

3Q24 EARNINGS UPDATE

PDD Holdings Inc.

Domestic Market Under Pressure, Will Temu Make PDD Great Again?

SUMMARY

PDD Holdings Inc. (PDD) announced its 3Q24 results before market open on November 21. Total revenue grew by 44% y/y to US\$13,721 Million, and non-GAAP net income reached US\$3,792 Million. Quarterly performance was softer than expected. The company launched “RMB10 Billion Fee Reduction”, “Expansion to Western China” and “New Quality Merchants Support Plan”, receiving positive feedback. During Double 11 Shopping festival, new initiatives included “10 Billion Voucher” and “Super Double Discount Event”. However, potential uncertainty surrounding de minimis tax regulations persists following the U.S. election. Additionally, Temu, the company’s e-commerce platform, has shifted its expansion focus from the U.S. market to international markets outside the U.S. While PDD faces short-term profitability challenges, its overall growth rate continues to surpass that of its competitors.

KEY POINTS

Quarterly performance was softer than expected. Total revenue grew by 44% y/y to US\$13,721 Million (vs. consensus of US\$14,200 Million). Online marketing services and others revenue grew by 24% y/y to US\$6,815 Million (vs. consensus of US\$6,783 Million) and transaction services revenue grew by 72% y/y to US\$6,905 Million (vs. consensus of US\$7,320 Million). Gross profit reached US\$8,237 Million and gross profit margin reached 60% (vs. consensus of 62%). Non-GAAP operating profit reached US\$3,697 Million (vs. consensus of US\$4,280 Million). Non-GAAP net profit reached US\$3,792 Million (vs. consensus of US\$4,032 Million). In 3Q24, PDD faced short-term pressure due to intense competition in China’s e-commerce market, prompting the company to make significant investments in ecological development. To address these challenges, PDD introduced several strategic initiatives, including the “RMB 10 Billion Fee Reduction,” “Expansion to Western China,” and the “New Quality Merchants Support Plan.” As part of the “Expansion to Western China” initiative, PDD implemented comprehensive logistics support measures. These included covering all transshipment costs in Western China and reducing delivery fees for agricultural products and daily necessities by up to 70%, aiming to encourage merchants to enter the underserved and remote Western China market.

Fee reductions and merchant support policies have received positive feedback. PDD has demonstrated a strong commitment to strengthening its relationships with merchants by increasing support through initiatives like the “RMB 10 Billion Fee Reduction” campaign, announced in August. Since then, the company has introduced a series of supportive measures, including service fee refunds, reduced security deposits, and waived shipment fees for orders from remote regions. These efforts are designed to help merchants lower their operating costs and improve their return on investment (ROI). As a result, merchants are more likely to concentrate their advertising and promotional activities on the platform, fostering a mutually beneficial ecosystem.

New initiatives on Double 11 Shopping festival. During the Double 11 Shopping Festival, PDD introduced two major initiatives to drive consumer engagement and sales. Firstly, the platform launched the “10 Billion Voucher” campaign for the first time, offering consumers direct financial benefits. This campaign resulted in strong sales growth across several product categories, particularly agricultural products, small home appliances, and daily necessities. The success of this initiative showcased how the platform, in collaboration with merchants, effectively met consumer demand. Secondly, the “Super Double Discount Event” provided support to a group of high-quality merchants with innovative products and technologies. Many national brands used this opportunity to launch new premium products, quickly gaining recognition during the festival. This initiative strengthened consumer trust in the platform while creating value for both the demand and supply sides, fostering a more vibrant and balanced marketplace.

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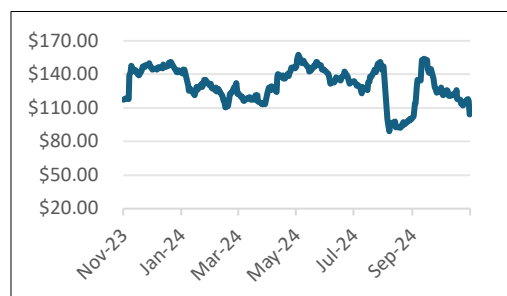
KEY DATA

Exchange: NASDAQ
Ticker: PDD
Current Price: \$104.09
52-Week Range: \$88.01 -\$164.69
Average Volume (3M): 16.05M
Shares Outstanding (MM): 1,389
Market Capitalization (\$MM): \$144,557
Fiscal Year-End: December

