

INITIATION OF COVERAGE REPORT

PDD Holdings Inc.

Shop Like A Billionaire: Temu On The Rise

SUMMARY

We are initiating coverage of PDD Holdings Inc. (PDD). Since its founding in 2015 and IPO in 2018, PDD has seen its e-commerce market share in China rise to 19% from 7.2% in 2019 by mid-2023, and become the fifth largest E-Commerce platform in the world in terms of 2023 revenue. PDD operates under the name “Pinduoduo” in China and “Temu” in the rest of the world. With proven success of its unique business model in China under Pinduoduo, Temu, is expected to be PDD’s next growth engine and positions PDD as the next global E-Commerce giant. The brand new semi-entrusted model is expected to contribute marginal performance for Temu. We estimate PDD’s 2024 revenue and EBITDA of US\$58 Billion and \$17 Billion, representing y/y growth of 69% and 108%, respectively. Currently, PDD is trading at EV/EBITDA of 6x/4x in 2024E/2025E vs. peers’ average of 12x/10x in 2024E/2025E.

KEY POINTS

How PDD Grew – “From Village to City”. Initially, PDD seized the opportunity in low-tier market which had not yet become the strategic focus of Alibaba (BABA) and JD.com (JD), and accumulated its initial users. Through social network that allowed friends to team up and further drive down the prices by generating bulk orders, PDD achieved another viral growth of customer base, with the help of WeChat’s data traffic. After its success in low-tier market, PDD marched into premium market by spending meaningful marketing effort and has done an excellent job.

What’s Next – From China to the Globe. With proven success of Pinduoduo’s unique business model in China, Temu is replicating Pinduoduo’s growth path in overseas market. According to Pathmatics, Temu spent over \$500 Million in marketing in the US in 2023 and Temu has become one of the most downloaded apps across all major app stores. In four consecutive quarters(3Q23-2Q24), transaction services segment has achieved more than 2 times y/y growth, mostly driven by Temu.

2Q24 Updates. PDD reported its 2Q24 results before market open on 08/24. In 2Q24, total revenue was US\$13.3 Billion, up 86% y/y. Net income attributable to ordinary shareholders was US\$4.4 Billion, up 104% y/y. Gross margin improved by 3 percentage points to 65%. However, revenues from online marketing services and others slowed down to 29% y/y growth. Management guided slower revenue growth and fluctuation in profits. PDD plans to invest RMB10 Billion to reduce the software service fees for merchants to promote high-quality development. Facing fierce competition in e-commerce, PDD is looking for a balance between profit for shareholders vs. growth, low prices vs. quality. The new policies may effectively reduce the operating costs of merchants. Currently, Pinduoduo is still the fastest growing Internet company in China, with top-line and bottom-line growth outpacing major domestic competitors.

Money never sleeps. Since 2021, Chinese firms became less attractive in the US capital market due to various reasons. However, where there is real growth, there is money inflow. PDD, as a US-listed Chinese firm expanding into global market with substantial growth, has gained ample Wall Street attention and rewarded investors with IPO return of over 426%, despite a 30% drop after its 2Q24 earnings. The stock is now at US\$100.00 per ADS, equivalent to US\$139 Billion in market cap. We estimate PDD’s 2024 revenue and EBITDA of \$58 Billion and \$17 Billion, representing y/y growth of 69% and 108%, respectively. PDD is currently trading at EV/EBITDA of 6x/4x in 2024E/2025E vs. peers’ average of 12x/10x in 2024E/2025E. See our Valuation section for more details.

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KEY DATA

Exchange: NASDAQ
Ticker: PDD
Current Price: \$100.00
52-Week Range: \$79.00-\$164.69
Average Volume (3M): 8,763,824
ADS Outstanding (MM): 1,389
Market Capitalization (\$MM): \$138,877
Fiscal Year-End: December

FINANCIALS

In US\$M	FY21A	FY22A	FY23A	FY24E
Revenue	12,918	17,952	34,050	57,829
Gross Profit	8,557	13,626	21,438	35,636
EBITDA	1,361	4,938	8,570	16,903
Net Income	1,068	4,336	8,254	16,237

PRICE PERFORMANCE



COMPANY OVERVIEW

PDD Holdings (PDD) is a multinational commerce group that owns and operates a portfolio of businesses. Since its founding in 2015 and IPO in 2018, PDD has seen its e-commerce market share in China rise to 19% from 7.2% in 2019 by mid-2023, and has become the fifth largest E-Commerce platform in the world in terms of 2023 revenue. PDD operates under the name “Pinduoduo” in China and “Temu” in the rest of the world. While PDD has done an excellent job of allocating resources efficiently among marketing, sourcing, and supply chain, we believe there are three pillars of PDD’s success in China: 1) “From village to city”, 2) Social + E-Commerce, and 3) Subsidies. PDD has grown its customer base virally through these three strategic approaches and is replicating this growth path in overseas markets under Temu.

Three Pillars of Success – Price is King

- 1) “From village to city”: Initially, PDD seized the opportunity in low-tier market which had not yet become the strategic focus of Alibaba (BABA) and JD.com (JD), and accumulated its initial users.
- 2) Social + E-Commerce: Through social network that allowed friends to team up and further drive down the prices by generating bulk orders, which they call “help me bargain” or “group buying”, PDD achieved another viral growth of customer base, with the help of WeChat’s data traffic.
- 3) Subsidies: Pinduoduo initially attracted a large number of merchants to join the platform through zero commission. Later on, it launched “Ten Billion Yuan Subsidies” (US\$1.5 Billion) program to further drive down the prices and started to attract more higher-end brands to enter its platform.

Management

Zheng Huang, Founder. Mr. Huang is a serial entrepreneur with significant experience and expertise in the technology and internet sectors in China. Prior to founding PDD, Mr. Huang founded Xinyoudi Studio in 2011 to develop and operate online games. Prior to that, Mr. Huang founded Ouku.com, a company that operated an online B2C platform for consumer electronics and home appliances, which was subsequently sold in 2010. Mr. Huang started his career at Google's (GOOG) headquarters in 2004 as a software engineer and project manager. Mr. Huang subsequently relocated to China and was part of the team that established Google China. Mr. Huang was trained as a data scientist and has published numerous works on the subject of data mining, including in top peer reviewed journals, and presented his works in a number of international conferences, such as the ACM SIGMOD Conference and International Conference on Machine Learning. Mr. Huang received his bachelor's degree in computer science from Zhejiang University and his master's degree in computer science with a focus on data mining from University of Wisconsin-Madison.

Lei Chen, Chairman and Co-CEO. Prior to joining PDD, Mr. Chen served as CTO of Xinyoudi Studio since 2011. Mr. Chen's prior working experience includes internships with Google (GOOG), Yahoo Inc. and IBM (IBM) in the United States. Mr. Chen was trained as a data scientist and is a prolific publisher on the subject of data mining, and has presented his works in large international conferences, such as the ACM SIGMOD Conference, Very Large Data Bases (VLDB) Conferences and International Conference on Machine Learning.

Jiazhen Zhao, Executive Director and Co-CEO. Mr. Zhao served as a senior vice president from 2018 to 2023. Mr. Zhao has held several leadership roles across Pinduoduo. He started the Duo Duo Grocery business and led the operations of a few key product categories in the Pinduoduo platform, including agriculture. He also led the supply chain efforts.

Zhenwei Zheng, Senior Vice President of Product Development. Mr. Zheng is a founding member of Pinduoduo and has served as the senior vice president of product development since 2016, and the director from April 2018 to July 2018. Prior to joining Pinduoduo, Mr. Zheng served as CEO of Xinyoudi Studio since 2011. Prior to that, he held various positions at Baidu (BIDU) from 2008 to 2010.

