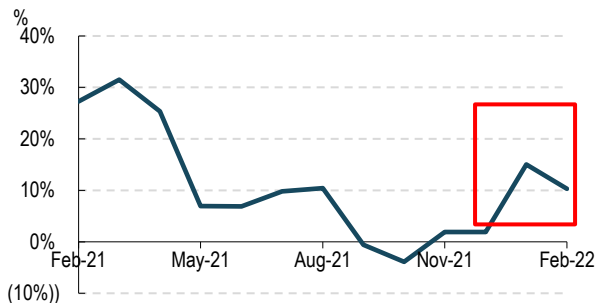
Source: Pinduoduo Inc, Blue Lotus (as of Mar. 22, 2022)

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## Margin improvement is better than expected

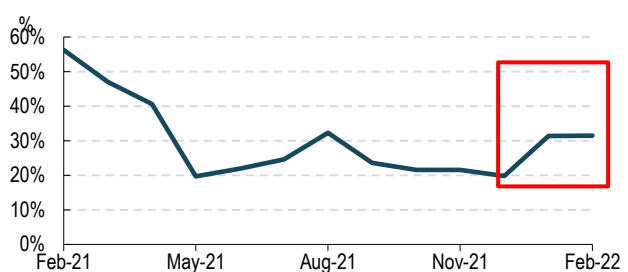
- (Continued) Duoduo Video could be a catalyst for user retention:** In early 2022, PDD repositioned its short video business to the bottom of the app's main page, and it became a first-tier entrance. Our research suggests that content creator of this channel was basically mid-size KOLs from other platforms, such as Kuaishou and Douyin. PDD has also launched red packet promotions to encourage users to watch short videos, and the rewards could be as high as RMB 20 per user. Such action quickly shows significant impact to PDD's MAU in Feb, as MAU/DAU grew 10%/31% YoY, respectively. We estimate that such promotional events could add 1-1.5bn RMB S&M in 2022.
- UG to HOLD with TP US\$ 43:** Considering the major lockdowns across China in 1Q22, and higher user engagement brought by Duoduo Video, we cut our eCommerce GMV/revenue estimate of 2022 from 19%/26% YoY to 10%/10% YoY, and raise margin estimate from 15% to 20%. We upgrade PDD to HOLD and cut TP to US\$ 43 because: 1)The decelerated user & revenue growth have already been priced-in 2)Duoduo Video could be a catalyst for user retention 3)Fair valuation. Our TP implies 10X/0X PE for PDD's eCommerce/CGB in 2022.

Exhibit 4. PDD MAU YoY growth rate(%)



Source: Questmobile. Blue Lotus (as of Mar. 22, 2022)

Exhibit 5. PDD DAU YoY growth rate(%)



Source: Questmobile. Blue Lotus (as of Mar. 22, 2022)

**Exhibit 6. PDD C4Q21 review table**

(RMB mn)	4Q21A	4Q21E	4Q21C	A vs BL	A vs Cons	3Q21A	QoQ	4Q20A	YoY	1Q22E
Net revenues	27,231	28,228	29,996	(3.53%)	(9.2%)	21,506	26.6%	26,548	2.6%	21,299
-Online marketing services	22,425	22,817		(1.72%)		17,946	25.0%	18,922	18.5%	16,391
-Transaction service fees	4,724	4,432		6.60%		3,477	35.9%	2,268	108.3%	4,826
Take rate(quarterly)	3.97%	4.02%		(0.05ppt)		3.75%	0.22ppt	3.66%	0.31ppt	3.62%
Cost of revenues	(6,516)	(7,929)		(17.82%)		(6,559)	(0.7%)	(11,526)	(43.5%)	(7,869)
Gross profit	20,715	20,299	19,697	2.05%	5.2%	14,947	38.6%	15,022	37.9%	13,430
-Gross margin	76.1%	71.9%	65.7%	4.2ppt	10.4ppt	69.5%	6.6ppt	56.6%	19.5ppt	63.1%
Operating expenses	(13,808)	(16,233)		(14.9%)		(12,808)	7.8%	(17,069)	(19.1%)	(12,894)
-S&M	(11,366)	(13,247)		(14.2%)		(10,051)	13.1%	(14,713)	(22.7%)	(10,659)
-G&A	(420)	(403)		4.2%		(335)	25.4%	(406)	3.5%	(317)
-R&D	(2,023)	(2,583)		(21.7%)		(2,422)	(16.5%)	(1,951)	3.7%	(1,919)
Share-based compensation	(1,493)	(736)		102.9%		(1,121)	33.1%	(933)	59.9%	(835)
GAAP operating profit	6,907	4,066	1,652	69.9%	318.1%	2,139	222.9%	(2,048)	NM	535
-GAAP operating margin	25.4%	14.4%	5.5%	11.0ppt	19.9ppt	9.9%	15.4ppt	(7.7%)	33.1ppt	2.5%
Non-GAAP operating profit	8,400	4,802	1,727	74.9%	386.4%	3,261	157.6%	(1,115)	NM	1,370
-Non-GAAP operating margin	30.8%	17.01%	5.8%		25.1ppt	15.2%	15.7ppt	(4.2%)	35.0ppt	6.4%
Other income/(loss)	775	197				270	186.5%	623	24.3%	414
Pretax profit	7,682	4,263	2,156	80.2%	256.3%	2,410	218.8%	(1,424)	NM	949
Income tax expenses	(1,078.8)	(639.5)				(854.8)	26.2	-	NM	(142.4)
GAAP net income	6,620	3,624	1,901	82.7%	248.2%	1,640	303.6%	(1,376)	NM	868
-GAAP net margin	24.3%	12.84%	6.3%	11.5ppt	18.0ppt	7.6%	16.7ppt	(5.2%)	29.5ppt	4.1%
Non-GAAP net income	8,444	4,758	2,973	77.5%	184.0%	3,150	168.1%	(185)	NM	2,123
-Non-GAAP net margin	31.0%	16.9%	9.91%	14.2ppt	21.1ppt	14.65%	16.4ppt	(0.7%)	31.7ppt	10.0%
GAAP EPADS, diluted (RMB)	4.66	2.54	1.08	83.3%	331.7%	1.15	305.0%	(1.13)	NM	0.61
Non-GAAP EPADS, diluted (RMB)	5.94	3.34	2.02	78.1%	193.9%	2.21	169.0%	(0.15)	NM	1.49

Source: Pinduoduo Inc, Blue Lotus (as of Mar. 22, 2022)

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