2Q26 EARNINGS UPDATE

PDD Holdings Inc.

Resilient Domestic Monetization Offset by Temu Headwinds; Supply Chain Investment Steps Up

KEY POINTS

Generally in line with market expectations. PDD reported mixed 2Q26 results, with revenue up 8.1% yoy to Rmb112.4bn, 3% below Bloomberg consensus, mainly due to a 6% miss in transaction services revenue, which we attribute to more prudent revenue growth strategy in the TEMU business. Operating profit increased 7.6% YoY to RMB27.8bn, 2% above Bloomberg consensus, driven by a 1.8ppt GPM beat and better-than-expected sales and marketing expense control. Adj. net income declined 13% yoy to Rmb28.5bn, but came in 2% above Bloomberg consensus, reflecting a combination of higher G&A expenses, partly associated with organizational and operational investments. By segments: (1) online marketing services and others revenue increased 3.5% YoY to RMB57.6bn (2Q25: +13.4% YoY; 1Q26: +2.5% YoY), 2% above consensus. This marked the first consensus beat in five quarters. Domestic e-commerce GMV remained under pressure amid a soft macro backdrop in 2Q26; the quarterly segment revenue beat was mainly driven by a gradual stabilization in take rate. (2) Transaction services revenue grew 13.3% YoY to RMB54.7bn, 6% below consensus, mainly due to increasing regulatory uncertainties on Temu.

Stepping up supply chain investments with the rollout of "Xin Pin Mu". Gross profit growth in 2Q26 came in ahead of market expectation at +11% yoy, with adj. operating profit up +5% yoy, demonstrating resilient profitability despite continued investments into platform governance, Rmb100bn merchant ecosystem support and supply chain development amid a more challenging global regulatory environment. Management reiterated that deepening supply chain capabilities remains the core long-term strategic priority, with "Xin Pin Mu" serving as an extension of this effort through selective incorporation of 1P brands in categories where PDD possesses differentiated supply chain/global channel advantages. While management acknowledged the initial rollout of "Xin Pin Mu" (with first brand "Bemuvo" launched in June) has taken longer than originally expected, the company remained committed and continued to view broader supply chain inputs as a meaningful growth driver, despite potential near-term drags.

Domestic GMV resilience & OMS Outlook. PDD online marketing revenue growth remained healthy at +3%, ahead of Taobao-Tmall of +1% yoy on a like-for-like basis (-7% yoy under new merchant rebate terms) and Kuaishou e-Commerce ad at +1%, suggesting relatively resilient domestic GMV trends and merchant advertising demand and merchant advertising demand despite tighter merchant tax/intensifying competition/soft overall consumption (we estimate Pinduoduo GMV grew ~5% yoy in 2Q26, versus ~2% for the broader industry). Looking ahead, management expects future growth to increasingly come from addressing supply chain bottlenecks (across product development/manufacturing/fulfillment), while unlocking consumption potential in lower-tier cities/rural areas through continued investments in logistics infrastructure. The company remained committed to its core eCommerce business and supply chain buildout, rather than expansion into on-demand retail, where management saw limited synergies given distinction in business models/supply chain requirements.

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Gelonghui Research
Chujie (Jack) Sun, CFA
Senior Research Analyst
sunchujie@guruhk.com

Yuecong (Marco) Zhang
Senior Research Analyst
zhangyuecong@guruhk.com

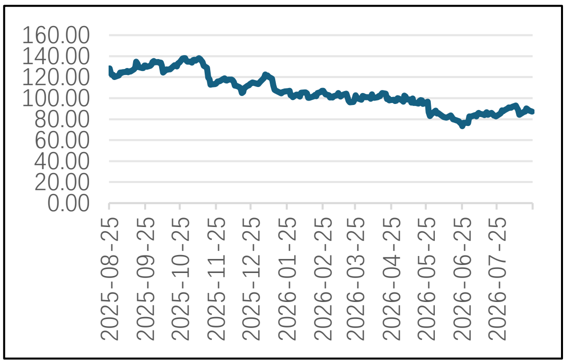
KEY DATA

Exchange: NASDAQ
Ticker: PDD
Current Price: $87.07
52-Week Range: $71.94 - $139.41
Average Volume (3M): 8.61M
Shares Outstanding (MM): 1,423
Market Capitalization ($MM): $123,935
Fiscal Year-End: December

FINANCIALS

In RMB Million	FY23A	FY24A	FY25A	FY26E	FY27E
Revenue	247,639	393,836	431,846	457,756	494,377
Gross Profit	155,916	239,936	243,044	238,491	252,132
EBIT	58,699	108,423	94,624	85,143	103,819
Non-GAAP Net Income	67,899	122,344	107,301	95,605	122,346

PRICE PERFORMANCE



Transaction services revenue outlook into 2H26, with Temu's localization strategy given evolving tariff/regulatory environments. Temu navigates evolving global tariff/regulatory policies, with pressure to persist following the EU's removal of the €150 customs-duty exemption and introduction of a temporary €3 customs duty on low-value imports from July (Europe accounts for roughly 1/3 of Temu GMV). Transaction services revenue came in at +13% yoy, moderating from +20% in 1Q26, which we believe might reflect Temu's proactive adjustment to evolving tariff/regulatory policies (notably in Europe, where we note media report of a sharp GMV decline in 2Q). Management acknowledged that recent changes have resulted in lower fulfillment efficiency and pressure on near-term growth in selected regions. Through onboarding more local merchants to broaden product mix, expanding local warehousing and fulfillment capabilities, and increasing local sourcing/local fulfillment penetration, the company aims to improve business resilience and regulatory compliance while further expanding its global addressable market. We now estimate transaction commission revenue growth of +10% yoy for FY26E (from +20% yoy). We believe pressure from European regulatory changes (the implementation of the EU's temporary €3 customs duty on low-value imports since July) is likely to persist into 2H26, although partially offset by continued recovery of the U.S. business under a more favorable tariff backdrop. We now expect Temu EBIT losses of Rmb11.8bn/Rmb2.8bn in FY26E/FY27E, versus our prior estimates of an Rmb9.4bn loss/Rmb2.7bn profit, respectively, reflecting a more gradual path toward profitability as Temu continues to invest in localization.