Junyun Xiao, Senior Vice President of Operation. Prior to joining Pinduoduo, Mr. Xiao served as operation director of Xinyoudi Studio since 2011. Prior to that, he was a member of the founding team of Ouku.com and served as operation manager from 2007 to 2010.

Jun Liu, Vice President of Finance. Prior to joining Pinduoduo, Ms. Liu served as the director of finance at Xiaohongshu.com and an associate director of finance at Light-In-The-Box Limited. From 2005 to 2013, she was an associate and then manager at PricewaterhouseCoopers Consultants (Shenzhen) Limited.

Share Ownership

As of March 2024, founder Zheng Huang was the biggest shareholder of the company with 25% of the ownership, followed by Tencent with 14% of ownership. PDD Partnership, according to its annual report, an executive partnership to help PDD better manage its business and to carry out its vision, mission and value continuously, owns ~7% of the company.

Figure 1: PDD Ownership Summary.

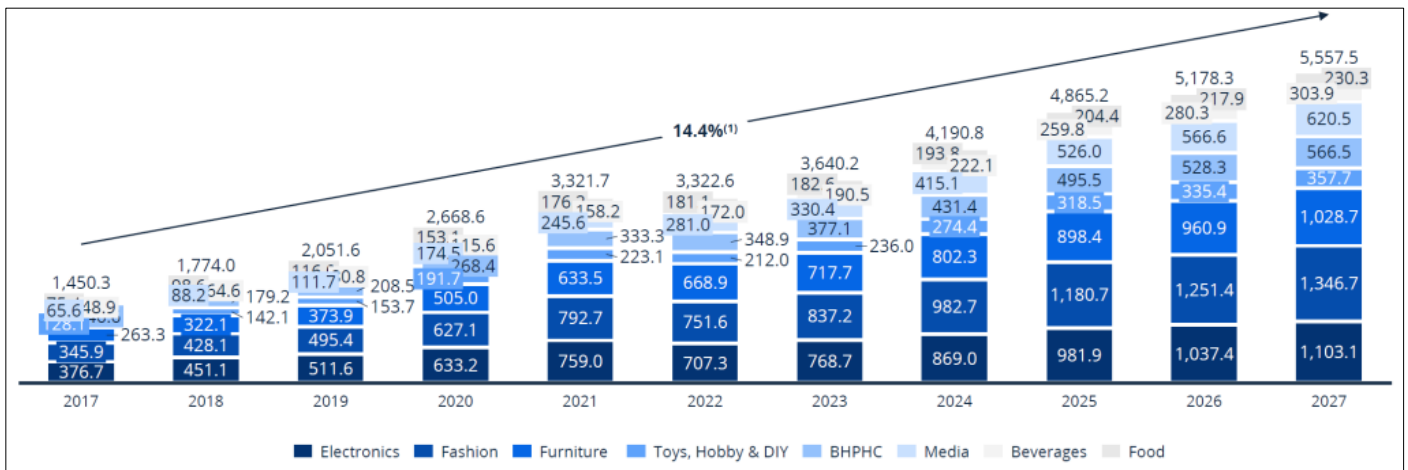
No.	Shareholders	Ordinary Shares Position (Million)	Ownership %
1	Entities Affiliated with Zheng Huang	1,410	25%
2	Entities Affiliated with Tencent	783	14%
3	Entities Affiliated with PDD Partnership	371	6.7%
4	Baillie Gifford & Co.	139	2.5%
5	The Vanguard Group, Inc.	97	1.7%
6	BlackRock Institutional Trust Company	65	1.2%
7	All Directors and Executive Officers as a Group	62	1.1%
8	Invesco Capital Management (QQQ Trust)	52	0.9%
9	Sequoia Capital Partners	51	0.9%
10	Fidelity Management & Research Company	50	0.9%
	Others	2,476	45%
Total		5,555	100%

Source: GLH Research; Bloomberg; Company filings.

INDUSTRY OVERVIEW

Since its founding in 2015 and IPO in 2018, PDD has seen its e-commerce market share in China rise to 19% from 7.2% in 2019 by mid-2023, and become the fifth largest E-Commerce platform in the world in terms of 2023 revenue. According to latest stats and forecast provided by the US International Trade Administration (USITC), Global B2C ecommerce revenue is expected to grow to USD\$5.5 trillion by 2027 at a steady 14.4% compound annual growth rate (CAGR) from 2017. Leading segments for B2C ecommerce in order are: consumer electronics, fashion, furniture, toys/hobby, biohealth pharmaceuticals, media & entertainment, beverages, and food.

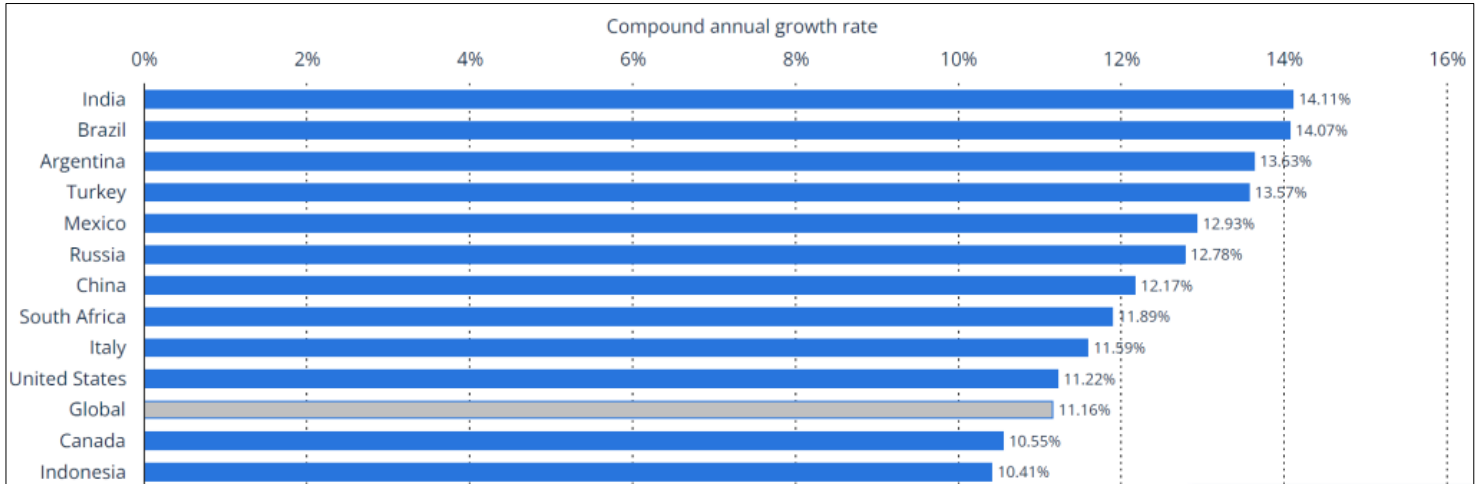
Figure 2: Global eCommerce Revenue Forecast (in US\$ Billion).



Source: USITC; GLH Research.

According to USITC, India will rank first among 20 countries worldwide in retail e-commerce development between 2023 and 2027, with a compound annual growth rate of 14.1%. Argentina and Brazil are also among the fastest-growing e-commerce markets globally, with a CAGR of over 13.6%. The global retail e-commerce CAGR was estimated at 11.2% percent during the same period.

Figure 3: Global eCommerce Compound Growth Rate (%).



Source: USITC; GLH Research.

According to Temu’s website, Temu is currently operating in over 70 countries including the ones mentioned above with fastest growing expectation towards 2027: Brazil, Turkey, Mexico, South Africa, Italy, United States, Canada, etc.

Business Summary

PDD has three main business units: Pinduoduo Main Platform + Temu + Duoduo Grocery, and reports its revenue through two segments: Online Market Services + Transaction Services.