FINANCIALS

| In US\$M | FY21A | FY22A | FY23A | FY24E |
|--------------|--------|--------|--------|--------|
| Revenue | 12,974 | 18,030 | 34,199 | 54,652 |
| Gross Profit | 8,594 | 13,685 | 21,532 | 33,784 |
| EBIT | 952 | 4,199 | 8,106 | 15,293 |
| Non GAAP | | | | |
| Net Income | 1,910 | 5,459 | 9,377 | 17,060 |

PRICE PERFORMANCE



Expansion into non-U.S. market. Amid uncertainty surrounding potential de minimis tax and tariff risks following the U.S. election, investor appetite for fully valuing Temu's business remains cautious, pending greater regulatory clarity. Despite this, Temu has shifted its expansion focus from the U.S. market to international markets. As of October 2024, Temu reported 49 million monthly active users (MAUs) in the U.S., accounting for 74% of Amazon's U.S. MAUs. However, U.S. MAUs and downloads have declined since their peak in July 2023. Concurrently, Temu has been aggressively pursuing user acquisition in non-U.S. markets. Notably, in October 2024, MAUs from Europe and Latin America each comprised 28% of Temu's total global MAUs. Daily active users (DAUs) from Europe and Latin America accounted for 32% and 25% of global DAUs, respectively, while monthly downloads from these regions reached 21% and 34% of the global total. PDD's overarching goal remains delivering unique value to consumers across various countries. As its global business grows, the company continues to enhance its capabilities to provide high-quality services and cater to the preferences and expectations of consumers in each market.

Risks on domestic E-commerce competition in China. During the 3Q24 conference call, management indicated that the release of additional macroeconomic support policies created new opportunities for growth. However, PDD faced challenges in fully capitalizing on these favorable conditions due to its operational limitations as a purely third-party platform. As a result, the company incurred significantly higher costs compared to its peers to remain competitive in offering similar products. This higher expenditure put pressure on PDD's short-term profitability, underscoring the need for more strategic adjustments to optimize its operations and cost structure.

Valuation: Short-term growth rate for revenue and net income may slow down, but still outpacing Chinese competitors. The stock is now at US\$116.49 per ADS, equivalent to US\$161 Billion in market cap. From consensus, PDD's 2024/2025 revenue will grow at 63%/28% y/y to US\$56 Billion/US\$71 Billion in 2024/2025. Consensus estimates PDD's 2024/2025 EBITDA of US\$17 Billion/US\$21 Billion, representing y/y growth of 30%/29%, respectively. PDD is currently trading at EV/EBITDA of 7x/6x in 2024/2025 vs. peers' average of 13x/11x in 2024/2025.

FINANCIALS AND VALUATION UPDATES

Figure 1: PDD's Financials 2021 – 2024E.

| Unit: Million USD | 2021 | 2022 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 2023 | 1Q24 | 2Q24 | 3Q24 | 4Q24E | 2024E |
|---|--------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|---------|
| Revenues | 12,974 | 18,030 | 5,198 | 7,220 | 9,507 | 12,274 | 34,199 | 11,989 | 13,404 | 13,721 | 15,539 | 54,652 |
| Costs of revenues | -4,380 | -4,345 | -1,536 | -2,581 | -3,705 | -4,844 | -12,667 | -4,515 | -4,654 | -5,484 | -6,216 | -20,868 |
| Gross Profit | 8,594 | 13,685 | 3,661 | 4,639 | 5,802 | 7,430 | 21,532 | 7,474 | 8,750 | 8,237 | 9,323 | 33,784 |
| Sales and marketing expenses | -6,187 | -7,505 | -2,245 | -2,423 | -3,003 | -3,679 | -11,350 | -3,233 | -3,597 | -4,210 | -4,491 | -15,531 |
| General and administrative expenses | -213 | -548 | -113 | -82 | -105 | -263 | -563 | -252 | -254 | -249 | -482 | -1,237 |
| Research and development expenses | -1,242 | -1,434 | -346 | -378 | -393 | -396 | -1,513 | -402 | -402 | -423 | -497 | -1,724 |
| Total operating expenses | -7,642 | -9,487 | -2,704 | -2,882 | -3,501 | -4,337 | -13,426 | -3,887 | -4,253 | -4,882 | -5,470 | -18,492 |
| Operating profit | 952 | 4,199 | 957 | 1,756 | 2,300 | 3,093 | 8,106 | 3,587 | 4,497 | 3,355 | 3,854 | 15,293 |
| Interest and investment income, net | 423 | 552 | 202 | 316 | 294 | 602 | 1,414 | 697 | 671 | 748 | 482 | 2,597 |
| Interest expenses | -170 | -7 | -2 | -2 | -2 | -1 | -6 | 0 | 0 | 0 | -1 | -1 |
| Foreign exchange (loss)/ gain | 10 | -21 | -2 | 22 | 13 | -27 | 5 | 30 | 8 | -76 | 31 | -7 |
| Other income, net | 91 | 307 | 170 | 153 | 40 | 45 | 408 | 260 | 68 | 3 | 264 | 595 |
| Share of results of equity investees | 34 | -21 | 15 | 1 | -15 | -2 | -1 | -7 | -7 | 0 | -9 | -23 |
| Income before income tax | 1,340 | 5,008 | 1,339 | 2,246 | 2,631 | 3,709 | 9,926 | 4,566 | 5,237 | 4,030 | 4,620 | 18,454 |
| Income tax expenses | -267 | -653 | -221 | -436 | -485 | -494 | -1,636 | -700 | -817 | -580 | -753 | -2,850 |
| Net income | 1,073 | 4,355 | 1,119 | 1,810 | 2,146 | 3,215 | 8,290 | 3,866 | 4,421 | 3,450 | 3,867 | 15,604 |
| Net income attributable to ordinary shareholders | 1,073 | 4,355 | 1,119 | 1,810 | 2,146 | 3,215 | 8,290 | 3,866 | 4,421 | 3,450 | 3,867 | 15,604 |
| Non-GAAP Adjustment Items | 837 | 1,104 | 280 | 298 | 206 | 303 | 1,087 | 360 | 335 | 342 | 420 | 1,456 |
| Non-GAAP net income attributable to ordinary shareholders | 1,910 | 5,459 | 1,398 | 2,109 | 2,351 | 3,518 | 9,377 | 4,226 | 4,755 | 3,792 | 4,286 | 17,060 |