Valuation: Despite a challenging operating environment, we see signs of stabilization in PDD's domestic business, with online marketing revenue outperforming expectations and domestic GMV remaining relatively resilient. The company continues to step up investments in Temu localization, 1P initiatives and supply chain capabilities to strengthen its long-term competitive moat. Key considerations include: (1) continued supply chain investment through the rollout of "Xin Pin Mu"; (2) resilient domestic GMV and an improving OMS outlook; and (3) near-term pressure on transaction services revenue as Temu adapts to evolving global tariff and regulatory environments. We believe these investments, together with continued merchant ecosystem development and globalization initiatives, should strengthen PDD's long-term competitive positioning, although they may weigh on near-term earnings growth. PDD trades at 8.5x/7.0x FY26E/FY27E consensus P/E, versus peer-group median multiples of 19x/23x and mean multiples of 29x/26x, respectively.

FINANCIALS AND VALUATION UPDATES

Figure 1: PDD's Financials 2024 – 2027E.

Unit：Million RMB	2024	2025	2026E	2027E
Revenues	393,836	431,846	457,756	494,377
Costs of revenues	-153,900	-188,802	-219,265	-242,245
Gross Profit	239,936	243,044	238,491	252,132
Sales and marketing expenses	-111,301	-125,288	-123,594	-118,650
General and administrative expenses	-7,553	-6,636	-10,071	-8,899
Research and development expenses	-12,659	-16,496	-19,684	-20,764
Total operating expenses	-131,513	-148,420	-153,348	-148,313
Operating profit	108,423	94,624	85,143	103,819
Interest and investment income, net	20,553	25,584	19,684	25,708
Foreign exchange (loss)/ gain	588	-1,967	-183	-198
Other income, net	3,120	2,727	2,289	3,510
Profit before income tax and share of results of equity investees	132,684	120,968	106,932	132,839
Share of results of equity investees	17	129	46	40
Income tax expenses	-20,267	-21,733	-17,644	-19,926
Net income	112,435	99,364	89,334	112,953
Net income attributable to ordinary shareholders	112,435	99,364	89,334	112,953
Non-GAAP Adjustment Items	9,909	7,937	6,271	9,393
Non-GAAP net income attributable to ordinary shareholders	122,344	107,301	95,605	122,346

Source: GLH Research; Company filings.

Figure 2: Peer Valuation Analysis.

					Diluted EPS			P/E		
Company	Ticker	Market Cap	Share Price	2025	2026E	2027E	2025	2026E	2027E	Category
Amazon.com Inc	AMZN.O	2,830,000	262.07	7.17	12.48	10.4	36.6	21.0	25.2	U.S. E-Commerce Companies
eBay Inc	EBAY.O	47,651	107.08	4.26	6.13	6.73	25.1	17.5	15.9	U.S. E-Commerce Companies
Shopify Inc	SHOP.K	192,739	149.80	0.94	1.91	2.45	-	78.4	61.1	U.S. E-Commerce Companies
Meta Platforms Inc	META.O	1,420,000	559.02	23.49	31.16	34.70	23.8	17.9	16.1	U.S. Internet Companies
Alphabet Inc	GOOGL.O	4,260,000	348.06	10.80	20.59	14.8	32.2	16.9	23.5	U.S. Internet Companies
Microsoft Corp	MSFT.O	3,620,000	487.31	13.64	17.95	19.8	35.7	27.1	24.7	U.S. Internet Companies
Alibaba Group Holding Ltd	BABA.N	283,958	118.47	7.39	6.38	6.68	20.5	19.3	14.1	Asia E-Commerce Companies
JD.Com Inc	JD.O	39,245	29.20	1.84	3.38	4.23	15.9	8.6	6.9	Asia E-Commerce Companies
Sea Ltd	SE.N	70,852	115.68	2.52	3.75	5.14	45.9	30.8	22.5	Asia E-Commerce Companies
					Median	29x	19x	23x		
					Mean	13x	29x	26x		
PDD Holdings Inc	PDD.O	123,935	87.07	9.44	10.21	12.4	9.2	8.5	7.0	

Notes:
1. Data as of 8/25/2026.
2. Market cap, share price and EPS are in US$ Million.
3. Diluted EPS are estimates provided by analyst consensus on Capital IQ.

Source: GLH Research; Company filings; Capital IQ.

ABOUT THE ANALYSTS

Chujie (Jack) Sun, CFA

Senior Research Analyst

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.

Yuecong (Marco) Zhang

Senior Research Analyst

Yuecong (Marco) Zhang is a Senior Research Analyst at Gelonghui Research. Marco previously held the position of Senior Research Analyst at Watertower Research, Executive Director at Valuable Capital Group's Investment Banking Department, Vice President at Guosen Securities (HK), and Senior Associate at Roth Capital Partners, where he completed more than 35 transactions, including IPOs, follow-on offerings, and M&A, with a total transaction value of more than US$3.5 Billion+ for mid-cap companies from China and the US. During his time at Roth, he led six NASDAQ and NYSE IPOs for Chinese clients, with a total transaction value of more than US$260 Million. Marco holds a B.S. in Financial Management from North China Electric Power University and an M.S. in Applied Finance from Pepperdine University.

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