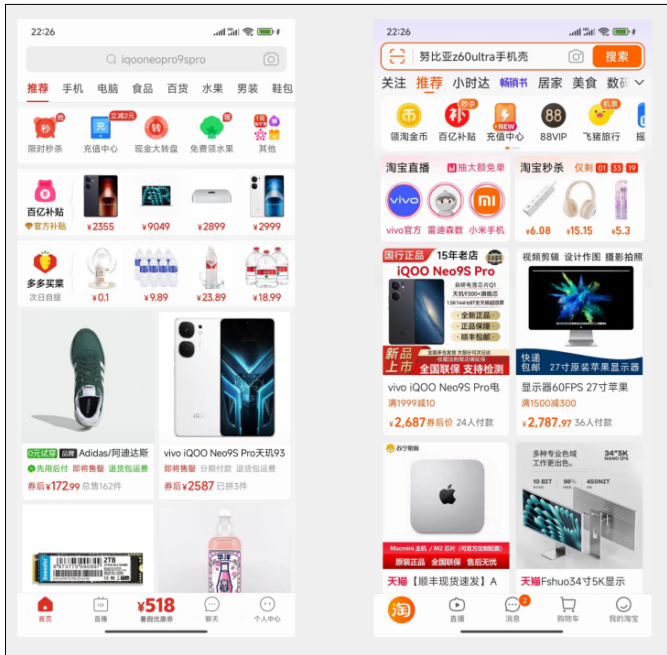
Part I: Pinduoduo Main Platform (China Operation)

Company History: Gaining Traffic from WeChat Ecosystem, Social Connections and Low-Tier Market

PDD was founded in April 2015 and launched the "Pinduoduo" platform in September. At early stage, Pinduoduo established a social e-commerce model, focusing on low-tier market with less competition. Users could invite friends to buy the merchandise in groups through WeChat. Pinduoduo benefited from the traffic on WeChat Ecosystem. Pinduoduo created the ultimate "low-price" shopping experience for users through marketing activities such as "help me bargain" and "cash withdraw mode". Quickly, Pinduoduo completed the initial user accumulation in low-tier cities at a low cost. In terms of merchants, the company seized the opportunity to acquire a large number of white-label merchants that flowed out of the Taobao and JD.com due to counterfeit fighting in China. Through Pinduoduo's recommendation algorithm based on social connection business model, it achieved suitable supply and demand matching, and did a good job on creating popular SKUs.

In its first letter to shareholders, PDD positioned itself as a combination of Costco (COST) and Disney (DIS), which was translated well to US investors regarding its focus: Bargain and Pleasure. Here we analyze what we like about PDD and what we think they did right in China.

Figure 4: PDD vs TAOBAO APP Design.



Source: GLH Research; Company filings.

Figure 5: PDD Social Connection: Cash Withdraw Mode.



Source: GLH Research; Company filings.

Who doesn't love a good bargain?

Among the four items of "more", "fast", "quality" and "economical", "economical" would be the label for Pinduoduo. The platform geared towards saving money for consumers. Merchants exchange low price for a much larger sales volume. To maintain quality while keep the price reasonable, PDD threw out a rarely adapted "Refund Only" policy in China. By enforcing refund-without-return policy, a protection against "bad money drives out good" (Gresham's law) as much as possible, users' experience is improved and quality is under controlled. The policy made by Pinduoduo is responsible for active users. It serves as an effective way to control counterfeit/inferior merchandise at very beginning.

“10 Billion Yuan Subsidies”

Pinduoduo initially attracted a large number of merchants to join the platform through zero commission. Later on, it launched “Ten Billion Yuan Subsidies” (US\$1.5 Billion) program to further drive down the prices and started to attract more higher-end brands to enter its platform.

There are three typical scenarios when the program comes into effect:

- (1) The first scenario is for merchants to lower the prices themselves, usually at 25-30% discount to the already-lowest prices across major e-commerce platforms.
- (2) The second scenario is for PDD to subsidize merchants 5-10% of the prices if merchants offer the lowest prices on the whole Internet. This scenario is usually applied to standard products of premium brands, such as cosmetics, Apple mobile phones, etc.
- (3) The third scenario is for PDD and merchants to jointly contribute to the ultra-discount. For example, if a good is given a 20% discount to the already-lowest price by the merchant, PDD will subsidize the merchant half of the 20%.

The first scenario is mostly seen in practice and accounts for 90% of the program, with the second scenario accounting for 3% and the rest for the third.

Highly Efficient

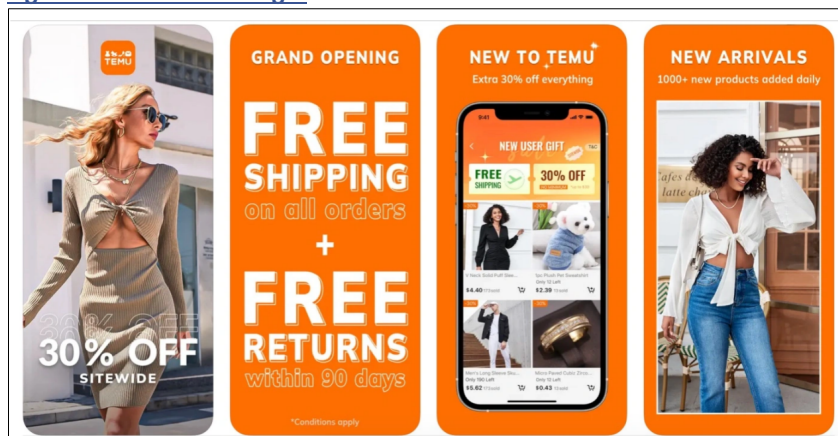
In terms of revenue per employee, Pinduoduo's efficiency surpasses most Internet companies. In 2023, Pinduoduo revenue was US\$34 Billion with 17K of employees, reaching revenue per employee of US\$2 Million. Alibaba (BABA) generated revenue of US\$129 Billion with ~ 205K of employees, reaching revenue per employee of US\$0.6 Million. JD.com (JD) has 550K of employees, generating revenue of US\$20 Billion, reaching revenue per employee of US\$0.3 Million. Pinduoduo's revenue per employee is 3 times that of BABA and 7 times that of JD.

Part II: Temu: A Fast Growing Oversea Platform

Slogan: Shop like a Billionaire

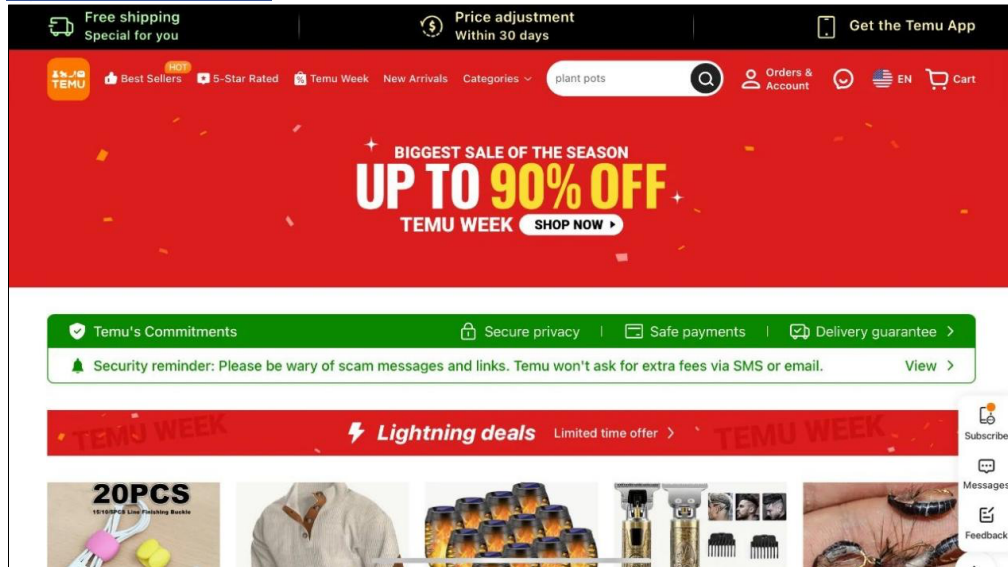
Temu is PDD’s overseas operation arm. With proven success of Pinduoduo’s unique business model in China, Temu is replicating Pinduoduo’s growth path in overseas market. According to Pathmatics, Temu spent over \$500 Million in marketing in the US in 2023 and Temu has become one of the most downloaded apps across all major app stores. In four consecutive quarters(3Q23-2Q24), transaction services segment has achieved more than 2 times y/y growth, mostly driven by Temu.