Source: GLH Research; Company filings.

Figure 2: Peer Valuation Analysis.

| Company | Ticker | EV | EBITDA | | | EV/EBITDA | | | Category |
|---------------------------|---------|-----------|---------|---------|---------|-----------|-------|-------|---------------------------|
| | | | 2023A | 2024E | 2025E | 2023A | 2024E | 2025E | |
| Amazon.com Inc | AMZN.O | 2,203,769 | 85,515 | 141,657 | 165,439 | 26 | 16 | 13 | U.S. E-Commerce Companies |
| eBay Inc | EBAY.O | 32,101 | 2,485 | 3,221 | 3,349 | 13 | 10 | 10 | U.S. E-Commerce Companies |
| Shopify Inc | SHOP.K | 130,547 | 330 | 1,493 | 2,042 | - | 87 | 64 | U.S. E-Commerce Companies |
| Meta Platforms Inc | META.O | 1,405,796 | 61,381 | 98,374 | 114,368 | 23 | 14 | 12 | U.S. Internet Companies |
| Alphabet Inc | GOOGL.O | 2,152,496 | 100,172 | 150,371 | 172,352 | 21 | 14 | 12 | U.S. Internet Companies |
| Microsoft Corp | MSFT.O | 3,107,528 | 129,433 | 149,691 | 172,822 | 24 | 21 | 18 | U.S. Internet Companies |
| Alibaba Group Holding Ltd | BABA.N | 196,608 | 25,375 | 27,095 | 29,358 | 8 | 7 | 7 | Asia E-Commerce Companies |
| JD.Com Inc | JD.OQ | 47,719 | 5,246 | 6,845 | 7,617 | 9 | 7 | 6 | Asia E-Commerce Companies |
| Sea Ltd | SE.N | 62,342 | 784 | 1,893 | 2,654 | 80 | 33 | 23 | Asia E-Commerce Companies |
| | | | | | | Median | 22x | 14x | 12x |
| | | | | | | Mean | 18x | 13x | 11x |
| PDD Holdings Inc | PDD.O | 124,597 | 8,389 | 16,940 | 20,852 | 15x | 7x | 6x | |

Notes:

1. Data as of 11/21/2024.
2. EBITDA is in US\$ Million.
3. Revenues are in calendar year and estimates are provided by analyst consensus on Capital IQ.

Source: GLH Research; Company filings; Capital IQ.

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Chujie (Jack) Sun is a Senior Research Analyst at Gelonghui Research. Since 2017, Jack has served as the Investment Analyst in China Alpha Fund Management (Hong Kong) Limited, TMT Analyst in First Shanghai Group, and TMT Analyst at Gelonghui Research. Focusing on TMT sector, Chinese companies listed in the US, Hong Kong, and etc., and he specializes in both buy-side and sell-side equity research. Jack holds a B.A. in Economics from Ohio State University (Columbus) and an M.S. in Finance from City University of Hong Kong.

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