Figure 6: Temu APP Design.



Source: GLH Research; Company filings.

Figure 7: Temu Website.



Source: GLH Research; Company filings.

Figure 8: Temu's Slogan: Shop like a Billionaire.



Source: GLH Research; Company filings.

Figure 9: Temu's Commercial on Super Bowl.



Source: GLH Research; Company filings.

According to SensorTower data, from September 2022 to November 2023, Temu has been downloaded more than 300 Million times worldwide, accounting for 44% and 29% of the North American and European markets. According to Temu’s website, Temu is currently operating in over 70 countries including the ones mentioned above with fastest growing expectation towards 2027: Brazil, Turkey, Mexico, South Africa, Italy, United States, Canada, etc

Figure 10: Top 5 E-commerce Downloads in Major Markets Around the World in Jan 2023 - Nov 2023.



Source: GLH Research; SensorTower.

Figure 11: Temu and SHEIN Global Download Trends and Market Share.



Source: GLH Research; SensorTower.

Temu is replicating Pinduoduo's growth path in early years, investors are experiencing the same three stages when they evaluate Temu that PDD users have experienced in China: Question Temu, Understand Temu, and Join Temu.

- (1) Question Temu: Despite rapid growth, Pinduoduo and Temu’s business model and strategy have been controversial. Some merchants regard Temu as an effective channel to clear inventory with low margin, it remains to be seen whether Temu can effectively control quality issues and speed up the logistics. How to reduce cost and increase efficiency, while maintaining low prices and profits, and maintaining a balance between merchants, customers and platforms, are challenges Temu’s facing.
- (2) Understand Temu: With its unique C2M model, it has changed the traditional sales from acquisition, wholesale to retail, etc., eliminated the tradition of middlemen raising prices layer by layer, which allows manufacturers to directly connect with

consumers, further reducing cost, and making small profits but quicker turnover. In addition, in the platform, Temu “rewards” low prices with traffic, guiding merchants to vigorously reduce prices and do more promotions. With less proactive investment in advertising costs, merchants have more “benefits” to follow, and consumers can also benefit from it, so that Temu can maintain “proud” low prices.

- (3) Join Temu: In December 2023, due to the fast growth of Temu, its parent company Pinduoduo (PDD) surpassed Alibaba (BABA) in market capitalization for the first time and became the largest e-commerce company in China in terms of market capitalization.

Unlike low-cost and fast-delivery in logistics in China, last-mile delivery is still a challenge and a significant cost consideration in overseas market, especially in the US. While PDD has gained initial success in China’s low-tier market when competing with BABA and JD, it picked up a fight with Amazon (AMZN) when Temu’s launched.

In the past decade, AMZN has spent tremendous effort in logistics in the US. AMZN has leased, bought or announced plans for over 16 million square feet of new warehouse space in the U.S. this year alone, according to a Wall Street Journal report dated May 22, 2024. This expansion adds to the company’s existing footprint of approximately 413 million square feet of industrial real estate across North America. AMZN has also overhauled its domestic shipping network, shifting from a highly centralized network to nine regions that are designed to operate independently, the report said. This strategy aims to place goods closer to consumers, enabling faster delivery times and lower costs. In the fourth quarter of 2023, Amazon reported a more than 65% increase in orders delivered on the same day or the next day in the U.S. compared to the previous year.

To compete in the last-mile delivery, Temu launched a semi-entrusted model for fulfillment.

Temu's Semi-Entrusted Model

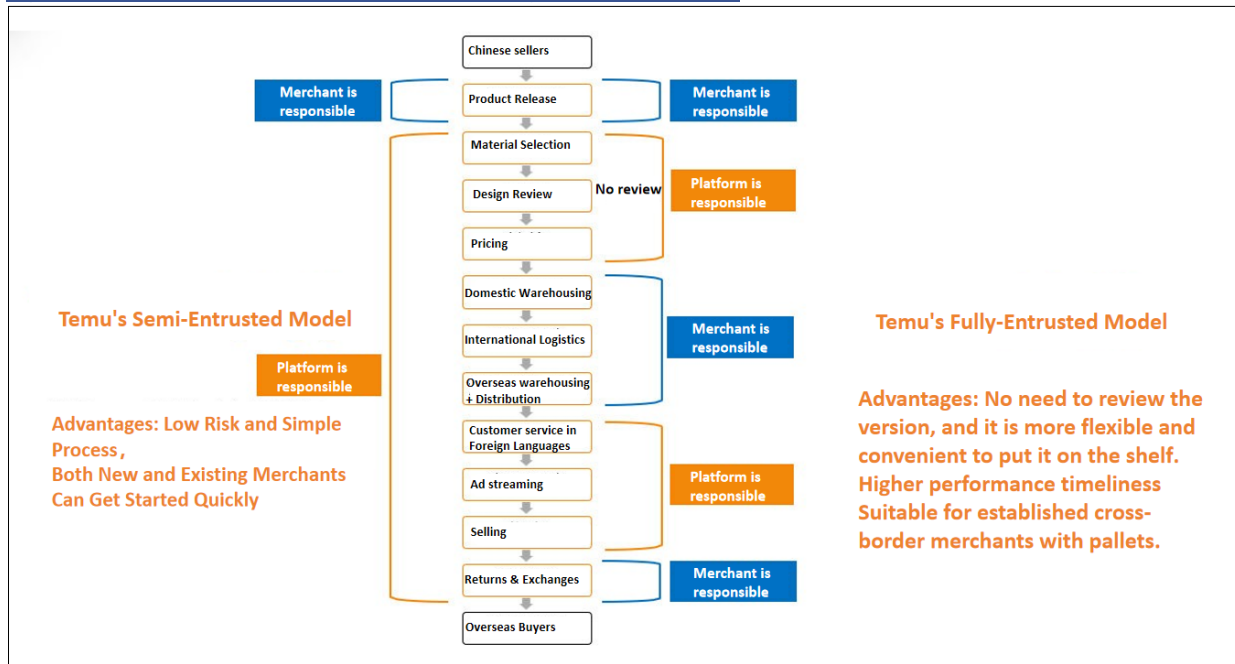
There are two Models for Temu: Semi-Entrusted Model and Fully-Entrusted Model. The major difference between the semi-entrusted model and the fully-entrusted model is mainly reflected in warehousing and logistics.

Under the fully-entrusted model, cross-border merchants need to send goods to Temu's domestic warehouse first, and then the warehouse will send them overseas through cooperative logistics service providers, and the platform is solely responsible for trunk logistics and terminal distribution.

In contrast, under semi-entrusted model, merchants can choose not to use Temu's designated warehouse logistics service provider, and decide on warehousing and logistics solutions in ways that suit them. It is not difficult to find that the semi-entrusted model is more suitable for cross-border merchants who are relatively mature in cross-border e-commerce and have their own warehouse logistics partners.

Therefore, merchants with warehousing and logistics capabilities can choose the semi-entrusted model based on their needs. In addition, the same merchant can also choose two different models at the same time according to their own situation. At present, under both models, the platform does not charge any commissions.

Figure 12: Temu's Semi-Entrusted Model vs Fully-Entrusted Model.



Source: GLH Research; Company filings.

By introducing brand new semi-entrusted model, Temu may contribute marginal performance to listed company Pinduoduo (PDD) for shorter delivery time, cost reduction, and reducing returns and customer complaints. Fast delivery, cost reduction, and improved customer satisfaction, overseas warehouses have brought many convenience and competitive advantages to sellers, helping them achieve greater success in the cross-border e-commerce market. First advantage of semi-entrusted model is the delivery time. Temu's current delivery time is about 7-10 days. Although Temu's size is enough to compete with giants such as Amazon, Amazon builds a moat by its fast logistics and distribution. The delivery speed of Amazon Prime members is generally 1-2 days, and the delivery speed of ordinary users is 2-5 days, while the delivery of Temu is relatively slow, negatively affecting the growth rate of Temu to some extent. Second advantage is cost reduction: Utilizing overseas warehouses can avoid additional costs such as international shipping fees and customs duties. At the same time, overseas warehouses usually have cooperative relations with logistics companies, which can obtain more favorable transportation prices, reduce transportation costs, and improve sales profit margins. Third advantage is reducing returns and customer complaints: Due to fast shipping, overseas warehouses can reduce returns and customer complaints due to long waiting times. Buyers are more willing to choose products with fast delivery, and overseas warehouses have effectively reduced the return rate and increased the sales conversion rate.

Main Obstacles: Regulations on Overseas Market

On April 23, 2024, US Congress passed the TikTok divestment-or-ban bill. 2024 is U.S. election year, the company is facing political uncertainties. At current stage, investor appetite is limited in valuing PDD's Temu at full business potential.

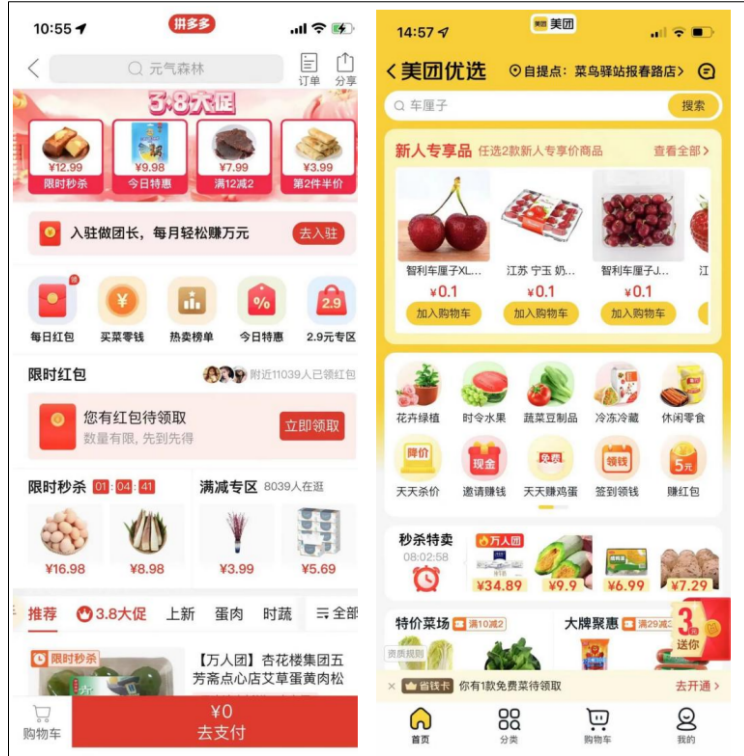
In addition, the tariff exemption for goods under \$800 may be canceled, leading to an increase in the merchandise price for Temu. The price may not be as attractive as before, but the active buyers have already gotten sticky, and United States business for Temu will continue.

On May 31, The European Commission formally designated Temu as a Very Large Online Platform (VLOP) under the Digital Services Act (DSA), suggesting higher compliance requirements for Temu in the EU.

Part III: Duoduo Grocery (Major Competitor is Meituan Select.)

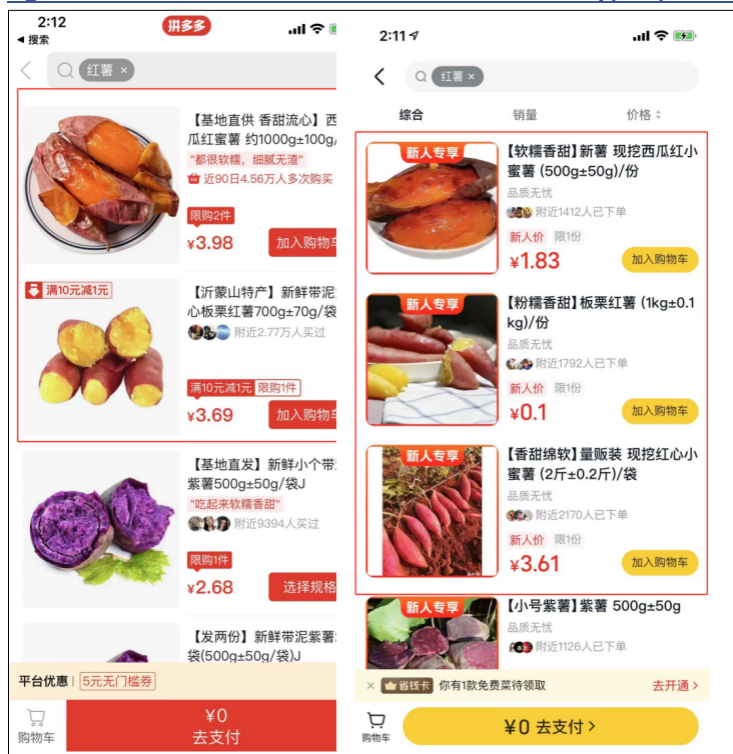
Since Meituan Select has been controlling its financial loss since February 2024, by raising prices and reducing subsidies. The loss controlling strategy worked to some extent for Meituan Select. From the perspective of the entire industry, market competition is not as fierce as before. Similarly, the new competition landscape is also good news to Duoduo Grocery. Due to the relatively low ROI on local commerce segment, management of Pinduoduo may not invest more resources in local commerce segment in the short term. Duoduo Grocery is expected to achieve an operating profit of US\$ 0.2 Billion in 2024.

Figure 13: Duoduo Grocery(Left) vs Meituan Select(Right) APP Design.



Source: GLH Research; Company filings.

Figure 14: Search “Sweet Potato” on Duoduo Grocery(Left) and Meituan Select(Right).



Source: GLH Research; Company filings.

Business Segment

- (1) **Online marketing services and others:** The company's online marketplace services are mainly merchant advertising revenue, and the revenue of online marketplace services in 2023 was US\$21 Billion, a y/y increase of 49.5%. The company's advertising revenue has continued to grow in recent years, mainly due to the following reasons: 1) Pinduoduo continues to develop innovative marketing services and improve the measurement tools available to merchants to improve traffic conversion efficiency, such as the company's 4M23 launch of a full-scale promotion of "full site push products", which effectively drove the growth of advertising monetization rate; 2) The branding strategy continues to advance, and compared with white-label manufacturers, brand merchants have a higher willingness to advertise and have a more adequate budget; With the increase in the number of merchants, the allocation of organic traffic is not enough to meet the needs of many merchants, and it also promotes merchants to advertise to obtain traffic.

Figure 15: Summary of Pinduoduo Advertising Charging Methods.

Billing Type	Advertising Products	Launched Time	Detailed Steps	Promotion Scenarios	Billing Method	Applicable Objectives
CPS	Duoduo jinbao	/	Merchants set product coupons and commission ratios to motivate promoters to share product links.	The advertising promoters will promote the product to the forum, Wechat Movement, WeChat official accounts, Wechat applet, shopping guide websites, various APPs, self-media platforms and other off-site scenes.	Billing according to the actual transaction effect. The promoter gets a commission according to the actual transaction amount, and there are three ways: general promotion, exclusive promotion and investment promotion. Promoter commission = traffic * conversion rate * customer unit price * commission ratio	Sales merchants, small e-commerce
	Duoduo Fangxintui	Launched in September 2020(Offline on September 28, 2022)	Set a closed bid for the product, and the system optimizes delivery for that objective.	Store-wide managed intelligent delivery tools, all Duoduo search and high-quality resources in Duoduo scenes: including Home, search results page, channel Home, marketing campaign page, etc.	Billing will be based on the actual transaction effect, and no fee will be deducted if the transaction is not completed	Suitable for all objects, stable cash flow, sufficient use of funds, lower cost and better effect
CPC	Duoduo Search	"Search promotion" has appeared before 2018	Merchants bid to buy keywords, get advertising space rankings, and promote products when buyers use keyword searches.	User search keywords, 1st, 7th, 13th, 19th.... (1+6n) is the ad space.	Pay-per-click comprehensive ranking involves ad bidding and quality score evaluation; There is no charge for display, and buyers will be deducted only when they click. Cost = next digit's quality score * next digit's bid / own quality score + 0.01	Small and medium-sized e-commerce/low-end brands, generally speaking, are suitable for most Pinduoduo merchants
	Duoduo Scenes	Before 2018, there was "scene promotion"	Step 1: Fill in the campaign information and select the campaign. Step 2: Fill in the closing bid, or apply the system's suggested bid.	Pinduoduo browses category product pages, product detail pages (3, 9, 15, 21, 27 bits), jump pages after order evaluation, and marketing campaign pages.	CPX: Intelligent target bidding method, only fill in the expected transaction price (the promotion fee you are willing to pay to get an order) Expected Transaction Bid: Expected Transaction Bid = Commodity Selling Price - Cost - Profit	Different scenarios are adapted to different objects
	Duoduo Site-wide promotion	Available in April-May 2022	Optimize delivery with the target production ratio set by the merchant. Product images are used as ad creatives.	Site-wide resource placement; Note: After the site-wide promotion is enabled, the promotion of the product in other promoted products (Duoduo search, Duoduo scene, etc.) will be suspended by the system.	Bid according to the target production ratio: (1) Explanation of the target production ratio: the merchant expects to bring the payment transaction amount within 14 days of searching and scene traffic for every RMB1 spent. (2) The lower the target production ratio, the stronger the ability to take volume, and vice versa. Bid by transaction: Closing bid = the ad cost of an expected product transaction in search and scenario traffic	It is suitable for all objects, especially conducive to the rapid exposure and growth of new stores
CPM	Duoduo Star shop	Before 2018	When users search for relevant brand terms and product titles, show the store's creativity and the store's best-selling products.	The banner is displayed at the top of the single product page/store Home/custom page of the search results.	Fees are charged based on the actual number of impressions. Position = Store Weight * CPM Bid	Flagship stores, specialty stores, franchise stores and other medium and large e-commerce
	Duoduo Live Push	It was officially launched in January 2020	Businesses start live streaming e-commerce independently, and the live stream automatically attract the traffic.	During the live streaming, the live streaming room will be placed on the platform's high-quality advertising resources, and can be promoted and displayed in Duoduo search and Duoduo scenes.	CPM promotion: Bid by transaction, billed by impression Custom promotion: Price per 1,000 impressions, billing per impression	Applies to almost all objects
CPT	Duoduo Display ads	Banner ads appeared before 2018	Campaign registration/application for CPT inventory slots.	Home or major games and activity scenes, such as Duoduo Orchard, cash check-in, money-saving monthly card, etc.	Billing is based on duration, and the higher the traffic level, the higher the charge.	Large and small stores that need to expand new traffic

Source: GLH Research; Company filings.

- (2) **Transaction services:** The company's transaction service revenue was US\$13 Billion in 2023, a y/y increase of 241%. The main sources of the company's transaction service are: 1) "10 Billion subsidy" commission income; 2) Duoduo grocery commission income (the business income is included in the method of "actual sales of goods - purchase cost"); 3) Technical service fee (mainly for payment fee); 4) Temu commission income (similar to Duoduo Grocery in the form of net income, i.e., GMV minus subsidies, purchase costs and returns). Temu GMV and better-than-expected revenue recognition were the main drivers of the company's trading services revenue growth, which could lead to a lower than previously expected loss ratio. Transaction service revenue is expected to be driven by the increase in the proportion of GMV of "10 Billion on subsidies", the growth of Duoduo Grocery and Temu's GMV, and achieve sustainable high-quality growth.

Quarterly Performance

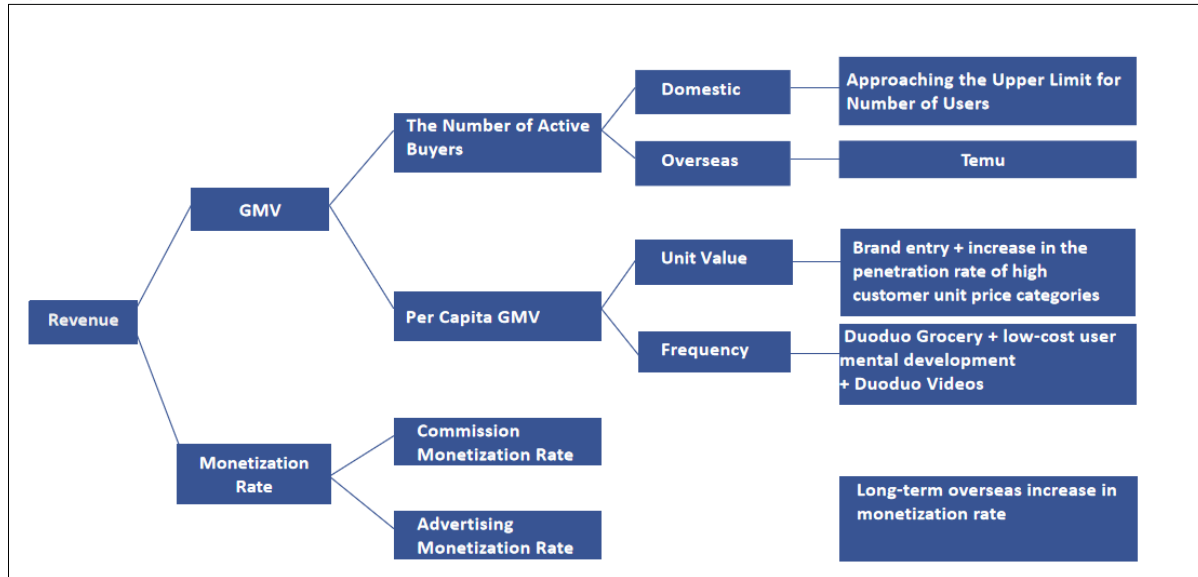
In 2Q24, total revenues were US\$13,346 Million, up 86% y/y. Under US GAAP, net income attributable to ordinary shareholders was US\$4,401 Million, up 104% y/y; non-GAAP net income attributable to ordinary shareholders was US\$4,734 Million, up 125% y/y. Revenues from online marketing services and others slowed down to 29% y/y growth. Consensus for marketing services growth rate was 33%-36%.

Key points on 2Q24 earnings call:

- (1) PDD guided slower revenue growth and fluctuation in profits. This is mainly due to increased domestic competition and uncertainty in foreign policies.
- (2) In the long run, the profitability of domestic business may decline. To promote high-quality development, the company plans to invest RMB10 Billion in the next 12 months, mainly to reduce the software service fees charged to merchants.
- (3) Management stated that PDD is still in the investment stage and has no plans for dividend or repurchase in the short term.

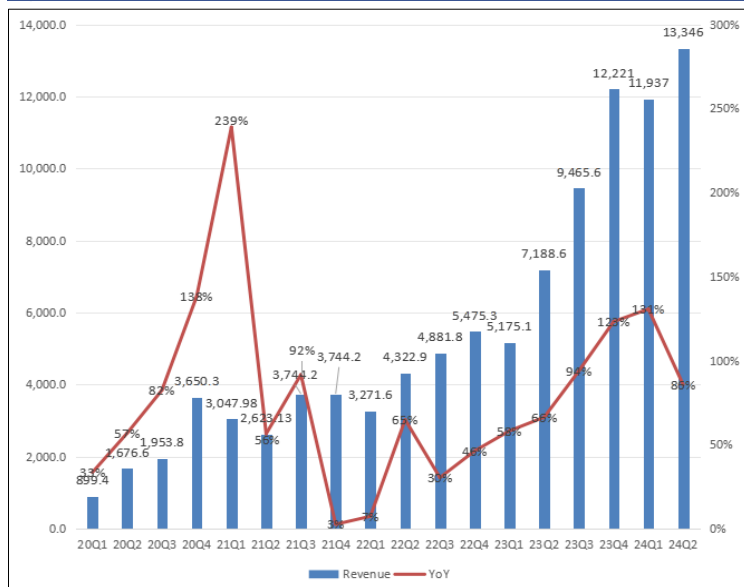
However, looking at Pinduoduo's GMV growth and transaction services revenue growth in 2Q24, particularly Temu, PDD remained one of the fastest-growing companies in China's internet industry in 2Q24. Expectations for PDD future growth are showing signs of slower-than-expected, but PDD still outpaces its competitors. Temu's margin improvement contribute to better overall gross margin for PDD. Gross margin improved for two consecutive quarters, increasing 3 percentage points sequentially to 65% in 2Q24. The improvement on PDD gross profit margin is mainly due to Temu's operational improvements, including increasing ASP by increasing product markups, and reducing fulfillment costs through operational leverage and negotiations with logistics companies. Temu is expected to break even in next a few quarters as its margin-increasing semi-entrusted model continues to grow in size.

Figure 15: Revenue Breakdown.



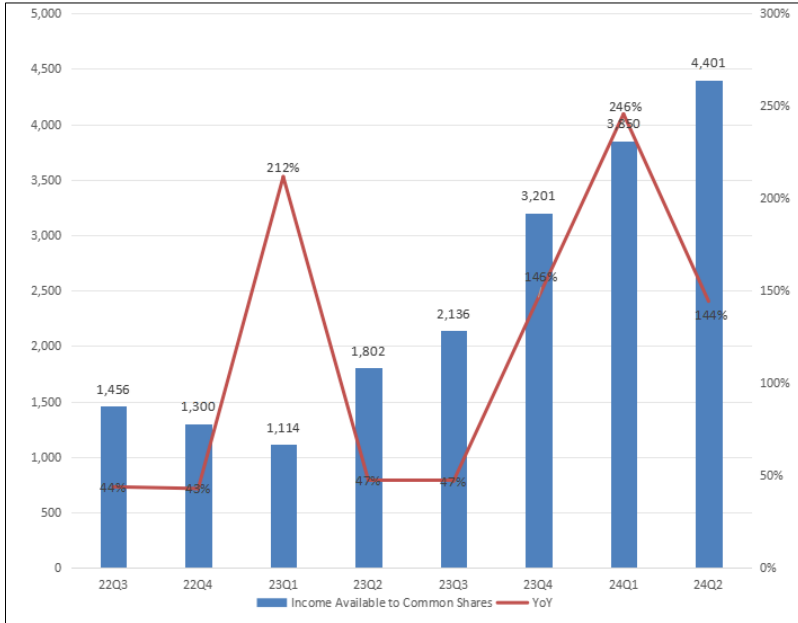
Source: GLH Research; Company filings.

Figure 16: Revenue (US\$ Million) and Y/Y Growth in 1Q20 – 2Q24.



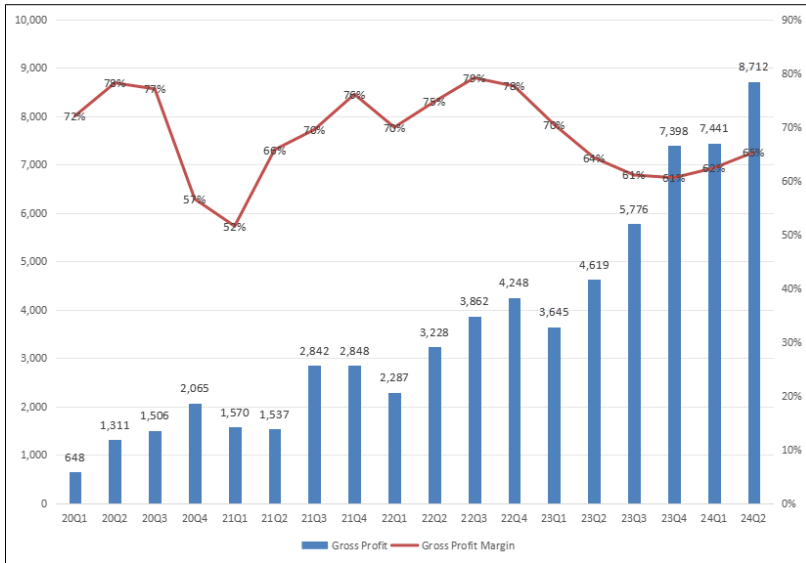
Source: GLH Research; Company filings.

Figure 17: Income Available to Common Shareholders (US\$ Million) and YoY in 3Q22 – 2Q24 .



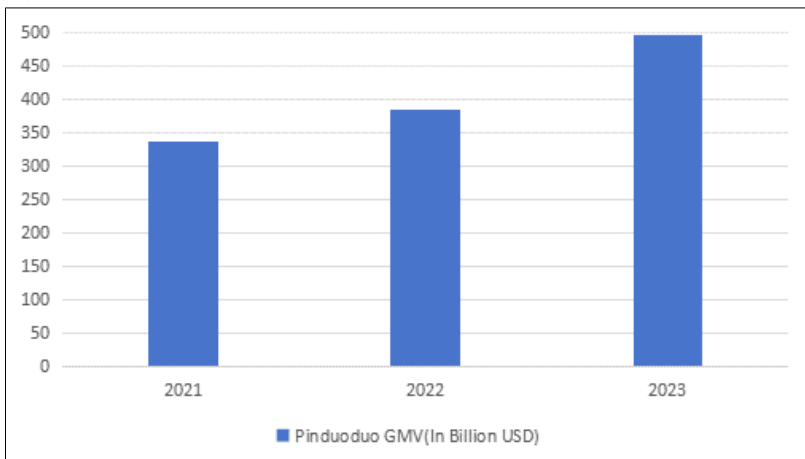
Source: GLH Research; Company filings.

Figure 18: Gross Profit (US\$ Million) and Gross Profit Margin in 1Q20 – 2Q24



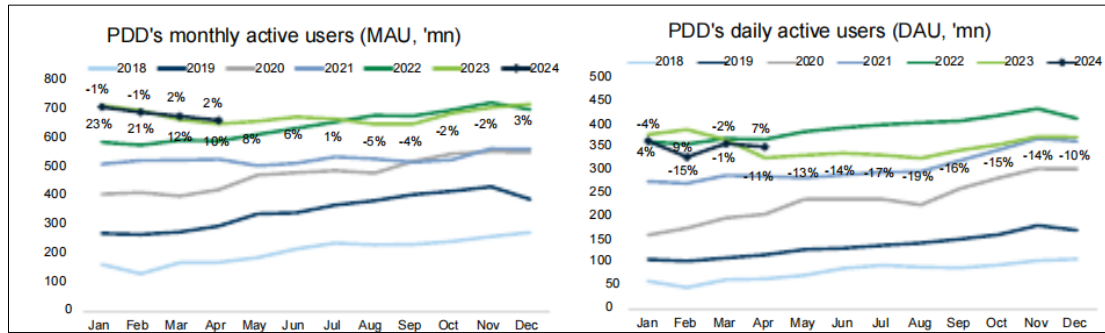
Source: GLH Research; Company filings.

Figure 19: GMV(USD Billion) in 2021 – 2023 .



Source: GLH Research; Company filings.

Figure 20: PDD MAU and DAU in Jan 2018 – April 2024 .



Source: GLH Research; Company filings.

FINANCIALS and VALUATION

Take rate: The total take rate for is Pinduoduo about 5.5% (higher than Alibaba and JD.com). The increase in the take rate may slow down. In 2Q24 conference call, the management plans to provide subsidies of RMB10 billion (about 4% of total OMS and fee income) to merchants to maintain a healthy ecosystem.

AAC: Temu AAC reached 100 Million in 4Q23. Looking to future user growth, assuming that Temu will continue to expand global sites in the next 2-3 years, it is expected to increase by 80 - 100 Million every year. According to Measurable AI data, the retention rate of Shein users is about 50%, and the average retention rate of Shopee and Lazada in Southeast Asian countries is 60%-80%, assuming that the retention rate of Temu users gradually increases from 50%, Temu AAC is expected to reach 200 Million people by 2027.

ATV: The average transaction value of Temu was around \$35 in 2023, and in the future, with the enrichment of Temu's category and the increase in the supply of high-order products, the average transaction value will increase steadily, and is expected to reach about \$50 by 2027.

Frequency: It is estimated that the average annual purchase frequency by Temu users was about 5.5 in 2023, and the frequency is expected to increase further by more diversified supply and the gradual cultivation of user habits, and is expected to reach 12 times per year by 2027.

Margin: Under the semi-entrusted model, the take rate is lower and zero logistics costs. So operating profit margin may improve in 2024. Overall, we assume gross profit margin remain stable in 2024 at 63%, and operating margin will improve to 30% in 2024.

Figure 21: PDD's Financials 2021 – 2024.

Unit: Million USD	2021	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24	2Q24	3Q24E	4Q24E	2024E
Revenues	12,918	17,952	5,175	7,189	9,466	12,221	34,050	11,937	13,346	15,050	17,496	57,829
Costs of revenues	-4,361	-4,326	-1,530	-2,570	-3,689	-4,823	-12,612	-4,496	-4,633	-6,065	-6,999	-22,193
Gross Profit	8,557	13,626	3,645	4,619	5,776	7,398	21,438	7,441	8,712	8,985	10,498	35,636
Sales and marketing expenses	-6,160	-7,472	-2,236	-2,412	-2,990	-3,663	-11,301	-3,219	-3,582	-4,575	-5,056	-16,432
General and administrative expenses	-212	-545	-112	-82	-104	-262	-560	-251	-253	-467	-542	-1,512
Research and development expenses	-1,236	-1,428	-345	-376	-392	-394	-1,506	-400	-400	-482	-560	-1,842
Total operating expenses	-7,609	-9,445	-2,693	-2,870	-3,486	-4,319	-13,367	-3,870	-4,235	-5,523	-6,159	-19,786
Operating profit	948	4,180	953	1,749	2,290	3,079	8,071	3,571	4,478	3,461	4,339	15,850
Interest and investment income, net	421	550	201	315	293	599	1,408	694	668	602	542	2,506
Interest expenses	-169	-7	-2	-2	-2	-1	-6	0	0	-1	-1	-3
Foreign exchange (loss)/ gain	10	-21	-2	21	13	-27	5	29	8	30	35	103
Other income, net	90	305	169	152	40	45	406	259	68	256	297	880
Share of results of equity investees	34	-21	15	1	-15	-2	-1	-7	-7	-9	-10	-34
Loss before income tax	1,334	4,986	1,334	2,237	2,619	3,693	9,883	4,547	5,215	4,339	5,202	19,302
Income tax expenses	-266	-650	-220	-434	-483	-492	-1,629	-697	-813	-707	-848	-3,065
Net income	1,068	4,336	1,114	1,802	2,136	3,201	8,254	3,850	4,401	3,632	4,354	16,237
Net income attributable to ordinary shareholders	1,068	4,336	1,114	1,802	2,136	3,201	8,254	3,850	4,401	3,632	4,354	16,237

Source: GLH Research; Company filings.

For e-Commerce companies, investors often use EV/EBITDA multiples for valuation. Here we select three groups of companies with similar business/financial profile for peer analysis. Pinduoduo's stock is currently trading at US\$100 per ADS, US\$139 Billion in market cap. CY2024 and CY2025 EBITDAs are estimated to be \$17 Billion and \$23 Billion, respectively, which translate into 6x and 4x of EV/EBITDA in CY2024 and CY2025, while the peer group is trading at 12x and 10x.

Figure 22: Peer valuation analysis.

Company	Ticker	EV			EBITDA			EV/EBITDA			Category	
		2023A	2024E	2025E	2023A	2024E	2025E	2023A	2024E	2025E		
Amazon.com Inc	AMZN.O	1,645,369	1,903,457	1,903,457	97,332	134,487	152,828	17	14	12	U.S. E-Commerce Companies	
eBay Inc	EBAY.O	25,653	31,862	31,862	2,678	3,202	3,380	10	10	9	U.S. E-Commerce Companies	
Shopify Inc	SHOP.K	96,636	94,819	94,819	267	1,358	1,842	-	70	51	U.S. E-Commerce Companies	
Meta Platforms Inc	META.O	879,013	1,298,408	1,298,408	67,550	85,098	99,897	13	15	13	U.S. Internet Companies	
Alphabet Inc	GOOGL.O	1,658,488	1,983,157	1,983,157	99,601	140,734	159,873	17	14	12	U.S. Internet Companies	
Microsoft Corp	MSFT.O	3,344,935	3,095,796	3,095,796	135,275	148,813	171,371	25	21	18	U.S. Internet Companies	
Alibaba Group Holding Ltd	BABA.N	111,342	134,883	134,883	28,014	27,055	29,921	4	5	5	Asia E-Commerce Companies	
JD.Com Inc	JD.OQ	25,885	23,160	23,160	7,452	6,725	7,645	3	3	3	Asia E-Commerce Companies	
Sea Ltd	SE.N	22,373	45,703	45,703	1,004	1,562	2,340	22	29	20	Asia E-Commerce Companies	
								Median	17x	14x	12x	
								Mean	13x	12x	10x	
PDD Holdings Inc	PDD.O	165,229	101,014	101,014	8,570	17,195	23,806	19	6	4		

Notes:
 1. Data as of 08/27/2024.
 2. Market Cap and EBITDA are in US\$ Million.
 3. Revenues are in calendar year and estimates are provided by analyst consensus on Bloomberg.

Source: GLH Research; Company filings; Bloomberg.

RISKS

Intensifying competition in the industry. The live broadcast e-commerce platform has developed rapidly, and gradually developed shelf e-commerce, and the competition in the entire e-commerce industry has intensified. Alibaba (BABA) and JD.com (JD) have put tremendous efforts and spending in low-price markets to compete with PDD.

Lack of transparency for Temu. In Pinduoduo's financial report, there is a lack of transparency about Temu's operations. If Temu's losses continue to expand, Pinduoduo's stock price may not reflect the company's long-term investment value.

Competition and regulation. Competition in the U.S. cross-border e-commerce market has further intensified. Due to relatively weak performance on US e-commerce giants, regulations may be imposed on Chinese Cross-border e-commerce company.

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